

# Report of the International Auditors

## 德勤·關黃陳方會計師行

Certified Public Accountants  
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**Deloitte  
Touche  
Tohmatsu**

TO THE MEMBERS OF

### **NORTHEAST ELECTRIC DEVELOPMENT COMPANY LIMITED**

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

We have audited the financial statements on pages 34 to 77 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

## **RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS**

The directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

## **BASIS OF OPINION**

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

## Report of the International Auditors *(Continued)*

### OPINION

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31st December, 2003 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Without qualifying our opinion, we draw to your attention that as disclosed in note 10 to the financial statements, the income statement for the year ended 31st December, 2002 includes the loss incurred by Shenyang Transformers Ltd. ("Shenyang") for the period from 1st January, 2002 to the date of its disposal amounting to RMB9,882,000 and the gain on disposal of RMB41,196,000. As these amounts are based on unaudited management accounts, we were unable to satisfy ourselves that the classification of consolidated income statement, the consolidated cash flow statement and the related disclosures for the year ended 31st December, 2002 disclosed as comparative figures to the financial statements was free from material misstatement.

#### **Deloitte Touche Tohmatsu**

Certified Public Accountants  
Hong Kong, 7th April, 2004

## Consolidated Income Statement

For the year ended 31st December, 2003

(Prepared in accordance with Accounting Principles Generally Accepted in Hong Kong)

|   | NOTES | 2003<br>RMB'000  | 2002<br>RMB'000 |
|---|-------|------------------|-----------------|
| Turnover  | 4     | <b>622,618</b>   | 944,366         |
| Cost of sales   |       | <b>(426,043)</b> | (637,174)       |
| Gross profit  |       | <b>196,575</b>   | 307,192         |
| Other operating income  | 6     | <b>7,155</b>     | 40,543          |
| Distribution costs  |       | <b>(45,198)</b>  | (87,585)        |
| Administrative expenses   |       | <b>(109,944)</b> | (181,438)       |
| Other operating expenses  |       | <b>(543)</b>     | (2,235)         |
| Profit from operations  | 7     | <b>48,045</b>    | 76,477          |
| Finance costs   | 8     | <b>(38,651)</b>  | (65,761)        |
| Share of results of associates  |       | <b>8,359</b>     | 2,002           |
| Partial waiver of a syndicated loan   | 9     | —                | 148,115         |
| Gain on disposals of subsidiaries   | 10    | <b>13,413</b>    | 53,836          |
| Gain on disposal of an associate  | 19    | <b>36,284</b>    | —               |
| Provision for loss on guarantees given to<br>Northeast Electrical Transmission Group<br>Corporation ("NET") | 38(i) | <b>(30,994)</b>  | —               |
| Profit before taxation  |       | <b>36,456</b>    | 214,669         |
| Taxation  | 12    | <b>(5,179)</b>   | (5,371)         |
| Profit before minority interests  |       | <b>31,277</b>    | 209,298         |
| Minority interests  |       | <b>(3,478)</b>   | (3,855)         |
| Net profit for the year   |       | <b>27,799</b>    | 205,443         |
|   |       | <b>RMB</b>       | RMB             |
| Earnings per share - basic  | 14    | <b>0.032</b>     | 0.235           |

## Consolidated Balance Sheet

As at 31st December, 2003

(Prepared in accordance with Accounting Principles Generally Accepted in Hong Kong)

|  | NOTES | 2003<br><b>RMB'000</b> | 2002<br><i>RMB'000</i> |
|--|-------|------------------------|------------------------|
| <b>Non-current assets</b>  |       |                        |                        |
| Property, plant and equipment                                      | 15    | <b>365,762</b>         | 751,352                |
| Construction in progress   | 16    | <b>4,801</b>           | 11,968                 |
| Intangible assets  | 17    | <b>10,266</b>          | 59,024                 |
| Interests in associates  | 19    | <b>26,534</b>          | 73,570                 |
| Investments in securities  | 20    | <b>17,458</b>          | 10,680                 |
| Negative goodwill  | 21    | <b>(1,837)</b>         | (3,548)                |
| Non-current prepayments  | 22    | <b>84,675</b>          | —                      |
|  |       | <b>507,659</b>         | 903,046                |
| <b>Current assets</b>  |       |                        |                        |
| Inventories  | 23    | <b>71,752</b>          | 220,228                |
| Trade debtors  | 24    | <b>153,518</b>         | 462,755                |
| Other debtors, deposits and prepayments                            |       | <b>60,411</b>          | 131,350                |
| Amounts due from a former shareholder and former related companies | 25    | —                      | 7,085                  |
| Amounts due from associates  | 26    | <b>48,017</b>          | —                      |
| Amount due from a related company                                  | 27    | <b>8,500</b>           | —                      |
| Loan to a third party  | 28    | <b>26,000</b>          | —                      |
| Amount due from a non-bank financial institution                   | 29    | <b>99,233</b>          | 99,233                 |
| Tax recoverable  |       | <b>89</b>              | 723                    |
| Bank balances and cash   |       | <b>14,549</b>          | 88,306                 |
|  |       | <b>482,069</b>         | 1,009,680              |
| <b>Current liabilities</b>   |       |                        |                        |
| Trade creditors  | 30    | <b>61,646</b>          | 355,526                |
| Other creditors, advances from customers and accruals              |       | <b>112,163</b>         | 229,235                |
| Bank borrowings - due within one year                              | 31    | <b>184,370</b>         | 604,897                |
|  |       | <b>358,179</b>         | 1,189,658              |
| <b>Net current assets (liabilities)</b>                            |       | <b>123,890</b>         | (179,978)              |
| <b>Total assets less current liabilities</b>                       |       | <b>631,549</b>         | 723,068                |

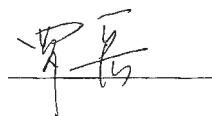
## Consolidated Balance Sheet (Continued)

As at 31st December, 2003

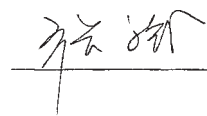
(Prepared in accordance with Accounting Principles Generally Accepted in Hong Kong)

|                                      | NOTES | 2003<br>RMB'000  | 2002<br>RMB'000 |
|--------------------------------------|-------|------------------|-----------------|
| <b>Capital and reserves</b>          |       |                  |                 |
| Share capital                        | 33    | <b>873,370</b>   | 873,370         |
| Reserves                             |       | <b>(309,543)</b> | (337,342)       |
|                                      |       | <b>563,827</b>   | 536,028         |
| <b>Minority interests</b>            |       |                  |                 |
|                                      |       | <b>27,005</b>    | 5,192           |
| <b>Non-current liabilities</b>       |       |                  |                 |
| Bank borrowings - due after one year | 31    | <b>26,550</b>    | 168,607         |
| Government grant                     | 32    | <b>14,167</b>    | 13,241          |
|                                      |       | <b>40,717</b>    | 181,848         |
|                                      |       | <b>631,549</b>   | 723,068         |

The financial statements on pages 34 to 77 were approved and authorised for issue by the board of directors on 7th April, 2004 and are signed on its behalf by:



DIRECTOR



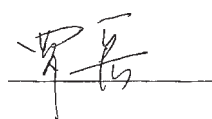
DIRECTOR

## Balance Sheet

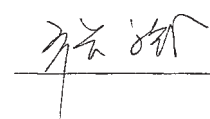
As at 31st December, 2003

(Prepared in accordance with Accounting Principles Generally Accepted in Hong Kong)

|  | NOTES | 2003<br><b>RMB'000</b> | 2002<br><i>RMB'000</i> |
|--|-------|------------------------|------------------------|
| <b>Non-current assets</b>  |       |                        |                        |
| Property, plant and equipment                                      | 15    | <b>1,980</b>           | 1,054                  |
| Investments in subsidiaries  | 18    | <b>249,434</b>         | 275,351                |
| Investments in associates  | 19    | <b>14,519</b>          | 70,984                 |
| Investments in securities  | 20    | <b>17,458</b>          | 10,000                 |
| Non-current prepayments  | 22    | <b>84,675</b>          | —                      |
|  |       | <b>368,066</b>         | 357,389                |
| <b>Current assets</b>  |       |                        |                        |
| Inventories  | 23    | <b>27,879</b>          | 27,879                 |
| Trade debtors  | 24    | <b>4,882</b>           | 35,497                 |
| Other debtors, deposits and prepayments                            |       | <b>37,386</b>          | 18,219                 |
| Amounts due from a former shareholder and former related companies | 25    | —                      | 7,085                  |
| Amounts due from associates  | 26    | <b>31,528</b>          | —                      |
| Amount due from a related company                                  | 27    | <b>8,500</b>           | —                      |
| Loan to a third party  | 28    | <b>26,000</b>          | —                      |
| Amount due from a non-bank financial institution                   | 29    | <b>99,233</b>          | 99,233                 |
| Bank balances and cash   |       | <b>2,222</b>           | 11,819                 |
|  |       | <b>237,630</b>         | 199,732                |
| <b>Current liability</b>   |       |                        |                        |
| Other creditors, advances from customers and accruals              |       | <b>86,037</b>          | 23,334                 |
| <b>Net current assets</b>  |       | <b>151,593</b>         | 176,398                |
| <b>Total assets less current liability</b>                         |       | <b>519,659</b>         | 533,787                |
| <b>Capital and reserves</b>  |       |                        |                        |
| Share capital  | 33    | <b>873,370</b>         | 873,370                |
| Reserves   | 34    | <b>(353,711)</b>       | (339,583)              |
|  |       | <b>519,659</b>         | 533,787                |



DIRECTOR



DIRECTOR

## Statement of Changes in Equity

For the year ended 31st December, 2003

(Prepared in accordance with Accounting Principles Generally Accepted in Hong Kong)

### THE GROUP

|  | Share<br>capital<br><i>RMB'000</i> | Capital<br>reserve<br><i>RMB'000</i><br><i>(note 34)</i> | Statutory<br>common<br>reserve<br><i>RMB'000</i><br><i>(note 34)</i> | Statutory<br>public<br>welfare fund<br><i>RMB'000</i><br><i>(note 34)</i> | Discretionary<br>common<br>reserve<br><i>RMB'000</i><br><i>(note 34)</i> | Accumulated<br>losses<br><i>RMB'000</i> | Total<br><i>RMB'000</i> |
|--|------------------------------------|--|--|---|--|---|-------------------------|
| At 1st January, 2002                               | 873,370                            | 603,394  | 48,091   | 32,212  | 32,424   | (1,258,906)                             | 330,585                 |
| Profit for the year                                | —                                  | —  | —  | —   | —  | 205,443                                 | 205,443                 |
| At 31st December, 2002 and<br>at 1st January, 2003 | 873,370                            | 603,394  | 48,091   | 32,212  | 32,424   | (1,053,463)                             | 536,028                 |
| Profit for the year                                | —                                  | —  | —  | —   | —  | 27,799                                  | 27,799                  |
| At 31st December, 2003                             | 873,370                            | 603,394  | 48,091   | 32,212  | 32,424   | (1,025,664)                             | 563,827                 |

Included in the accumulated losses is an amount of RMB6,282,000 (2002: RMB2,385,000) of retained profits attributable to associates.

## Consolidated Cash Flow Statement

For the year ended 31st December, 2003

(Prepared in accordance with Accounting Principles Generally Accepted in Hong Kong)

|   | <b>2003</b>     | 2002     |
|---|-----------------|----------|
|   | <b>RMB'000</b>  | RMB'000  |
| <b>OPERATING ACTIVITIES</b>   |                 |          |
| Profit from operations  | <b>48,045</b>   | 76,477   |
| Adjustments for:  |                 |          |
| Loss of Shenyang Transformers Ltd. for the period from<br>1st January, 2002 to 4th June, 2002 | —               | 9,882    |
| Interest income   | <b>(788)</b>    | (873)    |
| Dividend income   | <b>(1,000)</b>  | (1,500)  |
| Depreciation of property, plant and equipment   | <b>33,504</b>   | 41,597   |
| Impairment loss recognised on property, plant and equipment                                   | —               | 552      |
| Gain on disposal of property, plant and equipment   | <b>(966)</b>    | (412)    |
| Amortisation of intangible assets   | <b>1,113</b>    | 1,400    |
| Negative goodwill released to income  | <b>(706)</b>    | (285)    |
| Gain on disposal of investment in securities  | —               | (38)     |
| Allowance for bad and doubtful debts  | <b>12,197</b>   | 17,180   |
| Operating cash flows before movements in working capital                                      | <b>91,399</b>   | 143,980  |
| Decrease (increase) in inventories  | <b>29,879</b>   | (25,833) |
| Increase in trade debtors   | <b>(90,787)</b> | (9,433)  |
| Decrease (increase) in other debtors, deposits and<br>prepayments                             | <b>23,833</b>   | (44,973) |
| Increase in trade creditors   | <b>5,912</b>    | 10,056   |
| Decrease in other creditors, advances from customers<br>and accruals                          | <b>(39,762)</b> | (47,098) |
| Cash generated from operations  | <b>20,474</b>   | 26,699   |
| Interest paid   | <b>(38,651)</b> | (66,606) |
| Income tax paid   | <b>(4,545)</b>  | (2,928)  |
| <b>NET CASH USED IN OPERATING ACTIVITIES</b>  | <b>(22,722)</b> | (42,835) |



## Consolidated Cash Flow Statement (Continued)

For the year ended 31st December, 2003

(Prepared in accordance with Accounting Principles Generally Accepted in Hong Kong)

|  | NOTES | 2003<br>RMB'000  | 2002<br>RMB'000 |
|--|-------|------------------|-----------------|
| <b>INVESTING ACTIVITIES</b>  |       |                  |                 |
| Proceeds on disposal of associates   | 19    | 106,576          | 904             |
| Dividend income received from an associate   |       | 4,462            | —               |
| Subsidies granted by the government  |       | 3,529            | 13,241          |
| Proceeds on disposal of property, plant and equipment                                |       | 2,113            | 541             |
| Interest received  |       | 788              | 873             |
| Prepayments for long-term investments  |       | (84,675)         | —               |
| Disposals of subsidiaries  | 36    | (43,476)         | 99,153          |
| Advance to a related company   |       | (8,500)          | —               |
| (Advance to) repayment from a third party  |       | (26,000)         | 2,121           |
| Addition of construction in progress   |       | (10,802)         | (9,976)         |
| Advance to associates  |       | (48,017)         | —               |
| Purchase of investments in securities  |       | (7,458)          | —               |
| Purchase of property, plant and equipment  |       | (4,863)          | (7,902)         |
| Decrease in pledged bank deposits  |       | —                | 71,116          |
| Repayment from a non-bank financial institution                                      |       | —                | 66,299          |
| Dividends income   |       | —                | 1,500           |
| Proceeds on disposal of investments in securities                                    |       | —                | 213             |
| <b>NET CASH (USED IN) GENERATED FROM INVESTING ACTIVITIES</b>                        |       | <b>(116,323)</b> | 238,083         |
| <b>FINANCING ACTIVITIES</b>  |       |                  |                 |
| New bank borrowings raised   |       | 464,260          | 580,045         |
| Repayments of bank borrowings  |       | (395,175)        | (893,712)       |
| Dividend paid to minority shareholders   |       | (3,797)          | —               |
| Advances from minority shareholders  |       | —                | 863             |
| <b>NET CASH GENERATED FROM (USED IN) FINANCING ACTIVITIES</b>                        |       | <b>65,288</b>    | (312,804)       |
| <b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>                                     |       | <b>(73,757)</b>  | (117,556)       |
| <b>CASH AND CASH EQUIVALENTS AT 1 JANUARY</b>  |       | <b>88,306</b>    | 205,862         |
| <b>CASH AND CASH EQUIVALENTS AT 31 DECEMBER, representing bank balances and cash</b> |       | <b>14,549</b>    | 88,306          |

# Notes to the Consolidated Financial Statements

For the year ended 31st December, 2003

(Prepared in accordance with Accounting Principles Generally Accepted in Hong Kong)

## 1. GENERAL

The Company is a sino-foreign joint stock company established in the People's Republic of China (the "PRC") with limited liabilities, its shares are listed on the Stock Exchange of Hong Kong Limited and Shenzhen Stock Exchange.

The Company is an investment holding company. The principal activities of its subsidiaries are described in note 18. During the year, the Group disposed of the manufacture of transformation machinery including switchgears circuit breakers and disconnectors operations.

## 2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has adopted, for the first time, the following Hong Kong Financial Reporting Standards ("HKFRS") issued by the Hong Kong Society of Accountants ("HKSA"), the term of HKFRS is inclusive of Statements of Standard Accounting Practice ("SSAP(s)") and Interpretations approved by the HKSA.

### Income Taxes

In the current year, the Group has adopted SSAP 12 (Revised) "Income taxes". The principal effect of the implementation of SSAP 12 (Revised) is in relation to deferred tax. SSAP 12 (Revised) requires the adoption of a balance sheet liability method, whereby deferred tax is recognised in respect of all temporary differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, with limited exceptions. The adoption of this standards had had no material effect on the result for the current or prior accounting periods. Accordingly, no prior period adjustment has been required.

## 3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention and have been prepared in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are set out below:

### Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31st December each year.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

### Investments in subsidiaries

Investments in subsidiaries are included in the Company's balance sheet at cost less any identified impairment loss.

## Notes to the Consolidated Financial Statements *(Continued)*

For the year ended 31st December, 2003

(Prepared in accordance with Accounting Principles Generally Accepted in Hong Kong)

### 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### **Interests in associates**

The consolidated income statement includes the Group's share of the post-acquisition results of its associates for the year. In the consolidated balance sheet, interests in associates are stated at the Group's share of the net assets of the associates and negative goodwill arose on acquisition so far as it has not already been released to income, less any identified impairment loss.

The results of associates are accounted for by the Company on the basis of dividends received and receivable during the year. In the Company's balance sheet, investments in associates are stated at cost, as reduced by any decline identified impairment loss.

#### **Negative goodwill**

Negative goodwill represents the excess of the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary or associate at the date of acquisition over the cost of acquisition.

Negative goodwill is presented as a deduction from assets. To the extent that the negative goodwill is attributable to losses or expenses anticipated at the date of acquisition, it is released to income in the period in which those losses or expenses arise. The remaining negative goodwill is recognised as income on a straight-line basis over the remaining average useful life of the identifiable acquired depreciable assets. To the extent that such negative goodwill exceeds the aggregate fair value of the acquired identifiable non-monetary assets, it is recognised in income immediately.

Negative goodwill arising on the acquisition of an associate is deducted from the carrying value of that associate. Negative goodwill arising on the acquisition of subsidiaries is presented separately in the balance sheet as a deduction from assets.

#### **Revenue recognition**

Sales of goods are recognised when goods are delivered and title has passed.

Revenue arising from hotel operations and service income are recognised when the relevant services are provided.

Dividend income from investments is recognised when the shareholders' right to receive payment have been established.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the interest rate applicable.

## Notes to the Consolidated Financial Statements *(Continued)*

For the year ended 31st December, 2003

(Prepared in accordance with Accounting Principles Generally Accepted in Hong Kong)

### 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### **Leasing**

Rental payable under operating leases is charged to income statement on a straight-line basis over the term of the relevant lease.

#### **Foreign currencies**

Transactions in currencies other than Reminbi (“RMB”) are initially recorded at the rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities denominated in such currencies are retranslated at the rates prevailing on the balance sheet date. Profits and losses arising on exchange are included in net profit or loss for the year.

#### **Borrowing costs**

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in net profit or loss in the period in which they are incurred.

#### **Retirement benefit costs**

The Group participates in defined contribution retirement schemes organised by the PRC government. The contributions to the schemes are charged as an expense as they fall due.

#### **Taxation**

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax base used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill (or negative goodwill) or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31st December, 2003

(Prepared in accordance with Accounting Principles Generally Accepted in Hong Kong)

### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Taxation (Continued)

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

#### Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any identified impairment loss.

Depreciation is charged so as to write off the cost of property, plant and equipment over their estimated useful lives and after taking into account their estimated residual value, using the straight-line method, at the following rates per annum:

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

The gain or loss arising on the disposal is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the consolidated income statement.

#### Research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development expenditure is recognised only if it is anticipated that the development cost incurred on a clearly-defined project will be recovered through future commercial activity. The resultant asset is amortised on a straight-line basis over its useful life.

Where no internally-generated intangible asset can be recognised, development expenditure is recognised as an expense in the period in which it is incurred.

## Notes to the Consolidated Financial Statements *(Continued)*

For the year ended 31st December, 2003

(Prepared in accordance with Accounting Principles Generally Accepted in Hong Kong)

### 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### **Construction in progress**

Construction in progress are carried at cost, less any identified impairment loss. Cost includes professional fees and, for qualifying assets, borrowing cost capitalised in accordance with the Group's accounting policy. Depreciation of these assets, on the same basis as property, plant and equipment, commences when the assets are ready for their intended use.

#### **Land use rights**

Land use rights are stated at cost less accumulated amortisation and any identified impairment loss.

#### **Impairment**

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

#### **Investments in securities**

Investments in securities, which are securities held for an identified long-term strategic purpose, are recognised on a trade-date basis and are initially measured at cost. They are measured at subsequent reporting dates at cost, as reduced by any identified impairment loss that is other than temporary.

#### **Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method.

#### **Government grants**

Government grants are recognised as income over the periods necessary to match them with the related costs. Grants related to depreciable assets are presented as deferred income and are released to income over the useful lives of the assets. Grants related to expense items are recognised in the same period as those expenses are charged in the income statement and are deducted in the reporting related expenses.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31st December, 2003

(Prepared in accordance with Accounting Principles Generally Accepted in Hong Kong)

### 4. TURNOVER

An analysis of the Group's revenue is as follows:

|  | THE GROUP       |                 |
|--|-----------------|-----------------|
|  | 2003<br>RMB'000 | 2002<br>RMB'000 |
| Sales of goods   |                 |                 |
| - continuing   | <b>211,539</b>  | 184,924         |
| - discontinuing  | <b>381,781</b>  | 723,501         |
|  | <b>593,320</b>  | 908,425         |
| Revenue from provision of hotel, catering and entertainment services | <b>29,298</b>   | 35,941          |
|  | <b>622,618</b>  | 944,366         |

### 5. BUSINESS AND GEOGRAPHICAL SEGMENTS

#### Business segments

For management purposes, the Group is currently organised into two operations - manufacture of transmission machinery and the provision of hotel and catering services. These operations are the basis on which the Group reports its primary segment information.

In prior years, the Group also involved in the manufacture of transformation machinery. That operation was discontinued on 8th October, 2003.

Segment information about these businesses is presented below:

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31st December, 2003

(Prepared in accordance with Accounting Principles Generally Accepted in Hong Kong)

### 5. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

#### 2003

|   | Continuing operations                            |   | Discontinuing operations                           | Consolidated<br>RMB'000 |
|---|--|---|--|-------------------------|
|   | Manufacture of transmission machinery<br>RMB'000 | Provision of hotel and catering services<br>RMB'000 | Manufacture of transformation machinery<br>RMB'000 |                         |
| TURNOVER                                      | 211,539  | 29,298  | 381,781  | 622,618                 |
| RESULT  |  |   |  |                         |
| Segment result and profit from operations     | 19,920   | (5,968)   | 34,093   | 48,045                  |
| Finance costs                                 |  |   |  | (38,651)                |
| Share of results of associates                | 8,359  | —   | —  | 8,359                   |
| Gain on disposals of subsidiaries             | —  | —   | 13,413   | 13,413                  |
| Gain on disposal of an associate              | 36,284   | —   | —  | 36,284                  |
| Provision for loss on guarantees given to NET |  |   |  | (30,994)                |
| Profit before taxation                        |  |   |  | 36,456                  |
| Taxation                                      |  |   |  | (5,179)                 |
| Profit before minority interests              |  |   |  | 31,277                  |
| OTHER INFORMATION                             |  |   |  |                         |
| Capital additions                             | 15,089   | 576   | —  | 15,665                  |
| Depreciation and amortisation                 | 24,668   | 9,949   | —  | 34,617                  |
| Allowance for bad and doubtful debts          | 10,747   | 1,450   | —  | 12,197                  |
| BALANCE SHEET                                 |  |   |  |                         |
| Assets  |  |   |  |                         |
| Segment assets                                | 589,459  | 288,971   | —  | 878,430                 |
| Interests in associates                       | 26,534   | —   | —  | 26,534                  |
| Unallocated corporate assets                  |  |   |  | 84,764                  |
| Consolidated total assets                     |  |   |  | 989,728                 |
| Liabilities                                   |  |   |  |                         |
| Segment liabilities                           | 172,794  | 15,182  | —  | 187,976                 |
| Unallocated corporate liabilities             |  |   |  | 210,920                 |
| Consolidated total liabilities                |  |   |  | 398,896                 |



## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31st December, 2003

(Prepared in accordance with Accounting Principles Generally Accepted in Hong Kong)

### 5. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

#### 2002

|   | Continuing operations                                  |  | Discontinuing operations                                    |  |   | Consolidated<br>RMB'000 |
|---|--|--|---|--|---|-------------------------|
|   | Manufacture<br>of transmission<br>machinery<br>RMB'000 | Provision of<br>hotel and<br>catering<br>services<br>RMB'000 | Manufacture<br>of<br>transformation<br>machinery<br>RMB'000 | Manufacture<br>of<br>transformer<br>equipment<br>RMB'000 | Provision<br>of<br>entertainment<br>services<br>RMB'000 |                         |
| TURNOVER  | 184,924  | 33,800   | 515,584   | 207,917  | 2,141   | 944,366                 |
| SEGMENT RESULTS                                     | 37,499   | 521  | 41,921  | 5,605  | (324)   | 85,222                  |
| Unallocated corporate expenses                      |  |  |   |  |   | (8,745)                 |
| Profit from operations                              |  |  |   |  |   | 76,477                  |
| Finance costs                                       |  |  |   |  |   | (65,761)                |
| Share of results of associates                      | 2,002  | —  | —   | —  | —   | 2,002                   |
| Partial waiver of a syndicated loan                 |  |  |   |  |   | 148,115                 |
| Gain on disposals of subsidiaries                   | —  | —  | —   | 41,196   | 12,640  | 53,836                  |
| Profit before taxation                              |  |  |   |  |   | 214,669                 |
| Taxation  |  |  |   |  |   | (5,371)                 |
| Profit before minority interests                    |  |  |   |  |   | 209,298                 |
| OTHER INFORMATION                                   |  |  |   |  |   |                         |
| Capital additions                                   | 9,974  | 839  | 7,910   | —  | —   | 18,723                  |
| Depreciation and amortization                       | 6,989  | 9,999  | 24,661  | —  | 1,348   | 42,997                  |
| Allowance for bad and doubtful debts                | 2,202  | 3,108  | 11,870  | —  | —   | 17,180                  |
| Impairment loss of property, plant<br>and equipment | 427  | —  | 125   | —  | —   | 552                     |
| Allowance for inventories                           | —  | —  | 787   | —  | —   | 787                     |
| BALANCE SHEET                                       |  |  |   |  |   |                         |
| Assets  |  |  |   |  |   |                         |
| Segment assets                                      | 269,980  | 297,540  | 1,112,805   | —  | —   | 1,680,325               |
| Interests in associates                             | 73,570   | —  | —   | —  | —   | 73,570                  |
| Unallocated corporate assets                        |  |  |   |  |   | 158,831                 |
| Consolidated total assets                           |  |  |   |  |   | 1,912,726               |
| Liabilities   |  |  |   |  |   |                         |
| Segment liabilities                                 | 25,249   | 14,712   | 495,719   | —  | —   | 535,680                 |
| Unallocated corporate liabilities                   |  |  |   |  |   | 835,826                 |
| Consolidated total liabilities                      |  |  |   |  |   | 1,371,506               |

## Notes to the Consolidated Financial Statements *(Continued)*

For the year ended 31st December, 2003

(Prepared in accordance with Accounting Principles Generally Accepted in Hong Kong)

### 5. BUSINESS AND GEOGRAPHICAL SEGMENTS *(Continued)*

#### Geographical Segment

More than 90% of the Group's income are derived from the PRC and the income earned outside the PRC is insignificant.

More than 90% of the carrying amount of segment assets, and additions to property, plant and equipment and intangible assets are located in PRC and the assets outside the PRC is insignificant.

Accordingly, geographical segment information has not been presented.

### 6. OTHER OPERATING INCOME

Details of other operating income are as follows:

|   | THE GROUP              |                        |
|---|------------------------|------------------------|
|   | 2003<br><i>RMB'000</i> | 2002<br><i>RMB'000</i> |
| Dividend from investments in securities           | 1,000                  | 1,500                  |
| Gain on disposal of investments in securities     | —                      | 38                     |
| Gain on disposal of property, plant and equipment | 966                    | 412                    |
| Interest on bank deposits                         | 788                    | 873                    |
| Others  | 366                    | 6,003                  |
| Release of negative goodwill to income            | 706                    | 285                    |
| Technical consultancy income, net                 | 3,329                  | 31,432                 |
|   | <b>7,155</b>           | 40,543                 |

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31st December, 2003

(Prepared in accordance with Accounting Principles Generally Accepted in Hong Kong)

### 7. PROFIT FROM OPERATIONS

|   | THE GROUP |         |
|---|-----------|---------|
|   | 2003      | 2002    |
|   | RMB'000   | RMB'000 |
| Profit from operations has been arrived at after charging:  |           |         |
| Depreciation  | 33,504    | 41,597  |
| Amortisation of intangible assets (included in administrative expenses)                           | 1,113     | 1,400   |
| Research and development costs  | 1,812     | 172     |
| Impairment loss recognised on property, plant and equipment (included in administrative expenses) | —         | 552     |
| Allowance for inventories   | 76        | 787     |
| Allowance for bad and doubtful debts  | 12,197    | 17,180  |
| Auditors' remuneration  | 2,756     | 2,800   |
| Staff costs, including directors' emoluments  | 90,228    | 99,325  |
| and after crediting:  |           |         |
| Gross rental income from properties under operating leases  | 2,991     | 3,184   |
| Less: Outgoings   | (31)      | (28)    |
|   | 2,960     | 3,156   |

### 8. FINANCE COSTS

|  | THE GROUP |         |
|--|-----------|---------|
|  | 2003      | 2002    |
|  | RMB'000   | RMB'000 |
| Interest on bank borrowings:                         |           |         |
| Wholly repayable within five years                   | 38,651    | 66,606  |
| Less: amount capitalised in construction in progress | —         | (845)   |
|  | 38,651    | 65,761  |

Borrowing costs capitalised for the year ended 31st December, 2002 represented interests arose on the specific borrowings for qualifying assets.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31st December, 2003

(Prepared in accordance with Accounting Principles Generally Accepted in Hong Kong)

### 9. PARTIAL WAIVER OF A SYNDICATED LOAN

Pursuant to the Deed of Settlement with CCIC Finance Ltd. on 29th May, 2002, 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 waived. This amount was recognised in the consolidated income statement for the year ended 31st December, 2002. The remaining principal amounted to US\$26,000,000 (equivalent to RMB215,191,000) was fully repaid in 2002.

### 10. DISCONTINUING OPERATIONS

On 12th June, 2003, the Group entered into a sale agreement to dispose of 49% equity interest in Shenyang High-Voltage Switchgears Ltd. ("Shenyang High-Voltage"), a former wholly owned subsidiary of the Company, at a consideration of approximately RMB26,000,000. Shenyang High-Voltage was engaged in the manufacture of transformation machinery including switchgears, circuit breakers and disconnectors. The disposal was effected in order to generate cash for the expansion of the Group's other business. The disposal was completed on 28th August, 2003, on which date 49% equity interest in Shenyang High-Voltage was passed to the acquirer.

On 8th October, 2003, the Group's interest in Shenyang High-Voltage was further diluted from 51% to 48.95% following the expansion of the registered capital of Shenyang High-Voltage which was wholly injected by the shareholder who had 49% equity interest at that moment.

The results of the manufacturing operation of Shenyang High-Voltage from 1st January, 2003 to 8th October 2003 based on audited financial statements performed by the certified public accountants registered in the PRC, which have been included in the consolidated financial statements, were as follows:

|                                  | <b>1.1.2003 to<br/>8.10.2003</b> | <b>Year ended<br/>31.12.2002</b> |
|----------------------------------|----------------------------------|----------------------------------|
|                                  | <i>RMB'000</i>                   | <i>RMB'000</i>                   |
| Turnover                         | 381,781                          | 515,584                          |
| Cost of sales                    | (260,278)                        | (363,635)                        |
| Other operating income           | 4,661                            | 34,956                           |
| Distribution costs               | (30,595)                         | (50,374)                         |
| Administrative expenses          | (60,650)                         | (94,309)                         |
| Other operating expenses         | (826)                            | (301)                            |
| Finance costs                    | (27,209)                         | (37,036)                         |
| Profit before taxation           | 6,884                            | 4,885                            |
| Taxation                         | (51)                             | —                                |
| Profit before minority interests | 6,833                            | 4,885                            |
| Minority interests               | 4                                | (4)                              |
| Profit for the period/year       | 6,837                            | 4,881                            |

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31st December, 2003

(Prepared in accordance with Accounting Principles Generally Accepted in Hong Kong)

### 10. DISCONTINUING OPERATIONS (Continued)

In this respect, the effect of the disposal of Shenyang High-Voltage is calculated on the following basis:

|   | <b>8.10.2003</b> |
|---|------------------|
|   | <i>RMB'000</i>   |
| Property, plant and equipment                         | 365,403          |
| Construction in progress                              | 7,145            |
| Intangible assets                                     | 47,645           |
| Investments in securities                             | 24,775           |
| Negative goodwill                                     | (1,467)          |
| Inventories   | 118,336          |
| Trade debtors   | 397,079          |
| Other debtors, deposits and prepayments               | 45,540           |
| Bank balances and cash                                | 69,972           |
| Trade creditors                                       | (299,792)        |
| Other creditors, advances from customers and accruals | (108,280)        |
| Bank borrowings                                       | (631,169)        |
| Government grants                                     | (2,603)          |
| Minority interest                                     | (1,100)          |
|   | 31,484           |
| Gain on disposal of Shenyang High-Voltage             | 13,413           |
|   | 44,897           |
| Satisfied by:   |                  |
| Cash  | 26,000           |
| Interest in associates                                | 18,897           |
|   | 44,897           |

## Notes to the Consolidated Financial Statements *(Continued)*

For the year ended 31st December, 2003

(Prepared in accordance with Accounting Principles Generally Accepted in Hong Kong)

### 10. DISCONTINUING OPERATIONS *(Continued)*

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

The results of the manufacturing operation of Shenyang Transformers Ltd. from 1st January, 2002 to 4th June, 2002, based on unaudited management accounts as audited financial statements for the period are not available, were as follows:

|                          | <b>1.1.2002 to<br/>4.6.2002</b><br><i>RMB'000</i> |
|--------------------------|---|
| Turnover                 | 207,916   |
| Cost of sales            | (146,140)   |
| Other operating income   | 2,166   |
| Distribution costs       | (19,490)  |
| Administrative expenses  | (37,752)  |
| Other operating expenses | (1,095)   |
| Finance costs            | (15,488)  |
| Loss before taxation     | (9,883)   |
| Taxation credit          | 1   |
| Loss for the period      | (9,882)   |

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31st December, 2003

(Prepared in accordance with Accounting Principles Generally Accepted in Hong Kong)

### 10. DISCONTINUING OPERATIONS (Continued)

In this respect, the effect of the disposal of a Shenyang Transformers Ltd. is calculated on the following basis:

|   | <i>RMB'000</i> |
|---|----------------|
| Property, plant and equipment   | 456,179        |
| Construction in progress  | 94,329         |
| Intangible assets   | 86,474         |
| Investments in securities   | 3,959          |
| Inventories   | 211,651        |
| Trade debtors   | 433,041        |
| Other debtors, deposits and prepayments   | 418,795        |
| Restricted-use bank deposit   | 17,495         |
| Pledged bank deposits   | 20,000         |
| Bank balances and cash  | 67,814         |
| Trade creditors   | (457,351)      |
| Other creditors, advance from customers and accruals  | (327,638)      |
| Bank borrowings   | (899,243)      |
| Minority interest   | (6,819)        |
| Net assets of Shenyang Transformers Ltd.<br>at 31st December, 2001                            | 118,686        |
| Loss of Shenyang Transformers Ltd. for the period from<br>1st January, 2002 to 4th June, 2002 | (9,882)        |
|   | 108,804        |
| Gain on disposal of a subsidiary  | 41,196         |
| Cash consideration  | 150,000        |

The consideration for the disposal of Shenyang Transformers Ltd. of RMB150,000,000 was determined with reference to its net asset value at 31st December, 2001. In addition, based on the disposal agreement entered into with acquirer, the consideration was not affected by the results of Shenyang Transformers Ltd. from 1st January, 2002 upto the date of disposal. A gain of RMB41,196,000 has resulted from the disposal of Shenyang Transformers Ltd.

In addition, the Group discontinued the provision of entertainment services operation upon the disposal of Shenyang Hua Kong Restaurant and Entertainment Limited ("Shenyang Hua Kong") in 2002.

## Notes to the Consolidated Financial Statements *(Continued)*

For the year ended 31st December, 2003

(Prepared in accordance with Accounting Principles Generally Accepted in Hong Kong)

### 10. DISCONTINUING OPERATIONS *(Continued)*

The results of Shenyang Hua Kong from 1st January, 2002 to 11th December, 2002, which had been included in the consolidated financial statements were as follows:

|                         | <b>1.1.2002 to<br/>11.12.2002</b> |
|-------------------------|-----------------------------------|
|                         | <i>RMB'000</i>                    |
| Turnover                | 2,141                             |
| Cost of sales           | (2,613)                           |
| Other operating income  | 498                               |
| Administrative expenses | (350)                             |
| Loss before taxation    | (324)                             |
| Taxation charge         | (23)                              |
| Loss after taxation     | (347)                             |

In this respect, the effect of the disposal of Shenyang Hua Kong was calculated on the following basis:

|   | <i>RMB'000</i> |
|---|----------------|
| Property, plant and equipment                         | 9,318          |
| Inventories   | 88             |
| Other debtors, deposits and prepayment                | 5,176          |
| Bank balances and cash                                | 1,033          |
| Other creditors, advances from customers and accruals | (3,348)        |
| Minority interest                                     | (4,907)        |
| Net assets of Shenyang Hua Kong                       | 7,360          |
| Gain on disposal of a subsidiary                      | 12,640         |
| Cash consideration                                    | 20,000         |



## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31st December, 2003

(Prepared in accordance with Accounting Principles Generally Accepted in Hong Kong)

### 11. DIRECTORS' EMOLUMENTS

|                                 | THE GROUP  |         |
|---------------------------------|------------|---------|
|                                 | 2003       | 2002    |
|                                 | RMB'000    | RMB'000 |
| Directors' emoluments:          |            |         |
| Fees                            | 100        | 100     |
| Other emoluments:               |            |         |
| Salaries and other benefits     | 368        | 254     |
| Bonuses                         | 30         | 40      |
| Retirement scheme contributions | 86         | 57      |
|                                 | <b>584</b> | 451     |

The amount disclosed above include directors' fees of HK\$100,000 payable to independent non-executive director for both years.

The five highest paid individuals of the Group for both years were all directors of the Company and details of their emoluments are set out above.

No emoluments were paid by the Group to the directors of the Company as an inducement to join or upon joining the Group or as compensation for loss of office and none of the directors has waived the right to receive their emoluments in both years.

### 12. TAXATION

|   | THE GROUP    |         |
|---|--------------|---------|
|   | 2003         | 2002    |
|   | RMB'000      | RMB'000 |
| The charge comprises:                   |              |         |
| Income tax for certain PRC subsidiaries |              |         |
| - Current year                          | 5,239        | 5,371   |
| - Overprovision in prior year           | (60)         | —       |
|   | <b>5,179</b> | 5,371   |

The tax charge for the year represents the income tax in the PRC which is calculated at the prevailing tax rate on the taxable income of subsidiaries in the PRC. A subsidiary of the Group in the PRC is eligible for certain tax holidays and concessions and was subject to a 50% reduction in tax rate for both years.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31st December, 2003

(Prepared in accordance with Accounting Principles Generally Accepted in Hong Kong)

### 12. TAXATION (Continued)

Hong Kong Profits Tax has not been provided as the Company and its subsidiaries had no assessable profit in Hong Kong for both years.

The Company had no taxable profit for both years. Certain of the associates were still in their tax exemption period and therefore had no taxable profit for both years.

Details of unprovided deferred taxation is set out in note 35.

The charge for the year can be reconciled to the profit per the income statement as follows:

|   | 2003            |               | 2002     |        |
|---|-----------------|---------------|----------|--------|
|   | RMB'000         | %             | RMB'000  | %      |
| Profit before taxation  | <b>36,456</b>   |               | 214,669  |        |
| Tax at the domestic income tax rate of 33% (2002: 33%)            | <b>12,030</b>   | <b>33.0</b>   | 70,841   | 33.0   |
| Tax effect of income not taxable for tax purpose                  | <b>(5,995)</b>  | <b>(16.4)</b> | (14,396) | (6.7)  |
| Tax effect of expenses not deductible for tax purpose             | <b>11,337</b>   | <b>31.1</b>   | 2,683    | 1.2    |
| Overprovision in respect of prior year                            | <b>(60)</b>     | <b>(0.2)</b>  | —        | —      |
| Tax effect of utilisation of tax losses not previously recognised | <b>(14,142)</b> | <b>(38.8)</b> | (55,199) | (25.7) |
| Tax effect of deferred tax assets not recognised                  | <b>6,836</b>    | <b>18.8</b>   | 3,592    | 1.7    |
| Income tax on concessionary rate                                  | <b>(2,069)</b>  | <b>(5.7)</b>  | (1,489)  | (0.7)  |
| Tax effect of share of results of associates                      | <b>(2,758)</b>  | <b>(7.6)</b>  | (661)    | (0.3)  |
| Tax expenses and effective tax rate for the year                  | <b>5,179</b>    | <b>14.2</b>   | 5,371    | 2.5    |

### 13. DIVIDEND

No dividend were paid during the year. The directors do not recommend the payment of any dividend.

### 14. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the net profit for the year of RMB27,799,000 (2002: RMB205,443,000) and on the number of 873,370,000 ordinary shares in issue during both years.

Diluted earnings per share is not shown as the Company has no dilutive potential ordinary shares in issue in both years.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31st December, 2003

(Prepared in accordance with Accounting Principles Generally Accepted in Hong Kong)

### 15. PROPERTY, PLANT AND EQUIPMENT

|   | <b>Buildings</b><br><i>RMB'000</i> | <b>Hotel<br/>property</b><br><i>RMB'000</i> | <b>Plant,<br/>machinery<br/>and<br/>equipment</b><br><i>RMB'000</i> | <b>Motor<br/>vehicles<br/>and<br/>others</b><br><i>RMB'000</i> | <b>Total</b><br><i>RMB'000</i> |
|---|------------------------------------|---|---|--|--------------------------------|
| THE GROUP                                       |                                    |   |   |  |                                |
| COST  |                                    |   |   |  |                                |
| At 1st January, 2003                            | 359,280                            | 370,960                                     | 402,760   | 42,618   | 1,175,618                      |
| Additions                                       | 526                                | —   | 1,399   | 2,938  | 4,863                          |
| Transferred from<br>construction in progress    | 572                                | —   | 10,252  | —  | 10,824                         |
| Disposal of subsidiaries                        | (305,195)                          | —   | (287,515)   | (31,293)   | (624,003)                      |
| Disposals                                       | —                                  | —   | (657)   | (3,160)  | (3,817)                        |
| At 31st December, 2003                          | 55,183                             | 370,960                                     | 126,239   | 11,103   | 563,485                        |
| ACCUMULATED DEPRECIATION<br>AND IMPAIRMENT LOSS |                                    |   |   |  |                                |
| At 1st January, 2003                            | 93,643                             | 100,429                                     | 206,348   | 23,846   | 424,266                        |
| Charge for the year                             | 6,898                              | 6,680                                       | 17,580  | 2,346  | 33,504                         |
| Eliminated on disposal<br>of subsidiaries       | (87,080)                           | —   | (149,706)   | (20,591)   | (257,377)                      |
| Eliminated on disposals                         | —                                  | —   | (632)   | (2,038)  | (2,670)                        |
| At 31st December, 2003                          | 13,461                             | 107,109                                     | 73,590  | 3,563  | 197,723                        |
| NET BOOK VALUES                                 |                                    |   |   |  |                                |
| At 31st December, 2003                          | 41,722                             | 263,851                                     | 52,649  | 7,540  | 365,762                        |
| At 31st December, 2002                          | 265,637                            | 270,531                                     | 196,412   | 18,772   | 751,352                        |

The Group has pledged buildings and plant, machinery and equipment having a net book value of approximately RMB20,000,000 and RMB16,000,000 respectively (2002: RMB21,000,000 and RMB17,000,000), to secure general banking facilities granted to the Group.

All the buildings and hotel property are located in the PRC and held under medium-term leases.

The Group is in the process of obtaining ownership certificate of certain portion of the hotel property and staff quarters.

Included in plant, machinery and equipment is net interest capitalised of approximately RMB1,284,000 (2002: Nil).

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31st December, 2003

(Prepared in accordance with Accounting Principles Generally Accepted in Hong Kong)

### 15. PROPERTY, PLANT AND EQUIPMENT (Continued)

During the year ended 31st December, 2002, the directors conducted a review of the Group's assets and determined that certain idle assets were impaired. Accordingly, an impairment loss of RMB552,000 in respect of the carrying amount of those assets was recognised in the consolidated income statement in 2002.

|                          | <b>Motor vehicles<br/>and others</b> |
|--------------------------|--------------------------------------|
|                          | <i>RMB'000</i>                       |
| <b>THE COMPANY</b>       |                                      |
| COST                     |                                      |
| At 1st January, 2003     | 2,139                                |
| Additions                | 1,142                                |
| At 31st December, 2003   | 3,281                                |
| ACCUMULATED DEPRECIATION |                                      |
| At 1st January, 2003     | 1,085                                |
| Charge for the year      | 216                                  |
| At 31st December, 2003   | 1,301                                |
| NET BOOK VALUES          |                                      |
| At 31st December, 2003   | 1,980                                |
| At 31st December, 2002   | 1,054                                |

### 16. CONSTRUCTION IN PROGRESS

|  | <b>THE GROUP</b>      |                |
|--|-----------------------|----------------|
|  | <b>2003</b>           | 2002           |
|  | <b><i>RMB'000</i></b> | <i>RMB'000</i> |
| COST   |                       |                |
| At 1st January                               | <b>11,968</b>         | 151,754        |
| Additions                                    | <b>10,802</b>         | 10,821         |
| Transferred to property, plant and equipment | <b>(10,824)</b>       | (56,278)       |
| Disposals of subsidiaries                    | <b>(7,145)</b>        | (94,329)       |
| At 31st December                             | <b>4,801</b>          | 11,968         |

There was no interest capitalised included in construction in progress as at 31st December 2003. Included in construction in progress was interest capitalised of approximately RMB1,284,000 at 31st December, 2002.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31st December, 2003

(Prepared in accordance with Accounting Principles Generally Accepted in Hong Kong)

### 17. INTANGIBLE ASSETS

|   | <b>Land use rights</b> |
|---|------------------------|
|   | <i>RMB'000</i>         |
| <b>THE GROUP</b>                        |                        |
| COST                                    |                        |
| At 1st January, 2003                    | 70,161                 |
| Disposals of subsidiaries               | (57,752)               |
| At 31st December, 2003                  | 12,409                 |
| ACCUMULATED AMORTISATION                |                        |
| At 1st January, 2003                    | 11,137                 |
| Charge for the year                     | 1,113                  |
| Eliminated on disposals of subsidiaries | (10,107)               |
| At 31st December, 2003                  | 2,143                  |
| NET BOOK VALUES                         |                        |
| At 31st December, 2003                  | 10,266                 |
| At 31st December, 2002                  | 59,024                 |

Land use right is amortised on straight-line basis over the lease term of 50 years.

The Group has pledged land use rights having a net book value of approximately RMB5,691,000 (2002: RMB5,826,000) to secure banking facilities granted to the Group.

The Group is in the process of obtaining land use right of the hotel property and certain staff quarters.

### 18. INVESTMENTS IN SUBSIDIARIES

|                              | <b>THE COMPANY</b> |                |
|------------------------------|--------------------|----------------|
|                              | <b>2003</b>        | 2002           |
|                              | <i>RMB'000</i>     | <i>RMB'000</i> |
| Unlisted investment, at cost | <b>401,434</b>     | 739,351        |
| Impairment loss recognised   | <b>(152,000)</b>   | (464,000)      |
|                              | <b>249,434</b>     | 275,351        |

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31st December, 2003

(Prepared in accordance with Accounting Principles Generally Accepted in Hong Kong)

### 18. INVESTMENTS IN SUBSIDIARIES (Continued)

All of the subsidiaries are limited companies incorporated under Company Law and operating in the PRC. The details of the principal subsidiaries at 31st December, 2003 are as follows:

| Name of subsidiary                             | Registered capital<br><i>RMB'000</i> | Percentage of registered capital held by the Company |                 | Principal activities                                |
|--|--------------------------------------|--|-----------------|---|
|  |                                      | Directly<br>%  | Indirectly<br>% |   |
| Jinzhou Power Capacitors Ltd.                  | 29,420                               | 100%   | —               | Manufacture of surge arrestors and power capacitors |
| Fuxin Enclosed Busbars Ltd.                    | 18,090                               | 100%   | —               | Manufacture of enclosed busbars                     |
| Kingdom Hotel Shenyang                         | 150,000                              | 90%  | —               | Provision of hotel and catering services            |
| Jinzhou Jinrong Electrical Equipment Co., Ltd. | 3,000                                | —  | 69.75%          | Manufacture of electrical equipment                 |

None of the subsidiaries had any debt capital outstanding at the end of the year or at any time during the year.

### 19. INTERESTS IN ASSOCIATES

|                            | THE GROUP              |                        | THE COMPANY            |                        |
|----------------------------|------------------------|------------------------|------------------------|------------------------|
|                            | 2003<br><i>RMB'000</i> | 2002<br><i>RMB'000</i> | 2003<br><i>RMB'000</i> | 2002<br><i>RMB'000</i> |
| Unlisted share, at cost    | —                      | —                      | <b>14,519</b>          | 70,984                 |
| Share of net assets        | <b>26,534</b>          | 81,663                 | —                      | —                      |
| Negative goodwill (note a) | —                      | (8,093)                | —                      | —                      |
|                            | <b>26,534</b>          | 73,570                 | <b>14,519</b>          | 70,984                 |

On 4th December, 2003, the Group entered into a sale agreement to dispose of all 42.5% equity interest in Shenyang Furukawa Cable Co. Ltd. ("Shenyang Furukawa") which was engaged in the manufacture of cable accessories. The disposal was completed on 18th December, 2003, on which date 42.5% equity interest of Shenyang Furukawa was passed to the acquirer.

A gain of RMB36,284,000 arose from the disposal of Shenyang Furukawa, being the proceeds of disposal of approximately RMB106,576,000 less the carrying amount of the associate's net assets and attributable negative goodwill.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31st December, 2003

(Prepared in accordance with Accounting Principles Generally Accepted in Hong Kong)

### 19. INTERESTS IN ASSOCIATES (Continued)

The associates are established and operating in the PRC. The details of the principal associates at 31st December, 2003 are as follows:

| Name of associate  | Proportion of registered capital directly held by the Group | Principal activities   |
|--|---|--|
| Northeast Electrical Hitachi Transmission and Transformation Machinery Co., Ltd. | 49%   | Manufacture of transformers and transmission equipment         |
| Shenyang High-Voltage  | 48.95%<br>(Note b)  | Manufacture of switchgears, circuit breakers and disconnectors |

Notes:

- (a) Movements of negative goodwill are as follows:

#### THE GROUP

|  | <i>RMB'000</i> |
|--|----------------|
| <b>GROSS AMOUNT</b>                        |                |
| At 1st January, 2003                       | 8,324          |
| Disposal of an associate                   | (8,324)        |
| At 31st December, 2003                     | —              |
| <b>RELEASED TO INCOME</b>                  |                |
| At 1st January, 2003                       | 231            |
| Released in the year                       | 462            |
| Eliminated on the disposal of an associate | (693)          |
|  | —              |
| <b>CARRYING AMOUNT</b>                     |                |
| At 31st December, 2003                     | —              |
| At 31st December, 2002                     | 8,093          |

The negative goodwill was released to income on a straight-line basis over a period of 15 years, representing the weighted average remaining useful life of the depreciable assets acquired. The remaining balance was released upon the disposal of Shenyang Furukawa.

- (b) Shenyang High-Voltage was disposed of to third party subsequent to 31st December, 2003 and details mentioned in note 42.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31st December, 2003

(Prepared in accordance with Accounting Principles Generally Accepted in Hong Kong)

### 20. INVESTMENTS IN SECURITIES

|   | THE GROUP       |                 | THE COMPANY     |                 |
|---|-----------------|-----------------|-----------------|-----------------|
|   | 2003<br>RMB'000 | 2002<br>RMB'000 | 2003<br>RMB'000 | 2002<br>RMB'000 |
| Unlisted government debentures                                      | —               | 2               | —               | —               |
| Other unlisted investment, net of impairment loss recognised (Note) | 17,458          | 10,678          | 17,458          | 10,000          |
|   | 17,458          | 10,680          | 17,458          | 10,000          |

Note: The details of the unlisted investment, net of impairment loss recognised at 31st December, 2003 are as follows:

| Name of securities                          | Equity interest | THE GROUP       |                 | THE COMPANY     |                 |
|---|-----------------|-----------------|-----------------|-----------------|-----------------|
|   |                 | 2003<br>RMB'000 | 2002<br>RMB'000 | 2003<br>RMB'000 | 2002<br>RMB'000 |
| Jinzhou City Co-operative bank              | 6.34%           | 10,000          | 10,000          | 10,000          | 10,000          |
| Northeast Electric (Hong Kong) Company Ltd. | 9.09%           | 7,458           | —               | 7,458           | —               |
| Others                                      |                 | —               | 680             | —               | —               |
|   |                 | 17,458          | 10,680          | 17,458          | 10,000          |

### 21. NEGATIVE GOODWILL

#### THE GROUP

|                                       | RMB'000 |
|---------------------------------------|---------|
| GROSS AMOUNT                          |         |
| At 1st January, 2003                  | 3,656   |
| Disposals of subsidiaries             | (1,615) |
| At 31st December, 2003                | 2,041   |
| RELEASED TO INCOME                    |         |
| At 1st January, 2003                  | 108     |
| Released in the year                  | 244     |
| Eliminate on disposal of subsidiaries | (148)   |
| At 31st December, 2003                | 204     |
| CARRYING AMOUNT                       |         |
| At 31st December, 2003                | 1,837   |
| At 31st December, 2002                | 3,548   |

The negative goodwill is released to income on a straight-line basis over a period ranges from 10 to 30 years, representing the weighted average remaining useful life of the depreciable assets acquired.



## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31st December, 2003

(Prepared in accordance with Accounting Principles Generally Accepted in Hong Kong)

### 22. NON-CURRENT PREPAYMENTS

|         | THE GROUP<br>AND THE COMPANY |                 |
|---------|------------------------------|-----------------|
|         | 2003<br>RMB'000              | 2002<br>RMB'000 |
| At cost | 84,675                       | —               |

The non-current prepayments of RMB51,566,000 and RMB33,109,000 represented consideration paid for the purpose of obtaining approximately of 20.8% interests in New Northeast Electric (Shenyang) High-Voltage Switchgear Ltd. and 52% interest in New Northeast Jinzhou Power Capacitors Ltd., respectively. The total investment of the Company in respect of New Northeast Electric (Shenyang) High-Voltage Switchgear Ltd and New Northeast Jinzhou Power Capacitors Ltd., are amounted to RMB51,566,000 and RMB43,346,000, respectively. The approval of these investments from relevant authorities are completed after the balance sheet date and therefore the amounts were classified as non-current assets.

### 23. INVENTORIES

|                                       | THE GROUP        |                  | THE COMPANY      |                  |
|---------------------------------------|------------------|------------------|------------------|------------------|
|                                       | 2003<br>HK\$'000 | 2002<br>HK\$'000 | 2003<br>HK\$'000 | 2002<br>HK\$'000 |
| Raw materials and consumables         | 17,133           | 78,802           | —                | —                |
| Work in progress                      | 8,698            | 41,856           | —                | —                |
| Finished goods                        | 18,042           | 71,691           | —                | —                |
| Steam turbine generating units (note) | 27,879           | 27,879           | 27,879           | 27,879           |
|                                       | 71,752           | 220,228          | 27,879           | 27,879           |

Included above are inventories of RMB7,153,000 (2002: RMB45,430,000) which are carried at net realisable value.

The cost of inventories recognised as expense in the consolidated income statement were approximately RMB373,524,840 (2002: RMB501,174,000).

Note: The amount represents six 120MW and four 200MW steam turbine generating units at 31st December 2003 and 2002. Subsequent to the balance sheet date, the Company injected these items into a company at carrying value and details mentioned in note 42.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31st December, 2003

(Prepared in accordance with Accounting Principles Generally Accepted in Hong Kong)

### 24. TRADE DEBTORS

The credit terms given to the customers vary which are based on the sales contracts signed with individual customers 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:

|                              | THE GROUP        |                  | THE COMPANY      |                  |
|------------------------------|------------------|------------------|------------------|------------------|
|                              | 2003<br>HK\$'000 | 2002<br>HK\$'000 | 2003<br>HK\$'000 | 2002<br>HK\$'000 |
| Third parties:               |                  |                  |                  |                  |
| Within 1 year                | 110,011          | 332,952          | 4,882            | 35,497           |
| 1 to 2 years                 | 34,070           | 95,840           | —                | —                |
| 2 to 3 years                 | 10,785           | 34,598           | —                | —                |
| Over 3 years                 | 34,903           | 83,184           | —                | —                |
|                              | <b>189,769</b>   | 546,574          | <b>4,882</b>     | 35,497           |
| Allowance for doubtful debts | (39,224)         | (90,467)         | —                | —                |
|                              | <b>150,545</b>   | 456,107          | <b>4,882</b>     | 35,497           |
| Former related companies:    |                  |                  |                  |                  |
| Within 1 year                | 265              | 5,077            | —                | —                |
| 1 to 2 years                 | 445              | 2,422            | —                | —                |
| 2 to 3 years                 | 1,174            | 3,825            | —                | —                |
| Over 3 years                 | 5,933            | 3,359            | —                | —                |
|                              | <b>7,817</b>     | 14,683           | —                | —                |
| Allowance for doubtful debts | (4,844)          | (8,035)          | —                | —                |
|                              | <b>2,973</b>     | 6,648            | —                | —                |
|                              | <b>153,518</b>   | 462,755          | <b>4,882</b>     | 35,497           |

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31st December, 2003

(Prepared in accordance with Accounting Principles Generally Accepted in Hong Kong)

### 25. AMOUNTS DUE FROM A FORMER SHAREHOLDER AND FORMER RELATED COMPANIES

|  | THE GROUP       |                 | THE COMPANY     |                 |
|--|-----------------|-----------------|-----------------|-----------------|
|  | 2003<br>RMB'000 | 2002<br>RMB'000 | 2003<br>RMB'000 | 2002<br>RMB'000 |
| Amounts due from a former shareholder and former related companies                   | <b>62,774</b>   | 62,774          | —               | 62,774          |
| Less: Allowance for doubtful debts   | <b>(62,774)</b> | (55,689)        | —               | (55,689)        |
|  | —               | 7,085           | —               | 7,085           |
| Analysis of net balances due from a former shareholder and former related companies: |                 |                 |                 |                 |
| Under current assets   | —               | 7,085           | —               | 7,085           |
| Under trade debtors (note 24)  | <b>2,973</b>    | 6,648           | —               | —               |
| Under debtors, deposits and prepayments  | —               | 13,138          | —               | —               |
| Under trade creditors (note 30)  | <b>(159)</b>    | (16,677)        | —               | —               |
| Under other creditors advances from customers and accruals                           | <b>(2,814)</b>  | (9,532)         | —               | —               |
|  | —               | 662             | —               | 7,085           |

The amounts at 31st December, 2002 were unsecured and interest-free. The Company was chasing the amounts due from a former shareholder and former related companies and therefore they were classified under current assets.

### 26. AMOUNTS DUE FROM ASSOCIATES

#### THE GROUP AND THE COMPANY

The amounts are unsecured, interest-free and have no fixed repayment terms.

## Notes to the Consolidated Financial Statements *(Continued)*

For the year ended 31st December, 2003

(Prepared in accordance with Accounting Principles Generally Accepted in Hong Kong)

### 27. AMOUNT DUE FROM A RELATED COMPANY

#### THE GROUP AND THE COMPANY

The amount represents advances to New Northeast Electric (Shenyang) High-Voltage Switchgear Ltd., which has common directors with the Company. The amount is unsecured, interest-free and is repayable on demand.

### 28. LOAN TO A THIRD PARTY

#### THE GROUP AND THE COMPANY

The loan is unsecured, bears interest at the prevailing market rate and is repayable in 2004.

### 29. AMOUNT DUE FROM A NON-BANK FINANCIAL INSTITUTION

#### THE GROUP AND THE COMPANY

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 a syndicated loan of US\$40,000,000.

Liaoning Trust was a third party non-bank financial institution registered in the PRC. In November 2001, the People's Bank of China withdrawn the 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 31st December, 2003, Liaoning Trust repaid US\$8,000,000 to settle part of the debt owing to the Company and the remaining balance is US\$12,000,000 (equivalent to RMB99,233,000) at 31st December, 2003.

Following the review on the financial position of Liaoning Trust, both the directors and the Company's PRC lawyer believe that Liaoning Trust has the financial ability to settle the remaining US\$12,000,000 to the Company, accordingly no allowance has been made in the financial statements. The directors also believe that Liaoning Trust will settle the amount in near future and consider that it is appropriate to classify the amount under current assets. Up to the date of this report, the liquidation of Liaoning Trust is still in progress.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31st December, 2003

(Prepared in accordance with Accounting Principles Generally Accepted in Hong Kong)

### 30. TRADE CREDITORS

The following is an aged analysis of trade creditors:

|                           | THE GROUP       |                 |
|---------------------------|-----------------|-----------------|
|                           | 2003<br>RMB'000 | 2002<br>RMB'000 |
| Third parties:            |                 |                 |
| Within 1 year             | 41,620          | 251,289         |
| 1 to 2 years              | 7,435           | 40,311          |
| 2 to 3 years              | 2,317           | 16,057          |
| Over 3 years              | 3,376           | 31,192          |
|                           | <b>54,748</b>   | 338,849         |
| Associates:               |                 |                 |
| Within 1 year             | 6,739           | —               |
| Former related companies: |                 |                 |
| Within 1 year             | 159             | 14,950          |
| 1 to 2 years              | —               | 301             |
| 2 to 3 years              | —               | 300             |
| Over 3 years              | —               | 1,126           |
|                           | <b>159</b>      | 16,677          |
|                           | <b>61,646</b>   | 355,526         |

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31st December, 2003

(Prepared in accordance with Accounting Principles Generally Accepted in Hong Kong)

### 31. BANK BORROWINGS

|   | THE GROUP        |                 |
|---|------------------|-----------------|
|   | 2003<br>RMB'000  | 2002<br>RMB'000 |
| RMB bank loans (note)   | <b>210,920</b>   | 769,847         |
| Interest payable  | —                | 3,657           |
|   | <b>210,920</b>   | 773,504         |
| Analysed as:  |                  |                 |
| Secured   | <b>60,660</b>    | 256,920         |
| Unsecured   | <b>150,260</b>   | 516,584         |
|   | <b>210,920</b>   | 773,504         |
| Repayable as follows:   |                  |                 |
| Within one year or on demand  | <b>184,370</b>   | 604,897         |
| More than one year, but not exceeding two years                     | <b>26,550</b>    | 27,207          |
| More than two years, but not exceeding five years                   | —                | 141,400         |
|   | <b>210,920</b>   | 773,504         |
| Less: Amount due within one year included under current liabilities | <b>(184,370)</b> | (604,897)       |
| Amount due after one year   | <b>26,550</b>    | 168,607         |

The amounts represent term loans and most of which have to be renewed within twelve months from the balance sheet date.

*Note:*

Included above is the loans of a subsidiary of RMB24,000,000 which were guaranteed by the Company. During the year, that subsidiary failed to repay the loans and accrued interest according to the specified repayment date. The loans have not yet been repaid as at 31st December, 2003 and the Company and that subsidiary are in the process of negotiating with the bankers on the settlement plan.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31st December, 2003

(Prepared in accordance with Accounting Principles Generally Accepted in Hong Kong)

### 32. GOVERNMENT GRANTS

|                          | <i>RMB'000</i> |
|--------------------------|----------------|
| ADVANCES FROM GOVERNMENT |                |
| At 1st January, 2003     | 13,241         |
| Additions                | 3,529          |
| Disposal of a subsidiary | (2,603)        |
| At 31st December, 2003   | 14,167         |

Amounts represent government grants received to be used mainly for technical improvement. They are recorded as liabilities as the conditions attaching to them have not yet been fulfilled.

### 33. SHARE CAPITAL

|  | <b>2003 &amp; 2002</b> |
|--|------------------------|
|  | <i>RMB'000</i>         |
| Registered, issued and fully paid-up capital:<br>615,420,000 ordinary 'Domestic' shares of<br>RMB1 each, of which: |                        |
| - Non-listed   | 471,820                |
| - Listed "A" shares  | 143,600                |
|  | 615,420                |
| 257,950,000 "H" shares of RMB1 each  | 257,950                |
|  | 873,370                |

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

### 34. RESERVES

#### THE COMPANY

|  | <b>Capital<br/>reserve</b> | <b>Statutory<br/>common<br/>reserve</b> | <b>Statutory<br/>public<br/>welfare fund</b> | <b>Accumulated<br/>losses</b> | <b>Total</b>   |
|--|----------------------------|---|--|-------------------------------|----------------|
|  | <i>RMB'000</i>             | <i>RMB'000</i>                          | <i>RMB'000</i>                               | <i>RMB'000</i>                | <i>RMB'000</i> |
| At 1st January, 2002                               | 603,394                    | 46,356                                  | 31,441                                       | (1,168,319)                   | (487,128)      |
| Profit for the year                                | —                          | —                                       | —  | 147,545                       | 147,545        |
| At 31st December, 2002 and<br>at 1st January, 2003 | 603,394                    | 46,356                                  | 31,441                                       | (1,020,774)                   | (339,583)      |
| Loss for the year                                  | —                          | —                                       | —  | (14,128)                      | (14,128)       |
| At 31st December, 2003                             | 603,394                    | 46,356                                  | 31,441                                       | (1,034,902)                   | (353,711)      |

## Notes to the Consolidated Financial Statements *(Continued)*

For the year ended 31st December, 2003

(Prepared in accordance with Accounting Principles Generally Accepted in Hong Kong)

### 34. RESERVES *(Continued)*

#### **Capital reserve**

Capital reserve represents premium on issue of shares net of issuing expenses and an amount arising as a result of the original restructuring of the Group. Capital reserve can only be used to increase share capital.

#### **Statutory common reserve**

According to their respective Articles of Association, the Company and each of its subsidiaries are required to transfer 10% of their profit after taxation to the statutory common reserve until the reserve reaches 50% of the registered capital. The statutory common reserve shall only be used for the following purposes:

- to make up losses;
- to expand production facilities; or
- to be converted into capital. The Company and each of its subsidiaries may, with the sanction of a resolution of shareholders in general meeting, convert their statutory common reserve into capital and issue bonus shares to existing shareholders in proportion to their original shareholdings or to increase the par value of each share. When converting the statutory common reserve into capital, the amount of such reserve remaining unconverted must not be less than 25% of the registered capital of the Company and each of its subsidiaries.

#### **Statutory public welfare fund**

According to their respective Articles of Association, the Company and each of its subsidiaries are required to transfer 5% to 10% of their profit after taxation to the statutory public welfare fund. This fund can be used for the collective welfare of the employees of the Group in PRC. The public welfare is not distributable to shareholders. There has been no utilisation of the public welfare fund during the year.

#### **Discretionary common reserve**

According to their respective Articles of Association, the Company and each of its subsidiaries shall transfer at their discretion a certain percentage of their profit after taxation, to the discretionary common reserve (in accordance with the PRC Accounting Regulations). The discretionary common reserve may be used for the same purposes as the statutory common reserve.



## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31st December, 2003

(Prepared in accordance with Accounting Principles Generally Accepted in Hong Kong)

### 35. DEFERRED TAX

#### THE GROUP

The following are the major unrecognised deferred tax assets of the Group arising from:

|   | <b>2003</b>    | 2002    |
|---|----------------|---------|
|   | <b>RMB'000</b> | RMB'000 |
| Deductible temporary difference available | <b>218,067</b> | 320,718 |
| Tax losses                                | <b>194,903</b> | 259,279 |
|   | <b>412,970</b> | 579,997 |

No deferred tax asset has been recognised due to the unpredictability of future profit streams. Included in unrecognised tax losses are losses of RMB194,903,000 (2002: RMB259,279,000) that will expire in 2008 (2002: 2007).

#### THE COMPANY

|   | <b>2003</b>    | 2002    |
|---|----------------|---------|
|   | <b>RMB'000</b> | RMB'000 |
| Deductible temporary difference available | <b>72,136</b>  | 65,779  |
| Tax losses                                | <b>163,106</b> | 199,803 |
|   | <b>235,242</b> | 265,582 |

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31st December, 2003

(Prepared in accordance with Accounting Principles Generally Accepted in Hong Kong)

### 36. DISPOSALS OF SUBSIDIARIES

As referred to in note 10, the Group disposed of Shenyang High-Voltage on 8th October, 2003. In addition, the Group also disposed of Jinzhou Jinrong Chao Ji Capacitor Limited (“Jinrong Chao Ji”), the aggregate net assets of the subsidiaries disposed of were as follows:

|   | <b>2003</b>      | 2002      |
|---|------------------|-----------|
|   | <b>RMB'000</b>   | RMB'000   |
| Property, plant and equipment   | <b>366,626</b>   | 465,497   |
| Construction in progress  | <b>7,145</b>     | 94,329    |
| Intangible assets   | <b>47,645</b>    | 86,474    |
| Investments in securities   | <b>24,775</b>    | 3,959     |
| Negative goodwill   | <b>(1,467)</b>   | —         |
| Inventories   | <b>118,597</b>   | 211,739   |
| Trade debtors   | <b>397,079</b>   | 433,041   |
| Other debtors, deposits and prepayments   | <b>45,939</b>    | 423,971   |
| Restricted-use bank deposit   | —                | 17,495    |
| Pledged bank deposits   | —                | 20,000    |
| Bank balances and cash  | <b>70,373</b>    | 68,847    |
| Trade creditors   | <b>(299,792)</b> | (457,351) |
| Other creditors, advance from customers and accruals  | <b>(108,304)</b> | (330,986) |
| Bank borrowings   | <b>(631,669)</b> | (899,243) |
| Government grants   | <b>(2,603)</b>   | —         |
| Minority interest   | <b>(1,963)</b>   | (11,726)  |
| Loss of Shenyang Transformers Ltd. for the period from<br>1st January, 2003 to 4th June, 2003 | —                | (9,882)   |
|   | <b>32,381</b>    | 116,164   |
| Gain on disposals of subsidiaries   | <b>13,413</b>    | 53,836    |
| Total consideration   | <b>45,794</b>    | 170,000   |
| Satisfied by:   |                  |           |
| Cash  | <b>26,897</b>    | 168,000   |
| Interest in associates  | <b>18,897</b>    | —         |
| Deferred consideration (note)   | —                | 2,000     |
|   | <b>45,794</b>    | 170,000   |
| Net cash (outflow) inflow arising on disposals:   |                  |           |
| Cash consideration  | <b>26,897</b>    | 168,000   |
| Bank balances and cash disposed of  | <b>(70,373)</b>  | (68,847)  |
| Net cash (outflow) inflow arising on disposal   | <b>(43,476)</b>  | 99,153    |

Note: As at 31st December, 2002, the deferred consideration was included in “other debtors, deposits and prepayments” in the balance sheet and was fully settled during the current year.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31st December, 2003

(Prepared in accordance with Accounting Principles Generally Accepted in Hong Kong)

### 36. DISPOSALS OF SUBSIDIARIES (Continued)

During the year, Shenyang High-Voltage contributed RMB381,781,000 (2002: RMB515,584,000) to the Group's turnover and RMB6,884,000 (2002: RMB4,885,000) to the Group's profit before taxation.

The cash flow contributed or utilized by Jinrong Chao Ji was not significant during the year.

There is insufficient information in respect of the contribution by the disposed subsidiary Shenyang Transformers Ltd. to the net cash flows of the Group for the 31st December, 2002.

The cash flow contributed or utilised by Shenyang Hua Kong during the year ended 31st December, 2002 was not significant.

### 37. MAJOR NON-CASH TRANSACTION

There was no major non-cash transaction during the year ended 31st December, 2003.

The major non-cash transactions for the year ended 31st December, 2002 were as follows:

1. The Group acquired 42.5% equity interest of Shenyang Furukawa Cable Co., Ltd. at a consideration of approximately RMB66,915,000, which was satisfied by setting off the amount due from a shareholder and other related companies.
2. The Group acquired inventories at RMB27,879,000, which was satisfied by setting off the loan to a third party.
3. Pursuant to the Deed of Settlement with CCIC Finance Ltd., 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 waived.
4. The Group acquired a further 18.5% equity interest in Jinzhou Jinrong at a consideration of approximately RMB555,000 which was satisfied by setting off the cash advance to the staff.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31st December, 2003

(Prepared in accordance with Accounting Principles Generally Accepted in Hong Kong)

### 38. CONTINGENT LIABILITIES

|  | THE GROUP      |                | THE COMPANY   |                |
|--|----------------|----------------|---------------|----------------|
|  | 2003           | 2002           | 2003          | 2002           |
|  | RMB'000        | RMB'000        | RMB'000       | RMB'000        |
| Guarantees given to banks in respect of banking facilities utilised by other entities: |                |                |               |                |
| NET (note i)   | —              | 30,000         | —             | 30,000         |
| Shenyang Cable Company Ltd. (note ii)  | 20,000         | 20,000         | 20,000        | 20,000         |
| Shenyang Transformers Ltd. (note iii)  | —              | 287,236        | —             | 287,236        |
| Associates   | 109,800        | —              | 52,500        | —              |
| Third parties  | 12,910         | —              | —             | —              |
|  | <b>142,710</b> | <b>337,236</b> | <b>72,500</b> | <b>337,236</b> |

At 31st December, 2003, the Company gave guarantees to banks in respect of banking facilities utilised by its subsidiaries and the amount utilised was RMB98,860,000 (2002: RMB126,320,000).

#### Notes:

- (i) In 2002, 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 RMB26,402,000 and the related interest.

On 13th May, 2003, the Company received a verdict of final trial from the Beijing Higher People's Court which ruled that the Company be jointly held responsible for the repayment of the loan principal of RMB26,402,000 and the related interest of RMB4,592,000. Accordingly, a provision for loss on guarantee given to NET of RMB30,994,000 has been made during year. The amount had not yet been settled as at 31st December, 2003 and is included in other creditors, advances from customers and accruals. The Group is in process of negotiating with China Everbright Banks for the settlement plan.

- (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.

On 21st October, 2003, the Intermediate People's Court of Shenyang, Liaoning Province ruled that the Company be jointly held responsible for the repayment of the loan principal of RMB20,000,000 and the related interest (the "First Judgment"). The Company lodged an appeal to the Liaoning Higher People's Court. The Liaoning Higher People's Court issued a 民事裁定书 (2003) 遼民二合終字第 312 號 on 5th December, 2003 which withdraw the decision of First Judgment and requested the Intermediate People's Court of Shenyang Liaoning Province to re-open the case.

Up to the date of this report, the Company was not informed when this case would be re-opened by the Intermediate People's Court of Shenyang, Liaoning Province.

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 Group's and the Company's financial statements.

- (iii) As at 31st December, 2002, Shenyang High-Voltage acted as guarantors for general banking facilities granted to Shenyang Transformers Ltd. amounting to RMB287 million. All the guarantees were disposed of from the Group upon the disposal of majority interests in Shenyang High-Voltage during the year.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31st December, 2003

(Prepared in accordance with Accounting Principles Generally Accepted in Hong Kong)

### 39. CAPITAL COMMITMENTS

|  | THE GROUP     |         |
|--|---------------|---------|
|  | 2003          | 2002    |
|  | RMB'000       | RMB'000 |
| Capital expenditure contracted for but not provided in the financial statements in respect of: |               |         |
| Acquisition of property, plant and equipment   | 73,598        | —       |
| Acquisition of a company   | 10,237        | —       |
|  | <b>83,835</b> | -       |

### 40. LEASE COMMITMENTS

#### The Group as lessor

Property rental income earned during the year was RMB2,991,000 (2002: RMB3,184,000). The properties are expected to generate rental yields of on an ongoing basis. All the properties held have committed tenants for the next year.

At the balance sheet date, the Group had contracted with tenants for the following future minimum lease payments:

|                                       | THE GROUP    |         |
|---------------------------------------|--------------|---------|
|                                       | 2003         | 2002    |
|                                       | RMB'000      | RMB'000 |
| Within one year                       | 1,681        | 3,656   |
| In the second to fifth year inclusive | 1,798        | 4,812   |
| After five years                      | 533          | 933     |
|                                       | <b>4,012</b> | 9,401   |

### 41. RELATED PARTY TRANSACTIONS

During the year, the Group purchased goods from an associate amounting to approximately RMB4,232,000 (2002: RMBnil).

During the year ended 31st December, 2002, the Group entered into the following significant transactions with affiliates of NET, a former shareholder:

|  | 2002    |
|--|---------|
|  | RMB'000 |
| Sales of finished products                 | 2,303   |
| Provision of hotel and catering services   | 628     |
| Purchases of raw materials and spare parts | 24,581  |

In addition, the Group acquired 42.5% equity interest of Shenyang Furukawa Cable Co., Ltd. from NET for a total consideration of RMB66,915,000 during the year ended 31st December, 2002.

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

## Notes to the Consolidated Financial Statements *(Continued)*

For the year ended 31st December, 2003

(Prepared in accordance with Accounting Principles Generally Accepted in Hong Kong)

### 42. POST BALANCE SHEET EVENT

- (1) On 15th March, 2004, the Group entered into an agreement to dispose of the remaining equity interest of 48.95% in Shenyang High-Voltage at a consideration of approximately RMB24,000,000.
- (2) In March 2004, the Group acquired 98.48% equity interest in a company by injecting six 120MW and four 200MW steam turbine generating units at carrying value of RMB27,879,000.

### 43. RETIREMENT BENEFITS PLANS, HEALTH CARE ASSURANCE AND HOUSING FUND

The Group's full-time employees are covered by a government-sponsored defined contribution pension scheme, and are entitled to a monthly pension at their retirement dates. The PRC government is responsible for the pension liability to these retired employees. The Group is required to make annual contributions to the retirement plan at a rate of 23.5% of employees' salaries, which are charged to operations as an expense when the contributions are due. For the years ended 31st December, 2003 and 2002, the retirement plan contributions made by the Group amounted to RMB13,553,940 and RMB12,253,000 are charged to the income statement respectively.

Pursuant to regulations stipulated by the State Council and the government, the Group started a defined contribution health care scheme in 2001. Under this scheme, all full-time employees of the Group have to make a specified contribution for health care benefits calculated at a certain percentage of their salaries, and the Group is required to match the employees contribution. For the years ended 31st December, 2003 and 2002, the medical care contributions made by the Group amounted to RMB3,586,000 and RMB4,164,000 are charged to the income statement respectively.

Furthermore, the Group's full-time employees are entitled to participate in a state-sponsored housing fund. The fund can be used by the employees to purchase housing, or claimed upon their retirement. The Group is required to make annual contributions to the housing fund equal to a percentage of each full-time employee's salary based on service period and position. For the years ended 31st December, 2003 and 2002, the Group made housing fund contributions amounted to RMB2,521,000 and RMB2,522,000 are charged to the income statement respectively.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31st December, 2003

(Prepared in accordance with Accounting Principles Generally Accepted in Hong Kong)

### 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> | <b>Net profit</b> |
|---|-------------------|-------------------|
|   | <i>RMB'000</i>    | <i>RMB'000</i>    |
| Under accounting principles generally accepted in Hong Kong | 563,827           | 27,799            |
| Gain on deemed disposal of a subsidiary (Note)              | —                 | (2,310)           |
| Sundry income   | —                 | (6)               |
| Accrued staff welfare expenses                              | (133)             | 477               |
| Under the PRC Accounting Regulations                        | 563,694           | 25,960            |

*Notes:*

The amount represents gain on deemed disposal of Shenyang High-Voltage upon the dilution of interest in Shenyang High-Voltage from 51% to 48.95%, such amount was recorded as capital reserve under the PRC Accounting Regulations.

De Shi jing (Shen) Bao Zi (04) No. 171

TO THE SHAREHOLDERS OF  
**NORTHEAST ELECTRIC DEVELOPMENT COMPANY LIMITED**

We have audited the accompanying balance sheets of the Company and the Group as of 31 December 2003 and the related statements of income and cash flows of the Company and the Group for the year then ended. The preparation of these financial statements is the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We planned and performed our audit in accordance with China's Independent Auditing Standards to obtain reasonable assurance as to whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting policies used and significant accounting estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements, from pages 80 to 123, present fairly in all material respects, the financial position of the Company and the Group as of 31 December 2003 and the results of their operations and cash flows for the year then ended in accordance with the requirements of the Accounting Standards for Business Enterprises and the Accounting System for Business Enterprises promulgated by the State.

Deloitte Touche Tohmatsu Certified Public Accountants Ltd.  
*Chinese Certified Public Accountants*

Cui Jin  
Jing Yi Qing  
7th April 2004



## Balance Sheet

As at 31st December 2003

(Prepared in accordance with the PRC Accounting Rules and Regulations)

| Assets                                   | Notes | Group<br>closing<br>RMB | Group<br>opening<br>RMB | Company<br>closing<br>RMB | Company<br>opening<br>RMB |
|--|-------|-------------------------|-------------------------|---------------------------|---------------------------|
| <b>CURRENT ASSETS</b>                    |       |                         |                         |                           |                           |
| Cash and bank balances                   | 6     | <b>14,549,095.48</b>    | 88,305,704.69           | <b>2,221,681.83</b>       | 11,819,298.61             |
| Notes receivable                         |       | —                       | 1,377,666.80            | —                         | —                         |
| Dividend receivable                      |       | <b>1,000,000.00</b>     | —                       | <b>1,000,000.00</b>       | —                         |
| Accounts receivable                      | 7, 9  | <b>153,518,136.04</b>   | 461,377,684.54          | <b>4,882,360.00</b>       | 34,970,450.00             |
| Other receivables                        | 8, 9  | <b>232,194,326.32</b>   | 199,383,379.60          | <b>197,646,218.93</b>     | 124,884,045.15            |
| Prepayments                              | 10    | <b>92,129,366.01</b>    | 29,060,382.21           | <b>88,674,733.00</b>      | —                         |
| Inventories                              | 11    | <b>71,751,624.12</b>    | 220,227,629.96          | <b>27,878,800.00</b>      | 27,878,800.00             |
| Deferred expenses                        | 12    | <b>1,169,050.56</b>     | 8,601,709.00            | —                         | —                         |
| <b>Total current assets</b>              |       | <b>566,311,598.53</b>   | 1,008,334,156.80        | <b>322,303,793.76</b>     | 199,552,593.76            |
| <b>LONG TERM INVESTMENTS</b>             |       |                         |                         |                           |                           |
| Long term equity investments             | 13    | <b>42,156,081.38</b>    | 80,699,648.28           | <b>325,447,684.10</b>     | 394,332,915.68            |
| Long term debt investment                |       | —                       | 1,900.00                | —                         | —                         |
| <b>Total long term investments</b>       |       | <b>42,156,081.38</b>    | 80,701,548.28           | <b>325,447,684.10</b>     | 394,332,915.68            |
| <b>FIXED ASSETS:</b>                     |       |                         |                         |                           |                           |
| Fixed assets - cost                      | 14    | <b>566,965,566.40</b>   | 1,177,546,316.41        | <b>3,346,111.00</b>       | 2,138,621.00              |
| Less: Accumulated depreciation           | 14    | <b>117,351,660.05</b>   | 342,903,037.46          | <b>1,366,145.61</b>       | 1,084,531.00              |
| <b>Fixed assets - net</b>                |       | <b>449,613,906.35</b>   | 834,643,278.95          | <b>1,979,965.39</b>       | 1,054,090.00              |
| Less: Impairment                         | 14    | <b>83,851,581.04</b>    | 84,277,119.52           | —                         | —                         |
| <b>Fixed assets - net book value</b>     | 14    | <b>365,762,325.31</b>   | 750,366,159.43          | <b>1,979,965.39</b>       | 1,054,090.00              |
| Fixed assets under construction          | 15    | <b>4,801,431.71</b>     | 11,968,460.37           | —                         | —                         |
| <b>Total fixed assets</b>                |       | <b>370,563,757.02</b>   | 762,334,619.80          | <b>1,979,965.39</b>       | 1,054,090.00              |
| <b>INTANGIBLE AND OTHER ASSETS</b>       |       |                         |                         |                           |                           |
| Intangible assets                        | 16    | <b>10,607,208.38</b>    | 59,647,323.48           | —                         | —                         |
| Long term deferred expenses              | 17    | —                       | 986,315.56              | —                         | 235,000.00                |
| <b>Total intangible and other assets</b> |       | <b>10,607,208.38</b>    | 60,633,639.04           | —                         | 235,000.00                |
| <b>TOTAL ASSETS</b>                      |       | <b>989,638,645.31</b>   | 1,912,003,963.92        | <b>649,731,443.25</b>     | 595,174,599.44            |

## Balance Sheet (Continued)

As at 31st December 2003

(Prepared in accordance with the PRC Accounting Rules and Regulations)

| Company opening                              |       | Group<br>closing          | Group<br>opening   | Company<br>closing        | Company<br>opening |
|--|-------|---------------------------|--------------------|---------------------------|--------------------|
|  | Notes | RMB                       | RMB                | RMB                       | RMB                |
| <b>LIABILITIES AND OWNERS' EQUITY</b>        |       |                           |                    |                           |                    |
| Short-term loans                             | 18    | <b>175,370,000.00</b>     | 434,486,945.09     | —                         | —                  |
| Notes payable                                | 19    | <b>13,000,000.00</b>      | 14,000,000.00      | —                         | —                  |
| Accounts payable                             | 20    | <b>48,645,633.16</b>      | 341,525,889.25     | <b>11,086,895.00</b>      | 120,000.00         |
| Advances from customers                      | 21    | <b>16,417,823.61</b>      | 106,846,530.61     | <b>2,598,200.00</b>       | 751,000.00         |
| Salaries and wages payable                   |       | —                         | 1,964,067.38       | —                         | —                  |
| Employee benefits payable                    |       | <b>132,449.04</b>         | 609,920.08         | —                         | —                  |
| Dividend payable                             |       | —                         | 903,606.44         | —                         | —                  |
| Tax payable                                  | 22    | <b>7,589,116.56</b>       | 11,362,429.13      | <b>206,206.47</b>         | 2,243,177.98       |
| Other fee payable                            | 23    | <b>2,928,091.68</b>       | 7,835,188.92       | —                         | —                  |
| Other payables                               | 24    | <b>50,893,296.90</b>      | 92,858,739.37      | <b>37,930,413.75</b>      | 53,123,994.39      |
| Accrued expenses                             | 25    | <b>3,251,030.04</b>       | 6,742,626.17       | <b>3,221,030.04</b>       | 3,518,500.00       |
| Provisions                                   | 26    | <b>30,993,929.00</b>      | —                  | <b>30,993,929.00</b>      | —                  |
| Long-term liabilities due<br>within one year | 27    | <b>9,000,000.00</b>       | 170,410,000.00     | —                         | —                  |
| <b>Total current liabilities</b>             |       | <b>358,221,369.99</b>     | 1,189,545,942.44   | <b>86,036,674.26</b>      | 59,756,672.37      |
| <b>LONG TERM LIABILITIES</b>                 |       |                           |                    |                           |                    |
| Long-term loans                              | 27    | <b>26,550,000.00</b>      | 168,606,711.01     | —                         | —                  |
| Specific accounts payable                    | 28    | <b>14,166,647.83</b>      | 13,240,955.32      | —                         | —                  |
| <b>Total long term liabilities</b>           |       | <b>40,716,647.83</b>      | 181,847,666.33     | —                         | —                  |
| <b>Total liabilities</b>                     |       | <b>398,938,017.82</b>     | 1,371,393,608.77   | <b>86,036,674.26</b>      | 59,756,672.37      |
| Minority interest                            |       | <b>27,005,858.50</b>      | 5,192,428.08       | —                         | —                  |
| <b>OWNERS' EQUITY</b>                        |       |                           |                    |                           |                    |
| Paid-up capital (shares)                     | 29    | <b>873,370,000.00</b>     | 873,370,000.00     | <b>873,370,000.00</b>     | 873,370,000.00     |
| Capital reserves                             | 30    | <b>765,206,994.95</b>     | 762,890,209.93     | <b>765,206,994.95</b>     | 762,890,209.93     |
| Surplus reserves                             | 31    | <b>108,587,124.40</b>     | 108,587,124.40     | <b>108,587,124.40</b>     | 108,587,124.40     |
| Including: Statutory public welfare fund     | 31    | <b>32,210,803.10</b>      | 32,210,803.10      | <b>32,210,803.10</b>      | 32,210,803.10      |
| Accumulated losses                           | 32    | <b>(1,183,469,350.36)</b> | (1,209,429,407.26) | <b>(1,183,469,350.36)</b> | (1,209,429,407.26) |
| <b>Total owners' equity</b>                  |       | <b>563,694,768.99</b>     | 535,417,927.07     | <b>563,694,768.99</b>     | 535,417,927.07     |
| <b>TOTAL LIABILITIES AND OWNERS' EQUITY</b>  |       | <b>989,638,645.31</b>     | 1,912,003,963.92   | <b>649,731,443.25</b>     | 595,174,599.44     |

The accompanying notes are part of the financial statements.

## Profit and Profit Appropriation Statement

For the Year ended 31st December 2003

(Prepared in accordance with the PRC Accounting Rules and Regulations)

|   | Notes | Group                     |                    | Company                   |                    |
|---|-------|---------------------------|--------------------|---------------------------|--------------------|
|   |       | 2003<br>RMB               | 2002<br>RMB        | 2003<br>RMB               | 2002<br>RMB        |
| Revenue   | 33    | <b>627,658,731.72</b>     | 951,454,451.16     | <b>40,751,264.93</b>      | 42,482,606.87      |
| Less: Cost of sales                                 | 34    | <b>426,042,120.08</b>     | 637,174,266.19     | <b>32,645,598.20</b>      | 29,492,824.80      |
| Sales taxes   | 35    | <b>5,041,189.77</b>       | 7,088,339.81       | <b>282,200.00</b>         | 17,500.00          |
| Gross profit  |       | <b>196,575,421.87</b>     | 307,191,845.16     | <b>7,823,466.73</b>       | 12,972,282.07      |
| Add: Other operating profits                        | 36    | <b>4,373,524.08</b>       | 34,978,428.74      | <b>1,000,000.00</b>       | —                  |
| Less: Operating expenses                            |       | <b>45,198,459.81</b>      | 87,585,496.37      | <b>44,069.50</b>          | —                  |
| General and administrative expenses                 |       | <b>108,985,278.41</b>     | 174,664,206.48     | <b>19,398,900.56</b>      | 14,480,226.63      |
| Finance costs                                       | 37    | <b>38,344,590.52</b>      | 66,287,245.36      | <b>(75,030.60)</b>        | 354,293.94         |
| Profit (loss) from operations                       |       | <b>8,420,617.21</b>       | 13,633,325.69      | <b>(10,544,472.73)</b>    | (1,862,238.50)     |
| Add: Investment income                              | 38    | <b>56,751,978.07</b>      | 64,383,635.93      | <b>67,498,528.63</b>      | 70,864,650.51      |
| Subsidy income                                      |       | —                         | 480,016.03         | —                         | —                  |
| Non-operating income                                | 39    | <b>1,050,590.73</b>       | 1,965,754.36       | —                         | —                  |
| Less: Non-operating expenses                        | 40    | <b>31,605,582.80</b>      | 2,234,744.92       | <b>30,993,999.00</b>      | —                  |
| Profit before tax                                   |       | <b>34,617,603.21</b>      | 78,227,987.09      | <b>25,960,056.90</b>      | 69,002,412.01      |
| Less: Income tax                                    | 41    | <b>5,179,383.35</b>       | 5,370,721.74       | —                         | —                  |
| Minority interest                                   |       | 3,478,162.96              | 3,854,853.34       | —                         | —                  |
| Net profit for the year                             |       | <b>25,960,056.90</b>      | 69,002,412.01      | <b>25,960,056.90</b>      | 69,002,412.01      |
| Add: Opening undistributed losses                   |       | <b>(1,209,429,407.26)</b> | (1,278,431,819.27) | <b>(1,209,429,407.26)</b> | (1,278,431,819.27) |
| Losses available for distribution                   |       | <b>(1,183,469,350.36)</b> | (1,209,429,407.26) | <b>(1,183,469,350.36)</b> | (1,209,429,407.26) |
| Less: Transfer to statutory surplus reserve         |       | —                         | —                  | —                         | —                  |
| Transfer to statutory public welfare fund           |       | —                         | —                  | —                         | —                  |
| Losses available for distribution to shareholders   |       | <b>(1,183,469,350.36)</b> | (1,209,429,407.26) | <b>(1,183,469,350.36)</b> | (1,209,429,407.26) |
| Less: Dividend payable to preference shares         |       | —                         | —                  | —                         | —                  |
| Transfer to discretionary surplus reserve           |       | —                         | —                  | —                         | —                  |
| Dividend payable to ordinary shares                 |       | —                         | —                  | —                         | —                  |
| Dividend for ordinary shares converted into capital |       | —                         | —                  | —                         | —                  |
| Undistributed losses                                |       | <b>(1,183,469,350.36)</b> | (1,209,429,407.26) | <b>(1,183,469,350.36)</b> | (1,209,429,407.26) |

## Profit and Profit Appropriation Statement (Continued)

For the Year ended 31st December 2003  
(Prepared in accordance with the PRC Accounting Rules and Regulations)

### Supplementary information

|  | Group                |               | Company              |               |
|--|----------------------|---------------|----------------------|---------------|
|  | 2003                 | 2002          | 2003                 | 2002          |
|  | RMB                  | RMB           | RMB                  | RMB           |
| Gain on disposal of investments  | <b>47,387,050.68</b> | 60,135,842.13 | <b>47,387,050.68</b> | 60,135,842.13 |
| Losses incurred from natural disaster                                  | —                    | —             | —                    | —             |
| Increase (decrease) in profit due to changes<br>in accounting policies | —                    | —             | —                    | —             |
| Increase (decrease) in profit due to changes<br>in accounting estimate | —                    | —             | —                    | —             |
| Losses from debt restructuring   | —                    | —             | —                    | —             |
| Others   | —                    | —             | —                    | —             |

The accompanying notes are part of the financial statements.

## Cash Flow Statement

For the Year ended 31st December 2003

(Prepared in accordance with the PRC Accounting Rules and Regulations)

|   | Notes | Group                   |                  | Company                 |                  |
|---|-------|-------------------------|------------------|-------------------------|------------------|
|   |       | 2003<br>RMB             | 2002<br>RMB      | 2003<br>RMB             | 2002<br>RMB      |
| Cash flow from operating activities   |       |                         |                  |                         |                  |
| Cash received from sales of good or rendering services  |       | <b>526,090,127.15</b>   | 868,784,764.65   | <b>17,534,643.57</b>    | 10,410,324.85    |
| Othe cash received relating to operating activities   |       | <b>21,646,164.01</b>    | 112,919,044.08   | <b>1,083,849.22</b>     | 56,550,861.03    |
| Sub-total of cash inflows   |       | <b>547,736,291.16</b>   | 981,703,808.73   | <b>18,618,492.79</b>    | 66,961,185.88    |
| Cash paid for goods and services  |       |                         |                  |                         |                  |
| Cash paid to and on behalf of employees   |       | <b>(93,245,892.76)</b>  | (102,896,958.21) | <b>(2,799,771.29)</b>   | (1,557,333.06)   |
| Tax payments  |       | <b>(51,658,553.55)</b>  | (56,034,685.51)  | <b>(2,966,752.19)</b>   | (1,025.00)       |
| Cash paid relating to other operating activities  |       | <b>(75,270,122.16)</b>  | (175,276,410.97) | <b>(9,213,779.84)</b>   | (2,492,028.01)   |
| Sub-total of cash outflows  |       | <b>(577,716,279.76)</b> | (887,525,705.85) | <b>(46,214,236.90)</b>  | (11,812,605.87)  |
| Net cash flows from operating activities  |       | <b>(29,979,988.60)</b>  | 94,178,102.88    | <b>(27,595,744.11)</b>  | 55,148,580.01    |
| Cash flows from investing activities  |       |                         |                  |                         |                  |
| Cash received from disposal of investment   |       | <b>106,576,558.96</b>   | 3,344,863.00     | <b>106,576,558.96</b>   | —                |
| Cash received from disposal of subsidiary   | 48    | <b>26,000,000.00</b>    | 61,658,502.28    | <b>26,000,000.00</b>    | 168,000,000.00   |
| Cash received from return on investments  |       | <b>4,466,803.00</b>     | 65,094.88        | <b>4,461,803.00</b>     | —                |
| Net cash receipts from disposal of fixed assets, intangible assets and other long-term assets |       | <b>1,219,454.10</b>     | 545,649.23       | —                       | —                |
| Sub-total of cash inflows   |       | <b>138,262,816.06</b>   | 65,614,109.39    | <b>137,038,361.96</b>   | 168,000,000.00   |
| Cash paid to acquire fixed assets, intangible assets and other long-term assets               |       |                         |                  |                         |                  |
| Cash payments or prepayments for acquisition of subsidiary                                    |       | <b>(17,144,280.60)</b>  | (18,544,686.86)  | <b>(907,490.00)</b>     | (59,850.00)      |
| Cash out from disposal of subsidiary  | 48    | <b>(69,972,122.76)</b>  | —                | —                       | —                |
| Sub-total of cash outflow   |       | <b>(205,249,147.99)</b> | (18,544,686.86)  | <b>(119,040,234.63)</b> | (59,850.00)      |
| Net cash from investing activities  |       | <b>(66,986,331.93)</b>  | 47,069,422.53    | <b>17,998,127.33</b>    | 167,940,150.00   |
| Financing activities  |       |                         |                  |                         |                  |
| Cash received from borrowings   |       | <b>464,260,000.00</b>   | 518,640,000.00   | —                       | —                |
| Cash receipts relating to other financing activities  |       | —                       | 21,691.94        | —                       | —                |
| Sub-total of cash inflow  |       | <b>464,260,000.00</b>   | 518,661,691.94   | —                       | —                |
| Repayments of borrowings  |       | <b>(400,086,945.09)</b> | (832,868,678.83) | —                       | (283,305,623.92) |
| Dividend paid, profit distributed or interest paid  |       | <b>(40,963,343.59)</b>  | (53,205,117.49)  | —                       | (190,553.94)     |
| Cash payments relating to other financing activities  |       | —                       | (2,839.00)       | —                       | —                |
| Sub-total of cash outflow   |       | <b>(441,050,288.68)</b> | (886,076,635.32) | —                       | (283,496,177.86) |
| Net cash flows from financing activities  |       | <b>23,209,711.32</b>    | (367,414,943.38) | —                       | (283,496,177.86) |
| Effect of foreign exchange rate changes on cash and cash equivalents                          |       |                         |                  |                         |                  |
|   |       | —                       | —                | —                       | —                |
| Net decrease in cash and cash equivalents   |       | <b>(73,756,609.21)</b>  | (226,167,417.97) | <b>(9,597,616.78)</b>   | (60,407,447.85)  |

## Cash Flow Statement *(Continued)*

For the Year ended 31st December 2003

(Prepared in accordance with the PRC Accounting Rules and Regulations)

| Supplementary information  | Notes | Group                  |                    | Company                |                    |
|--|-------|------------------------|--------------------|------------------------|--------------------|
|  |       | 2003<br><i>RMB</i>     | 2002<br><i>RMB</i> | 2003<br><i>RMB</i>     | 2002<br><i>RMB</i> |
| Reconciliation of net profit to cash flow  |       |                        |                    |                        |                    |
| from operating activities  |       |                        |                    |                        |                    |
| Net profit   |       | 25,960,056.90          | 69,002,412.01      | 25,960,056.90          | 69,002,412.01      |
| Add: Minority interest   |       | 3,478,162.96           | 3,854,853.34       | —                      | —                  |
| Impairment losses on assets  |       | 916,790.39             | 17,124,430.69      | (1,352,525.23)         | (52,787,673.90)    |
| Depreciation of fixed assets   |       | 33,504,371.03          | 40,271,522.01      | 216,614.61             | 173,014.00         |
| Amortization of intangibles assets   |       | 1,157,038.05           | 3,480,795.11       | —                      | —                  |
| Amortization of long-term<br>deferred expenses   |       | —                      | 2,355,925.77       | —                      | 29,999.99          |
| Decrease (increase) in deferred<br>expenses  |       | 6,454,979.59           | (6,087,921.50)     | —                      | —                  |
| Increase (decrease) in accrued<br>expenses   |       | 882,267.54             | 3,072,908.83       | (297,469.96)           | 1,518,500.00       |
| Provisions   |       | 30,993,929.00          | —                  | 30,993,929.00          | —                  |
| Losses (gains) on disposal<br>of fixed assets, intangible assets<br>and other long term assets |       | (973,539.51)           | (387,014.16)       | —                      | —                  |
| Losses on retirement of fixed assets   |       | 7,349.09               | 14,106.51          | —                      | —                  |
| Financial expenses   |       | 38,407,109.80          | 50,456,411.65      | —                      | 404,578.54         |
| Gains arising from investments   |       | (56,751,978.07)        | (54,330,068.66)    | (67,498,528.63)        | (70,864,650.51)    |
| Decrease (increase) in inventories   |       | 37,709,371.91          | (54,498,805.67)    | —                      | (27,878,800.00)    |
| Decrease (increase) in receivables<br>under operating activities                               |       | (81,917,569.22)        | 110,189,189.75     | (11,201,363.65)        | 112,262,729.91     |
| Increase (decrease) in payables<br>under operating activities                                  |       | (69,808,328.06)        | (90,340,642.80)    | (4,416,457.15)         | 23,288,469.97      |
| Net cash flows from operating activities   |       | <b>(29,979,988.60)</b> | 94,178,102.88      | <b>(27,595,744.11)</b> | 55,148,580.01      |
| Cash and cash equivalents  |       |                        |                    |                        |                    |
| Cash and cash equivalents  |       |                        |                    |                        |                    |
| at the end of the year   |       | 14,549,095.48          | 88,305,704.69      | 2,221,681.83           | 11,819,298.61      |
| Less: cash and cash equivalents at the<br>Beginning of the year                                |       | 88,305,704.69          | 314,473,122.66     | 11,819,298.61          | 72,226,746.46      |
| Net decrease in cash and cash equivalents  |       | <b>(73,756,609.21)</b> | (226,167,417.97)   | <b>(9,597,616.78)</b>  | (60,407,447.85)    |

The accompanying notes are part of the financial statements.

## Notes to the Financial Statements

For the Year ended 31st December 2003

(Prepared in accordance with the PRC Accounting Rules and Regulations)

### 1. GENERAL

Northeast Electric Development Company Limited (formerly known as Northeast Electrical Transmission & Transformation Machinery Manufacturing Company Limited)(the “Company”) is a joint stock limited company established through fixed capital raising with the approval of the Shenyang Enterprise System Reform Commission (Shen Ti Gai Fa (1992) No. 81) and with Northeast Electrical Transmission & Transformation Equipment Group Corporation being the lead promoter. The Company was established on 18th February, 1993. The initial total share capital was 824,454,000 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 July 6, 1995. In the same year, the Company issued 30,000,000 A shares in Shenzhen and the shares commenced trading on the Shenzhen Stock Exchange on 13th December, 1995. The total share capital of the Company is 873,370,000 shares. Details of classifications of shares and the amounts are set out in Note 29.

The name of the Company was changed from Northeast Electrical Transmission & Transformation Machinery Manufacturing Company Limited to Northeast Electric Development Company Limited with the approval from the Ministry of Foreign Trade and Economic Cooperation, PRC on 14th September 2002.

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

### 2. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

#### **Accounting system and accounting standards adopted**

The Company has adopted the “Accounting Standards for Business Enterprises”, the “Accounting System for Business Enterprises” and the supplementary regulations there to.

#### **Accounting year**

The Company has adopted the calendar year as its accounting year, i.e. from 1 January to 31 December.

#### **Reporting currency**

The recording currency of the Company is Renminbi.

#### **Basis of accounting and principle of measurement**

The Company has adopted the accrual basis of accounting and uses the historical cost convention as the principle of measurement.

## Notes to the Financial Statements (Continued)

For the Year ended 31st December 2003

(Prepared in accordance with the PRC Accounting Rules and Regulations)

### 2. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

#### Foreign currencies

Transactions denominated in foreign currencies (currencies other than the recording currency) are translated into Renminbi at the applicable rate of exchange ("market exchange rate") prevailing at the beginning of the month in which the transaction occurs. Monetary assets and liabilities denominated in foreign currencies are translated into Renminbi at the market exchange rate prevailing at the balance sheet date. Exchange gains or losses incurred on specific borrowing for the acquisition or construction of a fixed asset are capitalized as part of the cost of fixed asset; other exchange gains or losses are dealt with as finance costs.

#### Cash and cash equivalents

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value.

#### Accounting for bad debts

(1) Criteria for recognition of bad debts

Bad debts are recognized in the following circumstances:

The irrecoverable amount of a bankrupt debtor after pursuing the statutory procedures;  
The irrecoverable amount of a debtor who has deceased and has insufficient estate to repay;

The amount owed by a debtor who is unable to repay the obligations after the debts fall due, and the amount is irrecoverable or unlikely to be recovered as demonstrated by sufficient evidence.

(2) Accounting treatment for bad debt losses

Bad debt is accounted for using the allowance method and provided according to the recoverability of receivables at the year-end. The appropriate percentages of provision for bad debts relating to significant receivable accounts are reasonably determined based on relevant information such as past experience, actual financial position and cash flows of the debtors, as well as other relevant information. General provision for the remaining receivables is estimated, based on aging analysis, as follows:

| Age of Receivables | Percentage |
|--------------------|------------|
| Within 2 year      | —          |
| 2 to 3 years       | 40%        |
| 3 to 4 years       | 60%        |
| Over 4 years       | 100%       |



## Notes to the Financial Statements (Continued)

For the Year ended 31st December 2003

(Prepared in accordance with the PRC Accounting Rules and Regulations)

### 2. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

#### Inventories

Inventories are initially recorded at cost. The cost of inventories comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Inventories mainly include raw materials, work in progress and finished goods.

Inventories are accounted for using the actual costing method. In determining the cost of inventories transferred out or issued for use, the actual costs are determined by the weighted average method. Low-value consumables are written off in full when issued for use. Packaging materials issued for use are recorded as cost directly.

#### Provision for decline in value of inventories

Inventories are measured at the lower of cost and net realizable value at the end of a period. Where the net realizable value is lower than the cost, the difference is recognized as a provision for decline in value. Provision for decline in value of inventories is made by comparing cost with net realizable value on an individual item basis.

Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs to completion, the estimated expenses and the related taxes necessary to make the sale.

#### Recoverable amount

Recoverable amount is the higher of an asset's net selling price, and the present value of estimated future cash flows expected to arise from the continuing use of the asset and from its disposal at the end of its useful life.

#### Long term investment

##### (1) Accounting treatment for long-term investments

A long-term investment is initially recorded at its cost on acquisition.

The cost method is used to account for a long-term equity investment when the Company does not have control, joint control or significant influence over the investee enterprise. The equity method is used when the Company can control, jointly control or has significant influence over the investee enterprise.

## Notes to the Financial Statements *(Continued)*

For the Year ended 31st December 2003

(Prepared in accordance with the PRC Accounting Rules and Regulations)

### 2. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Continued)*

When the cost method is adopted, the amount of investment income recognized is limited to the amount distributed out of accumulated net profits of the investee enterprise that has arisen after the investment was made. The amount of profits or cash dividends declared by the investee enterprise in excess of the above threshold is treated as return of investment cost, and the carrying amount of the investment is reduced accordingly.

When the equity method is adopted, the investment income for the current period is recognized according to the attributable share of the net profit or loss of the investee enterprises. The attributable share of net losses incurred by the investee enterprise is recognized to the extent that the carrying amount of the investment is reduced to zero. If the investee enterprise realizes net profits in subsequent periods, the carrying amount of the investment is resumed by the excess of the Company's attributable share of profits over the share of unrecognized losses.

When a long-term equity investment is accounted for using the equity method, the difference between the initial investment cost of the Company and its share of owners' equity of the investee enterprise is accounted for as "equity investment difference". An excess of the initial investment cost over the Company's share of owners' equity of the investee enterprise is debited to "long-term equity investment - equity investment difference" and amortised on a straight-line basis and charged to the income statement accordingly. The amortization period is the investing period if it is stipulated in the investment contract. Otherwise, it is amortized over a period of not more than 10 years. A shortfall of the initial investment cost below the Company's share of owners' equity of the investee enterprise [arising before the issuance of Caikuai [2003] 10, is credited to "long-term equity investment - equity investment difference", and amortized on a straight-line basis and charged to the income statement accordingly. The amortization period is the investing period if it is stipulated in the investment contract. Otherwise, it is amortized over a period of not less than 10 years. The shortfall of the initial investment cost below the Company's share of owners' equity of the investee enterprise arising after the issuance of Caikuai [2003] 10 is credited to "capital surplus - provision for equity investment".

#### Long term investment *(Continued)*

##### (2) Impairment on long-term investment

At the end of each period, the Company determines whether an impairment loss should be recognized for a long-term investment by considering the indications that such a loss may have occurred. Where the recoverable amount of any long-term investment is lower than its carrying amount, an impairment loss on the long-term investment is recognized for the difference.

## Notes to the Financial Statements (Continued)

For the Year ended 31st December 2003

(Prepared in accordance with the PRC Accounting Rules and Regulations)

### 2. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

#### Fixed assets and depreciation

Fixed assets are tangible assets that, (a) are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes; (b) have a useful life of more than one year; and (c) have a relatively high unit price.

Fixed assets are recorded at actual cost on acquisition. Depreciation is provided to write off the cost of each category of fixed assets over their estimated useful lives from the month after they are put into use, using the straight-line method. The estimated residual value, useful life and annual depreciation rate of each category of fixed assets are as follows:

| Category of fixed assets            | Residual value | Useful life          | Annual depreciation rate |
|-------------------------------------|----------------|----------------------|--------------------------|
| Buildings                           | 3%             | 20 to 50 years       | 1.94%-4.85%              |
| Plant, and machinery                | 3%             | 8 to 20 years        | 4.85%-12.13%             |
| Transportation equipment and others | 3%             | 6 to 17 years        | 5.71%-16.17%             |
| Leasehold improvement               | —              | Over the useful life |                          |

#### Impairment of fixed assets

At the end of each period, the Company determines whether an impairment loss should be recognized for a fixed asset by considering the indications that such a loss may have occurred. Where the recoverable amount of any fixed asset is lower than its carrying amount, an impairment loss on fixed asset is recognized for the difference.

#### Fixed assets under construction

Fixed assets under construction are recorded at the actual cost incurred for the construction.

Cost includes all expenditures incurred for construction projects, capitalized borrowing costs incurred on a specific borrowing for the construction of fixed assets before it has reached the working condition for its intended use, and other related expenses. A fixed asset under construction is transferred to fixed assets when it has reached the working condition for its intended use. No depreciation is provided for fixed assets under construction.

#### Impairment of fixed assets under construction

Where the work on a fixed asset under construction has been suspended for a long period of time and is not expected to re-commence within three years; or it is technically and physically obsolete and its economic benefits to the Company is uncertain; or there is other evidence indicating a decline in value of the fixed asset under construction, an impairment loss is recognized for the shortfall of the recoverable amount of the fixed asset under construction below its carrying amount.

## Notes to the Financial Statements *(Continued)*

For the Year ended 31st December 2003

(Prepared in accordance with the PRC Accounting Rules and Regulations)

### 2. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Continued)*

#### Intangible assets

Intangible assets are recorded at the actual cost of acquisition. For an intangible asset received as a capital contribution by an investor, the actual cost is the value agreed by all investing parties. For a self-developed intangible asset that is obtained by legal application, the actual cost capitalized is the amount of expenditure incurred for the legal application for obtaining the asset, such as registration fees and legal fees. Other costs incurred in the research and development process are expensed in the current period. For a purchased intangible asset, the actual cost is the actual purchase price.

Land use rights purchased or acquired by payment of land transfer fees before the adoption of the "Accounting System for Business Enterprises", are accounted for as intangible assets and are amortized over the periods as stated below. Those purchased or acquired after the adoption of the "Accounting System for Business Enterprises", are accounted for as intangible assets before construction work for own-use purpose or development commences and are amortized over the periods as stated below. Upon using the land to construct fixed assets for own use, the carrying amount of the land use right is transferred to the cost of fixed assets under construction.

The cost of an intangible asset is amortized evenly over its expected useful life from the month in which it is obtained. If the expected useful life exceeds the beneficial period prescribed in the relevant contract or the effective period stipulated by law, the amortization period is limited to the shorter of the beneficial period and the effective period. If the relevant contract does not prescribe the beneficial period and the law does not stipulate the effective period, the amortization period is 10 years.

#### Impairment loss on intangible assets

At the end of each period, the Company determines whether an impairment loss should be recognized for an intangible asset by considering the indications that such a loss may have occurred. Where the recoverable amount of any intangible asset is lower than its carrying amount, an impairment loss on the intangible asset is recognized for the difference.

#### Provisions

The obligation related to a contingency is recognized as a liability when it meets the following conditions:

- (1) the obligation is a present obligation of the Company;
- (2) it is probable that an outflow of economic benefits from the Company will be required to settle the obligation; and
- (3) a reliable estimate can be made of the amount of the obligation.

## Notes to the Financial Statements (Continued)

For the Year ended 31st December 2003

(Prepared in accordance with the PRC Accounting Rules and Regulations)

### 2. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

Where some or all of the expenditure required to settle a liability that meets the above recognition criteria is expected to be reimbursed by a third party or other parties, the reimbursement is separately recognized as an asset when, and only when, it is virtually certain that the reimbursement will be received. The amount recognized for the reimbursement is limited to the carrying amount of the liability recognized.

#### **Borrowing costs**

Borrowing costs comprise interest incurred on borrowings, amortization of discounts or premiums, ancillary costs incurred in connection with the arrangement of borrowings, and exchange differences arising from foreign currency borrowings. Borrowing costs incurred on a specific borrowing for the acquisition or construction of a fixed asset, are capitalized as the cost of the fixed asset to the extent that they are incurred before the fixed asset has reached the working condition for its intended use and limited to the amount calculated by applying the capitalization rate to the weighted average amount of accumulated expenditure for the fixed asset. Other borrowing costs are recognized as expenses and included as finance costs in the period in which they are incurred.

#### **Specific accounts payable**

Specific accounts payable is recognized when the receipt of specific government funds for specific purposes is confirmed. When the project is completed, any fixed assets formed are transferred to capital reserves at cost. The portion without fixed assets formed is written off when approved.

#### **Revenue recognition**

##### **Revenue from sales of goods**

Revenue is recognized when the Company has transferred to the buyer the significant risks and rewards of ownership of the goods, it retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold, the economic benefits associated with the transaction will flow to the Company, and the relevant amount of revenue and costs can be measured reliably.

##### **Revenue from rendering services**

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 outcome of a transaction involving the rendering of services can be estimated reliably, revenue is recognized at the balance sheet date by the use of the percentage of completion method. Revenue is otherwise recognized at the balance sheet date only to the extent of the costs incurred that are recoverable and service costs are recognized as expenses in the period in which they are incurred. If the service costs incurred are not expected to be recovered, revenue is not recognized.

## Notes to the Financial Statements *(Continued)*

For the Year ended 31st December 2003

(Prepared in accordance with the PRC Accounting Rules and Regulations)

### 2. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Continued)*

#### Interest income

Interest income is measured based on the length of time for which the enterprise's cash is used by others and the applicable interest rate.

#### Income tax

Income tax is provided under the tax payable method. The income tax provision is calculated based on the accounting profit for the year as adjusted in accordance with the relevant tax laws.

#### Basis of Consolidation

##### (1) Scope of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31 December each year. A subsidiary is an enterprise in which the Company, directly or indirectly, holds more than 50% of the equity, or whose operating activities are controlled by the Company through other mechanisms.

##### (2) Accounting for consolidation

The accounting policies used by the subsidiaries conform to those used by the Company.

The operating results and cash flows of subsidiaries acquired or disposed of during the year are included in the consolidated income statement and consolidated cash flow statement respectively from the effective dates of acquisition or up to the effective dates of disposal, as appropriate.

All significant intercompany transactions and balances between group enterprises are eliminated on consolidation.

### 3. CHANGES IN ACCOUNTING POLICIES

The Company changed the following accounting policies this year:

According to the MOF Caikui [2003] 10, when a long-term equity investment is accounted for using the equity method, a shortfall of the initial investment cost below the Company's share of owners' equity of the investee enterprise, arising after 17 March 2003, is credited to "capital surplus - restricted reserve arising from equity investment"; whereas such shortfall was credited to "long-term equity investment - equity investment difference" in prior years and amortized on a straight-line basis over a period of not less than 10 years and charged to the income statement accordingly. This change in accounting policy is adopted prospectively.

## Notes to the Financial Statements (Continued)

For the Year ended 31st December 2003

(Prepared in accordance with the PRC Accounting Rules and Regulations)

### 3. CHANGES IN ACCOUNTING POLICIES (Continued)

According to the MOF's notice re issuance of the CAS - Events Occurring after the Balance Sheet Date (Caikuai [2003] 12), a profit distribution to investors proposed in a profit distribution plan declared by the board of directors between the balance sheet date and the date on which the financial statements are authorized for issuance, is presented as a separate component of equity on the balance sheet, whereas such profit distribution was regarded as an adjusting event and recognized as dividends payable on the balance sheet date in prior years. This change in accounting policy is adopted retrospectively.

The adoption of the above accounting policies has no significant impact to the net assets and net profits for 2002 and 2003.

### 4. TAXATION

#### Value added tax

Value added tax ("VAT") on sales is calculated at 17% on revenue from principal operations and paid after deducting input VAT on purchases.

#### Income tax

The income tax rate is 33%.

#### Other tax

Sales tax is levied at 5 - 20% of income from provision of services.

City construction tax is levied at 7% of value added tax and business tax paid.

Education additional tax is levied at 4% of value added tax and business tax paid.

## Notes to the Financial Statements *(Continued)*

For the Year ended 31st December 2003

(Prepared in accordance with the PRC Accounting Rules and Regulations)

### 5. SCOPE OF CONSOLIDATION AND SUBSIDIARIES

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

| Name of subsidiary                            | Place of registration | Registered capital<br>RMB'000 | Equity directly held by the Company and/or its subsidiaries | Principal business activities   | Type of Consolidated Enterprises | Consolidated or not | Consolidated in 2002 |
|---|-----------------------|-------------------------------|---|---|----------------------------------|---------------------|----------------------|
| Shenyang High-voltage Switchgears Ltd.        | Shenyang              | 144,920                       | (Note 1)  | Manufacture of switchgears, circuit breakers and disconnectors          | Limited company                  | (Note 1)            | Yes                  |
| Jinzhou Power Capacitors Ltd.                 | Jinzhou               | 29,420                        | 100%  | Manufacture of lightening rods and capacitors                           | Limited company                  | Yes                 | Yes                  |
| Fuxin Enclosed Busbars Ltd.                   | Fuxin                 | 18,090                        | 100%  | Manufacture of enclosed busbars   | Limited company                  | Yes                 | Yes                  |
| Kingdom Hotel Ltd Shenyang                    | Shenyang              | 150,000                       | 90%   | Provision of hotel and catering services                                | Limited company                  | Yes                 | Yes                  |
| Jinzhou Jinrong Electrical Equipment Co., Ltd | Jinzhou               | 3,000                         | 69.75%  | Manufacture of electrical equipment                                     | Limited company                  | Yes                 | Yes                  |
| Shenyang Shengao Metal Antisepsis Ltd.        | Shenyang              | 3,890                         | 97.68%  | Provision of anti-corrosive processing services of metallic accessories | Limited company                  | (Note1)             | Yes                  |

Note 1: The Company originally owned 100% equity interest in, after disposal equity interest in and deemed disposal following the expansion of the registered capital, Shenyang High-Voltage and its subsidiary, Shenyang Shengao Metal Antisepsis Ltd were no longer the subsidiaries of the Company. As a result, they are not consolidated in the financials statements for the year ended 31 December 2003 at 8th October 2003 ate (date of disposal). However, their results from operation and cash flow before the date of disposal were properly recorded in the consolidated profit and profit appropriation statements and consolidated cash flow. Details of the disposals of the above subsidiaries were disclosed in Note 47.

Note: Notes 6 to 42 and 44 to 51 are notes to the accounts related to the Group while note 43 is related to the Company.



## Notes to the Financial Statements (Continued)

For the Year ended 31st December 2003

(Prepared in accordance with the PRC Accounting Rules and Regulations)

### 6. CASH AND BANK BALANCES

|                    | 31/12/2003          |                  |                      | 31/12/2002          |                  |               |
|--------------------|---------------------|------------------|----------------------|---------------------|------------------|---------------|
|                    | Foreign<br>currency | Exchange<br>rate | RMB                  | Foreign<br>currency | Exchange<br>rate | RMB           |
| Cash               |                     |                  |                      |                     |                  |               |
| RMB                |                     |                  | <b>908,644.79</b>    |                     |                  | 272,681.73    |
| USD                | —                   | <b>8.2767</b>    | —                    | 2,864.34            | 8.2773           | 23,709.00     |
| Bank balance       |                     |                  |                      |                     |                  |               |
| RMB                |                     |                  | <b>12,910,950.69</b> |                     |                  | 70,935,341.88 |
| USD                | —                   | <b>8.2767</b>    | —                    | 126.28              | 8.2773           | 1,045.27      |
| HKD                | —                   | <b>1.0657</b>    | —                    | 17,382.53           | 1.0610           | 18,442.86     |
| Other cash deposit |                     |                  |                      |                     |                  |               |
| RMB                |                     |                  | <b>729,500.00</b>    |                     |                  | 17,054,483.95 |
|                    |                     |                  | <b>14,549,095.48</b> |                     |                  | 88,305,704.69 |

Other cash deposit represents the pledged bank deposits.

### 7. ACCOUNTS RECEIVABLE

The aging analysis of accounts receivable is as follows:

|               | 31/12/2003     |                   |                              |                          | 31/12/2002     |                   |                              |                          |
|---------------|----------------|-------------------|------------------------------|--------------------------|----------------|-------------------|------------------------------|--------------------------|
|               | Amount<br>RMB  | Percentage<br>(%) | Bad debt<br>provision<br>RMB | Net<br>book value<br>RMB | Amount<br>RMB  | Percentage<br>(%) | Bad debt<br>provision<br>RMB | Net<br>book value<br>RMB |
| Within 1 year | 110,276,305.40 | 56                | (64,800.00)                  | 110,211,505.40           | 336,650,876.24 | 60                | (72,430.00)                  | 336,578,446.24           |
| 1 to 2 years  | 34,515,590.64  | 17                | (1,130,188.85)               | 33,385,401.79            | 98,262,055.09  | 18                | (3,442,616.39)               | 94,819,438.70            |
| 2 to 3 years  | 11,958,575.99  | 6                 | (5,175,413.75)               | 6,783,162.24             | 38,422,806.92  | 7                 | (16,919,726.59)              | 21,503,080.33            |
| 3 to 4 years  | 11,653,741.83  | 6                 | (8,515,675.22)               | 3,138,066.61             | 22,877,942.86  | 4                 | (14,401,223.59)              | 8,476,719.27             |
| Over 4 years  | 29,182,021.71  | 15                | (29,182,021.71)              | —                        | 63,665,485.91  | 11                | (63,665,485.91)              | —                        |
| Total         | 197,586,235.57 | 100               | (44,068,099.53)              | 153,518,136.04           | 559,879,167.02 | 100               | (98,501,482.48)              | 461,377,684.54           |

The five largest outstanding accounts receivable are as follows:

| Total of the five largest<br>outstanding balance<br>of accounts receivable<br>RMB | Percentage of<br>total balance of<br>accounts receivable<br>% |
|---|---|
| 23,281,088.69   | 12  |

No amount due from any shareholder with more than a 5% shareholding in the Company is included in accounts receivables.

## Notes to the Financial Statements *(Continued)*

For the Year ended 31st December 2003  
(Prepared in accordance with the PRC Accounting Rules and Regulations)

### 8. OTHER RECEIVABLES

The aging analysis of other receivables is as follows:

|               | 31/12/2003            |                   |                               |                          | 31/12/2002            |                   |                               |                          |
|---------------|-----------------------|-------------------|-------------------------------|--------------------------|-----------------------|-------------------|-------------------------------|--------------------------|
|               | Amount<br>RMB         | Percentage<br>(%) | Bad debts<br>provision<br>RMB | Net<br>book value<br>RMB | Amount<br>RMB         | Percentage<br>(%) | Bad debts<br>provision<br>RMB | Net<br>book value<br>RMB |
| Within 1 year | 112,166,184.77        | 36                | (201,824.00)                  | 111,964,360.77           | 158,911,635.11        | 54                | —                             | 158,911,635.11           |
| 1 to 2 years  | 111,939,031.41        | 36                | (782,507.77)                  | 111,156,523.64           | 27,819,617.87         | 9                 | —                             | 27,819,617.87            |
| 2 to 3 years  | 4,464,158.39          | 1                 | (451,229.26)                  | 4,012,929.13             | 11,875,980.77         | 4                 | (5,217,692.10)                | 6,658,288.67             |
| 3 to 4 years  | 6,175,457.21          | 1                 | (1,906,923.17)                | 4,268,534.04             | 15,007,998.25         | 5                 | (9,014,160.30)                | 5,993,837.95             |
| Over 4 years  | 75,891,100.27         | 26                | (75,099,121.53)               | 791,978.74               | 80,798,700.97         | 28                | (80,798,700.97)               | —                        |
| <b>Total</b>  | <b>310,635,932.05</b> | <b>100</b>        | <b>(78,441,605.73)</b>        | <b>232,194,326.32</b>    | <b>294,413,932.97</b> | <b>100</b>        | <b>(95,030,553.37)</b>        | <b>199,383,379.60</b>    |

Included in the closing balance of other receivables due within one to two years is a deposit of USD12 million placed with Liaoning Trust and Investing Company. (RMB99,232,895.26). Details are set out in Note 45(1).

The five largest outstanding balance of other receivables are as follows:

| <b>Total of the five largest<br/>outstanding balance<br/>of other receivables</b> | <b>Share of<br/>total balance of<br/>other receivables</b> |
|---|--|
| <i>RMB</i>  | <i>%</i>   |
| 270,428,146.57  | 87   |

No amount due from any shareholder with more than a 5% shareholding in the Company is included in other receivables.

### 9. PROVISION FOR BAD DEBTS

|                         | Accounts<br>receivable | Other<br>receivables | Total                 |
|-------------------------|------------------------|----------------------|-----------------------|
|                         | <i>RMB</i>             | <i>RMB</i>           | <i>RMB</i>            |
| 1 January 2003          | 98,501,482.48          | 95,030,553.37        | 193,532,035.85        |
| Additions               | 2,945,383.80           | 9,251,683.10         | 12,197,066.90         |
| Reversals               | —                      | (3,710,536.50)       | (3,710,536.50)        |
| Other transfers-out     | (57,378,766.75)        | (22,130,094.24)      | (79,508,860.99)       |
| <b>31 December 2003</b> | <b>44,068,099.53</b>   | <b>78,441,605.73</b> | <b>122,509,705.26</b> |

The other transfer-out for the year represents the bad debt provision related to Shenyang High-voltage Switchgears Ltd and its subsidiary on the date of disposal.

## Notes to the Financial Statements (Continued)

For the Year ended 31st December 2003

(Prepared in accordance with the PRC Accounting Rules and Regulations)

### 10. PREPAYMENTS

The aging analysis of prepayments is as follows:

|               | 31/12/2003           |            | 31/12/2002    |     |
|---------------|----------------------|------------|---------------|-----|
|               | RMB                  | %          | RMB           | %   |
| Within 1 year | <b>91,967,925.27</b> | <b>99</b>  | 22,621,039.75 | 78  |
| 1 to 2 years  | <b>161,440.74</b>    | <b>1</b>   | 6,439,342.46  | 22  |
|               | <b>92,129,366.01</b> | <b>100</b> | 29,060,382.21 | 100 |

No amount due from any shareholder with more than a 5% shareholding in the Company is included in prepayments. In the closing balance of prepayments due within 1 year included prepaid investment to New Northeast Electric (Shenyang) High-Voltage Switchgear Ltd. amounting of RMB51,566,333 (Note 49(1)) and to New Northeast Electric (Jinzhou) Power Capacitors Ltd. of RMB33,108,400 (Note 49(2)).

### 11. INVENTORIES

|                  | 31/12/2003           |                         |                      | 31/12/2002     |                         |                   |
|------------------|----------------------|-------------------------|----------------------|----------------|-------------------------|-------------------|
|                  | Amount               | Provision for           | Net                  | Amount         | Provision for           | Net               |
|                  | RMB                  | decline in value<br>RMB | book value<br>RMB    | RMB            | decline in value<br>RMB | book value<br>RMB |
| Low value        |                      |                         |                      |                |                         |                   |
| consumables      | <b>508,178.48</b>    | —                       | <b>508,178.48</b>    | 1,236,423.34   | —                       | 1,236,423.34      |
| Raw materials    | <b>20,236,044.21</b> | <b>(3,612,052.91)</b>   | <b>16,623,991.30</b> | 103,315,577.18 | (25,749,576.82)         | 77,566,000.36     |
| Work in progress | <b>10,811,639.28</b> | <b>(2,113,242.07)</b>   | <b>8,698,397.21</b>  | 43,892,430.99  | (2,036,961.74)          | 41,855,469.25     |
| Finished goods   | <b>28,544,584.52</b> | <b>(10,502,327.39)</b>  | <b>18,042,257.13</b> | 89,100,117.31  | (17,409,180.30)         | 71,690,937.01     |
| Merchandises     | <b>27,878,800.00</b> | —                       | <b>27,878,800.00</b> | 27,878,800.00  | —                       | 27,878,800.00     |
|                  | <b>87,979,246.49</b> | <b>(16,227,622.37)</b>  | <b>71,751,624.12</b> | 265,423,348.82 | (45,195,718.86)         | 220,227,629.96    |

None of the above inventories are pledged

Merchandises represent 6 sets of 120MW steam turbine generators and 4 sets of 200MW steam turbine generators received as compensation from a third party and its shareholder in settlement of the debt owed to the Company. These steam turbine generators were recorded at the book value of RMB27,878,800.00. These steam turbine generators were disposed on March 2004. Details are set out in Note 49(4).

## Notes to the Financial Statements *(Continued)*

For the Year ended 31st December 2003  
(Prepared in accordance with the PRC Accounting Rules and Regulations)

### 11. INVENTORIES *(Continued)*

Movements of the provision for decline in value of inventories are as follows:

|                                   | 1/1/2003<br><i>RMB</i> | Additions<br><i>RMB</i> | Reversals<br><i>RMB</i> | Other<br>transfer-out<br><i>RMB</i> | 31/12/2003<br><i>RMB</i> |
|-----------------------------------|------------------------|-------------------------|-------------------------|-------------------------------------|--------------------------|
| Provision for<br>decline in value |                        |                         |                         |                                     |                          |
| Raw materials                     | 25,749,576.82          | —                       | (6,321,360.91)          | (15,816,163.00)                     | 3,612,052.91             |
| Finished goods                    | 17,409,180.30          | —                       | (1,324,659.65)          | (5,582,193.26)                      | 10,502,327.39            |
| Work in progress                  | 2,036,961.74           | 76,280.33               | —                       | —                                   | 2,113,242.07             |
| <b>Total</b>                      | <b>45,195,718.86</b>   | <b>76,280.33</b>        | <b>(7,646,020.56)</b>   | <b>(21,398,356.26)</b>              | <b>16,227,622.37</b>     |

The other transfer-out for the year represents the provision for decline in value of inventories related to Shenyang High-voltage Switchgears Ltd and its subsidiary on the date of disposal.

### 12. DEFERRED EXPENSES

#### Category

|                       | 31/12/2003<br><i>RMB</i> | 31/12/2002<br><i>RMB</i> |
|-----------------------|--------------------------|--------------------------|
| Prepaid heating fee   | <b>106,512.60</b>        | 652,505.39               |
| Prepaid insurance     | <b>930,097.96</b>        | 670,493.75               |
| Value added tax input | —                        | 6,230,519.05             |
| Others                | <b>132,440.00</b>        | 1,048,190.81             |
|                       | <b>1,169,050.56</b>      | 8,601,709.00             |

## Notes to the Financial Statements (Continued)

For the Year ended 31st December 2003

(Prepared in accordance with the PRC Accounting Rules and Regulations)

### 13. LONG TERM EQUITY INVESTMENTS

|  | 31/12/2003<br><i>RMB</i> | 31/12/2002<br><i>RMB</i> |
|--|--------------------------|--------------------------|
| Investments in associates                                | <b>26,534,645.67</b>     | 81,663,154.39            |
| Other equity investment                                  | <b>17,725,011.63</b>     | 10,950,107.06            |
| Equity investment difference                             | <b>(1,836,575.92)</b>    | (11,641,613.17)          |
| Total  | <b>42,423,081.38</b>     | 80,971,648.28            |
| Less: Impairment loss on<br>long-term equity investments | <b>267,000.00</b>        | 272,000.00               |
| Long-term equity investments - Net                       | <b>42,156,081.38</b>     | 80,699,648.28            |

Movements of the impairment loss on long-term equity investments are as follows:

|                  | RMB        |
|------------------|------------|
| 1 January 2003   | 272,000.00 |
| Additions        | —          |
| Reversals        | (5,000.00) |
| 31 December 2003 | 267,000.00 |

#### (1) Details of investment in associates:

| Name of investee  | Initial<br>investment<br>cost of<br><i>RMB</i> | Changes<br>in equity<br>for the year<br><i>RMB</i> | Share in the<br>registered<br>capital of<br>the investee<br>% | Change in<br>equity<br>interest of<br>the investee<br>company<br><i>RMB</i> | Cash<br>dividend<br>received<br><i>RMB</i> | Accumulated<br>changes<br><i>RMB</i> | Closing<br>book value<br><i>RMB</i> |
|---|--|--|---|---|--|--------------------------------------|-------------------------------------|
| Shenyang High-voltage<br>switchgears Ltd.   | 32,185,359.67                                  | (14,897,081.76)                                    | 48.95   | 4,838,222.63  | —  | 4,838,222.63                         | 22,126,500.54                       |
| Northeast Electrical<br>Hitachi Transmission<br>and Transformation<br>Machinery Co., Ltd. | 4,068,352.40                                   | —  | 49.00   | 5,047.51  | —  | 339,792.73                           | 4,408,145.13                        |
| Shenyang Furukawa<br>Cable Company Ltd.   | 75,239,722.48                                  | (77,923,290.12)                                    | —   | 5,125,036.35  | (4,461,803.00)                             | 2,683,567.64                         | —                                   |
|   | 111,493,434.55                                 | (92,820,371.88)                                    |   | 9,968,306.49  | (4,461,803.00)                             | 7,861,583.00                         | 26,534,645.67                       |

## Notes to the Financial Statements *(Continued)*

For the Year ended 31st December 2003

(Prepared in accordance with the PRC Accounting Rules and Regulations)

### 13. LONG TERM EQUITY INVESTMENTS *(Continued)*

#### (2) Details of other equity investment:

| Name of investee                                | Invested period | Share in the registered capital of the investee % | Initial cost of investment<br>RMB | Impairment loss        |                        | Disposal for the year<br>RMB | Closing book value<br>RMB |
|---|-----------------|---|-----------------------------------|------------------------|------------------------|------------------------------|---------------------------|
|   |                 |   |                                   | Opening balance<br>RMB | Closing balance<br>RMB |                              |                           |
| Jinzhou City Co-operative Bank                  | Long-term       | 6.34  | 10,000,000.00                     | —                      | —                      | —                            | 10,000,000.00             |
| Northeast Electric (Hong Kong) Development Ltd. | Long-term       | 9.00  | 7,458,011.63                      | —                      | —                      | —                            | 7,458,011.63              |
| Others  |                 |   | 950,107.06                        | (272,000.00)           | (267,000.00)           | (683,107.06)                 | —                         |
|   |                 |   | 18,408,118.69                     | (272,000.00)           | (267,000.00)           | (683,107.06)                 | 17,458,011.63             |

#### (3) Equity investment difference

| Name of investee                             | Initial cost<br>RMB | Period of amortization year | 1/1/2003<br>RMB | Amortization for the year<br>RMB | Other transfer out<br>RMB | 31/12/2003<br>RMB | Reason to arise                            |
|--|---------------------|-----------------------------|-----------------|----------------------------------|---------------------------|-------------------|--|
| Shenyang Shengao Metal Antiseptics Ltd.      | (1,615,321.15)      | 30                          | (1,507,633.07)  | 40,383.08                        | 1,467,249.99              | —                 | Difference arising from initial investment |
| Shenyang Furukawa Cable Company Limited      | (8,324,578.48)      | 15                          | (8,093,340.19)  | 462,476.58                       | 7,630,863.61              | —                 | Equity transferred to debts instrument     |
| Jinzhou Jinrong Reactor Manufacture Co., Ltd | (2,040,639.91)      | 10                          | (2,040,639.91)  | 204,063.99                       | —                         | (1,836,575.92)    | Increase in equity proportion              |
| Total  | (11,980,539.54)     |                             | (11,641,613.17) | 706,923.65                       | 9,098,113.60              | (1,836,575.92)    |  |

Other transfer-out for the year represents the balance of equity investment differences related to Shenyang High-Voltage and its subsidiaries and Shenyang Furukawa Cable Company Limited on the date of the disposal of equity interest.

## Notes to the Financial Statements (Continued)

For the Year ended 31st December 2003

(Prepared in accordance with the PRC Accounting Rules and Regulations)

### 14. FIXED ASSETS

|                           | Buildings<br><i>RMB</i> | Plant<br>and machinery<br><i>RMB</i> | Transportation<br>equipment<br>and others<br><i>RMB</i> | Fixed assets<br>improvements<br><i>RMB</i> | Total<br><i>RMB</i> |
|---------------------------|-------------------------|--------------------------------------|---|--|---------------------|
| Cost:                     |                         |                                      |   |  |                     |
| 1 January 2003            | 732,168,084.71          | 402,759,955.57                       | 42,618,276.13   | —  | 1,177,546,316.41    |
| Additions                 | 526,404.70              | 1,398,751.73                         | 2,938,288.00  | —  | 4,863,444.43        |
| Eliminated on disposals   |                         |                                      |   |  |                     |
| of subsidiaries           | (305,195,467.73)        | (286,339,413.15)                     | (31,239,988.29)   | —  | (622,774,869.17)    |
| Transferred from          |                         |                                      |   |  |                     |
| construction in progress  | 572,369.56              | 10,252,247.32                        | —   | —  | 10,824,616.88       |
| Reclassification          | —                       | —                                    | —   | 1,552,192.60                               | 1,552,192.60        |
| Disposals                 | —                       | (1,832,670.00)                       | (3,213,464.75)  | —  | (5,046,134.75)      |
| 1 December 2003           | 428,071,391.24          | 126,238,871.47                       | 11,103,111.09   | 1,552,192.60                               | 566,965,566.40      |
| Accumulated depreciation: |                         |                                      |   |  |                     |
| 1 January 2003            | 116,522,516.54          | 202,660,287.04                       | 23,720,233.88   | —  | 342,903,037.46      |
| Charge for the year       | 13,321,161.82           | 17,580,072.01                        | 2,346,363.89  | 256,773.31                                 | 33,504,371.03       |
| Eliminated on disposals   |                         |                                      |   |  |                     |
| of subsidiaries           | (87,080,087.00)         | (149,451,048.79)                     | (20,465,203.39)   | —  | (256,996,339.18)    |
| Reclassification          | —                       | —                                    | —   | 565,877.04                                 | 565,877.04          |
| Eliminated on disposals   | —                       | (586,543.53)                         | (2,038,742.77)  | —  | (2,625,286.30)      |
| 1 December 2003           | 42,763,591.36           | 70,202,766.73                        | 3,562,651.61  | 822,650.35                                 | 117,351,660.05      |
| Impairment loss:          |                         |                                      |   |  |                     |
| 1 January 2003            | 80,464,800.00           | 3,687,303.63                         | 125,015.89  | —  | 84,277,119.52       |
| Additions                 | —                       | —                                    | —   | —  | —                   |
| Eliminated on disposals   |                         |                                      |   |  |                     |
| of subsidiaries           | —                       | (250,280.29)                         | (125,015.89)  | —  | (375,296.18)        |
| Other transfers-out       | —                       | (50,242.30)                          | —   | —  | (50,242.30)         |
| 31 December 2003          | 80,464,800.00           | 3,386,781.04                         | —   | —  | 83,851,581.04       |
| Net book values:          |                         |                                      |   |  |                     |
| 1 January 2003            | 535,180,768.17          | 196,412,364.90                       | 18,773,026.36   | —  | 750,366,159.43      |
| 31 December 2003          | 304,842,999.88          | 52,649,323.70                        | 7,540,459.48  | 729,542.25                                 | 365,762,325.31      |
| Including                 |                         |                                      |   |  |                     |
| Pledged assets            |                         |                                      |   |  |                     |
| at the year end-Net       | 20,346,136.17           | 15,591,917.82                        | —   | —  | 35,938,053.99       |

The Group has pledged the buildings, plant, machinery and equipment to secure the bank loans. Details are set out in Note 18 and Note 27.

Reclassification for the year represents the transfer from long term deferred expenses to the leasehold improvements as set out in Note 17.

## Notes to the Financial Statements *(Continued)*

For the Year ended 31st December 2003  
(Prepared in accordance with the PRC Accounting Rules and Regulations)

### 15. FIXED ASSETS UNDER CONSTRUCTION

| Items                                | 1/1/2003<br>RMB | Additions<br>RMB | Completed<br>and<br>transferred to<br>fixed assets<br>RMB | Eliminated on<br>disposals of<br>subsidiaries<br>RMB | 31/12/2003<br>RMB | Source of<br>fund           | Percentage<br>of completion<br>% |
|--------------------------------------|-----------------|------------------|---|--|-------------------|-----------------------------|----------------------------------|
| Hydroelectric project                | 2,680,785.70    | 6,591,275.29     | (2,126,773.00)  | (7,145,287.99)                                       | —                 | Bank loans                  | 95                               |
| High voltage<br>transmission project | 9,339,764.71    | 4,211,600.92     | (8,697,843.88)  | —  | 4,853,521.75      | Internal raise<br>and loans | 85                               |
| Including: interest capitalized      | 1,283,517.48    | —                | (1,283,517.48)  | —  | —                 |                             |                                  |
|                                      | 12,020,550.41   | 10,802,876.21    | (10,824,616.88)   | (7,145,287.99)                                       | 4,853,521.75      |                             |                                  |
| Impairment loss                      | (52,090.04)     |                  |   |  | (52,090.04)       |                             |                                  |
| Construction in progress-Net         | 11,968,460.37   |                  |   |  | 4,801,431.71      |                             |                                  |

### 16. INTANGIBLE ASSETS

|   | Land use rights<br>RMB | Franchise<br>RMB | Software<br>RMB | Total<br>RMB    |
|---|------------------------|------------------|-----------------|-----------------|
| Cost:   |                        |                  |                 |                 |
| 1 January 2003                                | 70,110,440.17          | 764,000.00       | —               | 70,874,440.17   |
| Eliminated on<br>disposals of<br>subsidiaries | (57,751,608.45)        | (264,000.00)     | —               | (58,015,608.45) |
| Addition                                      | —                      | —                | 26,000.00       | 26,000.00       |
| 31 December 2003                              | 12,358,831.72          | 500,000.00       | 26,000.00       | 12,884,831.72   |
| Accumulated<br>amortization:                  |                        |                  |                 |                 |
| 1 January 2003                                | 11,087,116.69          | 140,000.00       | —               | 11,227,116.69   |
| Eliminated on disposals<br>of subsidiaries    | (10,106,531.40)        | —                | —               | (10,106,531.40) |
| Charge for the year                           | 1,112,038.05           | 45,000.00        | —               | 1,157,038.05    |
| 31 December 2003                              | 2,092,623.34           | 185,000.00       | —               | 2,277,623.34    |
| Carrying amount:                              |                        |                  |                 |                 |
| 1 January 2003                                | 59,023,323.48          | 624,000.00       | —               | 59,647,323.48   |
| 31 December 2003                              | 10,266,208.38          | 315,000.00       | 26,000.00       | 10,607,208.38   |
| Including:                                    |                        |                  |                 |                 |
| Intangible assets<br>pledged assets as at     |                        |                  |                 |                 |
| 31 December 2003                              | 5,690,580.49           | —                | —               | 5,690,580.49    |

The land use rights are pledged to secure bank loans.



## Notes to the Financial Statements (Continued)

For the Year ended 31st December 2003

(Prepared in accordance with the PRC Accounting Rules and Regulations)

### 17. LONG TERM DEFERRED EXPENSES

| Category                          | Reclassification |                     | 31/12/2003<br>RMB |
|-----------------------------------|------------------|---------------------|-------------------|
|                                   | 1/1/2003<br>RMB  | for the year<br>RMB |                   |
| Fixed assets improvement expenses | 986,315.56       | (986,315.56)        | —                 |

The reclassification for the year represents the transfer from long term deferred expenses to fixed assets with cost and accumulated depreciation at RMB1,552,192.60 and RMB565,877.04 respectively.

### 18. SHORT-TERM LOANS

| Type             | 31/12/2003<br>RMB     | 31/12/2002<br>RMB |
|------------------|-----------------------|-------------------|
| Pledged loans    |                       |                   |
| — RMB            | <b>25,260,000.00</b>  | 242,920,000.00    |
| Guaranteed loans |                       |                   |
| — RMB            | <b>150,110,000.00</b> | 147,930,000.00    |
| Loans on credit  |                       |                   |
| — RMB            | —                     | 43,636,945.09     |
|                  | <b>175,370,000.00</b> | 434,486,945.09    |

Details of the pledged buildings, plant, machinery, equipment and land use right for pledged loans are set out in Notes 14 and 16.

Guaranteed loans are guaranteed by Shenyang High-voltage of RMB25,700,000, Jinzhou Wonder Auto Suspensions System Co., Ltd. RMB4,850,000, Jinzhou Jinkai Electric Group Co., Ltd. (原錦州新生開關有限責任公司) of RMB3,000,000, Northeast Electrical Transmission & Transformation Equipment Group Corporation Limited of RMB5,000,000, the remaining balance represents the Company gave guarantees of RMB111,560,000 to its subsidiaries or the cross-guarantee among its subsidiaries.

Included in short term bank loan is an overdue bank loan raised by Kingdom Hotel from Industrial and Commercial Bank of China of RMB29,000,000 at annual interest rate of 7.56% for the purpose of renewal with loan of RMB24,000,000 secured by the Company. At the approval date of the financial statements, no repayment was made.

## Notes to the Financial Statements *(Continued)*

For the Year ended 31st December 2003  
(Prepared in accordance with the PRC Accounting Rules and Regulations)

### 19. NOTES PAYABLE

|   | 31/12/2003           | 31/12/2002    |
|---|----------------------|---------------|
|   | <i>RMB</i>           | <i>RMB</i>    |
| Bills of exchange from commercial party | —                    | 10,000,000.00 |
| Bills of exchange from bank             | <b>13,000,000.00</b> | 4,000,000.00  |
|   | <b>13,000,000.00</b> | 14,000,000.00 |

### 20. ACCOUNTS PAYABLE

The aging analysis of accounts payable is as follows:

|               | 31/12/2003           |            | 31/12/2002     |            |
|---------------|----------------------|------------|----------------|------------|
|               | Amount               | Percentage | Amount         | Percentage |
|               | <i>RMB</i>           | (%)        | <i>RMB</i>     | (%)        |
| Within 1 year | <b>35,517,613.08</b> | <b>73</b>  | 252,238,622.87 | 74         |
| 1 to 2 years  | <b>7,434,163.55</b>  | <b>15</b>  | 40,611,700.79  | 12         |
| 2 to 3 years  | <b>2,317,453.15</b>  | <b>5</b>   | 16,357,512.03  | 5          |
| Over 3 years  | <b>3,376,403.38</b>  | <b>7</b>   | 32,318,053.56  | 9          |
|               | <b>48,645,633.16</b> | <b>100</b> | 341,525,889.25 | 100        |

No amount due to any shareholder with more than a 5% shareholding in the Company is included in amounts payable.

### 21. ADVANCES FROM CUSTOMERS

No amount due to any shareholder with more than a 5% shareholding in the Company is included in advances from customers.

### 22. TAXES PAYABLE

|                       | 31/12/2003          | 31/12/2002    |
|-----------------------|---------------------|---------------|
|                       | <i>RMB</i>          | <i>RMB</i>    |
| Income tax            | <b>(89,458.67)</b>  | (722,617.19)  |
| Value added tax       | <b>2,880,903.65</b> | 8,030,210.24  |
| Business tax          | <b>(28,754.91)</b>  | (32,756.06)   |
| City construction tax | <b>271,366.14</b>   | 638,124.65    |
| Personal income tax   | <b>(705,101.50)</b> | (620,320.44)  |
| Property tax          | <b>5,211,436.07</b> | 4,057,433.50  |
| Others                | <b>48,725.78</b>    | 12,354.43     |
|                       | <b>7,589,116.56</b> | 11,362,429.13 |

## Notes to the Financial Statements (Continued)

For the Year ended 31st December 2003

(Prepared in accordance with the PRC Accounting Rules and Regulations)

### 23. OTHER FEE PAYABLES

| Category                  | 31/12/2003          | 31/12/2002   |
|---------------------------|---------------------|--------------|
|                           | <i>RMB</i>          | <i>RMB</i>   |
| Education additional tax  | <b>227,641.31</b>   | 254,904.93   |
| Energy fund               | <b>1,052,183.98</b> | 4,532,475.62 |
| Estimated adjustment fund | <b>1,648,266.39</b> | 3,047,808.37 |
|                           | <b>2,928,091.68</b> | 7,835,188.92 |

### 24. OTHER PAYABLES

The aging analysis of other payables is as follows:

|               | 31/12/2003           |                   | 31/12/2002           |                   |
|---------------|----------------------|-------------------|----------------------|-------------------|
|               | Amount<br><i>RMB</i> | Percentage<br>(%) | Amount<br><i>RMB</i> | Percentage<br>(%) |
| Within 1 year | <b>12,414,484.54</b> | <b>24</b>         | 62,792,684.24        | 68                |
| 1 to 2 years  | <b>25,373,777.18</b> | <b>50</b>         | 6,770,785.57         | 7                 |
| 2 to 3 years  | <b>5,427,738.90</b>  | <b>11</b>         | 5,363,149.50         | 6                 |
| Over 3 years  | <b>7,677,296.28</b>  | <b>15</b>         | 17,932,120.06        | 19                |
|               | <b>50,893,296.90</b> | <b>100</b>        | 92,858,739.37        | 100               |

No amount due to any shareholder with more than a 5% shareholding in the Company is included in other payables.

## Notes to the Financial Statements (Continued)

For the Year ended 31st December 2003  
(Prepared in accordance with the PRC Accounting Rules and Regulations)

### 25. ACCRUED EXPENSES

|  | 31/12/2003<br><i>RMB</i> | 31/12/2002<br><i>RMB</i> | Reason of arising        |
|--|--------------------------|--------------------------|--------------------------|
| Interest expenses                      | <b>30,000.00</b>         | 516,921.53               | Incurred but not settled |
| Service expense<br>from intermediaries | <b>3,176,065.32</b>      | 3,369,700.00             | Incurred but not settled |
| Others                                 | <b>44,964.72</b>         | 2,856,004.64             | Incurred but not settled |
|  | <b>3,251,030.04</b>      | 6,742,626.17             |                          |

### 26. PROVISIONS

|                    | 31/12/2003<br><i>RMB</i> | 31/12/2002<br><i>RMB</i> |
|--------------------|--------------------------|--------------------------|
| Pending litigation | <b>30,993,929.00</b>     | —                        |

Northeast Electrical Transmission and Transformation Equipment Group Corporation Limited, the original controlling shareholder of the Company, and China Everbright Bank signed a loan agreement in respect of a loan for the sum of RMB30,000,000 and the Company acted as a 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 and overdue interest amounting to RMB26,402,000 and RMB4,592,000 respectively. On 19th April 2002, the Beijing First Intermediate People's Court ruled that the Company be responsible for the repayment of the principal and corresponding overdue interest. On 13th May 2003, the Beijing Higher People's Court ruled in the verdict of final trial. On 31st December 2003, the Company made the provision for guarantees of RMB30,993,929.00 based on the rule from court.

## Notes to the Financial Statements (Continued)

For the Year ended 31st December 2003

(Prepared in accordance with the PRC Accounting Rules and Regulations)

### 27. LONG TERM LOANS

| Lender                                | 31/12/2003<br>RMB | 31/12/2002<br>RMB | Loan<br>expired | Annual<br>interest rate<br>% | Terms            |
|---------------------------------------|-------------------|-------------------|-----------------|------------------------------|------------------|
| Jinzhou Commercial Bank               | —                 | 5,000,000.00      |                 | 7.722                        | Guaranteed       |
| Jinzhou Commercial Bank               | —                 | 9,600,000.00      |                 | 7.722                        | Guaranteed       |
| Jinzhou Commercial Bank               | —                 | 13,500,000.00     |                 | 7.56-7.722                   | Guaranteed       |
| Industrial & Commercial Bank of China | —                 | 2,900,000.00      |                 | 8.073                        | Guaranteed       |
| Industrial & Commercial Bank of China | —                 | 3,000,000.00      |                 | 8.073                        | Guaranteed       |
| Industrial & Commercial Bank of China | 5,000,000.00      | —                 | October 2005    | 7.25                         | Pledged          |
| Industrial & Commercial Bank of China | 15,000,000.00     | —                 | May 2005        | 5.58                         | Pledged          |
| Industrial & Commercial Bank of China | 6,400,000.00      | —                 | September 2005  | 6.59                         | Guaranteed       |
| Bank of China                         | —                 | 13,000,000.00     |                 | 6.903                        | Guaranteed       |
| Bank of Communications                | 150,000.00        | 150,000.00        |                 | 7.722                        | Letter of credit |
| Industrial & Commercial Bank of China | —                 | 16,000,000.00     |                 | 7.722                        | Guaranteed       |
| Industrial & Commercial Bank of China | —                 | 3,700,000.00      |                 | 8.073                        | Guaranteed       |
| Industrial & Commercial Bank of China | 2,000,000.00      | 2,000,000.00      | April 2004      | 7.722                        | Guaranteed       |
| Industrial & Commercial Bank of China | 7,000,000.00      | 12,000,000.00     | September 2004  | 7.722                        | Pledged          |
| Subtotal                              | 35,550,000.00     | 80,850,000.00     |                 |                              |                  |
| Shengao bank                          |                   |                   |                 |                              |                  |
| Industrial & Commercial Bank of China | —                 | 8,000,000.00      |                 | 7.56                         | Guaranteed       |
| Industrial & Commercial Bank of China | —                 | 19,000,000.00     |                 | 6.21                         | Guaranteed       |
| Industrial & Commercial Bank of China | —                 | 9,410,000.00      |                 | 7.56                         | Guaranteed       |
| Industrial & Commercial Bank of China | —                 | 72,100,000.00     |                 | 6.21-7.56                    | Guaranteed       |
| China Development Bank                | —                 | 143,656,711.01    |                 | 6.19                         | Guaranteed       |
| Agricultural Bank of China            | —                 | 4,600,000.00      |                 | 6.21                         | Guaranteed       |
| City Trust Bank                       | —                 | 1,400,000.00      |                 | 6.21                         | Guaranteed       |
| Subtotal                              | —                 | 258,166,711.01    |                 |                              |                  |
| Less: amount due within 1 year        | (9,000,000.00)    | (170,410,000.00)  |                 |                              |                  |
| Amount due after 1 year               | 26,550,000.00     | 168,606,711.01    |                 |                              |                  |

Pledged loans at the year end are secured by the building. Details are set out in Note 14.

At the balance sheet date, guaranteed loans are guaranteed by 錦州重型機械股份有限公司 of RMB2,000,000 and Jinzhou Jinkai Electric Group Co., Ltd.(原錦州新生開關有限責任公司) of RMB6,400,000 respectively.

### 28. SPECIFIC ACCOUNTS PAYABLE

|   | 31/12/2003<br>RMB    | 31/12/2002<br>RMB |
|---|----------------------|-------------------|
| Fund set aside for technology development, and etc. | <b>14,166,647.83</b> | 13,240,955.32     |
|   | <b>14,166,647.83</b> | 13,240,955.32     |

Fund and others set aside for technology development on Power Capacitors were provided by National Development and Plan Commission, Jinzhou Technology and Information Bureau and Jinzhou Finance Bureau, which have not been settled.

## Notes to the Financial Statements (Continued)

For the Year ended 31st December 2003  
(Prepared in accordance with the PRC Accounting Rules and Regulations)

### 29. SHARE

Movement of shares of the Company during the year is as follows:

|  | 1/1/2003<br>(No. of shares) | (Decrease)<br>increase<br>for the year<br>(No. of shares) | 31/12/2003<br>(No. of shares) |
|--|-----------------------------|---|-------------------------------|
| Non-listed shares                            |                             |   |                               |
| Promoter's shares                            |                             |   |                               |
| —stated owned shares                         | 332,520,000.00              | (66,000,000.00)   | 266,520,000.00                |
| —domestic legal person held shares           | 139,300,000.00              | 66,000,000.00   | 205,300,000.00                |
| Total of non-listed shares                   | 471,820,000.00              | —   | 471,820,000.00                |
| Listed shares                                |                             |   |                               |
| Domestic RMB ordinary shares                 | 143,600,000.00              | —   | 143,600,000.00                |
| Overseas listed foreign<br>investment shares | 257,950,000.00              | —   | 257,950,000.00                |
| Total of listed shares                       | 401,550,000.00              | —   | 401,550,000.00                |
| The number of shares                         | 873,370,000.00              | —   | 873,370,000.00                |

The above shares have nominal value of RMB1 each.

1. Domestic RMB ordinary shares represent the shares listed on the Shenzhen stock Exchange.
2. Overseas listed foreign investment shares (“H shares”) represent the shares listed on the Stock Exchange of Hong Kong Limited.
3. All the domestic and ‘H’ shares rank pari passu in all respects.
4. According to the document No.23 [2003] 《關於東北電氣發展股份有限公司股東變更的批復》 posted by 瀋陽市人民政府金融工作辦公室 on 19th July 2003, the stated owned shares was adjusted to 266,520,000 which was previously held by New Northeast Electric Investment Limited (the major shareholder of the company formerly known as “Shenyang Northeast Electric Holding Company Limited”) and 瀋陽新泰盛達設備有限公司. The remaining shares are held by domestic legal person.

## Notes to the Financial Statements (Continued)

For the Year ended 31st December 2003

(Prepared in accordance with the PRC Accounting Rules and Regulations)

### 30. CAPITAL RESERVES

|   | 1/1/2003<br>RMB | Addition<br>for the year<br>RMB | 31/12/2003<br>RMB |
|---|-----------------|---------------------------------|-------------------|
| Capital premium                                   | 115,547,484.00  | —                               | 115,547,484.00    |
| Difference on related parties transactions        | 3,910,200.00    | —                               | 3,910,200.00      |
| Restricted reserve arising from equity investment | —               | 2,316,785.02                    | 2,316,785.02      |
| Other capital reserve                             | 643,432,525.93  | —                               | 643,432,525.93    |
|   | 762,890,209.93  | 2,316,785.02                    | 765,206,994.95    |

The increase in the restricted reserve arising from equity investment is mainly arising from the increase in share capital of Shenyang High-Voltage of RMB2,310,302.75.

### 31. SURPLUS RESERVES

|                             | Statutory surplus reserve fund<br>RMB | Discretionary Surplus reserve<br>RMB | Statutory Public welfare fund<br>RMB | Total<br>RMB   |
|-----------------------------|---------------------------------------|--------------------------------------|--------------------------------------|----------------|
| Opening and closing balance | 48,091,633.34                         | 28,284,687.96                        | 32,210,803.10                        | 108,587,124.40 |

The statutory surplus reserve can be utilized to offset losses of the Company, expand operations of the Company and increase the share capital of the Company. The statutory public welfare fund can be utilized to provide welfare for workers of the Company.

### 32. ACCUMULATED LOSSES

|                           | Year ended<br>31/12/2003<br>RMB | Year ended<br>31/12/2002<br>RMB |
|---------------------------|---------------------------------|---------------------------------|
| At 1 January              | (1,209,429,407.26)              | (1,278,431,819.27)              |
| Add: profits for the year | 25,960,056.90                   | 69,002,412.01                   |
| At 31 December            | (1,183,469,350.36)              | (1,209,429,407.26)              |

## Notes to the Financial Statements *(Continued)*

For the Year ended 31st December 2003  
(Prepared in accordance with the PRC Accounting Rules and Regulations)

### 33. REVENUE

|                                     | Year ended<br>31/12/2003<br><i>RMB</i> | Year ended<br>31/12/2002<br><i>RMB</i> |
|-------------------------------------|--|--|
| Ancillary products for transformers | 1,106,642.30                           | 208,075,141.18                         |
| High voltage switches               | 396,008,513.86                         | 524,239,619.92                         |
| Power capacitors                    | 177,339,358.95                         | 153,873,591.19                         |
| Enclosed busbars                    | 22,331,197.94                          | 27,188,749.12                          |
| Food, beverage and accommodation    | 30,873,018.67                          | 35,752,216.65                          |
| Others                              | —                                      | 2,325,133.10                           |
|                                     | <b>627,658,731.72</b>                  | 951,454,451.16                         |

Sales income from the top 5 customers for the year amounted to RMB175,676,831.62, representing 28% of the total revenue for the year.

### 34. COST OF SALES

|                                     | Year ended<br>31/12/2003<br><i>RMB</i> | Year ended<br>31/12/2002<br><i>RMB</i> |
|-------------------------------------|--|--|
| Ancillary products for transformers | 1,027,051.52                           | 146,140,563.83                         |
| High voltage switches               | 264,916,601.01                         | 360,279,566.55                         |
| Power capacitors                    | 119,204,064.37                         | 85,952,923.04                          |
| Enclosed busbars                    | 16,977,194.07                          | 19,583,480.37                          |
| Food, beverage and accommodation    | 23,917,209.11                          | 25,159,843.92                          |
| Others                              | —                                      | 57,888.48                              |
|                                     | <b>426,042,120.08</b>                  | 637,174,266.19                         |

### 35. SALES TAX

| Category of tax       | Tax rate |
|-----------------------|----------|
| City construction fee | 7%       |
| Educational surcharge | 4%       |
| Business tax          | 5% - 20% |



## Notes to the Financial Statements (Continued)

For the Year ended 31st December 2003

(Prepared in accordance with the PRC Accounting Rules and Regulations)

### 36. OTHER OPERATING PROFITS

|                                       | Year ended<br>31/12/2003<br>RMB | Year ended<br>31/12/2002<br>RMB |
|---------------------------------------|---------------------------------|---------------------------------|
| Sales of materials                    |                                 |                                 |
| —Revenue                              | 20,535,299.85                   | 12,283,746.64                   |
| —Costs                                | (19,491,258.65)                 | (8,737,183.96)                  |
|                                       | <b>1,044,041.20</b>             | 3,546,562.68                    |
| Technical services and transportation |                                 |                                 |
| —Revenue                              | 20,522,058.80                   | 49,934,439.41                   |
| —Costs                                | (17,192,575.92)                 | (18,502,573.35)                 |
|                                       | <b>3,329,482.88</b>             | 31,431,866.06                   |
| Total                                 | <b>4,373,524.08</b>             | 34,978,428.74                   |

### 37. FINANCE COSTS

|  | Year ended<br>31/12/2003<br>RMB | Year ended<br>31/12/2002<br>RMB |
|--|---------------------------------|---------------------------------|
| Interest expenses                      | 38,651,257.01                   | 65,760,685.22                   |
| Less: Interest income                  | 787,872.95                      | 873,058.11                      |
| Exchange losses (less: exchange gains) | (21,205.06)                     | 256,741.22                      |
| Others                                 | 502,411.52                      | 1,142,877.03                    |
|  | <b>38,344,590.52</b>            | 66,287,245.36                   |

### 38. INVESTMENT INCOME

|  | Year ended<br>31/12/2003<br>RMB | Year ended<br>31/12/2002<br>RMB |
|--|---------------------------------|---------------------------------|
| Long-term investment income                                |                                 |                                 |
| Shares of investee's profit recognized under equity method | 7,658,003.74                    | 2,001,746.51                    |
| Profits declared by investee under cost method             | 1,000,000.00                    | 1,500,000.00                    |
| Amortization of long-term equity investment difference     | 706,923.65                      | 285,082.33                      |
| Gain on disposal of long-term equity investment            | 47,387,050.68                   | 60,135,842.13                   |
| Other income   | —                               | 460,964.96                      |
|  | <b>56,751,978.07</b>            | 64,383,635.93                   |

Gain on disposal of equity investment includes the disposal of subsidiaries and associate during the year. The details were set out in Note 47 and Note 48 respectively.

## Notes to the Financial Statements (Continued)

For the Year ended 31st December 2003  
(Prepared in accordance with the PRC Accounting Rules and Regulations)

### 39. NON-OPERATING INCOME

|                                   | Year ended<br>31/12/2003<br>RMB | Year ended<br>31/12/2002<br>RMB |
|-----------------------------------|---------------------------------|---------------------------------|
| Gain on disposals of fixed assets | 1,035,436.97                    | 425,774.16                      |
| Penalty income                    | 6,040.00                        | 216,262.00                      |
| Others                            | 9,113.76                        | 1,323,718.20                    |
|                                   | <b>1,050,590.73</b>             | 1,965,754.36                    |

### 40. NON-OPERATING EXPENSES

|  | Year ended<br>31/12/2003<br>RMB | Year ended<br>31/12/2002<br>RMB |
|--|---------------------------------|---------------------------------|
| Provision for loss on guarantees         | 30,993,929.00                   | —                               |
| Provision for impairment on fixed assets | —                               | 552,541.25                      |
| Loss on disposals of fixed assets        | 69,246.55                       | 14,106.51                       |
| Others                                   | 542,407.25                      | 1,668,097.16                    |
|  | <b>31,605,582.80</b>            | 2,234,744.92                    |

### 41. INCOME TAX

|                                    | Year ended<br>31/12/2003<br>RMB | Year ended<br>31/12/2002<br>RMB |
|------------------------------------|---------------------------------|---------------------------------|
| Income tax payable by subsidiaries | 5,179,383.35                    | 5,370,721.74                    |
|                                    | <b>5,179,383.35</b>             | 5,370,721.74                    |

### 42. SEGMENT INFORMATION

Since 90% of total revenue was generated from the sales of transmission and transformer equipment, no further segment information is provided in this respect.

## Notes to the Financial Statements (Continued)

For the Year ended 31st December 2003

(Prepared in accordance with the PRC Accounting Rules and Regulations)

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

#### (1) Other receivables

The aging analysis of other receivables is as follows:

|               | 31/12/2003     |                   |                              |                          | 31/12/2002     |                   |                              |                          |
|---------------|----------------|-------------------|------------------------------|--------------------------|----------------|-------------------|------------------------------|--------------------------|
|               | Amount<br>RMB  | Percentage<br>(%) | Bad debt<br>provision<br>RMB | Net<br>book value<br>RMB | Amount<br>RMB  | Percentage<br>(%) | Bad debt<br>provision<br>RMB | Net<br>Book value<br>RMB |
| Within 1 year | 79,013,250.58  | 40                | —                            | 79,013,250.58            | 106,844,284.00 | 85                | —                            | 106,844,284.00           |
| 1 to 2 years  | 118,750,670.44 | 60                | (117,702.09)                 | 118,632,968.35           | 19,509,988.47  | 15                | (1,470,227.32)               | 18,039,761.15            |
| Total         | 197,763,921.02 | 100               | (117,702.09)                 | 197,646,218.93           | 126,354,272.47 | 100               | (1,470,227.32)               | 124,884,045.15           |

#### (2) Prepayments

The aging analysis of prepayment is as follows:

|               | 31/12/2003<br>RMB | 31/12/2002<br>RMB |
|---------------|-------------------|-------------------|
| Within 1 year | 88,674,733.00     | —                 |
|               | 88,674,733.00     | —                 |

In the balance of prepayments due within 1 year included prepaid investment to New Northeast Electric (Shenyang) High-Voltage Switchgear Ltd. amounting of RMB51,566,333 (Note 49(1)) and to New Northeast Electric (Jinzhou) Power Capacitors Ltd. of RMB33,108,400 (Note 49(2)).

#### (3) Long term equity investments

##### i. Investment in subsidiaries and associates

|   | 31/12/2003<br>RMB | 31/12/2002<br>RMB |
|---|-------------------|-------------------|
| Investment in subsidiaries                            | 281,455,026.80    | 310,763,103.15    |
| Investment in associates                              | 26,534,645.67     | 81,663,152.72     |
| Investment in other equity                            | 17,458,011.63     | 10,000,000.00     |
| Equity investment difference                          | —                 | (8,093,340.19)    |
| Total   | 325,447,684.10    | 394,332,915.68    |
| Less: Impairment loss on long-term equity investments | —                 | —                 |
| Long-term equity investments-Net                      | 325,447,684.10    | 394,332,915.68    |

## Notes to the Financial Statements (Continued)

For the Year ended 31st December 2003  
(Prepared in accordance with the PRC Accounting Rules and Regulations)

### 43. NOTES TO THE FINANCIAL STATEMENTS OF THE COMPANY (Continued)

#### (3) Long term equity investments (Continued)

##### ii. Details of other equity investments

| Name of investee                                | Invested period | Share in the registered capital of the investee % | Initial cost of investment invested RMB | Impairment loss Opening RMB | Impairment loss Closing RMB | Closing book value RMB |
|---|-----------------|---|---|-----------------------------|-----------------------------|------------------------|
| Jinzhou City Co-operative Bank                  | Long term       | 6.34  | 10,000,000.00                           | —                           | —                           | 10,000,000.00          |
| Northeast Electric (Hong Kong) Development Ltd. | Long term       | 9.00  | 7,458,011.63                            | —                           | —                           | 7,458,011.63           |
|   |                 |   | 17,458,011.63                           | —                           | —                           | 17,458,011.63          |

Details of movements in investment in associates:

| Name of investee   | Initial cost of investment RMB | Change in equity interest for the year RMB | Share in the registered capital of the investee % | Changes in equity interest of the investee company RMB | Cash dividend received RMB | Accumulated changes RMB | Closing book value RMB |
|--|--------------------------------|--|---|--|----------------------------|-------------------------|------------------------|
| Shenyang High-voltage switchgears Ltd.   | 32,185,359.67                  | (14,897,081.76)                            | 48.95   | 4,838,222.63   | —                          | 4,838,222.63            | 22,126,500.54          |
| Northeast Electrical Hitachi Transmission and Transformation Machinery Co., Ltd. | 4,068,352.40                   | —  | 49.00   | 5,047.51   | —                          | 339,792.73              | 4,408,145.13           |
| Shenyang Furukawa Cable Company Ltd.   | 75,239,722.48                  | (77,923,290.12)                            | —   | 5,125,036.35   | (4,461,803.00)             | 2,683,567.64            | —                      |
|  | 111,493,434.55                 | (92,820,371.88)                            |   | 9,968,306.49   | (4,461,803.00)             | 7,861,583.00            | 26,534,645.67          |

Equity investment difference:

| Name of investee                        | 1/1/2003 RMB   | 31/12/2003 RMB | Period of amortization | Amortization for the year RMB | Other transfer-out RMB | Remaining balance RMB | Reason of arising                   |
|---|----------------|----------------|------------------------|-------------------------------|------------------------|-----------------------|-------------------------------------|
| Shenyang Furukawa Cable Company Limited | (8,324,578.48) | (8,093,340.19) | 15 years               | (462,476.58)                  | (7,630,863.61)         | —                     | exchange of debt to equity interest |

Note: Transfer-out for the year represents the disposal of investment in Shenyang Furukawa Cable Company Limited as stated in Note 48.

## Notes to the Financial Statements (Continued)

For the Year ended 31st December 2003

(Prepared in accordance with the PRC Accounting Rules and Regulations)

### 43. NOTES TO THE FINANCIAL STATEMENTS OF THE COMPANY (Continued)

#### (3) Long term equity investments (Continued)

Details of movements in investment in subsidiaries:

| Item                               | 1/1/2003<br>RMB  | Addition<br>RMB | Disposals<br>RMB | 31/12/2003<br>RMB |
|------------------------------------|------------------|-----------------|------------------|-------------------|
| Investment cost                    | 739,351,205.45   | —               | (337,916,893.59) | 401,434,311.86    |
| Share of result of<br>subsidiaries | (428,588,102.30) | 10,990,997.63   | 297,617,819.61   | (119,979,285.06)  |
| Total                              | 310,763,103.15   | 10,990,997.63   | (40,299,073.98)  | 281,455,026.80    |

#### (4) Investment income

|   | Year ended<br>31/12/2003<br>RMB | Year ended<br>31/12/2002<br>RMB |
|---|---------------------------------|---------------------------------|
| Long-term investment income:                                  |                                 |                                 |
| Shares of investee's profit recognized<br>under equity method | <b>18,649,001.37</b>            | 8,997,570.09                    |
| Profit declared by investee<br>under cost method              | <b>1,000,000.00</b>             | 1,500,000.00                    |
| Amortization of long-term equity<br>investment difference     | <b>462,476.58</b>               | 231,238.29                      |
| Gain on disposal of long-term<br>equity investment            | <b>47,387,050.68</b>            | 60,135,842.13                   |
|   | <b>67,498,528.63</b>            | 70,864,650.51                   |

Detail of gain on disposal of investment in equity interests is set out in note 38.

## Notes to the Financial Statements *(Continued)*

For the Year ended 31st December 2003

(Prepared in accordance with the PRC Accounting Rules and Regulations)

### 44. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS

- (1) Except for subsidiaries listed under Note 5, the following is related party where a control relationship exists:

| Name of the related party          | Place of registration | Principal business activities | Relationship           | Type of enterprises | Legal representatives |
|------------------------------------|-----------------------|-------------------------------|------------------------|---------------------|-----------------------|
| 新東北電氣投資有限公司<br>(former 瀋陽東北電控有限公司) | Shenzhen              | Equity investment             | Sole major shareholder | Limited company     | Tian Li               |

On 17 March 2003, the name of the sole major shareholder 瀋陽東北電控有限公司 was changed to 新東北電氣投資有限公司. The registered office was moved from Shenyang Liaoning to 深圳市羅湖區嘉賓路23號.

- (2) For the related party where a control relationship exists, the register capital of the related party and the change therein is as follows:

| Name of the related party | 1/1/2003<br>RMB | Addition<br>RMB | Reduction<br>RMB | 31/12/2003<br>RMB |
|---------------------------|-----------------|-----------------|------------------|-------------------|
| 新東北電氣投資有限公司               | 135,000,000.00  | —               | —                | 135,000,000.00    |

- (3) For the related party where a control relationship exist, the proportion of equity interest held by the related party and change therein is as follows:

| Name of the related party | 1/1/2003       |       | Addition |   | Reduction |   | 31/12/2003     |       |
|---------------------------|----------------|-------|----------|---|-----------|---|----------------|-------|
|                           | RMB            | %     | RMB      | % | RMB       | % | RMB            | %     |
| 新東北電氣投資有限公司               | 230,000,000.00 | 26.34 | —        | — | —         | — | 230,000,000.00 | 26.34 |

- (4) Nature of relationship with related parties where a control relationship does not exist

| Name of the related party              | Relationship with the Company |
|--|-------------------------------|
| Shenyang High-voltage Switchgears Ltd. | Associates                    |

## Notes to the Financial Statements (Continued)

For the Year ended 31st December 2003

(Prepared in accordance with the PRC Accounting Rules and Regulations)

### 44. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (Continued)

- (5) Significant transactions between the Company and the above-related parties in the current year :

Sales and purchases

|  | Year ended<br>31/12/2003<br>RMB | Year ended<br>31/12/2002<br>RMB |
|--|---------------------------------|---------------------------------|
| Purchases                              |                                 |                                 |
| Shenyang High-Voltage Switchgears Ltd. | <b>32,239,102.47</b>            | 29,492,825.00                   |

Included in the above are the purchases of RMB 28,007,051.19 made from Shenyang High-Voltage Switchgears Ltd. from 1st January 2003 to the date of disposal (Note 48) while purchases of RMB 29,492,825.00 made last year had been eliminated in the consolidation.

Transaction prices with related parties are the same as those with third parties.

- (6) Amounts due to/from related companies

| Types                                  | Name of the related parties | 31/12/2003<br>RMB    | 31/12/2002<br>RMB |
|--|-----------------------------|----------------------|-------------------|
| Other receivables                      | Shenyang High-Voltage       | <b>48,017,386.90</b> | 16,671,243.98     |
| Accounts payable<br>and other payables | Shenyang High-Voltage       | <b>6,739,369.86</b>  | 58,049,568.44     |

The opening balance was eliminated in the consolidation at the end of 31 December 2002.

### 45. CONTINGENT LIABILITIES

At the balance sheet date, the Company has the following contingent liabilities:

1. The deposit of USD12,000,000 (equivalent to RMB99,232,900) placed with Liaoning Trust and Investment Corporation ("Liaoning Trust") is irrecoverable as Liaoning Trust's Financial Institution Legal Person License (金融機構法人許可證) and Financial Institution Business License (金融機構營業許可證) have been withdrawn pending the liquidation process. The Company has submitted the relevant evidence of debt in respect of its deposit of USD12,000,000 to the liquidation team which was confirmed by the team. Following the review of the latest financial position of Liaoning Trust by the directors and the lawyer of the Company on 31st December 2003, the directors and lawyers are of the opinion that Liaoning Trust has the ability to repay the principal of the loan. Accordingly, no provision for bad debts is made in respect of the remaining balance.

## Notes to the Financial Statements *(Continued)*

For the Year ended 31st December 2003

(Prepared in accordance with the PRC Accounting Rules and Regulations)

### 45. CONTINGENT LIABILITIES *(Continued)*

2. The Company acts as the guarantor for the loan agreement entered into between Shenyang Cable Company Limited (“Shenyang Cable”), and the 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, the Bank of China, Shenyang Branch instituted legal processings against Shenyang Cable and the Company for repayment of the loan. On July 2nd, 2001, the Intermediate People’s Court of Shenyang ruled in accordance with the relevant requirements of laws that because 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 June 2003, the Bank of China instituted legal processings again. On 21st October 2003, the Intermediate People’s Court in Shenyang ruled that the Company has to repay the principal of RMB 20,000,000 and the corresponding interest. On 4th November 2003, the Company lodged an appeal to the Advanced People’s Court in Shenyang. The appeal was accepted by the Court on 5th December 2003 in regard to the insufficient information and evidence. The lawyer of the Company is of the opinion that Bank of China Shenyang Branch is responsible for the loan to Shenyang Cable which was not agreed with the contract. In addition, the period to raise the sue is over the effective period. Accordingly, the guarantee should be dismissed. Lawyer of the Company is of the opinion that the compensation made to Bank of China, Shenyang Branch is rather low. As such, no provision is made in regard to this.
3. The Company’s wholly owned subsidiary, Jinzhou Power Capacitors Ltd. has given guarantees to Jinzhou Wonder Auto Suspensions System Co., Ltd. and Jinzhou Jinkai Electric Group Co., Ltd. (formerly known as 錦州新生開關有限公司) amounting to RMB 2,000,000 and RMB10,910,000 respectively. In return, Jinzhou Wonder Auto Suspensions System Co., Ltd. and Jinzhou Jinkai Electric Group Co., Ltd. have given guarantees to Jinzhou Power Capacitors Ltd. amounting to RMB4,850,000 and RMB9,400,000 respectively.
4. The Company’s wholly owned subsidiary, Jinzhou Power Capacitors Ltd. has given guarantees and notes payable to Shenyang High-Voltage Switchgears Ltd. of RMB53,350,000 and RMB3,950,000 respectively. The guarantee is in the form of cross-guarantee. In return, Shenyang High-Voltage has given guarantees to Jinzhou Power Capacitors Ltd. of RMB 25,700,000.
5. The Company has given guarantees, letter of credit and notes payable to the associates, Shenyang High-Voltage Switchgears Ltd. of RMB17,500,000, RMB15,000,000 and RMB20,000,000 respectively.



## Notes to the Financial Statements (Continued)

For the Year ended 31st December 2003

(Prepared in accordance with the PRC Accounting Rules and Regulations)

### 46. CAPITAL COMMITMENT

|  | 31/12/2003           | 31/12/2002 |
|--|----------------------|------------|
|  | <i>RMB</i>           | <i>RMB</i> |
| Capital expenditure contracted for but not provided in the financial statements in respect of: |                      |            |
| – acquisition of fixed assets  | 73,597,541.71        | –          |
| – commitment for investments   | 10,237,492.00        | –          |
|  | <b>83,835,033.71</b> | –          |

Commitment for investments represents buildings, amounting to RMB10,237,492, invested by Jinzhou Power Capacitors Ltd. a subsidiary of the Company, to form a new company, named New Northeast Electric (Jinzhou) Power Capacitors Ltd., with Prosper Power (Hong Kong) Limited as partner. As the end of December 31st 2003, the name of the owners of shoes buildings has not been changed to the new company. Jinzhou Power Capacitor's Ltd. has made a promise to finalize this transformation in six months.

### 47. DISPOSAL OF EQUITY INTEREST OF THE SUBSIDIARIES

At the directors' meeting held on 12th June 2003, it was approved to dispose 49% equity interest of Shenyang High-voltage to 瀋陽誠安電力設備集團有限公司. The registered share capital of Shenyang High-Voltage is RMB144,920,000 which was invested by the Company and Jinzhou Power Capacitors Ltd. by RMB144,919,999 and RMB1 respectively. The disposal agreement was signed on 12th June 2003 at cash consideration of RMB26,000,000 with reference to the audited net asset value at 31st December 2002 of RMB25,643,336.08. On 28th August 2003 (The date of disposal of equity interest), the Company received all the payment and completed the change of Registor. Jinzhou Power Capacitors Ltd. also transferred out its share capital of RMB1. The details of the gain on disposal of 49% equity interest are as follows:

|   | <b>Amount</b> |
|---|---------------|
|   | <i>RMB</i>    |
| Cash consideration of the disposal of 49% equity interest of Shengyang High-voltage | 26,000,000.00 |
| Less: 49% net assets value at the date of disposal of equity interest               | 14,897,081.76 |
| Gain on disposal of 49% equity interest   | 11,102,918.24 |

## Notes to the Financial Statements *(Continued)*

For the Year ended 31st December 2003  
(Prepared in accordance with the PRC Accounting Rules and Regulations)

### 47. DISPOSAL OF EQUITY INTEREST OF THE SUBSIDIARIES *(Continued)*

On 22nd September 2003, the Company agreed 瀋陽誠安電力設備集團公司 to raise its share capital of Shenyang High-Voltage of RMB6,080,000. After the capital increase, the registered share capital of Shenyang High-Voltage became RMB151,000,000, including the investment from 瀋陽誠安電力設備集團公司 of RMB77,090,800, representing 51.05% equity interest while the Company invested RMB73,909,200, representing 48.95% equity interest. The process was completed on 8th October 2003 (Date of disposal) with Register changed. The share capital of the Company was increased as RMB2,310,302.75, according to the capital increase, which set out in note 30. After the date of disposal, Shenyang High-Voltage was no longer being consolidated and was shared the result by equity method.

The financial positions at the end of year 2002 and the effective date of disposal are as follows:

|                          | Date of disposal<br><i>RMB</i> | 31.12.2002<br><i>RMB</i> |
|--------------------------|--------------------------------|--------------------------|
| Bank balance and cash    | <b>69,972,122.76</b>           | 66,107,020.86            |
| Other current assets     | <b>560,828,925.00</b>          | 592,294,886.72           |
| Long term investment     | <b>23,412,156.96</b>           | 24,009,632.28            |
| Fixed assets             | <b>372,548,521.80</b>          | 381,882,975.27           |
| Intangible assets        | <b>47,645,077.05</b>           | 48,511,351.17            |
| <b>Total assets</b>      | <b>1,074,406,803.57</b>        | 1,112,805,866.30         |
| Current liabilities      | <b>781,740,682.28</b>          | 930,017,060.10           |
| Long term liabilities    | <b>260,103,304.69</b>          | 157,059,782.81           |
| <b>Total liabilities</b> | <b>1,041,843,986.97</b>        | 1,087,076,842.91         |
| Minority interest        | <b>81,975.34</b>               | 85,687.31                |
| Shareholders' equity     | <b>32,480,841.26</b>           | 25,643,336.08            |

The operating results of Shenyang High-Voltage for the period from 1 January 2003 to the effective date of disposal and for the year of 2002 are as follows:

|                                      | 1.1.2003 to the<br>date of disposal<br><i>RMB</i> | 1.1.2002 to<br>31.12.2002<br><i>RMB</i> |
|--------------------------------------|---|---|
| Revenue                              | <b>383,264,300.12</b>                             | 518,814,368.84                          |
| Gross profit                         | <b>121,502,895.73</b>                             | 151,948,653.25                          |
| Profit before taxation               | <b>6,884,886.91</b>                               | 9,072,922.93                            |
| Less: Income tax                     | <b>51,093.69</b>                                  | —                                       |
| Add: Minority interest loss (income) | <b>3,711.96</b>                                   | 4,437.21                                |
| <b>Net profit for the year</b>       | <b>6,837,505.18</b>                               | 9,077,360.14                            |

## Notes to the Financial Statements (Continued)

For the Year ended 31st December 2003

(Prepared in accordance with the PRC Accounting Rules and Regulations)

### 48. DISPOSAL OF EQUITY INTEREST IN AN ASSOCIATE

At the directors' meeting held on 3rd December 2003, it was approved to dispose 42.50% equity interest in Shenyang Furukawa Cable Company Limited (Shenyang Furukawa) to Furukawa Electric Co., Ltd. The cash consideration was HK\$100,000,000 (equivalent to RMB106,576,558.95) which was reference to the audited net asset value of RMB183,348,917.92 on 31st October 2003. While the transfer agreement was signed on 4th December 2003, the cash consideration was received on 18th December 2003.

The calculation of gain on disposal of 42.5% equity interest in Furukawa as follows:

|  | <b>Amount</b>  |
|--|----------------|
|  | <i>RMB</i>     |
| Cash consideration of disposal                             | 106,576,558.95 |
| Add: the Credit balance of equity investment difference    | 7,630,863.61   |
| Less: shares 42.5% net asset value on the date of disposal | 77,923,290.12  |
| Gain on disposal   | 36,284,132.44  |

### 49. NON-ADJUSTED POST BALANCE SHEET EVENTS

- (1) At the directors' meeting held on 3rd December 2003, it was approved to invest in New Northeast Electric (Shenyang) High-Voltage Switchgear Ltd. ("New Shengao") at RMB51,566,333, covering 20.8% Capital reserve. By the end of 31st December 2003, the Company paid up RMB51,566,333. In January 2004, the corresponding department of the government approved the investment and the registration of New Shengao in local Administration for Industry and Commerce was completed in the same month.
- (2) At the directors' meeting held on 15th January 2004, it was approved to invest in a new company namely New Northeast Electric (Jinzhou) Power Capacitors Ltd. ("New Jinrong"). The Company invested in cash amounting to RMB33,108,400 (equivalent to US\$4,000,000), representing 40% equity interest while Jinzhou Power Capacitors Ltd. invested in form of fixed assets amounting to RMB10,237,492 (equivalent to US\$1,200,000), representing 12% equity interest. Prosper Power Limited invested US\$4,800,000, representing 48% equity interest. In January 2004, the corresponding department of the government approved the investment and the registration of New Jinrong in local Administration for Industry and Commerce was completed in the same month.
- (3) At the directors' meeting held on 15th March 2004, it was approved to dispose 48.95% equity interest of Shenyang High-Voltage to 瀋陽誠安電力設備集團公司 at the consideration of RMB24,000,000.00 which was with reference to the audited net asset value of Shenyang High-Voltage on 31st December 2003 at RMB45,297,522.58. The Company disposed all the equity interest thereafter.

## Notes to the Financial Statements (Continued)

For the Year ended 31st December 2003  
(Prepared in accordance with the PRC Accounting Rules and Regulations)

### 49. NON-ADJUSTED POST BALANCE SHEET EVENTS (Continued)

- (4) The Company invested 6 sets of 120MW steam turbine generators with the book value of RMB27,878,800, and 4 sets of 200MW steam turbine generators, with reference to assessed valuation of RMB130,033,900, into 瀋陽添升通訊設備有限公司, covering 98.48% of capital reserve in March 2004. It was approved in the directors' meeting held in March 2004.

### 50. OTHER MATERIAL EVENTS

The former shareholder of the Company, NET, transferred the shareholding of Kingdom Hotel Shenyang to the Company as compensation for a debt due in 2000 and the name of Kingdom Hotel Shenyang was changed to Kingdom Hotel Limited Shenyang thereafter. The cost of building, owned by kingdom Hotel Limited Shenyang, is RMB362,160,000. During 2003, the property license from 1st floor to 14th floor had been changed. However, the property license and the corresponding land use right license in respect of the bowling alley, office, restaurant of 15th floor, 24th floor and 25th floor and staff quarters have not yet been transferred from the former Kingdom Hotel Shenyang.

### 51. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements for the year ended 31 December 2003 were approved and authorized for issue by the board of directors on 7 April 2004.

## Supplementary Information

### 1. RETURN ON NET ASSETS AND EARNINGS PER SHARE AFTER FULLY DILUTION AND WEIGHTED AVERAGE

Unit: RMB

| Profit for the reporting year                  | Return on net assets (%) |                  | Earning per share (RMB/Share) |                  |
|--|--------------------------|------------------|-------------------------------|------------------|
|  | Fully diluted            | Weighted average | Fully diluted                 | Weighted average |
| Gross profit                                   | 34.87                    | 35.83            | 0.23                          | 0.23             |
| Operating income                               | 1.49                     | 1.53             | 0.01                          | 0.01             |
| Net profit                                     | 4.61                     | 4.73             | 0.03                          | 0.03             |
| Net profit after extraordinary profit and loss | 0.96                     | 0.99             | 0.01                          | 0.01             |

Extraordinary profit and loss for the year:

| Category   | Amount<br>RMB   |
|--|-----------------|
| Gain on disposal of long term equity investment                    | 47,387,050.68   |
| Gain on disposal of fixed assets                                   | 966,190.42      |
| Non operating income after impairment and disposal of investment   | 15,153.76       |
| Non operating expenses after impairment and disposal of investment | (31,536,336.25) |
| Written back of provision made in previous years                   | 3,710,536.50    |
|  | 20,542,595.11   |

## Supplementary Information (Continued)

### 2. DETAILS OF PROVISION FOR IMPAIRMENT LOSS ON ASSETS

Unit:RMB

| Items  | Opening balance | Provision for the year | Transfer for the year | Written back for the year | Other transfer-out for the year | Closing balance |
|--|-----------------|------------------------|-----------------------|---------------------------|---------------------------------|-----------------|
| 1 Provision for bad debts                        | 193,532,035.85  | 12,197,066.90          | (3,710,536.50)        | —                         | (79,508,860.99)                 | 122,509,705.26  |
| Including Accounts receivable                    | 98,501,482.48   | 2,945,383.80           | —                     | —                         | (57,378,766.75)                 | 44,068,099.53   |
| Other receivables                                | 95,030,553.37   | 9,251,683.10           | (3,710,536.50)        | —                         | (22,130,094.24)                 | 78,441,605.73   |
| 2 Impairment loss on short term investment       | —               | —                      | —                     | —                         | —                               | —               |
| Including Investment in securities               | —               | —                      | —                     | —                         | —                               | —               |
| Investment in debenture                          | —               | —                      | —                     | —                         | —                               | —               |
| 3 Provision for decline in value                 | 45,195,718.86   | 76,280.33              | —                     | (7,646,020.56)            | (21,398,356.26)                 | 16,227,622.37   |
| Including Finished goods                         | 17,409,180.30   | —                      | —                     | (1,324,659.65)            | (5,582,193.26)                  | 10,502,327.39   |
| Raw materials                                    | 25,749,576.82   | —                      | —                     | (6,321,360.91)            | (15,816,163.00)                 | 3,612,052.91    |
| Work in progress                                 | 2,036,961.74    | 76,280.33              | —                     | —                         | —                               | 2,113,242.07    |
| 4 Impairment loss on long-term equity investment | 272,000.00      | —                      | —                     | (5,000.00)                | —                               | 267,000.00      |
| Including Long term equity investment            | 272,000.00      | —                      | —                     | (5,000.00)                | —                               | 267,000.00      |
| Long term debenture investment                   | —               | —                      | —                     | —                         | —                               | —               |
| 5 Impairment loss on fixed asset                 | 84,277,119.52   | —                      | —                     | (50,242.30)               | (375,296.18)                    | 83,851,581.04   |
| Including Building                               | 80,464,800.00   | —                      | —                     | —                         | —                               | 80,464,800.00   |
| Plant, machinery and equipment                   | 3,687,303.63    | —                      | —                     | (50,242.30)               | (250,280.29)                    | 3,386,781.04    |
| Motor vehicles and others                        | 125,015.89      | —                      | —                     | —                         | (125,015.89)                    | —               |
| 6 Impairment loss on intangibles assets          | —               | —                      | —                     | —                         | —                               | —               |
| Including Franchise                              | —               | —                      | —                     | —                         | —                               | —               |
| Trademark  | —               | —                      | —                     | —                         | —                               | —               |
| 7 Impairment loss on construction in progress    | 52,090.04       | —                      | —                     | —                         | —                               | 52,090.04       |
| 8 Impairment loss of trust loans                 | —               | —                      | —                     | —                         | —                               | —               |

Other transfer-out for the year represents the elimination on the impairment on investment from the disposal of Shenyang High-voltage and its subsidiaries.

## Supplementary Information (Continued)

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

These financial statements are prepared in accordance with PRC accounting standards, which are different from the accounting principles generally accepted in Hong Kong.

As at December 31, 2003, net profit for the year and the net asset value as at the year end as stated in the statutory financial report were RMB25,960,056.90 and RMB563,694,768.99 respectively. A reconciliation of the differences from the net profit and the net asset value in accordance with the accounting principles generally accepted in Hong Kong is summarized below:

|   | <b>Net profit<br/>for the year ended<br/>December 31, 2003</b> | <b>Net asset<br/>value as at<br/>December 31, 2003</b> |
|---|--|--|
|   | <i>RMB</i>   | <i>RMB</i>   |
| Amount per financial statements prepared in accordance with the PRC accounting standards. | <b>25,960,056.90</b>   | <b>563,694,768.99</b>                                  |
| Adjustments under the Hong Kong accounting principles:                                    |  |  |
| Gain on disposal of investments in subsidiaries   | <b>2,310,302.75</b>  | —  |
| Gain on debt restructuring  | <b>6,482.27</b>  | —  |
| Welfare fund payable  | <b>(477,471.04)</b>  | <b>132,449.04</b>                                      |
| Amount per financial statements prepared in accordance with the HK accounting principles  | <b>27,799,370.88</b>   | <b>563,827,218.03</b>                                  |

Comparative figures for differences between the accounting principles generally accepted in Hong Kong and PRC accounting standards for the last year are as follows:

|   | <b>Net profit<br/>for the year ended<br/>December 31, 2002</b> | Net asset<br>value as at<br>December 31, 2002 |
|---|--|---|
|   | <i>RMB</i>   | <i>RMB</i>                                    |
| Amount per financial statements prepared in accordance with the PRC accounting standards. | <b>69,002,412.01</b>   | 535,417,927.07                                |
| Adjustments under the Hong Kong accounting principles:                                    |  |   |
| Gain on disposal of investments in subsidiaries   | <b>(6,300,000.00)</b>  | —   |
| Gain on debt restructuring  | <b>148,115,279.70</b>  | —   |
| Welfare fund payable  | <b>(5,375,407.77)</b>  | 609,920.08                                    |
| Amount per financial statements prepared in accordance with the HK accounting principles  | <b>205,442,283.94</b>  | 536,027,847.15                                |

## Supplimentary Information (Continued)

### 4. ANALYSIS OF AMOUNTS IN THE FINANCIAL STATEMENTS WITH A MATERIAL FLUCTUATION OF 30% OR MORE (DISREGARDING THE EFFECT OF THE DISPOSALS OF SHENYANG HIGH-VOLTAGE) IS AS FOLLOWS:

Unit: RMB'000

| Item                                      | 2003<br>(Not including<br>Shenyang<br>High Voltage) | 2002<br>(Not including<br>Shenyang<br>Transformers,<br>Hua Kang and<br>Shenyang High<br>Voltage) | Difference<br>% | Change | Notes |
|---|---|--|-----------------|--------|-------|
| Cash and bank                             | 14,549  | 22,199   | (7,650)         | (34)   | A     |
| Other receivables                         | 232,194   | 157,948  | 74,246          | 47     | B     |
| Prepayments                               | 92,129  | 8,028  | 84,101          | 1048   | C     |
| Long term equity investments              | 42,156  | 82,335   | (40,179)        | (49)   | D     |
| Fixed assets under construction           | 4,801   | 9,288  | (4,487)         | (48)   | E     |
| Short term loans                          | 175,370   | 101,297  | 74,073          | 73     | F     |
| Notes payable                             | 13,000  | —  | 13,000          | 100    | G     |
| Advances from customers                   | 16,418  | 23,738   | (7,320)         | (31)   | H     |
| Provisions for loss on guarantees         | 30,994  | —  | 30,994          | 100    | I     |
| Long-term liabilities due within one year | 9,000   | 66,700   | (57,700)        | (87)   | J     |
| Long-term loans                           | 26,550  | 14,150   | 12,400          | 88     | K     |
| Specific accounts payable                 | 14,167  | 10,638   | 3,529           | 33     | L     |
| Minority interest                         | 27,006  | 5,107  | 21,899          | 429    | M     |
| Non operating expenses                    | 31,606  | 839  | 30,767          | 3667   | N     |

- A. Decrease in bank balance and cash by 34% was mainly due to acquisition of investments. Details are disclosed in cash flow statement for the year ended 31st December 2003.
- B. Increase in other receivables by 47% was mainly due to increase in loan to third party.
- C. Increase in prepayments by 1048% was mainly due to prepaid investment.
- D. Decrease in long term equity investments by 49% was mainly due to partial disposal of Shenyang High-voltage and full disposal of Shenyang Furukawa.
- E. Decrease in fixed assets under construction by 48% was mainly due to part of the high voltage transmission project was transferred to fixed assets.



## Supplementary Information *(Continued)*

### 4. ANALYSIS OF AMOUNTS IN THE FINANCIAL STATEMENTS WITH A MATERIAL FLUCTUATION OF 30% OR MORE (DISREGARDING THE EFFECT OF THE DISPOSALS OF SHENYANG HIGH-VOLTAGE) IS AS FOLLOWS: *(Continued)*

- F. Increase in short-term loans by 73% was mainly due to new short term bank loans raised during the year.
- G. Increase in notes payable by RMB13 millions was due to bills issued to vendors.
- H. Decrease in advance from customers by 31% was mainly due to advances stated in certain sales contracts required to be made after year-end.
- I. Increase in provisions for loss on guarantees was due to the fact that the Company is responsible for a bank loan guarantee ruled by the court.
- J. Decrease in long-term liabilities due within one year by 87% was mainly due to repayment made during the year.
- K. Increase in long-term loans by 88% was mainly due to new long term bank loans raised during the year.
- L. Increase in specific accounts payable by 33% was mainly due to receipt of fund set aside for technology development for three projects.
- M. Increase in minority interest by 429% was mainly due to disposal of Shenyang High-voltage, which held 10% of shares of the Company's subsidiary, Kingdom Hotel.
- N. Increase in Non-operating expenses by 3667% was mainly due to the provision for loss on guarantees with the fact that the Company is responsible for a bank loan guarantee ruled by the court.