

SIGNIFICANT EVENTS

1. ASSET DISPOSAL AND ACQUISITION

(1) Investment of US\$6,230,000 in acquisition of 20.8% of equity interests in New Northeast Electric (Shenyang) High-voltage Switchgears Co. Ltd.

New Northeast Electric (Shenyang) High-voltage Switchgears Co. Ltd. is principally engaged in the manufacture and sale of closed composite electrical appliances and High-voltage circuit breaker with voltage of 110KV and above. Its registered address is Hua Hai Road, Economic and Technological Development Zone, Shenyang. Upon approval by the 25th meeting of the third Board held on 3 December 2003, the Company invested US\$6,230,000 in it, representing 20.8% of its registered capital of US\$29,980,000 (please refer to the announcement dated 29 December 2003 for details).

The impact of acquisition and disposal of asset on the Company's operating results and financial status: During the reporting period, the Company generated an investment revenue of RMB5,940,000 in the above mentioned company in accordance with equity ratio.

(2) Investment of US\$4,000,000 in acquisition of 40% of equity interests in New Northeast Electric (Jinzhou) Power Capacitor Co., Ltd.

New Northeast Electric (Jinzhou) Power Capacitor Co., Ltd. ("New Jinzhou Capacitor") is principally engaged in businesses of power capacitors, passive compensators and mutual inductors, with its registered address at Jinzhou Economic and Technological Development Zone. Upon approval by the 26th meeting of the third Board on 15 January 2004, the Company subscribed shares of US\$4,000,000 in New Jinzhou Capacitor for its capital increase, accounting for 40% of its registered capital of US\$10,000,000. The Company directly and indirectly, through its wholly owned subsidiary, Jinzhou Power Capacitor Company Limited, held 52% of equity interests in New Jinzhou Capacitor, which was accordingly became a subsidiary of the Company.

(3) Disposal of 48.95% of equity interests in Shenyang High-voltage Switchgears Company Limited

Upon approval by the 2nd meeting of the fourth Board of Directors held on 15 March 2004, the Company transferred the 48.95% equity interest in Shenyang High-voltage Switchgears Company Limited ("Shenyang High-voltage") to Chengan Corporation at a consideration of RMB24,000,000. The registration for the change in shareholding was completed on 15 March 2004. After completion of the transfer, the Company will cease to hold any shares in Shenyang High-voltage. The disposal of equity interests has generated a transfer income of RMB1,873,499 in the period. The transfer of equity interests has no impact on the continuity of operations and stability of the management of the Company.

2. PERSONNEL CHANGES

Please refer to item 2 "Employment and Dismissal" of the Section headed "Information about Directors, Supervisors and Senior Management" for details.

3. CORPORATE GOVERNANCE STRUCTURE

During the reporting period, the Company has continued to improve its corporate governance structure while establishing a modern business system and regulating its operation in accordance with the relevant laws and regulations for listed companies. The Company has set up an internal supervisory mechanism and optimized its running, and the Board of Directors has formed a strategic development committee, an audit committee, an investment committee, a remuneration committee and a nomination committee. To perfect and improve the independent directors system, the Company has increased the number of independent directors to 5 upon the approval of the extraordinary general meeting held on 8 March 2004, which represent over one-third of the members of the Board of Directors. In addition, the Company has amended the Articles of Association focusing on supplementing the standards and conditions relating to the procedures of approving guarantee to loans, thus achieving an improvement in its corporate governance structure.

4. PROFIT APPROPRIATION PLAN AND ITS IMPLEMENTATION

During the reporting period, the Company recorded net profit of RMB7,298,583, all of which was used for covering loss recorded in the prior year. Therefore, the Company resolved not to make any profit appropriation for the reporting period, nor transfer any reserves to improve the share capital of the Company.

5. MATERIAL LITIGATION OR ARBITRATION

Outcome of the first trial on appeal to the litigation case in relation to the Company's provision of a guarantee for a loan from Shenyang branch of the Bank of China:

Shenyang branch of the Bank of China filed a lawsuit for the Company's joint responsibility in the provision of a guarantee for the loan of RMB20,000,000 and interest thereon to Shenyang Cable Co., Ltd., the subsidiary of Northeast Electrical Transmission and Transformation Equipment Group Corporation Limited. Shenyang Intermediate People's Court made a ruling that the Company has to bear the joint responsibility for the repayment of the principal amount. The Company lodged an appeal to Liaoning Higher People's Court on 4 November 2003. Liaoning Higher People's Court has given a civil verdict letter (2003) Liao Min Er He Zhong Zhi No. 312 on 5 December 2003, which considered that the original ruling misapprehended the facts, and that the evidence was insufficient. The original ruling was repealed and the case has to be heard again. Shenyang Intermediate People's Court made a new ruling on 9 July 2004 that the Company has to make repayment of the principal of a loan amounted to RMB11,030,147.13 with interest and penalty interest thereon to the Shenyang branch of the Bank of China and was discharged of the joint responsibility for the repayment of the principal of a loan amounting to RMB8,969,852.87. The Company considers that the use of the loan as a whole does not comply with the requirement of the contract and the Company should be discharged of the responsibility. Accordingly, the Company continued to lodge an appeal to the Liaoning Higher People's Court on 28 July 2004. Announcements in relation to the outcome of the litigation will be made by the Company in due course.

Please refer to the announcement dated 4 August 2004.

6. RELATIONSHIP AND TRANSACTIONS WITH CONNECTED PARTIES

There were no significant connected transactions during the reporting period (please refer to note 18 to the financial statements).

7. USE OF CAPITAL FOR CONNECTED PARTIES

As of 31 December 2003, the Company has trade relations with the associate Shenyang High-voltage in which the Company has 49% of equity investment. The relevant use of capital amounted to RMB48,020,000. With the Company ceasing to have any equity interests in Shenyang High-voltage since 15 March 2004, Shenyang High-voltage was no longer presented as a connected party.

Shenyang High-voltage used RMB15,720,000 of the total capital of the Company's subsidiaries whereas the Company used RMB19,820,000 of Shenyang High-voltage's purchase fees.

The Company and its subsidiaries have no occurrence of use of capital with the largest shareholder New Northeast Electric Investment Co., Ltd.

8. SIGNIFICANT CONTRACTS AND THEIR EXECUTIONS

(1) The Company did not enter into any material guarantee, trust, contractual or lease arrangement in respect of the assets of other companies nor did other companies enter into any trust, contractual or lease arrangement in respect of the assets of the Company nor have any fund management on trust or trust loan during the reporting period.

(2) Guarantees:

During the reporting period, the total of amount guarantee was RMB228,960,000 (2003:RMB254,270,000), representing 40.6% of the audited net asset of the Company in 2003 (2003:45%).

Among them, the amount of guarantee provided by the Company to its controlling subsidiaries and the mutual guarantee among various subsidiaries in the Group were RMB111,560,000.

8. SIGNIFICANT CONTRACTS AND THEIR EXECUTIONS (CONTINUED)

Of which, the Company has provided external guarantee for RMB104,960,000 (2003:RMB142,710,000), among them:

- (1) The Company's wholly-owned subsidiary Jinzhou Power Capacitor Company Limited provided guarantee for RMB2,000,000 to Jinzhou Wande Automobile Cantilever and RMB30,910,000 to Jinzhou Xinsheng Switch Factory, both are unconnected parties of the Company. As mutual guarantee, these two companies provided guarantee of RMB9,850,000 and RMB27,000,000 respectively to Jinzhou Power Capacitor Company Limited.
 - (2) Jinzhou Power Capacitors Company Limited provided guarantee for RMB42,350,000 to Shenyang High-voltage on a cross guarantee basis. Shenyang High-voltage provided a guarantee amounting to RMB28,560,000 for Jinzhou Power Capacitors Company Limited;
 - (3) The Company provided guarantee for RMB9,700,000 to Shenyang High-voltage;
 - (4) the Company provided guarantee for RMB20,000,000 to a former connected party Shenyang Cable Company Limited.
- (3) Material Contracts:
- (1) Investment in 98.5% of equity interests in Shenyang Tiansheng Communication Equipment Co. Ltd.

As approved at the third meeting of the fourth Board of Directors on 29 March 2004, the Company made an investment to acquire the additional registered capital of Shenyang Tiansheng Communication Equipment Ltd., representing 98.5% of its registered capital, at a consideration in specie of the assets of generating units equipment with an assessed value of RMB130,000,000 (please refer to the announcement dated 6 May 2004).
 - (2) Acquisition of 74.4% equity interests in Shenyang Suntime High-voltage Electric Co. Ltd.

As approved by the fourth meeting of the fourth Board of Directors on 7 April 2004, the Company entered into an Acquisition Agreement for equity interests with Shenyang High-voltage on 7 April 2004, pursuant to which the Company acquired 74.4% of equity interests in Shenyang Suntime High-voltage Electric Ltd. held by Shenyang High-voltage at a consideration of RMB129,540,000, which was fully satisfied by the 98.5% of equity interests in Shenyang Tiansheng Communication Equipment Co. Ltd. held by the Company and to be transferred to Shenyang High-voltage (please refer to the announcement dated 6 May 2004).
 - (3) Acquisition of 95% of the equity interests in Shenyang Suntime Storage and Logistics Company Limited and 95% of the equity interests in Shenyang Chengtai Energy Power Company Limited

As approved by the fifth meeting of the fourth Board of Directors on 14 April 2004, the Company entered into an agreement with Shenyang High-voltage for the acquisition of the investment in equity interests, pursuant to which the Company acquired 95% of the equity interests in Shenyang Suntime Storage and Logistics Company Limited and 95% of equity interests in Shenyang Chengtai Energy Power Company Limited held by Shenyang High-voltage. The consideration of which was to be fully satisfied by the creditor right of RMB76,660,000 owned by the Company in NET (please refer to the announcement dated 13 May 2004).

9. PURCHASE, SALE AND REDEMPTION OF SHARES

During the reporting period, the Company and its subsidiaries did not purchase, sell or redeem any listed shares of the Company.

10. CODE OF BEST PRACTICE

All of directors of the Company confirmed that as of 30 June 2004, the Company has been in compliance with the Code of Best Practice as set out in Appendix 14 of the Listing Rules.

11. SUBSEQUENT EVENTS

Nil