



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 41 to 81 which have been prepared in accordance with accounting principles generally accepted in Hong Kong, other than as set out below.

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 Institute of Certified Public 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.

FUNDAMENTAL UNCERTAINTY RELATING TO LITIGATION

In forming our opinion, we have considered the adequacy of the disclosure made in note 2 to the financial statements regarding the litigation against the Group by China Development Bank (the "Bank").

In May 2004, a lawsuit was brought by the Bank against the Company and certain of its subsidiaries and its associate, (the "Named Companies"), requesting 1) the Company and the Named Companies to bear joint and several liabilities in relation to the repayment of the principal of the loan of RMB150,000,000 granted in August 1998 by the Bank to Shenyang High-voltage Switchgears Limited ("Shenyang High-voltage"), a former associate of the Company and the interest accrued thereon, which was now in default and 2) to void the sales and purchase agreements over equity interests in the Named Companies entered into between the Company and Shenyang High-voltage.

REPORT OF THE AUDITORS (*Continued*)

Pursuant to the civil written order (民事裁定書) [2004 高民初字第802號] issued by the Beijing Higher People's Court (the "Higher Court") of the People's Republic of China ("PRC") on 18th March, 2005, the Higher Court ruled that there is no legal relationship of the cases brought by the Bank against the Company, the Named Companies and Shenyang High-voltage. The Higher Court is of the opinion that the claim against the Company and the Named Companies concerning sale and purchase of equity interests in the Named Companies shall not be tried combined with the claims against Shenyang High-voltage and accordingly rejected the request by the Bank against the Company and the Named Companies.

However, on 22nd March, 2005, the Bank filed an appeal to the Beijing Supreme People's Court (the "Supreme Court"). Although the Company has taken legal advice which expects that the Supreme Court will take the same view as the Higher Court, the final outcome cannot be determined with certainty at this time. The financial statements do not include any adjustments that might be necessary if the Bank's appeal was to be upheld by the Supreme Court. We consider that the fundamental uncertainty has been adequately disclosed in the financial statements and our opinion is not qualified in this respect.

QUALIFIED OPINION ARISING FROM DISAGREEMENT ABOUT ACCOUNTING TREATMENT

The Group's former associate, Shenyang High-voltage was disposed of on 24th March, 2004. The share of results of Shenyang High-voltage from the period from 1st January, 2004 to the date of disposal has not been included in the consolidated income statement and as disclosed in note 18(b), the gain on disposal of Shenyang High-voltage of RMB1,873,000 has been treated as capital contribution and calculated based on the sales proceeds less the net asset value of Shenyang High-voltage as at 31st December, 2003. This is not in accordance with Statement of Standard Accounting Practice No. 10 "Accounting for investments in associates" issued by the Hong Kong Institute of Certified Public Accountants which requires that the share of results of associates should be recognised up to the date of disposal. In the absence of any financial information relating to Shenyang High-voltage for the period from 1st January to the date of disposal, we are unable to quantify the amount to be included in the income statement as the share of results of associates and the amount to be included in the reserve as capital contribution arising from gain on disposal of an associate.

Except for effects of accounting for Shenyang High-voltage as described above, 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, 2004 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.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
18th April, 2005

CONSOLIDATED INCOME STATEMENT

For the Year ended 31st December 2004 (Prepared in accordance with Accounting Principles Generally Accepted in Hong Kong)

	<i>NOTES</i>	2004 <i>RMB'000</i>	2003 <i>RMB'000</i>
Turnover	6	342,338	622,618
Cost of sales		(249,616)	(426,043)
		<hr/>	<hr/>
Gross profit		92,722	196,575
Other operating income	8	6,714	7,155
Distribution costs		(22,313)	(45,198)
Administrative expenses		(51,094)	(109,944)
Other operating expenses		(398)	(543)
		<hr/>	<hr/>
Profit from operations	9	25,631	48,045
Interest on bank borrowings wholly repayable within five years		(12,864)	(38,651)
Share of results of associates		15,649	8,359
Gain on disposal of subsidiaries	36	—	13,413
Gain on disposal of an associate	18(c)	—	36,284
Gain on deemed disposal of partial interest in subsidiaries	35	17,313	—
Provision for loss on guarantees	30	(15,292)	(30,994)
		<hr/>	<hr/>
Profit before taxation		30,437	36,456
Taxation	11	(8,176)	(5,179)
		<hr/>	<hr/>
Profit before minority interests		22,261	31,277
Minority interests		(1,327)	(3,478)
		<hr/>	<hr/>
Net profit for the year		20,934	27,799
		<hr/> <hr/>	<hr/> <hr/>
		RMB	<i>RMB</i>
Earnings per share - basic	13	0.024	0.032
		<hr/> <hr/>	<hr/> <hr/>

CONSOLIDATED BALANCE SHEET

AT 31st December 2004 (Prepared in accordance with Accounting Principles Generally Accepted in Hong Kong)

	NOTES	2004 RMB'000	2003 RMB'000
Non-current assets			
Property, plant and equipment	14	503,288	393,641
Construction in progress	15	3,925	4,801
Intangible assets	16	53,213	10,266
Interests in associates	18	71,622	26,534
Investments in securities	19	11,010	17,458
Negative goodwill	20	(1,633)	(1,837)
Non-current prepayments	21	—	84,675
Amount due from a non-bank financial institution	27	99,233	—
		<u>740,658</u>	<u>535,538</u>
Current assets			
Inventories	22	61,236	43,873
Trade debtors	23	204,914	153,518
Other debtors, deposits and prepayments		110,934	60,411
Amounts due from a former shareholder and former related companies	24	—	—
Amount due from an associate	25	72,644	48,017
Amount due from a former associate	25	99,545	—
Amount due from a related company	25	689	8,500
Loan to a third party	26	—	26,000
Amount due from a non-bank financial institution	27	—	99,233
Tax recoverable		—	89
Bank balances and cash		61,683	14,549
		<u>611,645</u>	<u>454,190</u>
Current liabilities			
Trade creditors	28	84,813	54,907
Other creditors, advances from customers and accruals		95,170	81,169
Amount due to an associate	25	15,852	6,739
Bank borrowings - due within one year	29	213,084	184,370
Provisions for loss on guarantees	30	46,286	30,994
Tax payable		3,943	—
		<u>459,148</u>	<u>358,179</u>
Net current assets		<u>152,497</u>	<u>96,011</u>
Total assets less current liabilities		<u>893,155</u>	<u>631,549</u>

CONSOLIDATED BALANCE SHEET (Continued)

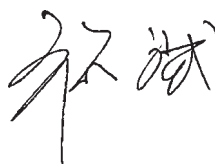
AT 31st December 2004 (Prepared in accordance with Accounting Principles Generally Accepted in Hong Kong)

	NOTES	2004 <i>RMB'000</i>	2003 <i>RMB'000</i>
Capital and reserves			
Share capital	31	873,370	873,370
Reserves		(102,190)	(309,543)
		<u>771,180</u>	<u>563,827</u>
Minority interests			
		<u>105,808</u>	<u>27,005</u>
Non-current liabilities			
Bank borrowings - due after one year	29	—	26,550
Government grant	33	16,167	14,167
		<u>16,167</u>	<u>40,717</u>
		<u>893,155</u>	<u>631,549</u>

The financial statements on pages 41 to 81 were approved and authorised for issue by the board of directors on 18th April, 2005 and are signed on its behalf by:



DIRECTOR



DIRECTOR

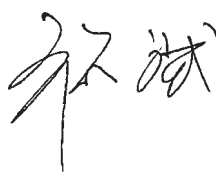
BALANCE SHEET

AT 31st December 2004 (Prepared in accordance with Accounting Principles Generally Accepted in Hong Kong)

	NOTES	2004 RMB'000	2003 RMB'000
Non-current assets			
Property, plant and equipment	14	4,111	29,859
Investments in subsidiaries	17	325,080	249,434
Investments in associates	18	4,068	14,519
Investments in securities	19	11,010	17,458
Non-current prepayments	21	—	84,675
Amount due from a non-bank financial institution	27	99,233	—
		443,502	395,945
Current assets			
Inventories	22	3,502	—
Trade debtors	23	18,969	4,882
Other debtors, deposits and prepayments		2,493	32,965
Amount due from a former associate / an associate	25	2,207	31,528
Amount due from a related company	25	—	8,500
Amounts due from subsidiaries	17	150,501	4,421
Loan to a third party	26	—	26,000
Amount due from a non-bank financial institution	27	—	99,233
Bank balances and cash		2,752	2,222
		180,424	209,751
Current liabilities			
Other creditors, advances from customers and accruals		47,599	55,043
Amount due to an associate	25	12,616	—
Provisions for loss on guarantees	30	46,286	30,994
		106,501	86,037
Net current assets		73,923	123,714
Total assets less current liabilities		517,425	519,659
Capital and reserves			
Share capital	31	873,370	873,370
Reserves	32	(355,945)	(353,711)
		517,425	519,659



DIRECTOR



DIRECTOR

STATEMENT OF CHANGES EQUITY

For the Year ended 31st December 2004 (Prepared in accordance with Accounting Principles Generally Accepted in Hong Kong)

THE GROUP

	Share capital	Capital reserve	Statutory common reserve	Statutory public welfare fund	Discretionary common reserve	Capital contribution	Accumulated losses	Total
	RMB'000	RMB'000 (note 32)	RMB'000 (note 32)	RMB'000 (note 32)	RMB'000 (note 32)	RMB'000 (note 32)	RMB'000 (note 32)	RMB'000
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 and at 1st January, 2004	873,370	603,394	48,091	32,212	32,424	—	(1,025,664)	563,827
Profit for the year	—	—	—	—	—	—	20,934	20,934
Capital contribution arising from acquisition of subsidiaries (note 35)	—	—	—	—	—	184,546	—	184,546
Capital contribution arising from disposal of an associate (note 18(b))	—	—	—	—	—	1,873	—	1,873
At 31st December, 2004	873,370	603,394	48,091	32,212	32,424	186,419	(1,004,730)	771,180

Included in the accumulated losses of the Group is an amount of accumulated profit of RMB21,929,000 (2003: accumulated losses of RMB6,282,000) attributable to associates.

CONSOLIDATED CASH FLOW STATEMENT

For the Year ended 31st December 2004 (Prepared in accordance with Accounting Principles Generally Accepted in Hong Kong)

	2004 RMB'000	2003 RMB'000
OPERATING ACTIVITIES		
Profit from operations	25,631	48,045
Adjustments for:		
Interest income	(3,100)	(788)
Dividend income	(1,010)	(1,000)
Depreciation of property, plant and equipment	18,258	33,504
Reversal of allowance for inventories	(3,350)	—
Gain on disposal of property, plant and equipment	(190)	(966)
Amortisation of intangible assets	1,529	1,113
Negative goodwill released to income	(204)	(706)
Allowance for bad and doubtful debts	183	12,197
	<hr/>	<hr/>
Operating cash flows before movements in working capital	37,747	91,399
Decrease in inventories	1,350	29,879
Increase in trade debtors	(21,485)	(90,787)
Decrease in other debtors, deposits and prepayments	65,815	23,833
Increase in trade creditors	8,721	5,912
Decrease in other creditors, advances from customers and accruals	(65,854)	(39,762)
	<hr/>	<hr/>
Cash generated from operations	26,294	20,474
Interest paid	(12,864)	(38,651)
Income tax paid	(8,804)	(4,545)
	<hr/>	<hr/>
NET CASH FROM (USED IN) OPERATING ACTIVITIES	4,626	(22,722)

CONSOLIDATED CASH FLOW STATEMENT *(Continued)*

For the Year ended 31st December 2004 (Prepared in accordance with Accounting Principles Generally Accepted in Hong Kong)

	<i>NOTES</i>	2004 <i>RMB'000</i>	2003 <i>RMB'000</i>
INVESTING ACTIVITIES			
Decrease (increase) in non-current prepayments		33,109	(84,675)
Repayment from (advance to) a third party		26,000	(26,000)
Proceeds on disposal of associates		24,000	106,576
Proceeds on disposal of investments in securities		7,458	—
Interest received		3,100	788
Proceeds on disposal of property, plant and equipment		2,228	2,113
Subsidies granted by the government		2,000	3,529
Acquisitions of subsidiaries	35	1,240	—
Advance to a former associate		(51,528)	(48,017)
Advance to an associate/a related company		(48,292)	(8,500)
Purchase of property, plant and equipment		(7,753)	(4,863)
Addition of construction in progress		(3,457)	(10,802)
Advance to a former related company		(689)	—
Disposals of subsidiaries	36	—	(43,476)
Purchase of investments in securities		—	(7,458)
Dividend income received from an associate		—	4,462
		<hr/>	<hr/>
NET CASH USED IN INVESTING ACTIVITIES		(12,584)	(116,323)
FINANCING ACTIVITIES			
New bank borrowings raised		175,160	464,260
Contribution from minority shareholders		55,378	—
Repayments of bank borrowings		(172,996)	(395,175)
Dividend paid to minority shareholders		(2,450)	(3,797)
		<hr/>	<hr/>
NET CASH FROM FINANCING ACTIVITIES		55,092	65,288
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		47,134	(73,757)
CASH AND CASH EQUIVALENTS AT 1 JANUARY		14,549	88,306
		<hr/>	<hr/>
CASH AND CASH EQUIVALENTS AT 31 DECEMBER, representing bank balances and cash		61,683	14,549
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year ended 31st December 2004 (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 17.

2. LITIGATION RELATING TO CHINA DEVELOPMENT BANK

In May 2004, a lawsuit was brought by China Development Bank (the "Bank") against the Company and certain of its subsidiaries, Shenyang Chengtai Energy Power Company Limited ("Chengtai Energy"), Shenyang Suntime High-voltage Electric Company Limited ("Suntime High-voltage") and Shenyang Suntime Storage and Logistics Company Limited ("Suntime Storage"), and the Company's associate, New Northeast Electric (Shenyang) High-voltage Switchgear Company Limited ("New High-voltage" and collectively known as the "Named Companies"), requesting: 1) the Company and the Named Companies to bear joint and several liabilities in relation to the repayment of the principal of the loan of RMB150,000,000 granted in August 1998 by the Bank to Shenyang High-voltage Switchgears Limited ("Shenyang High-voltage"), a former associate of the Company and the interest accrued thereon, which was now in default and 2) to void the sale and purchase agreements over equity interests in the Named Companies entered into between the Company and Shenyang High-voltage.

Pursuant to the civil written order (民事裁定書)[2004 高民初字第802號] issued by the Beijing Higher People's Court (the "Higher Court") of the PRC on 18th March, 2005, the Higher Court ruled that there is no legal relationship of the cases brought by the Bank against the Company, the Named Companies and Shenyang High-voltage. The Higher Court is of the opinion that the claim against the Company and the Named Companies concerning sale and purchase of equity interests in the Named Companies shall not be tried combined with the claims against Shenyang High-voltage and accordingly rejected the request by the Bank against the Company and the Named Companies.

However, on 22nd March, 2005, the Bank filed an appeal to the Beijing Supreme People's Court (the "Supreme Court"). Although the Company has taken legal advice which indicates that the Beijing Supreme Republic's Court will take the same view as the Higher Court, the final outcome cannot be determined with certainty at this time. The financial statements do not include any adjustments that might be necessary if the Bank's appeal was to be upheld by the Supreme Court.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the Year ended 31st December 2004 (Prepared in accordance with Accounting Principles Generally Accepted in Hong Kong)

3. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

As disclosed in note 18(b) and 35, in current year, as part of a restructuring carried out by the Group, the remaining 48.95% equity interest in Shenyang High-voltage held by the Group was transferred to Shenyang Chengan Electric Equipment Group Co. Limited (“Chengan Electric”), a non wholly-owned subsidiary of Shenzhen Suntime Electric Power Investment Company Limited (“Suntime Electric”) as at the date of the transaction (the “Disposal”) and, the underlying 74.4% equity interests in Suntime High-voltage, 95% equity interests in Chengtai Energy and 95% equity interest Suntime Storage held by Shenyang High-voltage were transferred back to the Group. Because the Company, Chengan Electric, Shenyang High-voltage, Suntime High-voltage, Chengtai Energy and Suntime Storage were under the common control of Suntime Electric, the transactions has been recorded at the respective carrying amounts of the net assets acquired and disposed of. The excess of the carrying amounts of the net assets acquired net of minority interests over the carrying amounts of the net assets disposed of through the Disposal, amounting to approximately RMB186,419,000 is treated as equity contributions from Suntime Electric and is recognised directly in equity under the heading of “Capital Contribution”.

4. POTENTIAL IMPACT ARISING FROM THE RECENTLY ISSUED ACCOUNTING STANDARDS

In 2004, the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) issued a number of new or revised Hong Kong Accounting Standards (“HKASs”) and Hong Kong Financial Reporting Standards (“HKFRSs”) (herein collectively referred to as “New HKFRSs”) which are effective for accounting periods beginning on or after 1st January, 2005. The Group has not early adopted these New HKFRSs in the financial statements for the year ended 31st December, 2004.

The Company has commenced considering the potential impact of these New HKFRSs but is not yet in a position to determine whether these New HKFRSs would have a significant impact on how its results of operations and financial position are prepared and presented. These New HKFRSs may result in changes in the future as to how the results and financial position are prepared and presented.

5. 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 2004 (Prepared in accordance with Accounting Principles Generally Accepted in Hong Kong)

5. 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 plus the goodwill/less the negative goodwill arose on acquisition so far as it has not already been written off/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 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.

Service and guarantee income is recognised when services / guarantee are provided.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the Year ended 31st December 2004 (Prepared in accordance with Accounting Principles Generally Accepted in Hong Kong)

5. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the Year ended 31st December 2004 (Prepared in accordance with Accounting Principles Generally Accepted in Hong Kong)

5. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the Year ended 31st December 2004 (Prepared in accordance with Accounting Principles Generally Accepted in Hong Kong)

5. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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 2004 (Prepared in accordance with Accounting Principles Generally Accepted in Hong Kong)

6. TURNOVER

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

	THE GROUP	
	2004	2003
	RMB'000	RMB'000
Sales of goods		
- continuing	298,936	211,539
- discontinued	<u>—</u>	<u>381,781</u>
	298,936	593,320
Revenue from provision of hotel, catering and entertainment services	29,018	29,298
Revenue from provision of storage and logistic services	7,972	—
Revenue from provision of energy and power services	6,412	—
	<u>342,338</u>	<u>622,618</u>

7. BUSINESS AND GEOGRAPHICAL SEGMENTS

Business segments

For management purposes, the Group is currently organised into two operations - manufacture of transmission machinery and others. 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the Year ended 31st December 2004 (Prepared in accordance with Accounting Principles Generally Accepted in Hong Kong)

7. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

Segment information about these businesses is presented below:

2004

	Manufacture of transmission machinery <i>RMB'000</i>	Others <i>RMB'000</i>	Consolidated <i>RMB'000</i>
INCOME STATEMENT			
TURNOVER	<u>298,936</u>	<u>43,402</u>	<u>342,338</u>
RESULT			
Segment result and profit (loss) from operations	<u>29,268</u>	<u>(3,637)</u>	25,631
Finance costs			(12,864)
Share of results of associates	15,649	—	15,649
Gain on deemed disposal of partial interest in subsidiaries	12,404	4,909	17,313
Provisions for loss on guarantees			<u>(15,292)</u>
Profit before taxation			30,437
Taxation			<u>(8,176)</u>
Profit before minority interests			22,261
Minority interests			<u>(1,327)</u>
Net profit for the year			<u>20,934</u>
OTHER INFORMATION			
Capital additions			
- through acquisition of subsidiaries	67,609	122,603	190,212
- others	9,774	1,436	11,210
Depreciation and amortisation	8,601	11,186	19,787
Allowance for bad and doubtful debts	<u>40</u>	<u>143</u>	<u>183</u>
BALANCE SHEET			
Assets			
- Segment assets	824,939	455,742	1,280,681
- Interests in associates	71,622	—	<u>71,622</u>
Consolidated total assets			<u>1,352,303</u>
Liabilities			
- Segment liabilities	222,103	36,185	258,288
- Unallocated corporate liabilities			<u>217,027</u>
Consolidated total liabilities			<u>475,315</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the Year ended 31st December 2004 (Prepared in accordance with Accounting Principles Generally Accepted in Hong Kong)

7. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

2003

	Continuing operations		Discontinued operations	
	Manufacture of transmission machinery	Others	Manufacture of transformation machinery	Consolidated
	RMB'000	RMB'000	RMB'000	RMB'000
INCOME STATEMENT				
TURNOVER	211,539	29,298	381,781	622,618
RESULT				
Segment result and profit (loss) 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
Provisions for loss on guarantees				(30,994)
Profit before taxation				36,456
Taxation				(5,179)
Profit before minority interests				31,277
Minority interests				(3,478)
Net profit for the year				27,799
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 2004 (Prepared in accordance with Accounting Principles Generally Accepted in Hong Kong)

7. 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.

8. OTHER OPERATING INCOME

Details of other operating income are as follows:

	THE GROUP	
	2004	2003
	RMB'000	RMB'000
Interest income from an associate	2,932	—
Dividend from investments in securities	1,010	1,000
Guarantee income	950	—
Technical consultancy income, net	938	3,329
Release of negative goodwill to income	204	706
Gain on disposal of property, plant and equipment	190	966
Interest on bank deposits	168	788
Others	322	366
	<u>6,714</u>	<u>7,155</u>

9. PROFIT FROM OPERATIONS

	THE GROUP	
	2004	2003
	RMB'000	RMB'000
Profit from operations has been arrived at after charging:		
Depreciation	18,258	33,504
Amortisation of intangible assets (included in administrative expenses)	1,529	1,113
Research and development costs	250	1,812
(Reversal of) allowance for inventories	(3,350)	76
Allowance for bad and doubtful debts	183	12,197
Auditors' remuneration	2,315	2,756
Staff costs, including directors' emoluments	35,279	90,228
and after crediting:		
Gross rental income from properties under operating leases	1,397	2,991
Less: Outgoings	(37)	(31)
	<u>1,360</u>	<u>2,960</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the Year ended 31st December 2004 (Prepared in accordance with Accounting Principles Generally Accepted in Hong Kong)

10. DIRECTORS' EMOLUMENTS

	THE GROUP	
	2004 RMB'000	2003 RMB'000
Directors' emoluments:		
Fees	175	100
Other emoluments:		
Salaries and other benefits	357	368
Bonuses	—	30
Retirement scheme contributions	71	86
	<u>603</u>	<u>584</u>

The amount disclosed above include directors' fees of RMB175,000 (2003: RMB100,000) payable to independent non-executive directors.

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 for both years.

11. TAXATION

	THE GROUP	
	2004 RMB'000	2003 RMB'000
The charge comprises:		
Income tax for certain PRC subsidiaries		
- Current year	8,176	5,239
- Overprovision in prior year	—	(60)
	<u>8,176</u>	<u>5,179</u>

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. Certain subsidiaries of the Group in the PRC are eligible for certain tax holidays and concessions and were subject to tax exemption or 50% reduction in tax rate for both years.

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 unrecognised deferred tax assets are set out in note 34.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the Year ended 31st December 2004 (Prepared in accordance with Accounting Principles Generally Accepted in Hong Kong)

11. TAXATION(Continued)

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

	2004 RMB'000	2003 RMB'000
Profit before taxation	<u>30,437</u>	<u>36,456</u>
Tax at the domestic income tax rate of 33% (2003: 33%)	10,044	12,030
Tax effect of income not taxable for tax purpose	(5,896)	(5,995)
Tax effect of expenses not deductible for tax purpose	4,709	11,337
Overprovision in respect of prior year	—	(60)
Utilisation of tax losses not previously recognised	—	(14,142)
Tax effect of tax losses not recognised	3,534	-
Tax effect of deferred tax assets not recognised	1,908	6,836
Income tax on concessionary rate	(959)	(2,069)
Tax effect of share of results of associates	(5,164)	(2,758)
Tax expenses	<u>8,176</u>	<u>5,179</u>

12. DIVIDEND

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

13. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the net profit for the year of RMB20,934,000 (2003: RMB27,799,000) 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 for both years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the Year ended 31st December 2004 (Prepared in accordance with Accounting Principles Generally Accepted in Hong Kong)

14. PROPERTY, PLANT AND EQUIPMENT

	Buildings <i>RMB'000</i>	Hotel property <i>RMB'000</i>	Plant, machinery and equipment <i>RMB'000</i> <i>(Note)</i>	Motor vehicles and others <i>RMB'000</i>	Total <i>RMB'000</i>
THE GROUP					
COST					
At 1st January, 2004	55,183	370,960	154,118	11,103	591,364
Additions	632	—	1,542	5,579	7,753
Transferred from construction in progress	2,048	—	2,285	—	4,333
Acquisition of subsidiaries	113,438	—	28,879	3,419	145,736
Disposals	—	—	(8)	(2,552)	(2,560)
Disposal upon share exchange <i>(Note)</i>	—	—	(27,879)	—	(27,879)
	<u>171,301</u>	<u>370,960</u>	<u>158,937</u>	<u>17,549</u>	<u>718,747</u>
At 31st December, 2004	171,301	370,960	158,937	17,549	718,747
ACCUMULATED DEPRECIATION AND IMPAIRMENT LOSS					
At 1st January, 2004	13,461	107,109	73,590	3,563	197,723
Charge for the year	2,952	6,680	7,168	1,458	18,258
Eliminated on disposals	—	—	(2)	(520)	(522)
	<u>16,413</u>	<u>113,789</u>	<u>80,756</u>	<u>4,501</u>	<u>215,459</u>
At 31st December, 2004	16,413	113,789	80,756	4,501	215,459
NET BOOK VALUES					
At 31st December, 2004	<u>154,888</u>	<u>257,171</u>	<u>78,181</u>	<u>13,048</u>	<u>503,288</u>
At 31st December, 2003	<u>41,722</u>	<u>263,851</u>	<u>80,528</u>	<u>7,540</u>	<u>393,641</u>

The Group has pledged buildings and plant, machinery and equipment having a net book value of approximately RMB12,000,000 and RMB14,000,000 respectively (2003: RMB20,000,000 and RMB16,000,000), 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 buildings with an aggregate net book value of RMB77,151,000 (2003: RMB79,155,000).

Included in plant, machinery and equipment is net interest capitalised of approximately RMB1,284,000 (2003: RMB1,284,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the Year ended 31st December 2004 (Prepared in accordance with Accounting Principles Generally Accepted in Hong Kong)

14. PROPERTY, PLANT AND EQUIPMENT (Continued)

	Plant, machinery and equipment <i>RMB'000</i> <i>(Note)</i>	Motor vehicles and others <i>RMB'000</i>	Total <i>RMB'000</i>
THE COMPANY			
COST			
At 1st January, 2004	27,879	3,281	31,160
Additions	—	2,613	2,613
Disposals upon share exchange	(27,879)	—	(27,879)
At 31st December, 2004	—	5,894	5,894
ACCUMULATED DEPRECIATION			
At 1st January, 2004	—	1,301	1,301
Charge for the year	—	482	482
At 31st December, 2004	—	1,783	1,783
NET BOOK VALUES			
At 31st December, 2004	—	4,111	4,111
At 31st December, 2003	27,879	1,980	29,859

Note: The balance at 1st January, 2004 had been restated to include RMB27,879,000 which represents six 120MW and four 200MW steam turbine generating units ("the Generators") wrongly included as inventories of the Group and the Company as at 31st December, 2003. During the year, the Company disposed of these items at their carrying value to exchange for equity interest in an enterprise and subsequently used the entire equity interest in this enterprise to exchange for 74.4% equity interest in Suntime High-voltage. Details of which are set out in the Company's disclosable and major acquisition circular dated 17th September, 2004.

15. CONSTRUCTION IN PROGRESS

	THE GROUP	
	2004 <i>RMB'000</i>	2003 <i>RMB'000</i>
COST		
At 1st January	4,801	11,968
Additions	3,457	10,802
Transferred to property, plant and equipment	(4,333)	(10,824)
Disposals of subsidiaries	—	(7,145)
At 31st December	3,925	4,801

No interest has been capitalised in construction in progress for both years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the Year ended 31st December 2004 (Prepared in accordance with Accounting Principles Generally Accepted in Hong Kong)

16. INTANGIBLE ASSETS

	Land use rights <i>RMB'000</i>
THE GROUP	
COST	
At 1st January, 2004	12,409
Acquisition of subsidiaries	44,476
	<hr/>
At 31st December, 2004	56,885
	<hr/>
ACCUMULATED AMORTISATION	
At 1st January, 2004	2,143
Charge for the year	1,529
	<hr/>
At 31st December, 2004	3,672
	<hr/>
NET BOOK VALUES	
At 31st December, 2004	53,213
	<hr/> <hr/>
At 31st December, 2003	10,266
	<hr/> <hr/>

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 RMB10,013,000 (2003: RMB5,691,000) to secure banking facilities granted to the Group.

The Group is in the process of obtaining land use right certificate of amount with net book value of RMB10,013,000 (2003: RMB10,266,000).

17. INVESTMENTS IN SUBSIDIARIES

	THE COMPANY	
	2004	2003
	<i>RMB'000</i>	<i>RMB'000</i>
Unlisted investment, at cost	477,080	401,434
Impairment loss recognised	(152,000)	(152,000)
	<hr/>	<hr/>
	325,080	249,434
	<hr/>	<hr/>
Amounts due from subsidiaries	150,501	4,421
	<hr/>	<hr/>

The amounts due from subsidiaries are unsecured, non-interest bearing and has no fixed repayment terms.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the Year ended 31st December 2004 (Prepared in accordance with Accounting Principles Generally Accepted in Hong Kong)

17. INVESTMENTS IN SUBSIDIARIES (Continued)

All of the subsidiaries are limited companies incorporated under Company Law of the PRC and operating in the PRC except Northeast Electric (Hong Kong) Limited which is incorporated in Hong Kong and Great Talent Technology Limited which is incorporated in the British Virgin Islands. The details of the subsidiaries at 31st December, 2004 are as follows:

Name of subsidiary	Registered capital	Percentage of registered capital held by the Company		Principal activities
		Directly	Indirectly	
Chengtai Energy	RMB90,000,000	95%	—	Provision of wind, water, electricity and steam power and equipment maintenance services
Fuxin Enclosed Busbars Limited	RMB18,090,000	100%	—	Manufacture of enclosed busbars
Great Talent Technology Limited	US\$1	100%	—	Inactive
Jinzhou Jinrong Electrical Equipment Co., Limited	RMB3,000,000	—	69.75%	Manufacture of electrical equipment
Jinzhou Power Capacitors Limited ("Jinzhou Power")	RMB29,420,000	100%	—	Manufacture of surge arrestors and power capacitors
Kingdom Hotel Shenyang	RMB150,000,000	90%	—	Provision of hotel and catering services
New Northeast Jinzhou Power Capacitors Limited ("New Jinzhou Power")	US\$10,000,000	40%	12%	Manufacture of power capacitors
Northeast Electric (Hong Kong) Company Limited	US\$900,000	100%	—	Investment holding
Suntime High-voltage	US\$21,500,000	74.4%	—	Manufacture of electrical transmission and transformation equipment
Suntime Storage	RMB170,000,000	95%	—	Provision of storage and logistics services

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the Year ended 31st December 2004 (Prepared in accordance with Accounting Principles Generally Accepted in Hong Kong)

18. INTERESTS IN ASSOCIATES

	THE GROUP		THE COMPANY	
	2004 RMB'000	2003 RMB'000	2004 RMB'000	2003 RMB'000
Unlisted share, at cost	—	—	4,068	14,519
Share of net assets	71,622	26,534	—	—
	<u>71,622</u>	<u>26,534</u>	<u>4,068</u>	<u>14,519</u>

(a) Acquisition of New High-voltage

During the year ended 31st December, 2003, the Group injected RMB51,566,000 into New High-voltage, representing its 20.8% equity interest. As the approval from relevant authorities were completed in January 2004, such payment was recorded as non-current prepayments at 31st December, 2003 (note 21) and New High-voltage became an associate of the Company since January 2004 accordingly.

On 13th May, 2004, for group restructuring purpose, the Group transferred its 20.8% equity interest in New High-voltage to Smart Power Technology Limited ("Smart Power"), a wholly owned subsidiary, and New High-voltage then became an indirectly owned associate of the Group. On 5th November, 2004, the interest in Smart Power was exchange for 20.8% equity interest in Great Power Technology Limited ("Great Power"), which directly holds 79.2% equity interest in New High-voltage. Accordingly, Great Power then became an associate of the Group which in turns holds 100% equity interest in New High-voltage.

(b) Disposal of Shenyang High-voltage

Subsequent to the disposal and dilution of interest in Shenyang High-voltage as set out in note 36 and as part of a restructuring carried out by the Group as set out in note 3, in March 2004, pursuant to the approval of the board of directors, the Group transferred the remaining 48.95% equity interest in Shenyang High-voltage to Chengan Electric. The disposal was completed on 24th March, 2004. As at the date of disposal, both the Company, Chengan Electric and Shenyang High-voltage are under the common control of Suntime Electric, the excess of the proceeds of disposal of RMB24,000,000 less the Group's share of the carrying amount of the associate's net assets as at 31st December, 2003 of approximately RMB22,127,000, amounting to approximately RMB1,873,000 is treated as equity contributions from Suntime Electric and is recognised directly in equity under the heading of "Capital Contribution".

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the Year ended 31st December 2004 (Prepared in accordance with Accounting Principles Generally Accepted in Hong Kong)

18. INTERESTS IN ASSOCIATES (Continued)

(c) Disposal of Shenyang Furukawa Cable Co. Limited (“Shenyang Furukawa”)

During the year ended 31st December, 2003, the Group entered into a sale agreement to dispose of all 42.5% equity interest in Shenyang Furukawa which was engaged in the manufacture of cable accessories. The disposal was completed on 18th December, 2003, and a gain of approximately RMB36,284,000 arose from the disposal of Shenyang Furukawa, being the proceeds of disposal of approximately RMB106,576,000 less the Group’s share of the carrying amount of the associate’s net assets and attributable negative goodwill.

The details of the associates at 31st December, 2004 are as follows:

Name of associate	Place of establishment / incorporation and operations	Proportion of registered capital held by the Group		Principal activities
		Directly	Indirectly	
Northeast Electrical Hitachi Transmission and Transformation Machinery Co., Limited	PRC	49%	—	Manufacture of transformers and transmission equipment
Great Power	BVI	20.8%	—	Investment holding
Smart Power	BVI	—	20.8%	Investment holding
New High-voltage	BVI / PRC	—	20.8%	Manufacture of electrical equipment and machineries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the Year ended 31st December 2004 (Prepared in accordance with Accounting Principles Generally Accepted in Hong Kong)

19. INVESTMENTS IN SECURITIES

	THE GROUP AND THE COMPANY	
	2004 <i>RMB'000</i>	2003 <i>RMB'000</i>
Unlisted investment, net of impairment loss recognised	11,010	17,458

The details of the unlisted investment, net of impairment loss recognised at 31st December, 2004 are as follows:

Name of securities	EQUITY INTEREST		THE GROUP AND THE COMPANY	
	2004 %	2003 %	2004 <i>RMB'000</i>	2003 <i>RMB'000</i>
Jinzhou City Co-operative Bank	4.35%	6.34%	11,010	10,000
China High-voltage Electric Limited ("China High Voltage") (formerly known as Northeast Electric (Hong Kong) Company Limited)	(Note)	9.09%	—	7,458
			11,010	17,458

Note: The Group and the Company disposed of 9.09% equity interest in China High-voltage during the year.

20. NEGATIVE GOODWILL

	THE GROUP <i>RMB'000</i>
GROSS AMOUNT	
At 1st January, 2004 and 31st December, 2004	2,041
RELEASED TO INCOME	
At 1st January, 2004	204
Released in the year	204
At 31st December, 2004	408
CARRYING AMOUNT	
At 31st December, 2004	1,633
At 31st December, 2003	1,837

The negative goodwill is released to income on a straight-line basis over a period of 10 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 2004 (Prepared in accordance with Accounting Principles Generally Accepted in Hong Kong)

21. NON-CURRENT PREPAYMENTS

	THE GROUP AND THE COMPANY	
	2004 RMB'000	2003 RMB'000
At cost	—	84,675

The non-current prepayments at 31st December, 2003 of RMB51,566,000 and RMB33,109,000 represented consideration paid for the purpose of obtaining approximately of 20.8% interests in New High-voltage and 52% interest in New Jinzhou Power, respectively. The total investment in respect of New High-voltage and New Jinzhou Power, amounted to RMB51,566,000 and RMB43,346,000, respectively. The approval of these investments from relevant authorities were completed in 2004 and New High-voltage and New Jinzhou Power became the Group's associate and subsidiary accordingly.

22. INVENTORIES

	THE GROUP		THE COMPANY	
	2004 RMB'000	2003 RMB'000	2004 RMB'000	2003 RMB'000
Raw materials and consumables	20,298	17,133	—	—
Work in progress	9,800	8,698	—	—
Finished goods	31,138	18,042	3,502	—
	<u>61,236</u>	<u>43,873</u>	<u>3,502</u>	<u>—</u>

Included above are inventories of raw materials of RMB13,453,000 (2003: RMB16,624,000), work in progress of RMB3,654,000 (2003: RMB8,698,000) and finished goods of RMB14,723,000 (2003: RMB18,042,000) which are carried at net realisable value.

The cost of inventories recognised as expense in the consolidated income statement were approximately RMB227,685,000 (2003: RMB373,525,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the Year ended 31st December 2004 (Prepared in accordance with Accounting Principles Generally Accepted in Hong Kong)

23. 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	
	2004 RMB'000	2003 RMB'000	2004 RMB'000	2003 RMB'000
Third parties:				
Within 1 year	158,848	110,011	18,787	4,882
1 to 2 years	29,650	34,070	182	—
2 to 3 years	21,401	10,785	—	—
3 to 4 years	9,870	34,903	—	—
Over 4 year	24,186	—	—	—
	243,955	189,769	18,969	4,882
Allowance for doubtful debts	(39,041)	(39,224)	—	—
	204,914	150,545	18,969	4,882
Former related companies (note):				
Within 1 year	—	265	—	—
1 to 2 years	—	445	—	—
2 to 3 years	—	1,174	—	—
Over 3 years	—	5,933	—	—
	—	7,817	—	—
Allowance for doubtful debts	—	(4,844)	—	—
	—	2,973	—	—
	204,914	153,518	18,969	4,882

Note:

These companies are subsidiaries of Northeast Electrical Transmission Group Corporation ("NET"), a former shareholder of the Company (collectively known as "NET Group").

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the Year ended 31st December 2004 (Prepared in accordance with Accounting Principles Generally Accepted in Hong Kong)

24. AMOUNTS DUE FROM A FORMER SHAREHOLDER AND FORMER RELATED COMPANIES

	THE GROUP	
	2004	2003
	RMB'000	RMB'000
Amounts due from NET Group, net <i>(note a)</i>	—	62,774
Less: Allowance for doubtful debts	—	(62,774)
	<u>—</u>	<u>—</u>
	<u><u>—</u></u>	<u><u>—</u></u>
Analysis of net balances due from NET Group		
Under trade debtors, net of allowance of RMB4,844,000 <i>(note a)</i>	—	2,973
Under other debtors, deposits and prepayments, net of allowance of RMB9,042,000 <i>(note a)</i> and RMB8,310,000 <i>(note b)</i>	—	-
Under trade creditors <i>(note a)</i>	—	(159)
Under other creditors, advances from customers and accruals <i>(note a)</i>	—	(2,814)
	<u>—</u>	<u>—</u>
	<u><u>—</u></u>	<u><u>—</u></u>

Notes:

- (a) During the year ended 31st December, 2004, the Company assigned the net amount before allowance of RMB76,660,000 to Shenyang High-voltage in exchange for 95% equity interest in Chengtai Energy and Suntime Storage. Details are set out in the Company's disclosable and major transactions circular dated 17th September, 2004.
- (b) Subsequent to year end, NET is ruled to transfer its equity interest in two companies to the Company to set off the debt due to the Company for this amount. Details are set out in note 42(b).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the Year ended 31st December 2004 (Prepared in accordance with Accounting Principles Generally Accepted in Hong Kong)

25. AMOUNTS DUE FROM / TO AN ASSOCIATE / A FORMER ASSOCIATE / A RELATED COMPANY

	THE GROUP		THE COMPANY	
	2004 RMB'000	2003 RMB'000	2004 RMB'000	2003 RMB'000
<u>Amounts due from:</u>				
New High-voltage (note a)	72,644	8,500	—	8,500
Chengang Electric	689	—	—	—
Shenyang High-voltage (note b)	99,545	48,017	2,207	31,528
	<u>172,878</u>	<u>56,517</u>	<u>2,207</u>	<u>40,028</u>
<u>Disclosed as:</u>				
Amount due from an associate	72,644	48,017	—	31,528
Amount due from a former associate	99,545	—	2,207	—
Amount due from a related company	689	8,500	—	8,500
	<u>172,878</u>	<u>56,517</u>	<u>2,207</u>	<u>40,028</u>
<u>Amounts due to:</u>				
New High-voltage (note a)	15,852	—	12,616	—
Shenyang High-voltage (note b)	—	6,739	—	—
	<u>15,852</u>	<u>6,739</u>	<u>12,616</u>	<u>—</u>
<u>Disclosed as:</u>				
Amount due to an associate	<u>15,852</u>	<u>6,739</u>	<u>12,616</u>	<u>—</u>

The amounts are unsecured and have no fixed repayment terms. Except an amount due from New High-voltage of RMB72,644,000 at 31st December, 2004 bears interest at 6% per annum, the remaining balances are interest free.

- (a) At 31st December, 2003, New High-voltage was a company which had common directors with the Company and was disclosed as a related company. During the year ended 31st December, 2004, New High-voltage became an associate of the Group.
- (b) Shenyang High-voltage is an associate of the Group as at 31st December, 2003. During the year ended 31st December, 2004, the Group disposed of the remaining interest in Shenyang High-voltage. Details of this were set out in note 18(b).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the Year ended 31st December 2004 (Prepared in accordance with Accounting Principles Generally Accepted in Hong Kong)

26. LOAN TO A THIRD PARTY

THE GROUP AND THE COMPANY

The loan was unsecured, bore interest at the prevailing market rate and was fully settled during the year.

27. 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 and Investment Company ("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 the year ended 31st December, 2004 and 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 approximately RMB99,233,000) at 31st December, 2004 and 31st December, 2003.

On 5th March, 2005, the Company signed a Letter of Intention with 撫順特殊鋼集團有限責任公司 Fushun Special Steel Group Corporation ("Fushun Special Steel") and Prosper Power Company Limited, pursuant to which Fushun Special Steel agreed to transfer its equity interests in 東北特殊鋼集團有限責任公司 Northeast Special Steel Group Incorporation, as confirmed and valued at US\$12,000,000 by an independent intermediary appraisal company, to the Company to exchange the Company's debt due from Liaoning Trust of US\$12,000,000. In addition, subsequent to the signing of the Letter of Intention, the Company also obtained the approval from the relevant department of the Government of Liaoning Province to obtain assets with value equivalent to US\$12,000,000 to settle in full the amount due from Liaoning Trust. Accordingly, no allowance has been made in the financial statements. In the opinion of the directors, the assets to be obtained will be equity interest in an enterprise, and accordingly, the amount was reclassified as non-current asset.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the Year ended 31st December 2004 (Prepared in accordance with Accounting Principles Generally Accepted in Hong Kong)

28. TRADE CREDITORS

The following is an aged analysis of trade creditors:

	THE GROUP	
	2004 RMB'000	2003 RMB'000
Third parties:		
Within 1 year	76,082	41,620
1 to 2 years	3,500	7,435
2 to 3 years	2,319	2,317
3 to 4 years	972	3,376
Over 4 years	1,940	—
	84,813	54,748
Former related companies:		
Within 1 year	—	159
	84,813	54,907

29. BANK BORROWINGS

	THE GROUP	
	2004 RMB'000	2003 RMB'000
RMB bank loans (note)	213,084	210,920
Analysed as:		
Secured	42,000	60,660
Unsecured	171,084	150,260
	213,084	210,920
Repayable as follows:		
Within one year or on demand	213,084	184,370
More than one year, but not exceeding two years	—	26,550
	213,084	210,920
Less: Amount due within one year included under current liabilities	(213,084)	(184,370)
Amount due after one year	—	26,550

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 loan of a subsidiary of RMB24,000,000 which was guaranteed by the Company. In 2003, 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, 2004 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 2004 (Prepared in accordance with Accounting Principles Generally Accepted in Hong Kong)

30. PROVISION FOR LOSS ON GUARANTEES

	THE GROUP AND THE COMPANY	
	2004 RMB'000	2003 RMB'000
Provision for loss on guarantees given to:		
NET (note a)	30,994	30,994
Shenyang Cable Company Limited ("Shenyang Cable") (note b)	15,292	—
	<u>46,286</u>	<u>30,994</u>

Notes:

- (a) 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 the year ended 31st December, 2003. The amount had not yet been settled as at 31st December, 2004. The Group is in process of negotiating with China Everbright Bank for a settlement plan.

- (b) In April 1999, Shenyang Cable, a subsidiary of NET, entered into a bank loan agreement amounting to RMB20,000,000 with the Bank of China, Shenyang Branch ("BOC Shenyang"), 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 the 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 9th July, 2004, the Company received a verdict of final trial from the Shenyang Intermediate People's Court which ruled that the Company be jointly held responsible for the repayment of the loan principal of RMB11,030,000 and interest accrued thereon.

The Company is of the opinion that BOC Shenyang should be held responsible for failing to govern the irregular use of loans, and the Company considers that the repayment of the balance of the principal amount of RMB11,030,000 does not comply with the requirement of the original loan contract. Accordingly, the Company lodged an appeal to the Liaoning Higher People's Court on 28th July, 2004 in accordance with Civil Litigation Law.

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

In the opinion of the directors and the Company's PRC lawyer, the case has no merit. However, based on the verdict of the Intermediate People's Court, provision for loss on guarantee given to Shenyang Cable of RMB15,292,000 was made as at 31st December, 2004, representing the loan principal of RMB11,030,000 and interest accrued thereon.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the Year ended 31st December 2004 (Prepared in accordance with Accounting Principles Generally Accepted in Hong Kong)

31. SHARE CAPITAL

2004 & 2003
RMB'000

Registered, issued and fully paid-up capital:
615,420,000 ordinary 'Domestic' shares of
RMB1 each, of which:

- Non-listed	471,820
- Listed "A" shares	143,600
	<u>615,420</u>
257,950,000 "H" shares of RMB1 each	257,950
	<u>873,370</u>

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

32. RESERVES

THE COMPANY

	Capital reserve <i>RMB'000</i>	Statutory common reserve <i>RMB'000</i>	Statutory public welfare fund <i>RMB'000</i>	Accumulated losses <i>RMB'000</i>	Total <i>RMB'000</i>
At 1st January, 2003	603,394	46,356	31,441	(1,020,774)	(339,583)
Loss for the year	<u>—</u>	<u>—</u>	<u>—</u>	<u>(14,128)</u>	<u>(14,128)</u>
At 31st December, 2003 and at 1st January, 2004	603,394	46,356	31,441	(1,034,902)	(353,711)
Loss for the year	<u>—</u>	<u>—</u>	<u>—</u>	<u>(2,234)</u>	<u>(2,234)</u>
At 31st December, 2004	<u>603,394</u>	<u>46,356</u>	<u>31,441</u>	<u>(1,037,136)</u>	<u>(355,945)</u>

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

For the Year ended 31st December 2004 (Prepared in accordance with Accounting Principles Generally Accepted in Hong Kong)

32. RESERVES *(Continued)*

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 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.

Capital contribution

Capital contribution represents gain on acquisition of subsidiaries from an equity participant during the year ended 31st December, 2004 of RMB184,546,000 and gain on disposal of an associate to that equity participant of RMB1,873,000.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the Year ended 31st December 2004 (Prepared in accordance with Accounting Principles Generally Accepted in Hong Kong)

33. GOVERNMENT GRANTS

THE GROUP

	<i>RMB'000</i>
ADVANCES FROM GOVERNMENT	
At 1st January, 2004	14,167
Additions	<u>2,000</u>
At 31st December, 2004	<u><u>16,167</u></u>

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.

34. DEFERRED TAX

THE GROUP

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

	2004 <i>RMB'000</i>	2003 RMB'000
Deductible temporary difference available	223,852	218,067
Tax losses	<u>205,612</u>	<u>194,903</u>
	<u><u>429,464</u></u>	<u><u>412,970</u></u>

No deferred tax asset has been recognised due to the unpredictability of future profit streams. Included in unrecognised tax losses are losses of RMB205,612,000 (2003: RMB194,903,000) that will expire in 2009 (2003: 2008).

THE COMPANY

	2004 <i>RMB'000</i>	2003 RMB'000
Deductible temporary difference available	72,206	72,136
Tax losses	<u>165,366</u>	<u>163,106</u>
	<u><u>237,572</u></u>	<u><u>235,242</u></u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the Year ended 31st December 2004 (Prepared in accordance with Accounting Principles Generally Accepted in Hong Kong)

35. ACQUISITIONS OF SUBSIDIARIES

Subsequent to the disposal of the remaining 48.95% equity interest in Shenyang High-voltage held by the Group to Chengan Electric as set out in note 18(b) and as part of a restructuring carried out by the Group as set out in note 3, on 7th April, 2004, the Group transferred back the underlying 74.4% equity interest in Suntime High-voltage by the exchange of an equity interest in an enterprise which was previously acquired by the exchange of the Generators of the Group with a carrying amount of RMB27,879,000. In addition, on 14th April, 2004, the Group transferred back the underlying 95% each equity interests in Chengtai Energy and Suntime Storage which was satisfied by the assignment of the net amount due from NET Group before the allowance of RMB76,660,000. Such receivables were fully provided for in prior years and was recorded at a carrying amount of zero. Suntime High-voltage, Chengtai Energy and Suntime Storage were former wholly owned subsidiaries of Shenyang High-voltage and their underlying assets were injected by Shenyang High-voltage.

Details of the acquisitions of equity interest in Suntime High-voltage, Chengtai Energy and Suntime Storage are set out in the Company's disclosable and major transactions circular dated 17th September, 2004.

The effect of acquisitions of subsidiaries during the year as set out in above were as follows:

	2004 RMB'000	2003 RMB'000
Property, plant and equipment	145,736	—
Intangible assets	44,476	—
Inventories	15,363	—
Trade debtors	30,094	—
Other debtors, deposits and prepayments	116,338	—
Bank balances and cash	1,240	—
Trade creditors	(14,446)	—
Other creditors, advance from customers and accruals	(79,855)	—
Taxation payables	(2,060)	—
Minority interests	(24,548)	—
	<u>232,338</u>	<u>—</u>
Capital contribution arising from acquisition of subsidiaries	(184,546)	—
Gain on deemed disposal of partial interest in subsidiaries recognised in income statement	(17,313)	—
	<u>30,479</u>	<u>—</u>
Total consideration	<u>30,479</u>	<u>—</u>
Satisfied by:		
Property, plant and equipment (note 14)	27,879	—
Value added tax on property, plant and equipment	2,600	—
Amount due from NET (a)	—	—
	<u>30,479</u>	<u>—</u>
Net cash inflow arising on acquisitions:		
Cash and bank balances acquired	<u>1,240</u>	<u>—</u>

The subsidiaries acquired during the year contributed RMB43,911,000 in aggregate to the Group's turnover and RMB8,679,000 in aggregate to the Group's profit from operations.

(a) Full allowance has been made on the net amount due from NET in prior years of approximately RMB76,660,000. Details are set out in note 24.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the Year ended 31st December 2004 (Prepared in accordance with Accounting Principles Generally Accepted in Hong Kong)

36. DISPOSALS OF SUBSIDIARIES

On 12th June, 2003, pursuant to the approval of the board of directors, the Group entered into a sale agreement with Chengan Electric to dispose of 49% equity interest in Shenyang High-voltage, a former wholly owned subsidiary of the Company which engaged in the manufacture of transformation machinery including switchgears, circuit breakers and disconnectors, at a consideration of approximately RMB26,000,000. The disposal was effected in order to generate cash for the expansion of the Group's other business and was completed on 28th August, 2003. Subsequent to the disposal, on 8th October, 2003, the Group's interest in Shenyang High-voltage was further diluted from 51% to 48.95% following the increase in the registered capital of Shenyang High-voltage injected by Chengan Electric. As a result, Shenyang High-voltage became an associate of the Group.

In addition to the above, 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:

	2004	2003
	RMB'000	RMB'000
Property, plant and equipment	—	366,626
Construction in progress	—	7,145
Intangible assets	—	47,645
Investments in securities	—	24,775
Negative goodwill	—	(1,467)
Inventories	—	118,597
Trade debtors	—	397,079
Other debtors, deposits and prepayments	—	45,939
Bank balances and cash	—	70,373
Trade creditors	—	(299,792)
Other creditors, advance from customers and accruals	—	(108,304)
Bank borrowings	—	(631,669)
Government grants	—	(2,603)
Minority interest	—	(1,963)
	<hr/>	<hr/>
	—	32,381
Gain on disposals of subsidiaries	—	13,413
	<hr/>	<hr/>
Total consideration	—	45,794
	<hr/> <hr/>	<hr/> <hr/>
Satisfied by:		
Cash	—	26,897
Interest in associates	—	18,897
	<hr/>	<hr/>
	—	45,794
	<hr/> <hr/>	<hr/> <hr/>
Net cash outflow arising on disposals:		
Cash consideration	—	26,897
Bank balances and cash disposed of	—	(70,373)
	<hr/>	<hr/>
Net cash outflow arising on disposal	—	(43,476)
	<hr/> <hr/>	<hr/> <hr/>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the Year ended 31st December 2004 (Prepared in accordance with Accounting Principles Generally Accepted in Hong Kong)

36. DISPOSALS OF SUBSIDIARIES (Continued)

During the year ended 31st December, 2003, Shenyang High-voltage contributed RMB381,781,000 to the Group's turnover and RMB6,884,000 to the Group's profit before taxation. The cash flow contributed or utilized by Jinrong Chao Ji was not significant.

37. CONTINGENT LIABILITIES

	THE GROUP		THE COMPANY	
	2004 RMB'000	2003 RMB'000	2004 RMB'000	2003 RMB'000
Guarantees given to banks in respect of banking facilities utilised by other entities:				
Shenyang Cable (note a)	—	20,000	—	20,000
Associates	88,000	109,800	26,700	52,500
Third parties	19,770	12,910	—	—
	<u>107,770</u>	<u>142,710</u>	<u>26,700</u>	<u>72,500</u>

At 31st December, 2004, the Company gave guarantees to banks in respect of banking facilities utilised by its subsidiaries and the amount utilised was RMB112,900,000 (2003: RMB98,860,000).

Notes:

- (a) Provision for loss on guarantee to Shenyang Cable of RMB15,292,000 was made at 31st December, 2004 and details are set out in note 30(b).

38. LEASE COMMITMENTS

The Group as lessor

Property rental income earned during the year was RMB1,397,000 (2003: RMB2,991,000). 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	
	2004 RMB'000	2003 RMB'000
Within one year	716	1,681
In the second to fifth year inclusive	1,600	1,798
After five years	133	533
	<u>2,449</u>	<u>4,012</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the Year ended 31st December 2004 (Prepared in accordance with Accounting Principles Generally Accepted in Hong Kong)

39. CAPITAL COMMITMENTS

	THE GROUP	
	2004	2003
	RMB'000	RMB'000
Capital expenditure contracted for but not provided in the financial statements in respect of:		
Acquisition of property, plant and equipment	72,257	73,598
Acquisition of a company	—	10,237
	<u>72,257</u>	<u>83,835</u>

40. RELATED PARTY TRANSACTIONS

During the year, the Group had entered into the following transactions with Shenyang High-voltage, a former associate and New High-voltage, an associate:

	THE GROUP	
	2004	2003
	RMB'000	RMB'000
<i>Sales to:</i>		
Shenyang High-voltage	1,186	—
New High-voltage	21,101	—
	<u>22,287</u>	<u>—</u>
<i>Purchase from:</i>		
Shenyang High-voltage	7,023	4,232
New High-voltage	46,739	—
	<u>53,762</u>	<u>4,232</u>
<i>Interest income received from:</i>		
New High-voltage	2,932	—
<i>Rental income received from:</i>		
Shenyang High-voltage	125	—
New High-voltage	1,473	—
	<u>1,598</u>	<u>—</u>
<i>Service fee income received from:</i>		
New High-voltage	14,490	—
<i>Transportation expenses paid to:</i>		
Shenyang High-voltage	106	—

Besides, during the year ended 31st December, 2004, certain creditors' rights and debts between the Group and related companies were exchanged.

Other related party transactions, including the disposal of Shenyang High-voltage to Chengan Electric and acquisition of Chengtai Energy, Suntime Storage and Suntime High-voltage from Shenyang High-voltage, are disclosed in notes 18, 35 and 36, respectively. As at the date of the respective dates for disposal and acquisition, both the Company, and Shenyang High-voltage are under the common control of Suntime Electric.

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 2004 (Prepared in accordance with Accounting Principles Generally Accepted in Hong Kong)

41. 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, 2004 and 2003, the retirement plan contributions made by the Group amounted to RMB3,810,000 and RMB13,554,000 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, 2004 and 2003, the medical care contributions made by the Group amounted to RMB945,000 and RMB3,586,000 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, 2004 and 2003, the Group made housing fund contributions amounted to RMB1,511,000 and RMB2,521,000 are charged to the income statement respectively.

42. POST BALANCE SHEET EVENTS

- (a) On 28th December, 2004, the Company entered into a sale and purchase agreement with 東北建築安裝工程有限公司 Northeast Construction Work Company ("Northeast Construction"), pursuant to which the Company agreed to sell the 99.99% equity interest in Jinzhou Power at a cash consideration of RMB54,000,000, with an estimated gain of approximately RMB9,805,000. The transaction was approved by the shareholders on 21st March, 2005. Up to the date of this report, the above transaction has not been completed.
- (b) On 9th March, 2005, the Company received a ruling served by Shenyang Intermediate People's Court of Liaoning Province that NET is ruled to transfer the 75% equity interests in 瀋陽東北輸變電設備成套工程有限公司 Shenyang Northeast Equipment Complete Engineering Company Limited ("Shenyang Equipment") and the 70% equity interests in 瀋陽高東加乾燥有限公司 Shenyang Gaodongjia Desiccation Company Limited ("Shenyang Gaodongjia") held by Shenyang High-voltage, to the Company to set off debts due to the Company with principal of RMB8,310,000 and the interests accrued thereon, together with the penalty for overdue repayment commencing from 10th October 2000, of which the Company has made full allowance in prior years. Up to the date of this report, the transfer of the above equity interest has not yet been completed.

SUPPLEMENTARY INFORMATION

These financial statements are prepared in accordance with accounting principles generally accepted in Hong Kong, which differ in certain significant aspects 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	771,1801	20,934
Accrued staff welfare expenses	(675)	(543)
Gain on deemed disposal of partial interest in subsidiaries	—	(17,313)
Written off of long outstanding accounts payable	—	(120)
Negative goodwill	—	(684)
Others	21	(36)
	<hr/>	<hr/>
Under the PRC Accounting Regulations	<u>770,526</u>	<u>2,238</u>

TO THE SHAREHOLDERS OF
NORTHEAST ELECTRIC DEVELOPMENT COMPANY LIMITED

We have audited the accompanying balance sheets of the Company and the Group as of 31st December, 2004 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.

Except for issue mentioned as below, 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 also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit 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.

As disclosed in note 45, we noted that the Company recognised gain of RMB1.87 million relating to the disposal of equity interest of an associate, Shenyang High voltage Switchgears Limited ("Shenyang High-voltage"), to a related company. The gain on disposal was calculated based on the consideration less the share of net assets value of Shenyang High-voltage as at 31st December, 2003. Due to the limitation of objective criteria, we cannot carried out audit procedures over the operating results of Shenyang High-voltage from 1st January, 2004 up to the date of disposal. Accordingly, we cannot confirm the operating results of Shenyang High-voltage from 1st January, 2004 up to the date of disposal and the net assets value as at the date of disposal, and cannot judge the accuracy of the classification of investment income of Shenyang High-voltage and gain on disposal of Shenyang High-voltage. Besides, we noted that the gain on disposal of Shenyang High-voltage of RMB1.87 million was credited to capital reserve (difference of related party transaction). As the Company cannot confirm the fair value of the disposal of Shenyang High-voltage, we cannot confirm the appropriateness of crediting the whole amount to capital reserve (difference of related party transaction).

In our opinion, except for effects of accounting treatment for Shenyang High-voltage as described above, the financial statements as set out on pages 85 to 136 presented in accordance with the requirements of the Accounting Standards for Business Enterprises and the Accounting System for Business Enterprises promulgated by the State, and in material aspects, it fairly reflected the financial position of the Company and the Group as of 31st December, 2004 and the results of their operations and cash flows for the year then.

AUDITORS' REPORT (*Continued*)

In addition, we would like to draw your attention to note 43 (1) that, due to a former associate of the Company is unable to repay loans which has been matured, on 31st May, 2004, a lawsuit was brought by China Development Bank (the "Bank") in Beijing Higher People's Court (the "Beijing Higher Court"). The Bank request Shenyang High-voltage to repay the loan principal of RMB15 million and accrued interest thereon, and request the Company, New Northeast Electric (Shenyang) High-voltage Switchgears Limited ("New Shengao"), Shenyang Suntime High-voltage Electric Company Limited ("Suntime High-voltage"), Shenyang Suntime Storage and Logistics Company Limited ("Suntime Logistics"), Shenyang Chengtai Energy Power Company Limited ("Chengtai Energy") (collectively named "Company and its' related companies"), companies originally set up by Shenyang High-voltage and acquired by the Company during the year, to repay the loan principal of RMB15 million, accrued interest thereon and to bear joint responsibility. The Bank also request to void the sales and purchase agreements over the equity interests in the Suntime High-voltage, Suntime Logistics and Chengtai Energy entered into between the Company and Shenyang High-voltage. The Beijing Higher Court rejected the request by the Bank against the Company and its' related companies on 22nd March, 2005. The Bank do not satisfied with the ruling and appeal to the Beijing Supreme People's Court (the "Supreme Court") demanding the release of the order by Beijing Higher Court. Up to the date of this report, the court has not made final judgement which may have material impact on the Group. The Company has already made adequate disclosure in the financial statements. Our opinion is not qualified in this respect.

Deloitte Touche Tohmatsu CPA Ltd.

Beijing Branch

Chinese Certified Public Accountants

Cui Jin

Jing Yi Qing

18th April, 2005

The auditors' report and the accompanying financial statements are English translations of the Chinese auditors' report and statutory financial statements prepared under accounting principles and practices generally accepted in the People's Republic of China. These financial statements are not intended to present the financial position and results of operations and cash flows in accordance with accounting principles and practices generally accepted in other countries and jurisdictions. In case the English version does not conform to the Chinese version, the Chinese version prevails.

BALANCE SHEET

At 31st December, 2004 (Prepared in accordance with the PRC Accounting Rules and Regulations)

Assets	Notes	Group closing RMB	Group opening RMB	Company closing RMB	Company opening RMB
CURRENT ASSETS					
Cash and bank balances	5	61,683,193.79	14,549,095.48	2,752,216.23	2,221,681.83
Dividend receivable		—	1,000,000.00	—	1,000,000.00
Accounts receivable	6, 8	233,697,772.98	153,518,136.04	21,969,401.20	4,882,360.00
Other receivables	7, 8	329,974,060.93	232,194,326.32	258,008,005.77	197,646,218.93
Prepayments	9	26,844,448.81	92,129,366.01	280,500.00	88,674,733.00
Inventories	10	61,235,551.66	71,751,624.12	3,501,589.46	27,878,800.00
Deferred expenses	11	1,005,085.17	1,169,050.56	—	—
Total current assets		714,440,113.34	566,311,598.53	286,511,712.66	322,303,793.76
LONG TERM INVESTMENTS					
Long term equity investments	12	81,019,736.37	42,156,081.38	727,785,234.03	325,447,684.10
Total long term investments		81,019,736.37	42,156,081.38	727,785,234.03	325,447,684.10
FIXED ASSETS:					
Fixed assets - cost	13	775,984,340.74	566,965,566.40	5,959,258.00	3,346,111.00
Less: Accumulated depreciation	13	141,868,142.30	117,351,660.05	1,847,976.23	1,366,145.61
Fixed assets - net		634,116,198.44	449,613,906.35	4,111,281.77	1,979,965.39
Less: Impairment	13	87,628,424.04	83,851,581.04	—	—
Fixed assets - net book value	13	546,487,774.40	365,762,325.31	4,111,281.77	1,979,965.39
Fixed assets under construction	14	3,925,491.92	4,801,431.71	—	—
Total fixed assets		550,413,266.32	370,563,757.02	4,111,281.77	1,979,965.39
INTANGIBLE AND OTHER ASSETS					
Intangible assets	15	10,283,415.82	10,607,208.38	—	—
Total intangible and other assets		10,283,415.82	10,607,208.38	—	—
TOTAL ASSETS		1,356,156,531.85	989,638,645.31	1,018,408,228.46	649,731,443.25

BALANCE SHEET (Continued)

At 31st December, 2004 (Prepared in accordance with the PRC Accounting Rules and Regulations)

Assets	Notes	Group closing RMB	Group opening RMB	Company closing RMB	Company opening RMB
LIABILITIES AND OWNERS' EQUITY					
Short-term loans	16	179,534,000.00	175,370,000.00	—	—
Notes payable	17	13,000,000.00	13,000,000.00	—	—
Accounts payable	18	85,643,104.58	48,645,633.16	14,549,407.50	11,086,895.00
Advances from customers	19	21,571,864.55	16,417,823.61	1,997,320.00	2,598,200.00
Employee benefits payable		675,861.82	132,449.04	—	—
Tax payable	20	15,261,399.81	7,589,116.56	2,866,670.62	206,206.47
Other fee payable	21	3,047,279.51	2,928,091.68	—	—
Other payables	22	61,541,810.94	50,893,296.90	45,890,314.20	37,930,413.75
Accrued expenses	23	3,544,660.94	3,251,030.04	1,706,984.56	3,221,030.04
Provisions	24	46,285,654.00	30,993,929.00	46,285,654.00	30,993,929.00
Long-term liabilities due within one year	25	33,550,000.00	9,000,000.00	—	—
Total current liabilities		<u>463,655,636.15</u>	<u>358,221,369.99</u>	<u>113,296,350.88</u>	<u>86,036,674.26</u>
LONG TERM LIABILITIES					
Long-term loans	25	—	26,550,000.00	—	—
Specific accounts payable	26	16,166,647.73	14,166,647.83	—	—
Total long term liabilities		<u>16,166,647.73</u>	<u>40,716,647.83</u>	<u>—</u>	<u>—</u>
Total liabilities		<u>479,822,283.88</u>	<u>398,938,017.82</u>	<u>113,296,350.88</u>	<u>86,036,674.26</u>
Minority interest		<u>105,808,169.53</u>	<u>27,005,858.50</u>	<u>—</u>	<u>—</u>
OWNERS' EQUITY					
Paid-up capital (shares)	27	873,370,000.00	873,370,000.00	873,370,000.00	873,370,000.00
Capital reserves	28	969,763,485.09	765,206,994.95	1,124,658,533.79	765,206,994.95
Surplus reserves	29	108,587,124.40	108,587,124.40	108,587,124.40	108,587,124.40
Including: Statutory public welfare fund	29	32,210,803.10	32,210,803.10	32,210,803.10	32,210,803.10
Accumulated losses	30	(1,181,231,040.82)	(1,183,469,350.36)	(1,201,503,780.61)	(1,183,469,350.36)
Translation reserve		36,509.77	—	—	—
Total owners' equity		<u>770,526,078.44</u>	<u>563,694,768.99</u>	<u>905,111,877.58</u>	<u>563,694,768.99</u>
TOTAL LIABILITIES AND OWNERS' EQUITY		<u>1,356,156,531.85</u>	<u>989,638,645.31</u>	<u>1,018,408,228.46</u>	<u>649,731,443.25</u>

The accompanying notes are part of the financial statements.

Profit and Profit Appropriation Statement

For the year ended 31st December, 2004 (Prepared in accordance with the PRC Accounting Rules and Regulations)

	Notes	Group		Company	
		2004 RMB	2003 RMB	2004 RMB	2003 RMB
Revenue	31	346,938,363.00	627,658,731.72	63,325,376.82	40,751,264.93
Less: Cost of sales	32	249,615,581.10	426,042,120.08	56,384,510.01	32,645,598.20
Sales taxes	33	4,600,841.29	5,041,189.77	151,584.84	282,200.00
Gross profit		92,721,940.61	196,575,421.87	6,789,281.97	7,823,466.73
Add: Other operating profits	34	1,906,859.07	4,373,524.08	997,500.00	1,000,000.00
Less: Operating expenses		22,312,613.90	45,198,459.81	1,892,491.00	44,069.50
General and administrative expenses		51,471,527.67	108,985,278.41	14,106,110.11	19,398,900.56
Finance costs	35	9,928,215.44	38,344,590.52	(1,688,170.61)	(75,030.60)
Profit (loss) from operations		10,916,442.67	8,420,617.21	(6,523,648.53)	(10,544,472.73)
Add: Investment income	36	16,177,756.87	56,751,978.07	3,781,463.28	67,498,528.63
Non-operating income	37	337,912.18	1,050,590.73	—	—
Less: Non-operating expenses	38	15,690,455.68	31,605,582.80	15,292,245.00	30,993,999.00
Profit before tax		11,741,656.04	34,617,603.21	(18,034,430.25)	25,960,056.90
Less: Income tax	39	8,175,999.36	5,179,383.35	—	—
Minority interest		1,327,347.14	3,478,162.96	—	—
Net profit for the year		2,238,309.54	25,960,056.90	(18,034,430.25)	25,960,056.90
Add: Opening undistributed losses		(1,183,469,350.36)	(1,209,429,407.26)	(1,183,469,350.36)	(1,209,429,407.26)
Losses available for distribution		(1,181,231,040.82)	(1,183,469,350.36)	(1,201,503,780.61)	(1,183,469,350.36)
Less: Transfer to statutory surplus reserve		—	—	—	—
Transfer to statutory public welfare fund		—	—	—	—
Losses available for distribution to shareholders		(1,181,231,040.82)	(1,183,469,350.36)	(1,201,503,780.61)	(1,183,469,350.36)
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		(1,181,231,040.82)	(1,183,469,350.36)	(1,201,503,780.61)	(1,183,469,350.36)

Profit and Profit Appropriation Statement (Continued)

For the year ended 31st December, 2004 (Prepared in accordance with the PRC Accounting Rules and Regulations)

Supplementary information

	Group		Company	
	2004	2003	2004	2003
	RMB	RMB	RMB	RMB
Gain (loss) on disposal of investments	—	47,387,050.68	(15,774,123.02)	47,387,050.68
Losses incurred from natural disaster	—	—	—	—
Increase (decrease) in profit due to changes in accounting policies	—	—	—	—
Increase (decrease) in profit due to changes in accounting estimate	—	—	—	—
Losses from debt restructuring	—	—	—	—
Others	—	—	—	—
	—	47,387,050.68	(15,774,123.02)	47,387,050.68

The accompanying notes are part of the financial statements.

Cash Flow Statement

For the year ended 31st December, 2004 (Prepared in accordance with the PRC Accounting Rules and Regulations)

	Notes	Group		Company	
		2004 RMB	2003 RMB	2004 RMB	2003 RMB
Cash flow from operating activities					
Cash received from sales of good or rendering services		346,551,164.68	526,090,127.15	56,485,864.51	17,534,643.57
Other cash received relating to operating activities		28,528,346.21	21,646,164.01	51,864,328.13	1,083,849.22
Sub-total of cash inflows		375,079,510.89	547,736,291.16	108,350,192.64	18,618,492.79
Cash paid for goods and services					
Cash paid to and on behalf of employees		(287,553,807.02)	(357,541,711.29)	(68,420,817.21)	(31,233,933.58)
Tax payments		(34,028,045.39)	(93,245,892.76)	(2,649,492.70)	(2,799,771.29)
Cash paid relating to other operating activities		(35,059,131.21)	(51,658,553.55)	(784,694.32)	(2,966,752.19)
Sub-total of cash outflows		(415,064,196.02)	(577,716,279.76)	(181,734,560.02)	(46,214,236.90)
Net cash flows from operating activities		(39,984,685.13)	(29,979,988.60)	(73,384,367.38)	(27,595,744.11)
Cash flows from investing activities					
Cash received from disposal of investment	45	24,000,000.00	106,576,558.96	75,528,048.78	106,576,558.96
Cash received from disposal of subsidiary		—	26,000,000.00	—	26,000,000.00
Cash received from return on investments		1,000,000.00	4,466,803.00	1,000,000.00	4,461,803.00
Net cash receipts from disposal of fixed assets, intangible assets and other long-term assets		2,152,413.56	1,219,454.10	—	—
Net cash receipts from acquisition of subsidiaries	46	43,768,239.62	—	—	—
Sub-total of cash inflows		70,920,653.18	138,262,816.06	76,528,048.78	137,038,361.96
Cash paid to acquire fixed assets, intangible assets and other long-term assets					
Cash payments or prepayments for acquisition of subsidiary		(11,944,478.17)	(17,144,280.60)	(2,613,147.00)	(907,490.00)
Cash out from disposal of subsidiary		—	(118,132,744.63)	—	(118,132,744.63)
		—	(69,972,122.76)	—	—
Sub-total of cash outflow		(11,944,478.17)	(205,249,147.99)	(2,613,147.00)	(119,040,234.63)
Net cash from investing activities		58,976,175.01	(66,986,331.93)	73,914,901.78	17,998,127.33

Cash Flow Statement (*Continued*)

For the year ended 31st December, 2004 (Prepared in accordance with the PRC Accounting Rules and Regulations)

	Notes	Group		Company	
		2004 RMB	2003 RMB	2004 RMB	2003 RMB
Financing activities					
Cash received from investments		38,842,390.00	—	—	—
Including: Cash received by subsidiaries upon acquire equity interest of minority shareholders		38,842,390.00	—	—	—
Cash received from borrowings		175,160,000.00	464,260,000.00	—	—
Sub-total of cash inflow		214,002,390.00	464,260,000.00	—	—
Repayments of borrowings		(172,996,000.00)	(400,086,945.09)	—	—
Dividend paid, profit distributed or interest paid		(12,863,781.57)	(40,963,343.59)	—	—
Sub-total of cash outflow		(185,859,781.57)	(441,050,288.68)	—	—
Net cash flows from financing activities		28,142,608.43	23,209,711.32	—	—
Effect of foreign exchange rate changes on cash and cash equivalents		—	—	—	—
Net increase (decrease) in cash and cash equivalents		47,134,098.31	(73,756,609.21)	530,534.40	(9,597,616.78)

Cash Flow Statement (Continued)

For the year ended 31st December, 2004 (Prepared in accordance with the PRC Accounting Rules and Regulations)

Supplementary information

	Notes	Group		Company	
		2004 RMB	2003 RMB	2004 RMB	2003 RMB
Reconciliation of net profit to cash flow					
from operating activities					
Net profit		2,238,309.54	25,960,056.90	(18,034,430.25)	25,960,056.90
Add: Minority interest		1,327,347.14	3,478,162.96	—	—
Impairment losses on assets		(4,871,133.12)	916,790.39	70,235.28	(1,352,525.23)
Depreciation of fixed assets		19,008,279.35	33,504,371.03	481,830.62	216,614.61
Amortisation of intangibles assets		323,792.56	1,157,038.05	—	—
Decrease in deferred expenses		163,965.39	6,454,979.59	—	—
Increase (decrease) in accrued expenses		(813,216.80)	882,267.54	(1,514,045.48)	(297,469.96)
Provisions		15,291,725.00	30,993,929.00	15,291,725.00	30,993,929.00
Losses (gains) on disposal of fixed assets, intangible assets and other					
long term assets		(189,735.57)	(973,539.51)	—	—
Losses on retirement of fixed assets		—	7,349.09	—	—
Financial costs		12,863,781.57	38,407,109.80	—	—
Loss arising from investments		(16,177,756.87)	(56,751,978.07)	(3,781,463.28)	(67,498,528.63)
Decrease (increase) in inventories		1,351,309.78	37,709,371.91	(3,501,589.46)	—
Decrease (increase) in receivables under operating activities		(14,137,273.83)	(81,917,569.22)	(67,198,626.91)	(11,201,363.65)
Increase (decrease) in payables under operating activities		(56,364,079.27)	(69,808,328.06)	4,801,997.10	(4,416,457.15)
Net cash flows from operating activities		(39,984,685.13)	(29,979,988.60)	(73,384,367.38)	(27,595,744.11)
Non-cash investing activities					
Investment in terms of generators	46(1)	27,878,800.00	—	27,878,800.00	—
Investment in terms of receivables	46(2)	—	—	—	—
Cash and cash equivalents					
Cash and cash equivalents at the end of the year		61,683,193.79	14,549,095.48	2,752,216.23	2,221,681.83
Less: Cash and cash equivalents at the Beginning of the year		14,549,095.48	88,305,704.69	2,221,681.83	11,819,298.61
Net increase (decrease) in cash and cash equivalents		47,134,098.31	(73,756,609.21)	530,534.40	(9,597,616.78)

The accompanying notes are part of the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the Year ended 31st December 2004 (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 (19M92) 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 824,540,000 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 27.

The original shareholder of the Company, Northeast Electrical Transmission & Transformation Equipment Group Corporation Limited (the “NET”), who held 230,000,000 shares of the Company foreclosed all of its shareholdings in the Company through auction to Shenyang Shengang Shi Ye Limited Company. Shenyang Shi Ye Limited Company (named changed to “New Northeast Electric Investment Co., Ltd.”) held 230,000,000 shares of the Company representing 26.34% of the issued share capital of the Company and become the Company’s sole significant shareholder.

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 standards

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

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.

Accounting year

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

Reporting currency

The recording currency of the Company is Renminbi.

NOTES TO THE FINANCIAL STATEMENTS (*Continued*)

For the Year ended 31st December 2004 (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 capitalised 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 recognised 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%

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.

NOTES TO THE FINANCIAL STATEMENTS (*Continued*)

For the Year ended 31st December 2004 (Prepared in accordance with the PRC Accounting Rules and Regulations)

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

Provision for decline in value of inventories

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

When the cost method is adopted, the amount of investment income recognised 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 recognised 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 recognised 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 unrecognised 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 °V equity investment difference" and amortised on a straight-line basis and charged to the income statement accordingly. The amortisation period is the investing period if it is stipulated in the investment contract. Otherwise, it is amortised 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 °V equity investment difference", and amortised on a straight-line basis and charged to the income statement accordingly. The amortisation period is the investing period if it is stipulated in the investment contract. Otherwise, it is amortised 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".

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the Year ended 31st December 2004 (Prepared in accordance with the PRC Accounting Rules and Regulations)

2. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

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 recognised 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 recognised for the difference.

Fixed assets and depreciation

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
Land use rights	—	40 years	2.5%
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 recognised 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 recognised 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, capitalised 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.

NOTES TO THE FINANCIAL STATEMENTS (*Continued*)

For the Year ended 31st December 2004 (Prepared in accordance with the PRC Accounting Rules and Regulations)

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

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 recognised for the shortfall of the recoverable amount of the fixed asset under construction below its carrying amount.

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 capitalised 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 amortised 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 amortised 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 amortised 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 amortisation 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 amortisation period is 10 years.

Impairment loss on intangible assets

At the end of each period, the Company determines whether an impairment loss should be recognised 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 recognised for the difference.

NOTES TO THE FINANCIAL STATEMENTS (*Continued*)

For the Year ended 31st December 2004 (Prepared in accordance with the PRC Accounting Rules and Regulations)

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

Provisions

The obligation related to a contingency is recognised 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.

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 recognised as an asset when, and only when, it is virtually certain that the reimbursement will be received. The amount recognised for the reimbursement is limited to the carrying amount of the liability recognised.

Borrowing costs

Borrowing costs comprise interest incurred on borrowings, amortisation 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 capitalised 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 recognised as expenses and included as finance costs in the period in which they are incurred.

Specific accounts payable

Specific accounts payable is recognised 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 recognised 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.

NOTES TO THE FINANCIAL STATEMENTS (*Continued*)

For the Year ended 31st December 2004 (Prepared in accordance with the PRC Accounting Rules and Regulations)

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

Revenue recognition (*Continued*)

Revenue from rendering services

When the provision of services is started and completed within the same accounting year, revenue is recognised 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 recognised at the balance sheet date by the use of the percentage of completion method. Revenue is otherwise recognised at the balance sheet date only to the extent of the costs incurred that are recoverable and service costs are recognised as expenses in the period in which they are incurred. If the service costs incurred are not expected to be recovered, revenue is not recognised.

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.

Leased assets

Leases are classified as finance leases when the terms of the lease transfer substantially all the risks and rewards of ownership of the assets concerned to the lessees. All other leases are classified as operating leases.

Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

Finance lease expenses are dealt with as an expense in apportioned over the period of the lease.

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 preparation for consolidation

(1) Scope of consolidation

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

NOTES TO THE FINANCIAL STATEMENTS (*Continued*)

For the Year ended 31st December 2004 (Prepared in accordance with the PRC Accounting Rules and Regulations)

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

Basis of preparation for consolidation (*Continued*)

(2) Accounting for consolidation

If the accounting policies adopted by subsidiaries are not consistent with the Company, adjustments would be made to ensure the policies of subsidiaries were align with the Company on consolidation level.

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.

Translation of foreign currency financial statements

Foreign currency financial statements are translated into RMB financial statements for consolidation as follows:

The assets and liabilities are translated at the exchange rate prevailing on 31st December, 2004. Except for unappropriated profits, owners' equity items are reported at the market exchange rates at the dates of the transactions. Income statement items and profit appropriations in the year are translated at the average market exchange rates for the year. The unappropriated profits brought forward are reported at the prior year's closing balance. The unappropriated profits carried forward are calculated, based on the translated amounts of net income and other profit appropriation items. All exchange differences resulting from the translation are recognised as "translation reserve" in the balance sheet.

Cash flows of a foreign subsidiary are translated at average exchange rates for the year. The effect of changes in exchange rates on cash and cash equivalents is presented separately as a reconciling item in the cash flow statement.

The opening balances and prior year's figures are presented according to the translated amounts of the prior year.

3. 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%.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the Year ended 31st December 2004 (Prepared in accordance with the PRC Accounting Rules and Regulations)

3. TAXATION (Continued)

Other tax

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

City construction tax is calculated at 7% of value added tax and income tax.

Education additional tax is calculated at 4% of value added tax and income tax.

4. SCOPE OF CONSOLIDATION, SUBSIDIARIES AND ASSOCIATES

All of the subsidiaries owned by the Company as at 31st December, 2004 are as follows:

Name of subsidiary	Place of registration	Registered capital	Equity directly held by the Company and / or its subsidiaries	Principal business activities	Type of Enterprises	Consolidated or not	Consolidated in 2003
Jinzhou Power Capacitors Ltd.	Jinzhou	RMB 29,420,000	100%	Manufacture of lightening rods and capacitors	Limited company	Yes	Yes
Fuxin Enclosed Busbars Ltd.	Fuxin	RMB 18,090,000	100%	Manufacture of enclosed busbars	Limited company	Yes	Yes
Kingdom Hotel Ltd Shenyang	Shenyang	RMB 150,000,000	90%	Provision of hotel and catering services	Limited company	Yes	Yes
Jinzhou Jinrong Electrical Equipment Co., Ltd	Jinzhou	RMB 3,000,000	169.75%	Manufacture of electrical equipment	Limited company	Yes	Yes
Suntime High-voltage	Shenyang	USD 21,500,000 (Note 1)	74.4%	Manufacture of electrical transmission and transformation equipment	Sino-foreign enterprise	Yes	No
Suntime Logistics	Shenyang	RMB 170,000,000 (Note 1)	95%	Provision of storage and logistics services	Limited company	Yes	No
Chengtai Energy	Shenyang	RMB 90,000,000 (Note 1)	95%	Provision of wind, water electricity and steam power and equipment maintenance services	Limited company	Yes	No
New Northeast Jinzhou Power Capacitors Limited	Jinzhou	USD10,000,000 (Note 2)	52%	Manufacture of power capacitors	Sino-foreign enterprise	Yes	No
Northeast Electric (Hong Kong) Company Limited	Hong Kong	USD900,000 (Note 3)	100%	Investment	Limited company	Yes	No
Great Talent Technology Limited	British Virgin Island	USD1 (Note 4)	100%	Investment	Limited company	Yes	No

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the Year ended 31st December 2004 (Prepared in accordance with the PRC Accounting Rules and Regulations)

4. SCOPE OF CONSOLIDATION, SUBSIDIARIES AND ASSOCIATES (Continued)

Note 1: Suntime High-voltage, Suntime Logistics and Chengtai Energy were subsidiaries which acquired in the year and consolidated to the Group. The operation results and cash flows subsequent to acquisition date of the three companies were included in consolidated financial statements respectively. Refer to Notes 46(1) and 46(2) for financial and operation results from acquisition date up to 31st December, 2004 for the companies.

Note 2: The Company acquired the equity interest of New Northeast Jinzhou Power Capacitors Limited ("New Jinzhou Power") on January 2004 through capital contribution. With respect to the acquisition, the structure of New Jinzhou Power was as follows: 40% held by the Company, 12% held by the Company's wholly-owned subsidiary, Jinzhou Power Capacitors Ltd. Refer to Note 46(3) for financial results of New Jinzhou Power from acquisition date up 31st December, 2004 were consolidated to the Group.

Note 3: On April, 2004, based on State Document, the Company incorporated a wholly-owned subsidiary in Hong Kong representing investment outside PRC boundary and its registered capital is USD 900,000.

Note 4: Great Talent Technology Limited was incorporated by the Company's wholly-owned subsidiary, Northeast Electric (Hong Kong) Company Limited and the financial results of Great Talent Technology Limited are consolidated for the year then ended.

All of the associates owned by the Company as at 31st December, 2004 are as follows:

Name of associate	Place of registration	Registered capital	Equity directly held by the Company and / or its subsidiaries	Principal business activities	Type of Enterprises
Northeast Electrical Hitachi Transmission and Transformation Machinery Co., Ltd.	Shenyang	RMB8,310,000	49%	Manufacture of transformers and transmission equipment	Limited company
Great Power Technology Co., Ltd	British Virgin Island	USD12,626	20.8%	Investment	Limited company

Note 5 to 40 and 42 to 49 represents notes for consolidation level whereas Note 41 represents notes for Company level.

5. CASH AND BANK BALANCES

	31st December, 2004			31st December, 2003		
	Foreign currency	Exchange rate	RMB	Foreign currency	Exchange rate	RMB
Cash						
RMB			245,203.51			908,644.79
Bank balance						
RMB			49,455,278.87			12,910,950.69
HKD	6,651,943.05	1.0637	7,075,671.83	—	1.0657	—
Other cash deposit						
RMB			4,907,039.58			729,500.00
			<u>61,683,193.79</u>			<u>14,549,095.48</u>

Other cash deposit represents the pledged bank deposits with six months guarantee period.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the Year ended 31st December 2004 (Prepared in accordance with the PRC Accounting Rules and Regulations)

6. ACCOUNTS RECEIVABLE

The aging analysis of accounts receivable is as follows:

	31st December, 2004				31st December, 2003			
	Amount	Percentage	Bad debt	Net	Amount	Percentage	Bad debt	Net
	RMB	(%)	provision	book value	RMB	(%)	provision	book value
Within 1 year	187,631,166.48	69	(266,885.69)	187,364,280.79	110,276,305.40	56	(64,800.00)	110,211,505.40
1 to 2 years	29,650,474.47	10	—	29,650,474.47	34,515,590.64	17	(1,130,188.85)	33,385,401.79
2 to 3 years	21,401,178.00	8	(8,665,996.86)	12,735,181.14	11,958,575.99	6	(5,175,413.75)	6,783,162.24
3 to 4 years	9,869,591.43	4	(5,921,754.85)	3,947,836.58	11,653,741.83	6	(8,515,675.22)	3,138,066.61
Over 4 years	24,186,132.08	9	(24,186,132.08)	—	29,182,021.71	15	(29,182,021.71)	—
Total	272,738,542.46	100	(39,040,769.48)	233,697,772.98	197,586,235.57	100	(44,068,099.53)	153,518,136.04

The five largest outstanding accounts receivable are as follows:

Total of the five largest outstanding balance of accounts receivable RMB	Percentage of total balance of accounts receivable %
<u>50,811,926.68</u>	<u>19</u>

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

7. OTHER RECEIVABLES

The aging analysis of other receivables is as follows:

	31st December, 2004				31st December, 2003			
	Amount	Percentage	Bad debts	Net	Amount	Percentage	Bad debts	Net
	RMB	(%)	provision	book value	RMB	(%)	provision	book value
Within 1 year	229,271,529.61	69	(126,221.81)	229,145,307.80	112,166,184.77	36	(201,824.00)	111,964,360.77
1 to 2 years	710,434.86	—	(209,913.08)	500,521.78	111,939,031.41	36	(782,507.77)	111,156,523.64
2 to 3 years	100,024,646.37	30	(602,833.92)	99,421,812.45	4,464,158.39	1	(451,229.26)	4,012,929.13
3 to 4 years	408,222.12	—	(59,974.33)	348,247.79	6,175,457.21	1	(1,906,923.17)	4,268,534.04
Over 4 years	3,351,139.68	1	(2,792,968.57)	558,171.11	75,891,100.27	26	(75,099,121.53)	791,978.74
Total	333,765,972.64	100	(3,791,911.71)	329,974,060.93	310,635,932.05	100	(78,441,605.73)	232,194,326.32

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

For the Year ended 31st December 2004 (Prepared in accordance with the PRC Accounting Rules and Regulations)

7. OTHER RECEIVABLES *(Continued)*

Included in the closing balance of other receivables due within two to two three years is a deposit of USD12 million (RMB99,232,895.26) placed with Liaoning Trust and Investing Company. According to approval of Liaoning Provincial People's government, Fushun Special Steel Group Corporation ("Fushun Steel") signed a Letter of Intention with the Company. Pursuant to which Fushun Steel shall transfer its equity interests in Northeast Special Steel Company Limited ("Northeast Steel") to the Company to set off the Company's debt. Accordingly, no provision was made by the Company towards the receivable.

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

Total of the five largest outstanding balance of other receivables <i>RMB</i>	Share of total balance of other receivables %
298,357,829.10	89

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>
1st January, 2004	44,068,099.53	78,441,605.73	122,509,705.26
Additions	1,157,520.77	213,601.44	1,371,122.21
Reversals	(1,441,653.27)	(1,450,274.12)	(2,891,927.39)
Other transfers-out	(4,743,197.55)	(73,413,021.34)	(78,156,218.89)
	39,040,769.48	3,791,911.71	42,832,681.19

9. PREPAYMENTS

The aging analysis of prepayments is as follows:

	31st December, 2004		31st December, 2003	
	<i>RMB</i>	%	<i>RMB</i>	%
Within 1 year	26,608,611.16	99	91,967,925.27	99
1 to 2 years	235,837.65	1	161,440.74	1
	26,844,448.81	100	92,129,366.01	100

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the Year ended 31st December 2004 (Prepared in accordance with the PRC Accounting Rules and Regulations)

10. INVENTORIES

	31st December, 2004			31st December, 2003		
	Amount	Provision for	Net	Amount	Provision for	Net
	RMB	decline in value	book value	RMB	decline in value	book value
Low value consumables	454,591.27	—	454,591.27	508,178.48	—	508,178.48
Raw materials	21,697,076.32	(1,700,071.76)	19,997,004.56	20,236,044.21	(3,612,052.91)	16,623,991.30
Work in progress	11,687,945.32	(2,113,242.07)	9,574,703.25	10,811,639.28	(2,113,242.07)	8,698,397.21
Finished goods	40,273,233.18	(9,063,980.60)	31,209,252.58	28,544,584.52	(10,502,327.39)	18,042,257.13
Merchandises	—	—	—	27,878,800.00	—	27,878,800.00
	<u>74,112,846.09</u>	<u>(12,877,294.43)</u>	<u>61,235,551.66</u>	<u>87,979,246.49</u>	<u>(16,227,622.37)</u>	<u>71,751,624.12</u>

None of the above inventories are pledged.

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

	1st January, 2004 RMB	Reversals RMB	31st December, 2004 RMB
Provision for decline in value			
Raw materials	3,612,052.91	(1,911,981.15)	1,700,071.76
Finished goods	10,502,327.39	(1,438,346.79)	9,063,980.60
Work in progress	2,113,242.07	—	2,113,242.07
Total	<u>16,227,622.37</u>	<u>(3,350,327.94)</u>	<u>12,877,294.43</u>

11. DEFERRED EXPENSES

Category	31st December, 2004 RMB	31st December, 2003 RMB	Reason to exist
Prepaid heating fee	605,880.33	106,512.60	Benefit period not expired
Prepaid insurance	321,572.80	930,097.96	Benefit period not expired
Others	77,632.04	132,440.00	Benefit period not expired
	<u>1,005,085.17</u>	<u>1,169,050.56</u>	

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

For the Year ended 31st December 2004 (Prepared in accordance with the PRC Accounting Rules and Regulations)

12. LONG TERM EQUITY INVESTMENTS

	31st December, 2004 RMB	31st December, 2003 RMB
Investments in associates	71,642,248.30	26,534,645.67
Other equity investment	11,277,000.00	17,725,011.63
Equity investment difference	<u>(1,632,511.93)</u>	<u>(1,836,575.92)</u>
 Total	 81,286,736.37	 42,423,081.38
Less: Impairment loss on long-term equity investments	 <u>(267,000.00)</u>	 <u>(267,000.00)</u>
 Long-term equity investments - Net	 <u>81,019,736.37</u>	 <u>42,156,081.38</u>

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

	<i>RMB</i>
As at 1st January, 2004 and 31st December, 2004	<u>267,000.00</u>

(1) Details of investment in associates:

Name of investee	Initial investment cost of <i>RMB</i>	Changes in equity for the year <i>RMB</i>	Share in the registered capital of the investee %	Change in equity interest of the investee company <i>RMB</i>	Cash dividend received <i>RMB</i>	Accumulated changes <i>RMB</i>	Closing book value <i>RMB</i>
Shenyang High-voltage Switchgears Ltd.	32,185,359.67	(37,023,582.30)	48.95	—	—	4,838,222.63	—
Northeast Electrical Hitachi Transmission and Transformation Machinery Co., Ltd.	4,068,352.40	—	49.00	(88,628.15)	—	251,164.38	4,319,516.78
New Northeast Electric (Shenyang) High- voltage Switchgears Ltd.	52,249,850.77	(67,302,171.80)	20.80	15,052,321.03	—	15,052,321.03	—
Great Power Technology Co., Ltd	67,322,731.52	—	20.80	—	—	—	67,322,731.52
	<u>155,826,294.36</u>	<u>(104,325,754.10)</u>		<u>14,963,692.88</u>	<u>—</u>	<u>20,141,708.04</u>	<u>71,642,248.30</u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the Year ended 31st December 2004 (Prepared in accordance with the PRC Accounting Rules and Regulations)

12. 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 RMB	Impairment loss		Disposal for the year RMB	Closing book value RMB
		%		Opening balance RMB	Closing balance RMB		
Jinzhou City Co-operative Bank	Long-term	4.35	11,010,000.00	—	—	—	11,010,000.00
Northeast Electric (Hong Kong) Development Ltd.	Long-term	9.00	7,458,011.63	—	—	(7,458,011.63)	—
Others			267,000.00	(267,000.00)	(267,000.00)	—	—
			<u>18,735,011.63</u>	<u>(267,000.00)</u>	<u>(267,000.00)</u>	<u>(7,458,011.63)</u>	<u>11,010,000.00</u>

Note: Northeast Electric (Hong Kong) Development Ltd. (name changed to China High-voltage Electric Limited) was originally held by the Company in 9% equity interest. The Company disposed all of its equity interests at book value to third parties and registered a wholly-owned subsidiary in Hong Kong in April of the financial year. The name of the newly incorporated company remain to be Northeast Electric (Hong Kong) Development Ltd. with registered capital of USD900,000.12.

(3) Equity investment difference

Name of investee	Initial cost RMB	Period of amortisation	1st January, 2004 RMB	Amortisation for the year RMB	31st December, 2004 RMB	Reason to arise
Jinzhou Jinrong Reactor Manufacture Co., Ltd	<u>(2,040,639.91)</u>	<u>10 Years</u>	<u>(1,836,575.92)</u>	<u>204,063.99</u>	<u>(1,632,511.93)</u>	Increase in equity proportion

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

For the Year ended 31st December 2004 (Prepared in accordance with the PRC Accounting Rules and Regulations)

13. FIXED ASSETS, ACCUMULATED DEPRECIATION AND IMPAIRMENT

	Land use rights <i>RMB</i>	Buildings <i>RMB</i>	Plant and machinery <i>RMB</i>	Transportation equipment and others <i>RMB</i>	Leasehold improvements <i>RMB</i>	Total <i>RMB</i>
Cost						
1st January, 2004	—	428,071,391.24	126,238,871.47	11,103,111.09	1,552,192.60	566,965,566.40
Gain on acquisition of subsidiaries	47,454,200.00	114,933,411.80	33,948,497.22	3,683,046.76	—	200,019,155.78
Additions	—	282,701.75	28,894,145.76	5,578,872.04	350,000.00	35,105,719.55
Transferred from construction in progress	—	2,047,919.37	2,284,726.67	—	—	4,332,646.04
Disposals	—	—	(27,887,215.00)	(2,551,532.03)	—	(30,438,747.03)
31st December, 2004	<u>47,454,200.00</u>	<u>545,335,424.16</u>	<u>163,479,026.12</u>	<u>17,813,497.86</u>	<u>1,902,192.60</u>	<u>775,984,340.74</u>
Accumulated depreciation						
1st January, 2004	—	42,763,591.36	70,202,766.73	3,562,651.61	822,650.35	117,351,660.05
Gain on acquisition a subsidiary	2,978,260.87	1,495,343.86	1,292,308.12	264,261.41	—	6,030,174.26
Charge for the year	1,276,397.51	9,042,319.60	7,147,997.09	1,228,625.16	312,939.99	19,008,279.35
Disposals	—	—	(2,081.20)	(519,890.16)	—	(521,971.36)
31st December, 2004	<u>4,254,658.38</u>	<u>53,301,254.82</u>	<u>78,640,990.74</u>	<u>4,535,648.02</u>	<u>1,135,590.34</u>	<u>141,868,142.30</u>
Impairment loss						
1st January, 2004	—	80,464,800.00	3,386,781.04	—	—	83,851,581.04
Gain on acquisition a subsidiary	—	—	3,776,843.00	—	—	3,776,843.00
Additions	—	276,967.53	19,867.45	229,620.14	—	526,455.12
Written back	—	—	(526,455.12)	—	—	(526,455.12)
31st December, 2004	<u>—</u>	<u>80,741,767.53</u>	<u>6,657,036.37</u>	<u>229,620.14</u>	<u>—</u>	<u>87,628,424.04</u>
Net book values						
1st January, 2004	<u>—</u>	<u>304,842,999.88</u>	<u>52,649,323.70</u>	<u>7,540,459.48</u>	<u>729,542.25</u>	<u>365,762,325.31</u>
31st December, 2004	<u>43,199,541.62</u>	<u>411,292,401.81</u>	<u>78,180,999.01</u>	<u>13,048,229.70</u>	<u>766,602.26</u>	<u>546,487,774.40</u>
Including						
Pledged assets						
at the year end-Net	<u>—</u>	<u>12,059,041.65</u>	<u>13,764,640.07</u>	<u>—</u>	<u>—</u>	<u>25,823,681.72</u>

The Group has pledged the buildings, plant, machinery and equipment to secure the bank loans. Details are set out in Note 16 and Note 25.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the Year ended 31st December 2004 (Prepared in accordance with the PRC Accounting Rules and Regulations)

14. FIXED ASSETS UNDER CONSTRUCTION

	1st January, 2004 <i>RMB</i>	Additions <i>RMB</i>	Completed and transferred to fixed assets <i>RMB</i>	Disposals <i>RMB</i>	31st December, 2004 <i>RMB</i>
Construction in progress	4,853,521.75	<u>4,691,490.24</u>	<u>(4,332,646.04)</u>	<u>(1,234,783.99)</u>	<u>3,977,581.96</u>
Less: Impairment loss	<u>(52,090.04)</u>				<u>(52,090.04)</u>
Construction in progress-Net	<u>4,801,431.71</u>				<u>3,925,491.92</u>

Name of Project	Budget	1st	Completed and		Disposals	Impairment loss	31st	Source of fund	Percentage of completion
	amount	January, 2004	Additions	transferred to fixed assets			December, 2004		
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>		
Supreme High-voltage transmission project	18,000,000.00	4,853,521.75	2,880,830.47	(4,332,646.04)	(1,234,783.99)	(52,090.04)	2,114,832.15	Internal raise	90%
Homemade direct and alternate Current filter-capacitor project	72,500,000.00	—	1,810,659.77	—	—	—	1,810,659.77	Internal raise	3%
	<u>90,500,000.00</u>	<u>4,853,521.75</u>	<u>4,691,490.24</u>	<u>(4,332,646.04)</u>	<u>(1,234,783.99)</u>	<u>(52,090.04)</u>	<u>3,925,491.92</u>		

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

For the Year ended 31st December 2004 (Prepared in accordance with the PRC Accounting Rules and Regulations)

15. INTANGIBLE ASSETS

	Land use rights <i>RMB</i>	Franchise <i>RMB</i>	Software <i>RMB</i>	Total <i>RMB</i>
Method of acquisition:	Payment	Invention	Purchasing	
Cost				
1st January, 2004 and 31st December, 2004	12,358,831.72	500,000.00	26,000.00	12,884,831.72
Accumulated amortisation				
1st January, 2004	2,092,623.34	185,000.00	–	2,277,623.34
Charge for the year	252,792.56	45,000.00	26,000.00	323,792.56
31st December, 2004	2,345,415.90	230,000.00	26,000.00	2,601,415.90
Carrying amount				
1st January, 2004	<u>10,266,208.38</u>	<u>315,000.00</u>	<u>26,000.00</u>	<u>10,607,208.38</u>
31st December, 2004	<u>10,013,415.82</u>	<u>270,000.00</u>	<u>–</u>	<u>10,283,415.82</u>
Including Intangible assets pledged assets as at 31st December, 2004	<u>10,013,415.82</u>	<u>–</u>	<u>–</u>	<u>10,013,415.82</u>
Residual period of amortisation	<u>40</u>	<u>6</u>	<u>–</u>	<u>–</u>

The land use rights are pledged to secure bank loans, details are set out in Notes 16 and 25.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the Year ended 31st December 2004 (Prepared in accordance with the PRC Accounting Rules and Regulations)

16. SHORT-TERM LOANS

Type		31st December, 2004 RMB	31st December, 2003 RMB
Pledged loans — RMB	(Note 1)	25,000,000.00	25,260,000.00
Guaranteed loans — RMB	(Note 2)	151,584,000.00	150,110,000.00
Loans on credit — RMB		2,950,000.00	—
		<u>179,534,000.00</u>	<u>175,370,000.00</u>

Note 1: Details of the pledged buildings, plant, machinery, equipment and land use right for pledged loans are set out in Notes 13 and 15. The annual interest rates of above pledged loans are within 4.868% to 6.3%.

Note 2: Guaranteed loans are guaranteed by Shenyang High-voltage of RMB10,334,000, 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 RMB20,400,000, Northeast Electrical Transmission & Transformation Machinery Manufacturing Company Limited (“NET”) of RMB5,000,000, the remaining balance represents the Company gave guarantees of RMB111,000,000 to its subsidiaries or the cross-guarantee among its subsidiaries. The annual interest rates of above pledged loans are within 4.35% to 7.56%.

Included in short term bank loan is an overdue bank loan raised by Kingdom Hotel Ltd Shenyang from Industrial and Commercial Bank of China of RMB29,000,000 at annual interest rate of 7.56% and RMB24,000,000 of the loan is secured, guaranteed and joint liable by the Company. Up to the sign off date of the financial statements, no repayment was made.

17. NOTES PAYABLE

	31st December, 2004 RMB	31st December, 2003 RMB
Bills of exchange from bank	13,000,000.00	13,000,000.00
Notes payable within one year	<u>13,000,000.00</u>	<u>13,000,000.00</u>

18. ACCOUNTS PAYABLE

The aging analysis of accounts payable is as follows:

	31st December, 2004		31st December, 2003	
	Amount RMB	Percentage (%)	Amount RMB	Percentage (%)
Within 1 year	76,912,636.67	90	35,517,613.08	73
1 to 2 years	3,499,531.74	4	7,434,163.55	15
2 to 3 years	2,319,139.88	3	2,317,453.15	5
Over 3 years	2,911,796.29	3	3,376,403.38	7
	<u>85,643,104.58</u>	<u>100</u>	<u>48,645,633.16</u>	<u>100</u>

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

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

For the Year ended 31st December 2004 (Prepared in accordance with the PRC Accounting Rules and Regulations)

19. ADVANCES FROM CUSTOMERS

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

20. TAXE PAYABLE

	31st December, 2004	31st December, 2003
	RMB	RMB
Income tax	3,943,054.64	(89,458.67)
Value added tax	6,014,548.18	2,880,903.65
Business tax	18,985.13	(28,754.91)
City construction tax	479,944.81	271,366.14
Individual income tax	(570,917.90)	(705,101.50)
Property tax	5,130,395.85	5,211,436.07
Others	245,389.10	48,725.78
	15,261,399.81	7,589,116.56

21. OTHER FEE PAYABLES

Nature	31st December, 2004	31st December, 2003
	RMB	RMB
Education additional tax	346,829.14	227,641.31
Energy fund	1,052,183.98	1,052,183.98
Estimated adjustment fund	1,648,266.39	1,648,266.39
	3,047,279.51	2,928,091.68

22. OTHER PAYABLES

The aging analysis of other payables is as follows:

	31st December, 2004		31st December, 2003	
	Amount	Percentage	Amount	Percentage
	RMB	(%)	RMB	(%)
Within 1 year	21,190,968.16	35	12,414,484.54	24
1 to 2 years	4,306,182.32	7	25,373,777.18	50
2 to 3 years	24,852,311.49	40	5,427,738.90	11
Over 3 years	11,192,348.97	18	7,677,296.28	15
	61,541,810.94	100	50,893,296.90	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 2004 (Prepared in accordance with the PRC Accounting Rules and Regulations)

23. ACCRUED EXPENSES

	31st December, 2004 RMB	31st December, 2003 RMB	Reason of arising
Interest expenses	30,000.00	30,000.00	Incurred but not settled
Service expense from intermediaries	1,705,984.56	3,176,065.32	Incurred but not settled
Process fee	1,036,773.71	—	Incurred but not settled
Land use rights fee	451,836.00	—	Incurred but not settled
Others	320,066.67	44,964.72	Incurred but not settled
	<u>3,544,660.94</u>	<u>3,251,030.04</u>	

24. PROVISIONS

	31st December, 2004 RMB	31st December, 2003 RMB
Pending litigation	<u>46,285,654.00</u>	<u>30,993,929.00</u>

Northeast Electrical Transmission and Transformation Group Corporation Limited, the original controlling shareholder of the Company, and China Everbright Bank signed a loan agreement in respect of a loan for the sum of RMB30,000,000.00 and the Company acted as a guarantor and undertook joint guarantee liability. In 2001, China Everbright Bank instituted legal proceedings against the Company for repayment of the principal of the loan and overdue interest amounting to RMB26,402,000.00 and RMB4,591,929.00 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 15 August, 2002, the Company appealed to the Beijing Higher People's Court. On 13th May 2003, the Beijing Higher People's Court ruled in the verdict of final trial. The Company made the provision for guarantees of RMB30,993,929.00 based on the rule from court. Up to the sign of the financial statements, China Everbright Bank does not demand the Company to repay the loan.

The Company acted as a guarantor and undertook joint guarantee liability for RMB20,000,000.00 loan drawn down by Shenyang Cable Co., Limited from Bank of China Shenyang Branch. On June, 2003, Bank of China Shenyang Branch instituted legal proceedings against the Company and demanded the Company to bear joint repayment liability. On October, 2003, Shenyang Intermediate People's Court ruled that the Company be responsible for the repayment of the principal RMB20,000,000.00 and interest accrued thereon. On November, 2003, the Company appealed to the Liaoning Higher People's Court. On December, 2003, Liaoning Higher People's Court ruled that the reality ruled by Shenyang Intermediate People's Court is unclear, evidence insufficient and released Shenyang Intermediate People's Court's ruling and demanded Shenyang Intermediate People's Court to judge the case again. On 9th July, 2004, Shenyang Intermediate People's Court ruled the Company to repay Bank of China Shenyang Branch the principal of RMB11,030,147.13 and corresponding interest so as to release the joint guarantee liability of RMB8,969,852.87. On 28th July, 2004, the Company appealed to the Liaoning Higher People's Court. Up to the sign of the financial statements, Liaoning Higher People's Court does not made any finalised judgement. The Company provided RMB15,291,725.00 liability based on Shenyang Intermediate People's Court ruling.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

For the Year ended 31st December 2004 (Prepared in accordance with the PRC Accounting Rules and Regulations)

25. LONG TERM LOANS

Lender	31st December, 2004 <i>RMB</i>	31st December, 2003 <i>RMB</i>	Loan expired	Annual interest rate %	Terms
Industrial & Commercial Bank of China Jinzhou Branch	5,000,000.00	5,000,000.00	October 2005	7.25	Pledged
Industrial & Commercial Bank of China Jinzhou Branch	15,000,000.00	15,000,000.00	May 2005	5.58	Pledged
Industrial & Commercial Bank of China Jinzhou Branch	6,400,000.00	6,400,000.00	September 2005	6.59	Guaranteed
Bank of Communications Jinzhou Branch Operation Department	150,000.00	150,000.00		7.722	Letter of credit
Industrial Bank of China Jinzhou Branch Cheng Nei Sub-branch	—	2,000,000.00		7.722	Guaranteed
Industrial Bank of China Jinzhou Branch Cheng Nei Sub-branch	<u>7,000,000.00</u>	<u>7,000,000.00</u>	September 2005	7.722	Pledged
Subtotal	<u>33,550,000.00</u>	<u>35,550,000.00</u>			
Less: amount due within 1 year	<u>(33,550,000.00)</u>	<u>(9,000,000.00)</u>			
Amount due after 1 year	<u>—</u>	<u>26,550,000.00</u>			

Pledged loans at the year end are secured by the building and land use rights, details are set out in Notes 13 and 15.

At the balance sheet date, guaranteed loans are guaranteed by Jinzhou Jinkai Electric Group Co., Ltd. (原錦州新生開關有限責任公司) of RMB6,400,000.

26. SPECIFIC ACCOUNTS PAYABLE

	31st December, 2004 <i>RMB</i>	31st December, 2003 <i>RMB</i>
Fund set aside for technology development, and etc.	<u>16,166,647.73</u>	<u>14,166,647.83</u>

Fund and others set aside for research and 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 2004 (Prepared in accordance with the PRC Accounting Rules and Regulations)

27. PAID-UP CAPITAL (SHARES)

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

	1st January, 2004 and 31st December, 2004 <i>(No. of shares)</i>
Non-listed shares	
Promoter's shares	
– Stated owned shares	266,520,000.00
– Domestic legal person held shares	<u>205,300,000.00</u>
Total of non-listed shares	<u>471,820,000.00</u>
Listed shares	
Domestic RMB ordinary shares	143,600,000.00
Overseas listed foreign investment shares	<u>257,950,000.00</u>
Total of listed shares	<u>401,550,000.00</u>
The number of shares	<u><u>873,370,000.00</u></u>

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.

NOTES TO THE FINANCIAL STATEMENTS (*Continued*)

For the Year ended 31st December 2004 (Prepared in accordance with the PRC Accounting Rules and Regulations)

28. CAPITAL RESERVES

	Capital premium <i>RMB</i>	Difference on related parties transactions <i>RMB</i>	Provision for equity investment <i>RMB</i>	Other capital reserve <i>RMB</i>	Total <i>RMB</i>
1st January, 2003	115,547,484.00	3,910,200.00	—	643,432,525.93	762,890,209.93
Addition for the year	—	—	2,316,785.02	—	2,316,785.02
31st December, 2003	115,547,484.00	3,910,200.00	2,316,785.02	643,432,525.93	765,206,994.95
Additions in the year	—	1,873,499.46 (<i>Note1</i>)	202,682,990.68 (<i>Note2</i>)	2,310,302.75 (<i>Note3</i>)	206,866,792.89
Disposal in the year	—	—	(2,310,302.75) (<i>Note3</i>)	—	(2,310,302.75)
31st December, 2004	<u>115,547,484.00</u>	<u>5,783,699.46</u>	<u>202,689,472.95</u>	<u>645,742,828.68</u>	<u>969,763,485.09</u>

Note1: In current year, the capital reserve — difference on related parties transaction was arise from gain on disposal of Shenyang High-voltage equity of RMB1,873,499.46, details set out in Note 45.

Note2: In current year, the increase of capital reserve — provision for equity investment was mainly due to the initial investment cost by the Company lower than the investee's equity portion of RMB202,682,990.68, included in the amount was RMB65,830,498.28 which arise from acquisition of equity interests of Suntime High-voltage from Shenyang High-voltage, details set out in Note 46(1); RMB136,028,190.56 which arise from acquisition of equity interests of Suntime Logistics and Chengtai Energy from Shenyang High-voltage, details set out in Note 46(2); RMB683,517.77 which arise from acquisition of equity interests of New Northeast Electric (Shenyang) High-voltage Switchgear Ltd. ("New Shengao"); RMB20,559.72 which arise from acquisition of 20.8% equity interest of Great Power Technology Co., Ltd by the wholly-owned subsidiary of the Company. The remaining increased amount of RMB120,224.45 mainly represents the increased of capital reserve due to acquisition of subsidiaries based on the shareholding of the Company.

Note3: As the equity interest of Shenyang High-voltage was disposed in current year, the capital reserve — provision for equity investment of RMB2,310,302.75 arise from Shenyang High-voltage was transferred to other capital reserve.

29. SURPLUS RESERVES

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

The statutory surplus reserve can be utilised 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 utilised to provide welfare for workers of the Company.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the Year ended 31st December 2004 (Prepared in accordance with the PRC Accounting Rules and Regulations)

30. ACCUMULATED LOSSES

	Year ended 31st December, 2004 <i>RMB</i>	Year ended 31st December, 2003 <i>RMB</i>
At 1st January	(1,183,469,350.36)	(1,209,429,407.26)
Add: profits for the year	<u>2,238,309.54</u>	<u>25,960,056.90</u>
At 31st December	<u><u>(1,181,231,040.82)</u></u>	<u><u>(1,183,469,350.36)</u></u>

31. REVENUE

	Year ended 31st December, 2004 <i>RMB</i>	Year ended 31st December, 2003 <i>RMB</i>
Ancillary products for transformers	669,290.80	1,106,642.30
High voltage switches	82,114,526.09	396,008,513.86
Power capacitors	184,602,197.06	177,339,358.95
Enclosed busbars	34,011,180.49	22,331,197.94
Food, beverage and accommodation	30,556,995.04	30,873,018.67
Storage and logistics	8,486,134.95	—
Wind, water, electricity and gas service	6,498,038.57	—
	<u><u>346,938,363.00</u></u>	<u><u>627,658,731.72</u></u>

Sales income from the top 5 customers

RMB

48,089,763.07

Share of total revenue

%

14

32. COST OF SALES

	Year ended 31st December, 2004 <i>RMB</i>	Year ended 31st December, 2003 <i>RMB</i>
Ancillary products for transformers	743,905.61	1,027,051.52
High voltage switches	71,364,403.99	264,916,601.01
Power capacitors	116,159,777.92	119,204,064.37
Enclosed busbars	26,497,321.75	16,977,194.07
Food, beverage and accommodation	23,960,931.36	23,917,209.11
Storage and logistics	6,111,691.50	—
Wind, water, electricity and gas service	4,777,548.97	—
	<u><u>249,615,581.10</u></u>	<u><u>426,042,120.08</u></u>

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

For the Year ended 31st December 2004 (Prepared in accordance with the PRC Accounting Rules and Regulations)

33. SALES TAX

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

34. OTHER OPERATING PROFITS

	Year ended 31st December, 2004 <i>RMB</i>	Year ended 31st December, 2003 <i>RMB</i>
Sales of materials		
— Revenue	976,469.53	20,535,299.85
— Costs	(484,174.86)	(19,491,258.65)
	492,294.67	1,044,041.20
Rental of houses		
— Revenue	1,694,302.50	—
— Costs	(1,277,642.98)	—
	416,659.52	—
Others		
— Revenue	1,000,404.88	—
— Costs	(2,500.00)	—
	997,904.88	—
Technical services		
— Revenue	—	20,522,058.80
— Costs	—	(17,192,575.92)
	—	3,329,482.88
Total	<u>1,906,859.07</u>	<u>4,373,524.08</u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the Year ended 31st December 2004 (Prepared in accordance with the PRC Accounting Rules and Regulations)

35. FINANCE COSTS

	Year ended 31st December, 2004 RMB	Year ended 31st December, 2003 RMB
Interest expenses	12,863,781.57	38,651,257.01
Less: Interest income	3,099,636.41	787,872.95
Exchange losses (less: exchange gains)	36,472.69	(21,205.06)
Others	127,597.59	502,411.52
	<u>9,928,215.44</u>	<u>38,344,590.52</u>

36. INVESTMENT INCOME

	Year ended 31st December, 2004 RMB	Year ended 31st December, 2003 RMB
Long-term investment income		
Shares of investee's profit recognised under equity method	14,963,692.88	7,658,003.74
Profits declared by investee under cost method	1,010,000.00	1,000,000.00
Amortisation of long-term equity investment difference	204,063.99	706,923.65
Gain on disposal of long-term equity investment	—	47,387,050.68
	<u>16,177,756.87</u>	<u>56,751,978.07</u>

37. NON-OPERATING INCOME

Type	Year ended 31st December, 2004 RMB	Year ended 31st December, 2003 RMB
Gain on disposals of fixed assets	190,567.21	1,035,436.97
Gain on disposals of scrap materials	101,506.67	—
Penalty income	4,768.30	6,040.00
Others	41,070.00	9,113.76
	<u>337,912.18</u>	<u>1,050,590.73</u>

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

For the Year ended 31st December 2004 (Prepared in accordance with the PRC Accounting Rules and Regulations)

38. NON-OPERATING EXPENSES

Type	Year ended 31st December, 2004 RMB	Year ended 31st December, 2003 RMB
Provision for loss on guarantees (Note 24)	15,291,725.00	30,993,929.00
Penalty expenses	389,696.24	—
Loss on disposals of fixed assets	831.64	69,246.55
Others	8,202.80	542,407.25
	<u>15,690,455.68</u>	<u>31,605,582.80</u>

39. INCOME TAX

	Year ended 31st December, 2004 RMB	Year ended 31st December, 2003 RMB
Income tax payable by subsidiaries	<u>8,175,999.36</u>	<u>5,179,383.35</u>

40. SEGMENT INFORMATION

	Manufacture of transmission machinery RMB	Hotel, catering and other service RMB	Total RMB
Total revenue	301,397,194.44	45,541,168.56	346,938,363.00
Total cost of sales	214,765,409.27	34,850,171.83	249,615,581.10
Total sales taxes	2,461,582.35	2,139,258.94	4,600,841.29
Total overheads	71,799,602.60	11,912,754.41	83,712,357.01
Profit from operation	<u>14,277,459.29</u>	<u>(3,361,016.62)</u>	<u>10,916,442.67</u>
Total assets	<u>898,517,252.69</u>	<u>457,639,279.16</u>	<u>1,356,156,531.85</u>
Total liabilities	<u>401,709,721.06</u>	<u>78,112,562.82</u>	<u>479,822,283.88</u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the Year ended 31st December 2004 (Prepared in accordance with the PRC Accounting Rules and Regulations)

41. NOTES TO THE FINANCIAL STATEMENTS OF THE COMPANY

(1) Accounts Receivable

The aging analysis of accounts receivable is as follows:

	31st December, 2004				31st December, 2003			
	Amount	Percentage	Bad debt	Net	Amount	Percentage	Bad debt	Net
	RMB	(%)	provision	book value	RMB	(%)	provision	Book value
Within 1 year	21,787,341.20	99	—	21,787,341.20	4,882,360.00	100	—	4,882,360.00
1 to 2 years	182,060.00	1	—	182,060.00	—	—	—	—
Total	<u>21,969,401.20</u>	<u>100</u>	<u>—</u>	<u>21,969,401.20</u>	<u>4,882,360.00</u>	<u>100</u>	<u>—</u>	<u>4,882,360.00</u>

(2) Other receivables

The aging analysis of other receivables is as follows:

	31st December, 2004				31st December, 2003			
	Amount	Percentage	Bad debt	Net	Amount	Percentage	Bad debt	Net
	RMB	(%)	provision	book value	RMB	(%)	provision	Book value
Within 1 year	158,866,653.28	61	(91,542.77)	158,775,110.51	79,013,250.58	40	—	79,013,250.58
1 to 2 years	5,876.84	—	(5,876.84)	—	118,750,670.44	60	(117,702.09)	118,632,968.35
2 to 3 years	99,323,413.02	39	(90,517.76)	99,232,895.26	—	—	—	—
Total	<u>258,195,943.14</u>	<u>100</u>	<u>(187,937.37)</u>	<u>258,008,005.77</u>	<u>197,763,921.02</u>	<u>100</u>	<u>(117,702.09)</u>	<u>197,646,218.93</u>

The other receivables aged within 2 to 3 years included USD12,000,000 deposit in Liaoning Trust (approximately RMB99,232,895.26). With respect to approval from respective department in Liaoning State government, Fushun Special Steel signed a Letter of Intention with the Company on 5th March, 2005. Pursuant to which Fushun Special Steel agreed to transfer its equity interests in Northeast Special Steel Group Incorporation to the Company to set off the Company's debt. Hence, no provision was made by the Company regarding the receivable from Liaoning Trust.

(3) Prepayments

The aging analysis of prepayment is as follows:

	31st December, 2004	31st December, 2003
	RMB	RMB
Within one year	<u>280,500.00</u>	<u>88,674,733.00</u>

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

For the Year ended 31st December 2004 (Prepared in accordance with the PRC Accounting Rules and Regulations)

41. NOTES TO THE FINANCIAL STATEMENTS OF THE COMPANY *(Continued)*

(4) Long term equity investments

i. Investment in subsidiaries and associates

	31st December, 2004	31st December, 2003
	RMB	RMB
Investment in subsidiaries	712,455,717.25	281,455,026.80
Investment in associates	4,319,516.78	26,534,645.67
Investment in other equity	11,010,000.00	17,458,011.63
	<hr/>	<hr/>
Total	727,785,234.03	325,447,684.10
Less: Impairment loss on long-term equity investments	<hr/> — <hr/>	<hr/> — <hr/>
Long-term equity investments-Net	<u>727,785,234.03</u>	<u>325,447,684.10</u>

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		Transfer out (Note) RMB	Closing book value RMB
				Opening RMB	Closing RMB		
Jinzhou City Co-operative bank	Long term	4.35	11,010,000.00	—	—	—	11,010,000.00
Northeast Electric (Hong Kong) Development Ltd.	Long term	9.00	7,458,011.63	—	—	(7,458,011.63)	—
			<hr/> 18,468,011.63 <hr/>	<hr/> — <hr/>	<hr/> — <hr/>	<hr/> (7,458,011.63) <hr/>	<hr/> 11,010,000.00 <hr/>

Note: Northeast Electric (Hong Kong) Development Ltd. (name changed to China High-voltage Electric Limited) was originally held by the Company in 9% equity interest. The Company disposed all of its equity interests at book value to third parties and registered a wholly-owned subsidiary in Hong Kong in April of the financial year. The name of the newly incorporated company remain to be Northeast Electric (Hong Kong) Development Ltd. with registered capital of USD900,000.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the Year ended 31st December 2004 (Prepared in accordance with the PRC Accounting Rules and Regulations)

41. NOTES TO THE FINANCIAL STATEMENTS OF THE COMPANY (Continued)

(4) Long term equity investments (Continued)

ii. Details of other equity investments (Continued)

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	(37,023,582.30)	48.95	—	—	4,838,222.63	—
Northeast Electrical Hitachi Transmission and Transformation Machinery Co., Ltd.	4,068,352.40	—	49.00	(88,628.15)	—	251,164.38	4,319,516.78
New Northeast Electric (Shenyang) High-voltage Switchgear Ltd	52,249,850.77	(67,302,171.80)	20.80	15,052,321.03	—	15,052,321.03	—
	<u>88,503,562.84</u>	<u>(104,325,754.10)</u>		<u>14,963,692.88</u>	<u>—</u>	<u>20,141,708.04</u>	<u>4,319,516.78</u>

Details of movements in investment in subsidiaries:

Item	1st January, 2004 RMB	Addition RMB	Disposals 31st December, 2004 RMB	RMB
Investment cost	401,434,311.86	416,624,826.05	(5,120,936.21)	812,938,201.70
Share of result of subsidiaries	(119,979,285.06)	19,496,800.61	—	(100,482,484.45)
Total	<u>281,455,026.80</u>	<u>436,121,626.66</u>	<u>(5,120,936.21)</u>	<u>712,455,717.25</u>

NOTES TO THE FINANCIAL STATEMENTS (*Continued*)

For the Year ended 31st December 2004 (Prepared in accordance with the PRC Accounting Rules and Regulations)

41. NOTES TO THE FINANCIAL STATEMENTS OF THE COMPANY (*Continued*)

(5) Capital Reserves

	Capital premium <i>RMB</i>	Related parties transactions reserve <i>RMB</i>	Provision for equity investment <i>RMB</i>	Other capital reserve <i>RMB</i>	Total <i>RMB</i>
1st January, 2003	115,547,484.00	3,910,200.00	—	643,432,525.93	762,890,209.93
Addition for the year	—	—	2,316,785.02	—	2,316,785.02
31st December, 2003	115,547,484.00	3,910,200.00	2,316,785.02	643,432,525.93	765,206,994.95
Additions for the year	—	1,873,499.46 <i>(Note1)</i>	357,578,039.38 <i>(Note2)</i>	2,310,302.75 <i>(Note3)</i>	361,761,841.59
Disposal for the year	—	—	(2,310,302.75) <i>(Note3)</i>	—	(2,310,302.75)
31st December, 2004	<u>115,547,484.00</u>	<u>5,783,699.46</u>	<u>357,584,521.65</u>	<u>645,742,828.68</u>	<u>1,124,658,533.79</u>

Note1: In current year, the capital reserve — difference on related parties transaction was arise from gain on disposal of Shenyang High-voltage equity of RMB1,873,499.46, details set out in Note 45.

Note2: In current year, the increase of capital reserve — provision for equity investment was mainly due to the initial investment cost by the Company lower than the investee's equity portion of RMB357,578,039.38, included in the amount was RMB101,299,402.91 which arise from acquisition of equity interests of Suntime High-voltage from Shenyang High-voltage; RMB233,087,989.62 which arise from acquisition of equity interests of Suntime Logistics and Chengtai Energy from Shenyang High-voltage; RMB683,517.77 which arise from acquisition of equity interests of New Northeast Electric (Shenyang) High-voltage Switchgear Ltd. ("New Shengao"); RMB20,559.72 which arise from acquisition of 20.8% equity interest of Great Power Technology Co., Ltd by the wholly-owned subsidiary of the Company. The Company also recognised RMB22,366,344.91 provision for equity investment which arise from the transfer of subsidiaries and associates among the Group (eliminated on consolidation level). The remaining increased amount of RMB120,224.45 mainly represents the increased of capital reserve due to acquisition of subsidiaries based on the shareholding of the Company.

In above capital reserve, RMB 132,528,703.79 due to acquisition of Suntime high-voltage, Suntime storage and Chentai Power, the capital reserve would be eliminated on consolidation level.

Note3: As the equity interest of Shenyang High-voltage was disposed in current year, the capital reserve °V provision for equity investment of RMB2,310,302.75 arise from Shenyang High-voltage was transferred to other capital reserve.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the Year ended 31st December 2004 (Prepared in accordance with the PRC Accounting Rules and Regulations)

41. NOTES TO THE FINANCIAL STATEMENTS OF THE COMPANY (Continued)

(6) Investment income

	Year ended 31st December, 2004 RMB	Year ended 31st December, 2003 RMB
Long-term investment income:		
Shares of investee's profit recognised under equity method	18,545,586.30	18,649,001.37
Profit declared by investee under cost method	1,010,000.00	1,000,000.00
Amortisation of long-term equity investment difference	—	462,476.58
(Loss) gain on disposal of long-term equity investment	(15,774,123.02)	47,387,050.68
	<u>3,781,463.28</u>	<u>67,498,528.63</u>

Loss on disposal of long-term equity investment refers to loss of RMB15,774,123.02 with respect to internal transfer of equity interests of associates, the loss would be eliminated on consolidation level.

42. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS

(1) Except for subsidiaries listed under Note 4, the name of the sole major shareholder

Name of the related party	Place of registration	Principal business activities	Relationship	Type of enterprises	Legal representatives
New Northeast Electric Investment Co., Ltd.	Shenyang	Equity investment etc	Sole major shareholder	Limited company	Tian Li

On 9th May, 2004, the sole major shareholder New Northeast Electric Investment Co., Ltd changed the registered office from Shenzhen Shi Luo Hu Qu Jia Bin Lu No. 23 to Shenyang Liaoning provinces.

(2) The register capital of the Company's sole major shareholder and the change thereon

Name of the related party	1st January, 2004 and 31st December, 2004 RMB
New Northeast Electric Investment Co., Ltd.	135,000,000.00

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

For the Year ended 31st December 2004 (Prepared in accordance with the PRC Accounting Rules and Regulations)

42. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS *(Continued)*

(3) The proportion of shareholding and equity interest held by the Company's sole major shareholder and change thereon

Name of the related party	1st January, 2004 and 31st December, 2004	
	<i>RMB</i>	%
New Northeast Electric Investment Co., Ltd.	<u>230,000,000.00</u>	<u>26.34</u>

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

Name of the related party	Relationship with the Company
Shenyang Chengan Electric Equipment Group Co. Limited	<i>Note</i>
Shenyang High-voltage Switchgear Ltd	<i>Note</i>
New Northeast Electric (Shenyang) High-voltage Switchgear Ltd.	Associates

Note: Prior to 24th March, 2004, Shenyang High-voltage was an associate of the Company. In 2004, Shenyang Chengan Electric Equipment Group Co. Limited ("Chengan Electric") and Shenyang High-voltage was once under the Company's sole major shareholder New Northeast Electric Investment Co., Ltd's same ultimate holding company and disclosed as related company. As at 31st December, 2004, Chengan Electric and Shenyang High-voltage do not have any relationship.

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

(a) Disposal of equity interest

With respect to board of directors approval on 15th March, 2004, the Company disposed its 48.95% equity interests in Shenyang High-voltage to Chengan Electric, the transfer price of RMB45,200,000 was reference to Shenyang High-voltage's audited net asset value as at 31st December, 2003 and consideration was RMB24,000,000. Detail is set out in Note 45.

(b) Transfer to equity interest

With respect to board of shareholders approval on 12th October, 2004, the Company acquired 74.4% equity interest in Suntime High-voltage and used its equity interest in Shenyang Tianshing Communication Equipment Co Ltd. as consideration. Detail is set out in Note 46(1).

With respect to board of shareholders approval on 12th October, 2004, the Company acquired 95% equity interest in Suntime Logistics and Chengtai Energy respectively and used its receivable from NET as consideration. Detail is set out in Note 46(2).

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the Year ended 31st December 2004 (Prepared in accordance with the PRC Accounting Rules and Regulations)

42. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (Continued)

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

(c) Sales and purchases

Sales and purchases between the Company and related parties are as follows:

	31st December, 2004 RMB	31st December, 2003 RMB
Sales		
Shenyang High-voltage Switchgear Ltd.	1,186,324.19	—
New Northeast Electric (Shenyang) High-voltage Switchgear Ltd.	21,100,566.43	—
	<u>22,286,890.62</u>	<u>—</u>
Purchases		
Shenyang High-voltage Switchgear Ltd.	7,022,717.12	32,239,102.47
New Northeast Electric (Shenyang) High-voltage Switchgear Ltd.	46,739,388.10	—
	<u>53,762,105.22</u>	<u>32,239,102.47</u>

Over 95% of the income of the subsidiaries of the Company, Shenyang Suntime Storage and Logistics Company Limited and Shenyang Chengtai Energy Power Company Limited are derived from New Northeast Electric (Shenyang) High-voltage Switchgear Ltd.

(d) Others

	31st December, 2004 RMB	31st December, 2003 RMB
Provide guarantee on loan of related party Shenyang High-voltage Switchgear Ltd.	<u>41,550,000.00</u>	<u>70,850,000.00</u>
Accept guarantee on loan of related party Shenyang High-voltage Switchgear Ltd.	<u>10,330,000.00</u>	<u>25,700,000.00</u>
Interest income		
New Northeast Electric (Shenyang) High-voltage Switchgear Ltd.	<u>2,932,029.86</u>	<u>—</u>

The interest income received from related party was based on non-trade nature balance due from related parties at 6% interest per annum.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

For the Year ended 31st December 2004 (Prepared in accordance with the PRC Accounting Rules and Regulations)

42. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS *(Continued)*

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

(d) Others *(Continued)*

	31st December, 2004 RMB	31st December, 2003 RMB
Rental income		
Shenyang High-voltage Switchgear Ltd.	125,070.00	—
New Northeast Electric (Shenyang) High-voltage Switchgear Ltd.	1,473,285.00	—
	1,598,355.00	—
Storage and transportation services income		
New Northeast Electric (Shenyang) High-voltage Switchgear Ltd.	7,992,404.95	—
Wind, water, electricity and gas services income		
New Northeast Electric (Shenyang) High-voltage Switchgear Ltd.	6,498,039.57	—
Transportation expenses		
Shenyang High-voltage Switchgear Ltd.	106,170.10	—

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the Year ended 31st December 2004 (Prepared in accordance with the PRC Accounting Rules and Regulations)

42. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (Continued)

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

(e) Amounts due to / from related parties

Types	Name of the related parties	31st December, 2004 RMB	31st December, 2003 RMB
Accounts receivables	Shenyang High-voltage Switchgear Ltd.	1,652,591.00	—
	New Northeast Electric (Shenyang) High-voltage Switchgear Ltd.	26,441,576.52	—
	Shenyang Chengan Electric Equipment Group Co. Limited	688,771.63	688,771.63
		28,782,939.15	688,771.63
Other receivables	Shenyang High-voltage Switchgear Ltd.	101,723,402.75	48,017,386.90
	New Northeast Electric (Shenyang) High-voltage Switchgear Ltd.	46,203,038.43	—
		147,926,441.18	48,017,386.90
Accounts payable and Other payables	Shenyang High-voltage Switchgear Ltd.	3,830,870.20	6,739,369.86
	New Northeast Electric (Shenyang) High-voltage Switchgear Ltd.	15,852,481.00	—
		19,683,351.20	6,739,369.86

Except for the non-trade receivable from New Shengao was interest bearing at 6% per annum, the above balances are without repayment terms, non-interest bearing, unsecured and not guarantee.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the Year ended 31st December 2004 (Prepared in accordance with the PRC Accounting Rules and Regulations)

43. CONTINGENT LIABILITIES

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

1. In 1998, Shenyang High-voltage and China Development Bank (the “Bank”) signed a Loan Agreement and obtain loan from the Bank, the loan was guaranteed by other companies based on an Guarantee Agreement which signed between the guarantor and the Bank. In 2003 and current year, Shenyang High-voltage set up New Northeast Electric (Shenyang) High-Voltage Switchgears Limited (“New Shengao”), Suntime High-voltage, Suntime Logistics and Chengtai Energy and using tangible assets and land use rights as capital injection. As mentioned in Notes 46(1) and 46(2), the Company obtained the equity interests in Suntime High-voltage and Suntime Logistics and Chengtai Energy in current year. On 31st May, 2004, the Bank appealed to Beijing Higher People’s Court (the “Beijing Higher Court”) and demanding Shenyang High-voltage to repay RMB150,000,000 principal and interest accrued thereon, and request the Company, New Shengao, Suntime High-voltage, Suntime Logistics and Chengtai Energy (collectively named “Company and related companies”) to bear joint guarantee responsibility to the RMB150,000,000 loan drawn from the Bank, interest accrued thereon; and request the court to void the sales and purchase agreements over the equity interests in the Suntime High-voltage, Suntime Logistics and Chengtai Energy entered into between the Company and Shenyang High-voltage. Pursuant to the (2004) 高民初字第802號 Civil Written Order issued by Beijing Higher Court on 18th March, 2005, the Higher Court ruled out the joint guarantee liability of principal RMB150,000,000 and interest accrued thereon request by the Bank for the Company and related companies and request Shenyang High-voltage to repay the loan have no legal relationship, and the two issues should not be judge together based on correlation principal. . The Bank could commence another litigation to the court if there are the evidences supporting the exchange of equity interests between offended the Bank’s rights. Accordingly, the Beijing Higher Court rejected the appeal by the Bank against the Company and the related companies. As the Bank believes the ruling from High Court was not legally sound and realistic, on 22nd March, 2005, it filed an appeal to the Beijing Supreme People’s Court (the “Supreme Court”) demanding the release of the (2004) 高民初字第802號 Civil Written Order. The Company’s lawyer commented that the Company and the related companies are not the mentioned parties of the Loan Agreement and Guarantee Agreement and should not bear respective liabilities thereof and unrelated to the loan dispute. The set up of companies including New Shengao, Suntime High-Voltage, Suntime Logistics and Chengtai Energy by Shenyang High-voltage were limited liabilities based on investments outside the Company’s legal relationship and such procedures would not diminish the asset value of Shenyang High-voltage and would not have any negative effect on its repayment ability. Shenyang High-voltage and the Company do not contribute any intentional fraud. The Company’s lawyer does not believe the 2nd filing to the Supreme Court will be of success. As the court do not have final judgment, the degree of influence related to appeal from the Bank should be recognised based on the final judge from the court.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the Year ended 31st December 2004 (Prepared in accordance with the PRC Accounting Rules and Regulations)

43. CONTINGENT LIABILITIES (Continued)

2. Except note 42(5)(d), disclosed guarantees that the Company provided to related parties, other guarantees set out as follow:

The Company's wholly owned subsidiary, Jinzhou Power Capacitors Ltd. has given guarantees to Jinzhou Jinkai Electric Group Co., Ltd. (formerly known as 錦州新生開關有限公司) amounting to RMB17,770,000, the nature is cross-guarantee. In return, Jinzhou Jinkai Electric Group Co., Ltd. have given guarantees to Jinzhou Power Capacitors Ltd. amounting to RMB20,400,000.

44. CAPITAL COMMITMENT

	31st December, 2004 RMB	31st December, 2003 RMB
Capital expenditure contracted for but not provided in the financial statements in respect of		
– Acquisition of fixed assets	72,257,144.23	73,597,541.71
– Commitment for investments	—	10,237,492.00
	<u>72,257,144.23</u>	<u>83,835,033.71</u>

45. DISPOSAL OF EQUITY INTEREST OF THE SUBSIDIARIES

With respect to board of director approval on 12th June, 2003, it was approved to dispose 49% equity interest of Shenyang High-voltage to Chengan Electric. 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 Register. Jinzhou Power Capacitors Ltd. also transferred out its share capital of RMB1. At the date of disposal, the shareholder of Chengan Electric was Shenyang Dancheng Automobile Trade Centre and Shenyang Xinwei Logistic Company Limited in shareholding of 90% and 10% respectively. Chengan Electric and the Company do not have relationship as at equity interest transfer date, gain on disposal of 49% equity interest of Shenyang High-voltage was RMB11,102,918.24.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the Year ended 31st December 2004 (Prepared in accordance with the PRC Accounting Rules and Regulations)

45. DISPOSAL OF EQUITY INTEREST OF THE SUBSIDIARIES (Continued)

Subsequently, Chengan Electric proposed to raise its capital share capital of Shenyang High-voltage of RMB6,080,000 on 22nd September, 2003. After the capital increase, the registered share capital of Shenyang High-voltage became RMB151,000,000, including the investment from Chengan Electric 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 Registor changed. The share capital of the Company was increased as RMB2,310,302.75, according to the capital increase. After the date of disposal, Shenyang High-voltage was no longer being consolidated and was shared the result by equity method.

With respect to board of director approval on 15th March, 2004, the Company transfer its 48.95% equity interest to Chengan Electric. The disposal agreement was signed on 15th March, 2004 at cash consideration of RMB24,000,000 with reference to the audited net asset value at 31st December, 2003 of RMB45,202,248.29. On 24th March, 2004, the Company received RMB14,000,000 sales proceeds and the remaining sales proceeds was received as at 27th December, 2004.

As Chengan Electric's significant shareholder, Shenyang Dancheng Automobile Trade Centre changed to Shenzhen Suntime Electric Investments Co Limited on 2nd March, 2004 and at the time when 48.95% equity interest of Shenyang High-voltage disposed of, Shenzhen Suntime Electric Investments Co Limited is the Company's sole major shareholder of New Northeast Electric Investment Co Ltd, the ultimate shareholder of the Company and treated as related transaction.

Disposal of 48.95% equity interests of Shenyang High-voltage is as follows:

	Amount RMB
Cash consideration of the disposal of Shenyang High-voltage	24,000,000.00
Less: Shenyang High-voltage net asset value at 31st December, 2003 based on 48.95% equity holding	<u>22,126,500.54</u>
Gain on disposal of 49% equity interest of Shenyang High-voltage (Capital reserve – related party transaction)	<u><u>1,873,499.46</u></u>

NOTES TO THE FINANCIAL STATEMENTS (*Continued*)

For the Year ended 31st December 2004 (Prepared in accordance with the PRC Accounting Rules and Regulations)

46. ACQUISITION OF SUBSIDIARIES

(1) Acquire Suntime High-voltage

On March, 2004, the Company used the 6 units of 120MW Generators and 4 units of 200MW Generators with book value of RMB27,878,700 and revalued amount of RMB130,000,000 as capital injection to Tiansheng Communications, representing 98.48% of its registered capital. After injection, the equity interest structure of Tiansheng Equipment is as follows: 98.48% held by the Company with capital injection of RMB130,000,000; 0.91% held by Shenyang Tiansheng Service with capital injection of RMB1,200,000; 0.61% held by Liaoning Suntime Electric Equipment Sales Co Ltd with capital injection of RMB600,000. On 7th April, 2004, the Company entered an Equity Sales and Purchase Agreement and using its entire equity interest in Tiansheng Equipment to exchange for 74.4% equity interests in Suntime High-voltage. This transaction was approved by the board of directors on 12th October, 2004 (date of acquisition).

The financial position at the effective date of acquisition is as follows:

	Date of acquisition <i>RMB</i>
Current assets	135,471,311.13
Fixed assets	65,704,660.98
Total assets	<u>201,175,972.11</u>
Current liabilities	<u>87,477,381.12</u>
Total liabilities	<u>87,477,381.12</u>
Minority interest	<u>17,389,292.81</u>
Share of net asset value of the Company	<u>96,309,298.18</u>
Capital reserve — Provision of equity investment	<u>(65,830,498.18)</u>
Total	<u><u>30,478,800.00</u></u>
Consideration:	
Generators (including the relevant taxes)	<u><u>30,478,800.00</u></u>
Net cash inflow due to acquisition of subsidiary:	
Cash consideration	—
Cash and bank balances of the acquired subsidiary	<u>104,341.55</u>
	<u><u>104,341.55</u></u>

The operating results of Suntime High-voltage from the date of acquisition to 31st December, 2004 is as follows:

	Date of acquisition to 31st December, 2004 <i>RMB</i>
Total revenue	28,927,268.90
Profit from operations	5,184,558.89
Net profits	<u><u>2,053,345.86</u></u>

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

For the Year ended 31st December 2004 (Prepared in accordance with the PRC Accounting Rules and Regulations)

46. ACQUISITION OF SUBSIDIARIES *(Continued)*

(2) Acquire Suntime Storage and Chengtai Energy

On 14th April, 2004, the Company signed an Equity Sales and Purchase Agreement and used its receivable of RMB76,660,000 and interest accrued thereon due from NET as consideration for acquisition of 95% equity interests of Suntime High-voltage and Chengtai Energy respectively. The amount due from NET was fully provided in prior financial year. This transaction was approved by the board of directors on 12th October, 2004 (date of acquisition).

The financial positions of Suntime Storage and Chengtai Energy at the effective date of acquisition are as follows:

	Suntime Storage	Chengtai Energy
	<i>RMB</i>	<i>RMB</i>
Current assets	15,701,234.88	11,863,673.89
Fixed assets	35,425,471.27	89,082,006.27
	<hr/>	<hr/>
Total assets	51,126,706.15	100,945,680.16
	<hr/>	<hr/>
Current liabilities	3,118,145.64	5,766,671.66
	<hr/>	<hr/>
Total liabilities	3,118,145.64	5,766,671.66
	<hr/>	<hr/>
Minority interest	2,400,428.02	4,758,950.43
	<hr/>	<hr/>
Share of net asset value of the Company	(45,608,132.49)	(90,420,058.07)
	<hr/>	<hr/>
Capital reserve — Provision of equity investment	(45,608,132.49)	(90,420,058.07)
	<hr/>	<hr/>
Total	<u>—</u>	<u>—</u>
Consideration:		
Fair value of amount due from NET	<u>—</u>	<u>—</u>
Net cash inflow due to acquisition of subsidiary:		
Cash consideration	—	—
Cash and bank balances of the acquired subsidiary	1,013,953.75	121,544.32
	<hr/>	<hr/>
	<u>1,013,953.75</u>	<u>121,544.32</u>

NOTES TO THE FINANCIAL STATEMENTS (*Continued*)

For the Year ended 31st December 2004 (Prepared in accordance with the PRC Accounting Rules and Regulations)

46. ACQUISITION OF SUBSIDIARIES (*Continued*)

(2) Acquire Suntime Storage and Chengtai Energy (*Continued*)

The operating results of Suntime Storage and Chengtai Energy from the date of acquisition to 31st December, 2004 are as follows:

	Suntime Storage <i>RMB</i>	Chengtai Energy <i>RMB</i>
Revenue	8,486,134.95	6,498,038.57
Profits	1,859,904.93	1,634,622.10
Total profits	777,752.63	884,943.24
Less: Income tax	305,099.26	—
Profits from operation	<u>472,653.37</u>	<u>884,943.24</u>

Note: With respect to disposal and acquisition mentioned in Note 45, 46(1) and (2), the major assets of the subsidiaries of the Company including Suntime High-voltage, Suntime Logistics and Chengtai Energy were mainly originated from Shenyang High-voltage.

(3) Capital injection to New Northeast Jinzhou Power Capacitors Limited

On 15th January, 2004 (the "Investment Day"), the Company held a board of directors meeting and approved the capital injection to New Northeast Jinzhou Power Capacitors Limited. Subsequent to the capital injection, the shareholding of New Northeast Jinzhou Power Capacitors Limited is as follows: 40% held by the Company with cash injection of RMB33,108,400(USD4,000,000); 12% held by Jinzhou Power Capacitors Limited with capital injection of RMB10,237,492 (USD1,200,000); 48% held by Prosper Power Limited with cash injection of USD4,800,000 (Up to Investment Day, actual injection was USD2,000,000). Approval department approved the investment on January, 2004. The process was completed on the same day with Register changed.

NOTES TO THE FINANCIAL STATEMENTS (*Continued*)

For the Year ended 31st December 2004 (Prepared in accordance with the PRC Accounting Rules and Regulations)

46. ACQUISITION OF SUBSIDIARIES (*Continued*)

(3) Capital injection to New Northeast Jinzhou Power Capacitors Limited (*Continued*)

The financial position of New Northeast Jinzhou Power Capacitors Limited from the date of investment to 31st December, 2004 is as follows:

	Date of investment <i>RMB</i>
Current assets	56,528,400.00
Total assets	56,528,400.00
Current liabilities	6,891,600.00
Total liabilities	6,891,600.00
Minority interest	16,528,400.00
Share of net asset value of the Company	<u>33,108,400.00</u>
Consideration:	
Cash	<u>33,108,400.00</u>
Net cash inflow due to acquisition of subsidiary:	
Cash consideration (<i>Note</i>)	—
Cash and bank balances of the acquired subsidiary	42,528,400.00
	<u>42,528,400.00</u>

Note: The full investment amount was prepaid in 2003.

The operating result of New Northeast Jinzhou Power Capacitors Limited from the date of investment to 31st December, 2004 is as follows:

	Date of investment to 31st December, 2004 <i>RMB</i>
Revenue	66,751,127.73
Profits	2,671,387.39
Net profit (loss)	<u>(166,339.41)</u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the Year ended 31st December 2004 (Prepared in accordance with the PRC Accounting Rules and Regulations)

47. NON-ADJUSTED POST BALANCE SHEET EVENTS

- (1) After approved by the relate department of Liaoning government, on 5th March, 2005, the Company signed a Letter of Intention with Fushun Special Steel Group Corporation, pursuant to which Fushun Special Steel agreed to transfer its equity interests in Northeast Special Steel Group Incorporation, based on valuation from intermediary appraisal company, to set off with Lioning Trust due from the Company's USD12,000,000 (based on US dollar to RMB as at transaction date) and be responsible to perform the reverent procedure with the Company.
- (2) On 9th March, 2005, the Company received a ruling [2004]瀋法執字第498號民事(執行) 裁定書 served by Shenyang Intermediate People's Court of Liaoning Province that NET is ruled to transfer the 75% equity interests in Shenyang Northeast Equipment Complete Engineering Company Limited ("Shenyang Equipment") and the 70% equity interests in Shenyang Gaodongjia Desiccation Company Limited ("Shenyang Gaodongjia") held by Shenyang High-voltage, to the Company to set off debts due to the Company with principal of RMB8,310,000 and the interests accrued thereon, together with the penalty for overdue repayment commencing from 10th October, 2000, of which the Company has made full allowance in prior years.
- (3) On 28th December, 2004, the Company entered into a Sale and Purchase Agreement with Northeast Construction Work Company (the "Northeast Construction"), pursuant to which the Company agreed to sell the 99.99% equity interest in Jinzhou Power Capacitors ("Jinrong") Limited at a cash consideration of RMB54, 000,000.00, based on the audited net assets value Jinrong of as at 31st December, 2003. . The transaction was approved by the shareholders on 21st March, 2005.

48. 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. At the date of approval of the financial statements, 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.

49. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements for the year ended 31st December, 2004 were approved and authorised for issue by the board of directors on 18th April, 2004.

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	12.03	15.94	0.11	0.11
Operating income	1.49	1.88	0.01	0.01
Net profit	0.29	0.38	0.01	0.01
Net profit after extraordinary profit and loss	<u>1.09</u>	<u>1.45</u>	<u>0.01</u>	<u>0.01</u>

Extraordinary profit and loss for 2004 as follows:

Category	Amount RMB
Gain on disposal of fixed assets	189,735.57
Non-operating income after impairment and disposal of investment	147,344.97
Non-operating expenses after impairment and disposal of investment	(15,689,624.04)
Written back of provision made in previous years	6,242,255.33
Capital injection from a non-financial institution	<u>2,932,029.86</u>
	<u>(6,178,258.31)</u>

Supplementary Information (Continued)

2. DETAILS OF PROVISION FOR IMPAIRMENT LOSS ON ASSETS

Unit: RMB

Items	Opening balance	Increment due to acquisition of subsidiaries	Provision for the year	Transfer for the year	Written back for the year	Closing balance
1 Provision for bad debts	122,509,705.26	—	1,371,122.21	(2,891,927.39)	(78,156,218.89)	42,832,681.19
Including						
Accounts receivable	44,068,099.53	—	1,157,520.77	(1,441,653.27)	(4,743,197.55)	39,040,769.48
Other receivables	78,441,605.73	—	213,601.44	(1,450,274.12)	(73,413,021.34)	3,791,911.71
2 Impairment loss on						
short term investment	—	—	—	—	—	—
Including						
Investment in securities	—	—	—	—	—	—
Investment in debenture	—	—	—	—	—	—
3 Provision for Inventory	16,227,622.37	—	—	(3,350,327.94)	—	12,877,294.43
Including						
Finished goods	10,502,327.39	—	—	(1,438,346.79)	—	9,063,980.60
Raw materials	3,612,052.91	—	—	(1,911,981.15)	—	1,700,071.76
Work in progress	2,113,242.07	—	—	—	—	2,113,242.07
4 Impairment loss on long-term						
equity investment	267,000.00	—	—	—	—	267,000.00
Including						
Long term						
equity investment	267,000.00	—	—	—	—	267,000.00
Long term						
debenture investment	—	—	—	—	—	—
5 Impairment loss on fixed asset	83,851,581.04	3,776,843.00	526,455.12	(526,455.12)	—	87,628,424.04
Including						
Land use rights	—	—	—	—	—	—
Building	80,464,800.00	—	276,967.53	—	—	80,741,767.53
Plant, machinery						
and equipment	3,386,781.04	3,776,843.00	19,867.45	(526,455.12)	—	6,657,036.37
Motor vehicles						
and others	—	—	229,620.14	—	—	229,620.14
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	—	—	—	—	—	—

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 regulations, which are different from the accounting principles generally accepted in Hong Kong.

As at 31st December, 2004, net profit for the year and the net asset value as at the year as stated in the statutory financial report were RMB2,238,309.54 and RMB770,526,078.44 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 summarised below:

	Net profit for the year ended 31st December, 2004 RMB	Net asset value as at ended 31st December, 2004 RMB
Amount per financial statements prepared in accordance with the PRC accounting standards	2,238,309.54	770,526,078.44
Adjustments under the Hong Kong accounting principles:		
Negative goodwill arise on acquire equity interests	683,517.77	—
Gain on disposal of equity interests	17,312,764.79	—
Gain on debt restructuring	120,224.45	—
Welfare fund payable	543,413.24	675,862.28
Others	36,509.77	(20,559.72)
	<u>20,934,739.56</u>	<u>771,181,381.00</u>
Amount per financial statements prepared in accordance with the HK accounting principles		

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

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

Supplementary Information (Continued)

4. ANALYSIS OF AMOUNTS IN THE FINANCIAL STATEMENTS WITH A MATERIAL FLUCTUATION OF 30% OR MORE (DISREGARDING THE EFFECT OF THE ACQUISITION OF NEW JINRONG, SUNTIME HIGH-VOLTAGE, SUNTIME LOGISTICS, CHENGTAI ENERGY) IS AS FOLLOWS:

Unit: RMB'000

Item	2004 (Not including New Jinrong, Suntime High-voltage, Suntime Logistics, Chengtai Energy)	2003 (Not including Shenyang High-voltage)	Difference	Change %	Notes
Cash and bank	24,869	14,549	10,320	71	A
Other receivables	345,674	232,194	113,480	49	B
Prepayments	34,525	92,129	(57,604)	(63)	C
Long term equity investment	81,019	42,156	38,863	92	D
Tax payable	10,803	7,589	3,214	42	E
Provision for loss on guarantees	46,286	30,994	15,292	49	F
Long-term liabilities due within one year	33,550	9,000	24,550	273	G
Long-term loans	—	26,550	(26,550)	(100)	H
Investment income	16,178	56,752	(40,574)	(71)	I
Non-operating expenses	15,682	31,377	(15,695)	(50)	J

- A. Increase in cash and bank balance by 71% was mainly due to disposal of equity interests. Details are disclosed in cash flow statement for the year ended 31st December, 2004.
- B. Increase in other receivables by 49% was mainly due to increase in loan to third party.
- C. Decrease in prepayments by 63% was mainly due to reclassification of prepaid investments to long-term investments.
- D. Increase in long term equity investment by 92% was mainly due to increase in investments in associates.
- E. Increase in tax payable by 42% was mainly due to increase in income tax payable.
- F. Increase in provisions for loss on guarantees was due to the fact that the Company is responsible for another bank loan guarantee ruled by the court.
- G. Increase in long-term liabilities due within one year by 273% was mainly due to expiry of long-term bank loan in 2005.
- H. Decrease in long-term bank loans by 100% was mainly due to reclassification of 2005 expired bank loan to long-term liabilities within one year.
- I. Decrease in investment income by 71% was mainly due to no material disposal of equity interests in the year.
- J. Decrease in non-operating expenses by 50% was mainly due to the provision for loss on guarantees with the fact that the Company is responsible for another bank loan guarantee ruled by the courts