

FINANCIAL REPORT (UNAUDITED)

PREPARED IN ACCORDANCE WITH THE PRC ACCOUNTING RULES AND REGULATIONS

Balance Sheet (Unaudited)

As at 30 June 2004

Assets	Group		Company	
	Closing	Opening	Closing	Opening
	<i>Unit: RMB</i>			
CURRENT ASSETS:				
Cash and bank balances	13,831,245	14,549,095	1,806,335	2,221,682
Short-term investments				
Dividends receivable	1,000,000	1,000,000	1,000,000	1,000,000
Notes receivable				
Accounts receivable	193,554,304	153,518,136	22,933,020	4,882,360
Other receivables	295,685,909	232,194,326	189,654,915	197,646,219
Prepayments	33,193,765	92,129,366	31,038,302	88,674,733
Inventories	52,003,094	71,751,624	447,350	27,878,800
Deferred expenses	2,193,247	1,169,052		
Total current assets	591,461,564	566,311,599	246,879,922	322,303,794
LONG-TERM INVESTMENTS:				
Long-term equity investments	70,139,001	42,156,081	396,131,700	325,447,684
Long-term debt investments				
Total long-term investments	70,139,001	42,156,081	396,131,700	325,447,684
FIXED ASSETS:				
Fixed assets - at cost	568,050,766	566,965,566	4,895,333	3,346,111
Less: Accumulated depreciation	(124,137,169)	(117,351,660)	(1,564,081)	(1,366,146)
Fixed assets - net book value	443,913,597	449,613,906	3,331,252	1,979,965
Less: Provision for diminution in value of fixed assets	(83,851,581)	(83,851,581)		
Fixed assets - net	360,062,016	365,762,325	3,331,252	1,979,965
Construction in progress	7,588,337	4,801,432		
Total fixed assets	367,650,353	370,563,757	3,331,252	1,979,965
INTANGIBLE AND OTHER ASSETS:				
Intangible assets	10,469,654	10,607,208		
Long-term deferred expenses				
Other long-term assets				
Total intangible and other assets	10,469,654	10,607,208		
TOTAL ASSETS	1,039,720,572	989,638,645	646,342,874	649,731,443

Liabilities and Owners' Equity

Unit: RMB

Liabilities and owners' equity	Group		Company	
	closing	opening	closing	opening
CURRENT LIABILITIES:				
Short-term loans	186,960,000	175,370,000		
Bills payable	22,000,000	13,000,000		
Accounts payable	73,776,042	48,645,633	28,116,294	11,086,895
Receipts in advance	10,954,866	16,417,824	687,040	2,598,200
Salaries and wages payable				
Employee benefits payable	67,190	132,449		
Dividends payable				
Taxes payable	6,232,822	7,589,116	395,938	206,206
Other fees payable	2,792,557	2,928,092		
Other payables	40,221,121	50,893,297	11,563,723	37,930,414
Accrued expenses	4,503,697	3,251,030	3,188,697	3,221,030
Provisions	30,993,929	30,993,929	30,993,929	30,993,929
Long-term liabilities due within one year	7,000,000	9,000,000		
Other current liabilities				
Total current liabilities	385,502,224	358,221,370	74,945,621	86,036,674
LONG-TERM LIABILITIES:				
Long-term loans	26,550,000	26,550,000		
Bonds payable				
Long-term accounts payable				
Specific accounts payable	14,166,648	14,166,648		
Other long-term liabilities				
Total long term liabilities	40,716,648	40,716,648		
Total liabilities	426,218,872	398,938,018	74,945,621	86,036,674
MINORITY INTERESTS	42,104,447	27,005,858		
OWNERS' EQUITY:				
Paid-up capital (share capital)	873,370,000	873,370,000	873,370,000	873,370,000
Capital reserves	765,610,896	765,206,995	765,610,896	765,206,995
Surplus reserves	108,587,124	108,587,124	108,587,124	108,587,124
Including: Statutory public welfare fund	32,210,803	32,210,803	32,210,803	32,210,803
Unappropriated profits	(1,176,170,767)	(1,183,469,350)	(1,176,170,767)	(1,183,469,350)
Differences on foreign currency translation				
Total owners' equity	571,397,253	563,694,769	571,397,253	563,694,769
TOTAL LIABILITIES AND OWNERS' EQUITY	1,039,720,572	989,638,645	646,342,874	649,731,443

Profit and Profit Appropriation Statement (Unaudited)

For the period from January to June 2004

Unit: RMB

Items	Group		Company	
	Current year (Accumulated)	Same period last year	Current year (Accumulated)	Same period last year
1. Revenues from principal operations	148,008,208	343,048,056	25,360,171	28,956,410
Less: Costs of principal operations	111,064,263	231,021,755	23,319,060	26,821,838
Taxes and surcharges for principal operations	1,444,698	2,866,296		269,700
2. Gross Profits from principal operations	35,499,247	109,160,005	2,041,111	1,864,872
Add: Other operating profits	13,229	6,892,980		5,394,000
Less: Operating expenses	7,857,007	26,173,871	799,216	1,447,820
General and administrative expenses	18,822,435	60,820,218	3,563,292	5,918,630
Finance costs	6,131,707	23,389,908	(15,858)	191,906
3. Operating profit	2,701,327	5,668,988	(2,305,539)	(299,484)
Add: Investment income	7,874,597	1,947,436	9,605,382	4,455,085
Subsidy income				
Non-operating income	116,919	905,582		
Less: Non-operating expenses	237,014	399,729	1,260	
4. Total profit	10,455,829	8,122,277	7,298,583	4,155,601
Less: Income tax	2,901,721	2,929,111		
Minority interests	255,525	1,037,565		
5. Net profit	7,298,583	4,155,601	7,298,583	4,155,601
Add: Opening undistributed profit	(1,183,469,350)	(1,209,429,407)	(1,183,469,350)	(1,209,429,407)
6. Profits available for distribution	(1,176,170,767)	(1,205,273,806)	(1,176,170,767)	(1,205,273,806)
Less: Transfer to statutory surplus reserve				
7. Profits available for distribution to shareholders	(1,176,170,767)	(1,205,273,806)	(1,176,170,767)	(1,205,273,806)
Less: Transfer to discretionary surplus reserve				
Dividend payable to ordinary shares				
Dividend for ordinary shares converted into capital				
8. Undistributed profits	<u>(1,176,170,767)</u>	<u>(1,205,273,806)</u>	<u>(1,176,170,767)</u>	<u>(1,205,273,806)</u>

Supplementary information

1. Gain on disposal of investments	1,873,499
2. Losses incurred from natural disaster	
3. Increase (decrease) in profit due to changes in accounting policies	
4. Increase (decrease) in profit due to changes in accounting estimates	
5. Losses from debt restructuring	
6. Others	

Cash Flow Statement (Unaudited)

For the period from January to June 2004

Items	Group		Company	
	Current period	Same period last year	Current period	Same period last year
<i>Unit: RMB</i>				
1. Cash flow from operating activities:				
Cash received from sales of goods or rendering of services	163,683,707	255,548,735	9,709,580	18,393,500
Refund of tax				
Other cash received relating to operating activities	1,002,858	12,115,852	7,991,304	2,500,000
Sub-total of cash inflows	164,686,565	267,664,587	17,700,884	20,893,500
Cash paid for goods and services	121,719,048	209,997,331	9,936,806	35,902,500
Cash paid to and on behalf of employees	13,491,243	46,033,352	1,468,496	4,905,968
Tax payments	14,323,930	30,469,653	336,110	2,586,402
Other cash paid relating to operating activities	87,452,280	12,228,521	18,825,597	1,285,322
Sub-total of cash outflows	236,986,501	298,728,857	30,567,009	44,680,192
Net cash flows from operating activities	<u>(72,299,936)</u>	<u>(31,064,270)</u>	<u>(12,866,125)</u>	<u>(23,786,692)</u>
2. Cash flows from investment activities:				
Cash received from disposal of investments				
Cash received from disposal of subsidiary	14,000,000		14,000,000	
Cash received from return on investments				
Net cash receipts from disposal of fixed assets, intangible assets and other long-term assets	120,172	338,207		
Other cash received relating to investment activities				
Sub-total of cash inflows	14,120,172	338,207	14,000,000	
Cash paid to acquire fixed assets, intangible assets and other long-term assets	5,120,359	9,528,557	1,549,222	481,140
Cash payments for investments				
Other cash paid relating to investment activities	832			
Sub-total of cash outflows	5,121,191	9,528,557	1,549,222	481,140
Net cash flows from investment activities	<u>8,998,981</u>	<u>(9,190,350)</u>	<u>12,450,778</u>	<u>(481,140)</u>
3. Cash flows from financing activities:				
Cash received from equity investments	57,094,812		0	
Cash received from borrowings	63,310,000	316,050,000		13,000,000
Other cash receipts relating to financing activities	56,966			
Sub-total of cash inflows	120,461,778	316,050,000	0	13,000,000
Repayments of borrowings	51,720,000	252,850,286	0	
Dividends paid, profit distributed or interest paid	6,158,673	23,278,250		171,925
Other cash payments relating to financing activities				
Sub-total of cash outflows	57,878,673	276,128,536	0	171,925
Net cash flows from financing activities	<u>62,583,105</u>	<u>39,921,464</u>	<u>0</u>	<u>12,828,075</u>
4. Effect of foreign exchange rate changes on cash				
5. Net decrease in cash and cash equivalents	<u>(717,850)</u>	<u>(333,156)</u>	<u>(415,347)</u>	<u>(11,439,757)</u>

Cash Flow Statement (Unaudited) (Continued)

For the period from January to June 2004

Supplementary information	Current period	Same period last year	Unit: RMB	
			Current period	Same period last year
1. Reconciliation of net profit to cash flow from operating activities				
Net profit	7,298,583	4,155,601	7,298,583	4,155,601
Add: Minority interests (losses identified with “()”)	255,525	1,037,565		
Provision for diminution in value of assets	(969,177)	(366,849)		
Depreciation of fixed assets	8,317,492	16,673,366	197,936	85,716
Amortization of intangible assets	137,554	664,286		
Amortization of long-term deferred expenses		140,220		15,000
Decrease in deferred expenses (deduct: increase)	(1,024,197)	(4,015,283)		
Increase in accrued expenses (deduct: decrease)	1,252,667	2,508,727	(32,333)	(366,768)
Losses on disposal of fixed assets, intangible assets and other long-term assets (deduct: gains)	832	21,282		
Losses on retirement of fixed assets				
Financial expenses	6,131,707	23,389,908		191,906
Losses arising from investments (deduct: gains)	(7,874,597)	(1,947,436)	(9,605,382)	(4,455,085)
Decrease in inventories (deduct: increase)	(8,130,269)	(22,763,866)	(447,350)	
Decrease in receivables under operating activities (deduct: increase)	(93,298,643)	(24,606,878)	333,791	(25,074,354)
Increase in payables under operating activities (deduct: decrease)	16,318,015	(32,198,374)	(11,058,720)	1,681,273
Others	(715,428)	6,243,461	447,350	(19,981)
Net cash flows from operating activities	<u>(72,299,936)</u>	<u>(31,064,270)</u>	<u>(12,866,125)</u>	<u>(23,786,692)</u>
2. Net increase in cash and cash equivalents:				
Cash and bank balances at the end of the period	13,831,245	87,972,549	1,806,335	379,542
Less: cash and balance balances at the beginning of the period	<u>14,549,095</u>	<u>88,305,705</u>	<u>2,221,682</u>	<u>11,819,299</u>
Net increase in cash and cash equivalents	<u>(717,850)</u>	<u>(333,156)</u>	<u>(415,347)</u>	<u>(11,439,757)</u>

Company Representative:
Luo Hong

Head of Accounting Department:
Wang Guohua

Person-in-charge of the Accounting Firm:
Suen Zhen

NOTES TO THE FINANCIAL STATEMENTS

For the period from January to June 2004

1. General

Northeast Electric Development Company Limited (formerly known as Northeast Electrical Transmission & Transformation Machinery Manufacturing Company Limited)(the “Company”) is principally engaged in the manufacture of power transmission and transformation machinery and the provision of relevant services and hotel and catering services.

2. Principal Accounting Policies, Accounting Estimates and Basis of Consolidation*Accounting regulations*

The Company adopts the “Accounting Standards for Enterprises”, the “Accounting Systems for Enterprises” and their supplementary regulations.

Accounting year

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

Reporting currency

The Company adopts Renminbi as its reporting currency.

Basis of accounting and principle of valuation

The Company adopts the accrual basis of accounting and uses the historical cost convention as the principle of valuation.

Foreign currencies

Transactions denominated in foreign currencies 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. The closing balance of foreign currency accounts are translated into Renminbi at market rate at the end of the period. Exchange gains or losses incurred on specific borrowings for the acquisition or construction of fixed assets are capitalized as part of the cost of fixed assets; other exchange gains or losses are dealt with as finance costs.

*Basis of Consolidation***(1) Scope of consolidation**

The consolidated financial statements incorporate the financial statements of the Company and all of its subsidiaries made up to 31 December every year. Subsidiaries are enterprises in which the Company directly or indirectly holds more than 50% of the equity capital, or whose operating activities are controlled by the Company through other means.

(2) Accounting for consolidation

The principal accounting policies used by the subsidiaries are consistent with 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 intra-group transactions and balances are eliminated on consolidation.

3. Taxation
Income tax

Income tax is computed at 33% on the income having been adjusted in accordance with the relevant taxation rules and regulations for the year based on the tax payable method.

Value added tax

Value added tax is calculated at 17% on revenue from principal operations and paid after deducting that on purchases.

Sales tax

Sales tax is levied at 5% - 20% on operating income.

City construction tax

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

Educational surcharge

Educational surcharge is levied at 4% of the value added tax and sales tax paid.

4. Scope of Consolidation and Subsidiaries

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

Name of subsidiary	Registered capital	Investment and percentage of equity interests	Scope of business	Whether consolidated during the period	Whether consolidated in 2003
Jinzhou Power Capacitors Ltd.	RMB29,420,000	RMB29,420,000 100%	Manufacture of lightening rods and capacitors	Yes	Yes
Fuxin Closed Busbars Ltd.	RMB18,090,000	RMB18,090,000 100%	Manufacture of closed busbars	Yes	Yes
Shenyang Kingdom Hotel Ltd.	RMB150,000,000	RMB150,000,000 90%	Provision of hotel and catering services	Yes	Yes
Jinzhou Jinrong Electrical Equipment Co., Ltd	RMB3,000,000	RMB2,092,500 69.75%	Manufacture of power capacitors	Yes	Yes
New Northeast (Jinzhou) Power Capacitors Ltd.	USD10,000,000	RMB43,350,000 52%	Power capacitors etc.	Yes	No
Northeast Electric (Hong Kong) Ltd.z	USD900,000	RMB7,460,000 100%	Trading	Yes	No (Note)

Note: The Company invested RMB7,460,000 (USD900,000) in Northeast Electric (Hong Kong) Ltd. in 2003, which represented 9% of the latter's equity interests. Following the clarification of its investment relationship with Northeast Electric (Hong Kong) Ltd. based on the relevant document issued by the State, the Company incorporated a new wholly owned subsidiary in Hong Kong named Northeast Electric (Hong Kong) Ltd. with registered capital of USD900,000 (the original company had been renamed).

5. Cash and Bank Balances

	Closing			Opening		
	Foreign currency	Exchange rate	RMB	Foreign currency	Exchange rate	RMB
Cash						
RMB			163,829			908,645
USD	1,162.34	8.2918	9,638	—	8.2767	—
Bank deposits						
RMB			13,489,236	—	—	12,910,950
USD					8.2767	
HKD	159,848.59	1.0544	168,542	—	1.0657	—
Other cash deposits						
RMB				—	—	729,500
			13,831,245			14,549,095

6. Accounts Receivable

The aging analysis of accounts receivable is as follows:

	Closing				Opening			
	Amount RMB	Percentage (%)	Bad debts provision RMB	Net book value RMB	Amount RMB	Percentage (%)	Bad debts provision RMB	Net book value RMB
Within 1 year	138,377,382	58	(64,800)	138,312,582	110,276,305	56	(64,800)	110,211,505
1 to 2 years	39,231,650	17	(1,130,189)	38,101,461	34,515,591	17	(1,130,189)	33,385,402
2 to 3 years	20,324,762	9	(5,175,414)	15,149,348	11,958,576	6	(5,175,414)	6,783,162
3 to 4 years	10,099,964	4	(8,109,051)	1,990,913	11,653,742	6	(8,515,675)	3,138,067
Over 4 years	29,588,645	12	(29,588,645)	—	29,182,022	15	(29,182,021)	—
Total	237,622,403	100	(44,068,099)	193,554,304	197,586,236	100	(44,068,099)	153,518,136

The total amount of the five largest outstanding accounts receivable is RMB22,970,650, representing 9.67% of the total balance of accounts receivable.

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

7. Other Receivables

The aging analysis of other receivables is as follows:

	Closing				Opening			
	Amount RMB	Percentage (%)	Bad debts provision RMB	Net book value RMB	Amount RMB	Percentage (%)	Bad debts provision RMB	Net book value RMB
Within 1 year	189,473,400	51	(201,824)	189,271,576	112,166,185	36	(201,824)	111,964,361
1 to 2 years	102,208,160	27	(782,508)	101,425,652	111,939,032	6	(782,508)	111,156,524
2 to 3 years	1,576,394	1	(553,261)	1,023,133	4,464,158	1	(451,229)	4,012,929
3 to 4 years	5,080,492	1	(1,906,923)	3,173,569	6,175,457	1	(1,906,923)	4,268,534
Over 4 years	75,891,101	20	(75,099,122)	791,979	75,891,100	26	(75,099,122)	791,978
Total	374,229,547	100	(78,543,638)	295,685,909	310,635,932	100	(78,441,606)	232,194,326

Included in the closing balance of other receivables due within one to two years is a deposit of USD12,000,000 placed with Liaoning Trust and Investment Company.

The total amount of the five largest outstanding other receivables is RMB198,647,648, representing 53.08% of the total balance of other receivables.

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

8. Provision for Bad Debts

	Accounts receivable <i>RMB</i>	Other receivables <i>RMB</i>	Total <i>RMB</i>
Opening balance	44,068,099	78,441,606	122,509,705
Additions for the period		102,032	
Reversals / write-back for the period	—	—	—
Other transfers for the period			
Closing balance	<u>44,068,099</u>	<u>78,543,638</u>	<u>122,611,737</u>

9. Inventories and Provision for Diminution in Value

	Closing			Opening		
	Amount <i>RMB</i>	Provision for decline in value <i>RMB</i>	Net book value <i>RMB</i>	Amount <i>RMB</i>	Provision for decline in value <i>RMB</i>	Net book value <i>RMB</i>
Low value consumables	—		—	508,178		508,178
Raw materials	24,000,460	(2,540,843)	21,459,617	20,236,044	(3,612,053)	16,623,991
Work in progress	8,780,876	(2,113,242)	6,667,634	10,811,639	(2,113,242)	8,698,397
Finished goods	33,930,820	(10,502,327)	23,428,493	28,544,585	(10,502,327)	18,042,258
Inventories of merchandises	447,350		447,350	27,878,800		27,878,800
	<u>67,159,506</u>	<u>(15,156,412)</u>	<u>52,003,094</u>	<u>87,979,246</u>	<u>(16,227,622)</u>	<u>71,751,624</u>

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

	<i>RMB</i>
Opening balance	16,227,622
Provisions for the period	—
Reversals for the period	1,071,210
Other transfers	—
Closing balance	<u>15,156,412</u>

10. Deferred Expenses

Category	Closing <i>RMB</i>	Opening <i>RMB</i>
Heating expenses	467,629	106,513
Insurance	352,617	930,098
Taxes to be deferred		
Sales expenses	1,293,928	
Others	79,073	132,441
Total	<u>2,193,247</u>	<u>1,169,052</u>

11. Long-term Equity Investments

	Closing RMB	Opening RMB
Investments in associates	61,873,545	26,534,646
Other equity investments	10,267,000	17,725,012
Long-term equity investment differences	(1,734,544)	(1,836,576)
Total	70,406,001	42,423,081
Less: Provision for diminution in value of on long-term equity investments	267,000	267,000
Long-term equity investments - Net	<u>70,139,001</u>	<u>42,156,081</u>

(1) Movements of other equity investments:

Name of investees	Initial investment RMB	Change in equity for the year RMB	Accumulated Changes RMB	Share of the registered capital of the investee %	Provision for diminution in value RMB	Addition/ (withdrawal) RMB	Closing book value RMB
Jinzhou City Co-operative Bank	10,000,000	—	—	6.34	—		10,000,000
Northeast Electric (Hong Kong) Ltd.	7,458,012			9%	—	(7,458,012)	—
Others	267,000				(267,000)		—
	<u>17,725,012</u>				<u>(267,000)</u>	<u>(7,458,012)</u>	<u>10,000,000</u>

(2) Details of the movements of investment in associates:

Name of investees	Initial investment RMB	Changes in equity for the year RMB	Share of the registered capital of the investee %	Change in equity interests of the investee company RMB	Accumulated changes RMB	Provision for diminution in value RMB	Closing book value RMB	Principal operations
Shenyang High-voltage Switchgears Ltd.	22,126,501	(22,126,501)	48.98	—	—		—	
Northeast Electrical Hitachi Transmission and Transformation Machinery Co., Ltd.	4,068,353		49.00	(41,397)	298,396		4,366,749	Power transmission and transformation, equipment, High-voltage switchgears and control equipment
New Northeast (Shenyang) High-voltage Switchgears Ltd.		51,566,333	20.8	5,940,463	5,940,463		57,506,796	
Total	<u>26,194,854</u>	<u>29,439,832</u>		<u>5,899,066</u>	<u>6,238,859</u>		<u>61,873,545</u>	

(3) Long-term equity investment differences

Name of investees	Initial investment RMB	Opening balance RMB	Period of amortization	Amortization for the period RMB	Closing balance RMB	Reason
Jinzhou Jinrong Electrical Equipment Co., Ltd.	(2,040,640)	(1,836,576)	10 years	102,032	(1,734,544)	Acquisition of equity interests
Total	<u>(2,040,640)</u>	<u>(1,836,576)</u>	10 years	<u>102,032</u>	<u>(1,734,544)</u>	

12. Fixed Assets, Accumulated Depreciation and Provision for Diminution in Value

	Buildings <i>RMB</i>	Plant and machinery <i>RMB</i>	Transportation equipment and others <i>RMB</i>	Fixed assets improvements <i>RMB</i>	Total <i>RMB</i>
Cost:					
1 January 2004	428,071,391	126,238,871	11,103,111	1,552,193	566,965,566
Additions		1,207,573	1,125,881		2,333,454
Transferred from acquisitions of investees and subsidiaries	10,237,492				10,237,492
Eliminated on disposals of investees and subsidiaries	(11,255,196)				(11,255,196)
Other transfers-out Transferred from construction in progress					
Disposals			(230,550)		
30 June 2004	<u>427,053,687</u>	<u>127,446,444</u>	<u>11,998,442</u>	<u>1,552,193</u>	<u>568,050,766</u>
Accumulated depreciation					
1 January 2004	42,763,591	70,202,767	3,562,652	822,650	117,351,660
Charge for the period	4,275,734	3,587,397	314,142	140,219	8,317,492
Transferred from acquisitions of investees and subsidiaries					
Eliminated on disposals of investees and subsidiaries	(1,421,605)				(1,421,605)
Transfers-out on disposals for the period			(110,378)		(110,378)
Other transfers-out					
30 June 2004	<u>45,617,721</u>	<u>73,790,164</u>	<u>3,766,415</u>	<u>962,870</u>	<u>124,137,169</u>
Provision for diminution in value:					
1 January 2004	80,464,800	3,386,781			83,851,581
Other transfers-out					
Write-off for the period					
30 June 2004	<u>80,464,800</u>	<u>3,386,781</u>			<u>83,851,581</u>
Net book value:					
1 January 2004	<u>304,843,000</u>	<u>52,649,323</u>	<u>7,540,459</u>	<u>729,542</u>	<u>365,762,324</u>
30 June 2004	<u>300,971,166</u>	<u>50,269,499</u>	<u>8,232,027</u>	<u>589,323</u>	<u>360,062,016</u>
Including:					
Pledged assets at period end-net	<u>15,481,841</u>	<u>13,868,207</u>			<u>29,350,048</u>

13. Construction in Progress

Items	Opening RMB	Additions RMB	Completed and transferred to fixed assets RMB	Eliminated during the period RMB	Closing RMB	Source of fund	Percentage of completion %
High-voltage power transmission and transformation project	4,853,522	3,001,568	—	(266,753)	7,588,337	Internal raise and loans	80
Including: interest capitalized	—	—	—	—	—	—	—
Provision for diminution in value	(52,090)	—	—	52,090	—	—	—
	<u>4,801,432</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>7,588,337</u>	<u>—</u>	

14. Accrued Expenses

	Closing RMB	Opening RMB	Reason for closing balance
Interest expenses	30,000	30,000	Incurred but not settled
Service expenses for intermediaries	3,916,065	3,176,065	Incurred but not settled
Others	557,632	44,965	Incurred but not settled
Total	<u>4,503,697</u>	<u>3,251,030</u>	

15. Other Operating Profits

	Accumulated for the period RMB	Same period last year RMB
Sales of materials		
— Revenue	80,708	27,294,535
— Costs	(67,479)	(26,944,137)
	<u>13,229</u>	<u>350,398</u>
Technical services and transportation		
— Revenue		15,748,037
— Costs		(9,205,455)
		<u>6,542,582</u>
Total	<u>13,229</u>	<u>6,892,980</u>

16. Investment Gains

	Accumulated for the period RMB	Same period last year RMB
Gains on long-term investments		
Gains recognized under equity method	5,899,066	1,669,950
Gain on disposal of equity interests in a subsidiary	1,873,499	—
Amortization of long-term equity investment differences	102,032	277,486
Others		
	<u>7,874,597</u>	<u>1,947,436</u>

17. Segment Information

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

18. Related Party Relationships and Transactions

(1) The related party where a controlling relationship exists is as follows:

Name of the related party	Place of registration	Principal business activities	Relationship	Type of enterprise	Legal representative
New Northeast Electric Investment Co., Ltd.	Shenzhen	Trading and equity investments	Sole major shareholder	Limited company	Tian Li

(2) For the related party where a controlling relationship exists, the registered capital of the related party and the change therein are as follows:

Name of the related party	Opening RMB	Addition RMB	Reduction RMB	Closing RMB
New Northeast Electric Investment Co., Ltd.	135,000,000.00	—	—	135,000,000.00

(3) For the related party where a controlling relationship exists, the proportion of equity interests held by the related party and change therein are as follows:

Name of the related party	Opening		Addition		Reduction		Closing	
	RMB	%	RMB	%	RMB	%	RMB	%
New Northeast Electric Investment Co., Ltd.	230,000,000.00	26.34	—	—	—	—	230,000,000.00	26.34

(4) Nature of relationship with the related party where a controlling relationship does not exist:

Name of the related party	Relationship
New Northeast Electric (Shenyang) High-voltage Switchgears Ltd.	Associates

18. Related Party Relationships and Transactions (continued)

- (5) Significant transactions between the Company and the above-mentioned related party during the period:

	Accumulated for the period RMB	Same period last year RMB
Purchases of raw materials and space parts	20,669,230	—
Provision of hotel services	—	78

Transaction prices with related parties are determined on the same basis for those conducted with third parties.

- (6) Amounts due to/from related companies:

Types	Name of the related parties	Closing RMB	Opening RMB
Accounts receivable and other receivables	New Northeast Electric (Shenyang) High-voltage Switchgears Ltd.	15,717,966	8,500,000
Accounts payable and other payables	New Northeast Electric (Shenyang) High-voltage Switchgears Ltd.	19,822,000	200,000

As there existed no shareholding and connected relationships between the Company and Shenyang High-voltage Switchgears Ltd., a former related company of the Company, in the period, the latter is not presented as a related party in the accounts.

19. Contingent Liabilities

As 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 as at 30 June 2004, the Company is 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.
- (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 2 July 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 21 October 2003, the Intermediate People's Court in Shenyang ruled that the Company has to repay the principal of RMB20,000,000 and the interest thereon. On 4 November 2003, the Company lodged an appeal to the Higher People's Court of Shenyang. The appeal was accepted by the Court on 5 December 2003 in regard to the insufficient information and evidence. Shenyang Intermediate People's Court made a new ruling on 9 July 2004 that the Company has to repay the principal of a loan amounting to RMB11,030,147.13 together with the interest and penalty interest thereon to the Shenyang branch of the Bank of China. The Company was discharged of the joint liability for the repayment of the principal of a loan amounting to RMB8,969,852.87. The Company considers that the utilization of the loan as a whole does not comply with the requirements 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. As such, no provision has been made in this regard.

19. Contingent Liabilities (continued)

- (3) The Company's wholly owned subsidiary, Jinzhou Power Capacitors Ltd., has given loan 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 RMB2,000,000 and RMB30,910,000 respectively in the form of cross-guarantee. 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 RMB9,850,000 and RMB27,000,000 respectively.
- (4) The Company's wholly owned subsidiary, Jinzhou Power Capacitors Ltd., has granted a loan guarantee of RMB42,350,000 to Shenyang High-voltage Switchgears Ltd. ("Shenyang Company") which has a more than 70% gearing ratio. The Company has also granted a guarantee on a loan of RMB9,700,000 to Shenyang Company. Such guarantees were made when Shenyang Company was a wholly owned subsidiary of the Company. After losing its controlling shareholding in Shenyang Company, the Company adopted the principle of terminating its liability for guarantees on the due day of respective contracts in handling the guarantees it previously granted. As at the end of the period, the Company had terminated its liability for guarantees in respect of loan contracts amounting to RMB57,750,000. Shenyang Company has granted guarantees on loans amounting to RMB28,560,000 to Jinzhou Power Capacitors Ltd.

20. Approval of the Financial Statements

The financial statements for the period ended 30 June 2004 were approved and authorized for issue by the Board of Directors on 13 August 2004.

21. Supplementary Information

- (1) Differences between accounting principles generally accepted in Hong Kong and PRC accounting regulations

	Net profit as at 30th June 2004 RMB	Net asset as at 30th June 2004 RMB
Amount per financial statements prepared in accordance with PRC accounting standards	7,298,583	571,397,253
Adjustments under Hong Kong accounting principles:		
Negative goodwill from investments		(403,901)
Welfare fund payable	(65,259)	67,190
Amount per financial statements prepared in accordance with Hong Kong accounting principles	<u>7,233,324</u>	<u>571,060,542</u>

21. Supplementary Information (continued)

(2) Details of provision for diminution in value of assets

Unit: RMB

Items	Opening balance	Provision for the period	Transfer for the period	Other transfer-out for the period	Closing balance
1. Provision for bad debts	122,509,705	102,032			122,611,737
Including: Accounts receivable	44,068,099				44,068,099
Other receivables	78,441,606	102,032			78,543,638
2. Impairment loss on short-term investments					
Including: Investment in securities					
Investment in debentures					
3. Provision for decline in value	16,227,622		1,071,210		15,156,412
Including: Finished goods	10,502,327				10,502,327
Raw materials	3,612,053		1,071,210		2,540,843
Work in progress	2,113,242				2,113,242
4. Impairment loss on long-term equity investments	267,000				267,000
Including: Long-term equity investment	267,000				267,000
Long-term debenture investment					
5. Impairment loss on fixed assets	83,851,581				83,851,581
Including: Buildings	80,464,800				80,464,800
Plant, machinery and equipmen	3,386,781				3,386,781
Motor vehicles and others					
6. Impairment loss on intangibles assets					
Including: Franchise					
Trademark					
7. Impairment loss on construction in progress	52,090			52,090	—
8. Impairment loss on trust loans					

FINANCIAL STATEMENTS PREPARED UNDER ACCOUNTING PRINCIPLES GENERALLY ACCEPTED
IN HONG KONG (UNAUDITED)

Condensed Consolidated Income Statement

For the six months ended 30th June 2004

	NOTES	Six months ended 30th June	
		2004 RMB'000 (unaudited)	2003 RMB'000 (unaudited)
Turnover	3	146,563	340,182
Cost of sales		(111,064)	(231,022)
Gross profit		35,499	109,160
Other operating income		188	7,945
Distribution costs		(7,857)	(26,174)
Administrative expenses		(18,787)	(60,961)
Other operating expenses		(237)	(400)
Profit from operations	4	8,806	29,570
Interest on bank borrowings		(6,189)	(23,567)
Share of results of associates		7,773	1,670
Profit before taxation		10,390	7,673
Taxation	5	(2,901)	(2,929)
Profit after taxation		7,489	4,744
Minority interests		(256)	(1,038)
Net profit attributable to shareholders		<u>7,233</u>	<u>3,706</u>
Earnings per share - basic	7	<u>0.83 cents</u>	<u>0.42 cents</u>

Condensed Consolidated Balance Sheet

As at 30th June 2004

		30th June 2004	31st December 2003
		<i>RMB'000</i>	<i>RMB'000</i>
	<i>Note</i>	<i>(unaudited)</i>	<i>(audited)</i>
Non-current assets			
Property, plant and equipment		360,062	365,762
Construction in progress		7,588	4,801
Intangible assets		10,154	10,266
Interests in associates		55,635	26,534
Investments in securities		10,000	17,458
Negative goodwill		(2,139)	(1,837)
Non-current prepayments	8	27,879	84,675
		<u>469,179</u>	<u>507,659</u>
Current assets			
Inventories		52,003	71,752
Trade debtors	9	193,554	153,518
Other debtors, deposits and prepayments		170,328	60,411
Amounts due from shareholders and related companies		—	—
Amounts due from associates			48,017
Amount due from a related company		15,718	8,500
Loan to a third party		26,000	26,000
Amount due from a non-bank financial institution	10	99,233	99,233
Tax recoverable			89
Bank balances and cash		13,831	14,549
		<u>570,667</u>	<u>482,069</u>
Current liabilities			
Trade creditors	11	95,776	61,646
Other creditors, advances from customers and accruals		96,229	112,163
Tax payable		—	—
Bank borrowings – due within one year		193,960	184,370
		<u>385,965</u>	<u>358,179</u>
Net current assets (liabilities)		<u>184,702</u>	<u>123,890</u>
Total assets less current liabilities		<u><u>653,881</u></u>	<u><u>631,549</u></u>

Condensed Consolidated Balance Sheet (continued)

As at 30th June 2004

	<i>Note</i>	30th June 2004 <i>RMB'000</i> <i>(unaudited)</i>	31st December 2003 <i>RMB'000</i> <i>(audited)</i>
Capital and reserves			
Share capital	12	873,370	873,370
Reserves		<u>(302,310)</u>	<u>(309,543)</u>
		<u>571,060</u>	<u>563,827</u>
Minority interests			
		<u>42,104</u>	<u>27,005</u>
Non-current liabilities			
Bank borrowings - due after one year		26,550	26,550
Government grant		<u>14,167</u>	<u>14,167</u>
		<u>40,717</u>	<u>40,717</u>
		<u><u>653,881</u></u>	<u><u>631,549</u></u>

The condensed financial statements were approved by the board of directors on 13th August 2004 and are signed on its behalf by:

Luo Hong
Director

Zhang Bin
Director

Condensed Consolidated Statement of Changes in Equity

	Share capital <i>RMB'000</i>	Capital reserve <i>RMB'000</i>	Statutory common reserve <i>RMB'000</i>	Statutory public welfare fund <i>RMB'000</i>	Discretionary common reserve <i>RMB'000</i>	Accumulated losses <i>RMB'000</i>	Total <i>RMB'000</i>
At 1st January 2003	873,370	603,394	48,091	32,212	32,424	(1,053,463)	536,028
Profit for the period	—	—	—	—	—	3,706	3,706
At 30th June 2003	873,370	603,394	48,091	32,212	32,424	(1,049,757)	539,734
Profit for the period	—	—	—	—	—	24,093	24,093
At 1st January 2004	873,370	603,394	48,091	32,212	32,424	(1,025,664)	563,827
Profit for the period	—	—	—	—	—	7,233	7,233
At 30th June 2004	873,370	603,394	48,091	32,212	32,424	(1,018,429)	571,060

Condensed Consolidated Cash Flow Statement

For the six months ended 30th June 2004

	Six months ended 30th June	
	2004	2003
	<i>RMB'000</i>	<i>RMB'000</i>
Net cash (outflow) inflow from operating activities	(72,300)	(31,064)
Net cash inflow (outflow) from investment activities	8,999	(9,190)
Net cash (outflow) inflow from financing activities	62,583	39,921
(Decrease) increase in cash and cash equivalents	(718)	(333)
Cash and cash equivalents at 1st January, 2004	14,549	88,306
Cash and cash equivalents at 30th June, 2004 represented by Bank balances and cash	<u>13,831</u>	<u>87,973</u>

NOTES TO CONDENSED FINANCIAL STATEMENTS

For the six months ended 30th June 2004

1 Basis of preparation

The condensed financial statements are prepared in accordance with the disclosure requirements respectively set out in Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (“Listing Rules”) and No. 25 “Interim Financial Report” of Statements of Standard Accounting Practice (SSAP 25).

2 Significant accounting policies

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

The accounting policies adopted for the six months ended 30th June, 2004 are consistent with those followed by the Group in the financial statements for the year ended 31st December 2003.

3 Segment information about turnover

The Group’s turnover and gross profit from operations for the six months ended 30th June, 2003 and 2004, analysed by business segments and by geographical segments, are as follows:

Business segments

For the six months ended 30th June, 2004	Continuing operations		Consolidated RMB'000
	Manufacture of busbar and capacitor RMB'000	Provision of hotel, catering and entertainment services RMB'000	
Turnover	132,922	13,641	146,563
Segment results	12,529	(3,723)	8,806
Profit from operations			8,807
Interests on bank borrowings			(6,189)
Share of results of associates			7,773
Profit before taxation			10,390
Taxation			(2,901)
Profit after taxation and before minority interests			7,489

3 Segment information about turnover (continued)

For the six months ended 30th June, 2003	Continuing operations		Discontinuing operations	
	Manufacture of busbar and capacitor <i>RMB'000</i>	Provision of hotel, catering and entertainment services <i>RMB'000</i>	Manufacture of switchgear equipment <i>RMB'000</i>	Consolidated <i>RMB'000</i>
Turnover	84,241	13,278	242,663	340,182
Segment results	29,869	(4,910)	4,611	29,570
Profit from operations				29,570
Interests on bank borrowings				(23,567)
Share of results of associates				1,670
Profit before taxation				7,673
Taxation				(2,929)
Loss after taxation and before minority interests				4,744

Since the Group had disposed of part of its equity interest in Shenyang High-voltage Switchgear Limited in 2003, the Group no longer had controlling right thereon. As such, the financial data in respect of the said company for the six months ended 30th June, 2004 was stated under the item of discontinuing operations.

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

4 Profit from operations

	The Group	
	2004 <i>RMB'000</i>	2003 <i>RMB'000</i>
Profit from operations has been arrived at after charging:		
Depreciation and amortisation	2,338	16,813
and after crediting:		
Gain on disposal of property, plant and equipment	—	40
Interest income from bank deposit	57	317

5 Taxation

The Company and its subsidiaries are subject to income tax at the statutory rate of 33%.

The Company had not taxable profit for the period (2003: Nil). The taxation charge for the period mainly represents provision for income tax calculated at 33% of the assessable income of certain PRC subsidiaries. The associates were still in their tax exemption period and therefore had no taxable profit.

No Hong Kong Profits Tax has been provided as the Company and its subsidiaries had no assessable profit in Hong Kong (2003: Nil).

As at 30th June, 2004, the Company and the Group had no significant deferred tax (2003: Nil).

6 Interim dividend

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

7 Earnings per share

The calculation of earnings per share is based on the net profit attributable to shareholders of RMB7,233,000 (2003: RMB3,706,000) and the total number of shares of 873,370,000 (2003: 873,370,000 shares) in issue as at the end of the period.

8 Non-current payments

The tangible assets with carrying amount of RMB27,879,000 were invested in Shenyang Tiansheng Communication Equipment Limited. The approval of these investments from the relevant authorities is not completed and therefore the amounts were classified as non-current assets.

9 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 ageing analysis of trade debtors:

	The Group	
	30th June 2004 <i>RMB'000</i>	31st December 2003 <i>RMB'000</i>
Third parties:		
Within 1 year	138,377	110,276
1 to 2 years	39,232	34,516
2 to 3 years	20,324	11,959
Over 3 years	39,689	40,836
	237,622	197,587
Allowance for bad debts	44,068	44,068
	193,554	153,518

10 Amount due from a non-bank financial institution

The amount was originally a long-term deposit of US\$20,000,000 (equivalent to RMB165,532,000), placed with Liaoning Trust as a condition for Liaoning Trust granting a guarantee for the syndicated bank loan 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 and Financial Institution Business Licence. 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 its deposits of US\$20,000,000 previously placed with Liaoning Trust with the relevant proof of debt. The Company received the repayment of US\$8,000,000 from Liaoning Trust in 2002. Up to the date of this report, the liquidation is still in progress.

11 Trade Creditors

The following is an ageing analysis of trade creditors

	The Group	
	30th June 2004 <i>RMB'000</i>	31st December 2003 <i>RMB'000</i>
Third Parties		
Within 1 year	82,456	48,518
1 to 2 years	7,658	7,434
2 to 3 years	2,239	2,318
Over 3 years	3,423	3,376
	95,776	61,646

12 Share capital

	30th June 2004 and 31st December 2003 <i>RMB'000</i>
Registered, issued and fully paid-up capital:	
615,420,000 ordinary "Domestic" shares of RMB1 each, including:	
— Non-listed	471,820
— Listed "A" shares	143,600
	<u>615,420</u>
257,950,000 ordinary "H" shares of RMB1 each	257,950
	<u>873,370</u>

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

13 Contingent liabilities

	30th June 2004 <i>RMB'000</i>	31st December 2003 <i>RMB'000</i>
Guarantees given to banks, in respect of banking facilities utilised by other entities:		
Shenyang Cable Company Limited (Note)	20,000	20,000
Associates		109,800
Other connected parties	84,960	12,910
	<u>104,960</u>	<u>142,710</u>

Note:

In April 1999, Shenyang Cable Company Limited ("Shenyang Cable"), 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 Shenyang Cable for repayment of the loan but it was overruled by the Intermediate Peoples Court in Shenyang Liaoning Province because Shenyang Cable had already declared a bankruptcy progress in August 2000. On 21th October 2003, the Intermediate People's Court of Shenyang ruled that the Company repay the loan principal of RMB20,000,000 and the related interests to Shenyang branch of the Bank of China. The Company lodged an appeal to the Liaoning Higher People's Court on 4th November 2003. On 5th December 2003, the Liaoning Higher People's Court withdrew the first judgment due to unclear facts and insufficient evidence and requested Shenyang Intermediate People's Court to re-open the case. The Company's lawyer was of the opinion that the possibility was minimal for the Company to compensate Shenyang branch of the Bank of China. On 9th July 2003, Shenyang Intermediate People's Court awarded a new ruling that the Company be jointly liable for repayment of the principal amount of RMB11,030,147.13 together with the related interests and punishing interests for the loan granted by Shenyang branch of the Bank of China to Shenyang Cable, and be exempt from the joint liabilities for repayment of the principal amount of RMB8,969,852.87. However, the Company considered that it could also be exempt from the liabilities for the remaining amount. Accordingly, the Company lodged a further appeal to the Liaoning Higher People's Court on 28th July. The case is still proceeding. The Company did not make any provision for the relevant liabilities.

14 Post balance sheet event

There exists no post balance sheet event for the Group.

15 Connected transactions

1 During the period, the Group had the following transactions with connected parties:

	30th June 2004 <i>RMB'000</i>
Purchase of raw materials and spare parts from connected parties associates	<u>20,669</u>

The above transactions had been entered into by the parties on normal commercial terms.

2. Amounts due to and from associates

Items	At 30th June 2004 <i>RMB'000</i>
Other receivables	<u>15,718</u>
Trade creditors and Other payables	<u>19,822</u>

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.

	Net assets <i>RMB'000</i>	Net profit <i>RMB'000</i>
Under accounting principles generally accepted in Hong Kong	571,060	7,233
Negative goodwill from investment	404	—
Welfare expenses payable	<u>(67)</u>	<u>65</u>
Under the PRC Accounting Regulations	<u>571,397</u>	<u>7,298</u>