

FINANCIAL REPORT (UNAUDITED)

PREPARED IN ACCORDANCE WITH THE PRC ACCOUNTING RULES AND REGULATIONS

Balance Sheet (Unaudited)

As at 30 June 2005

Unit: RMB

Assets	Closing		Opening	
	Group	Holding company	Group	Holding company
CURRENT ASSETS:				
Cash and bank balances	28,918,215.00	8,471,866.00	61,683,194.00	2,752,216.00
Short-term investments		0.00	0.00	0.00
Notes receivable		0.00	0.00	0.00
Dividends receivable		0.00	0.00	0.00
Interest receivable		0.00	0.00	0.00
Accounts receivable	237,660,138.00	36,121,473.00	233,697,773.00	21,969,401.00
Other receivables	262,654,209.00	316,412,197.00	329,974,061.00	258,008,006.00
Prepayments	48,624,728.00	248,008.00	26,844,449.00	280,500.00
Subsidy receivable		0.00	0.00	0.00
Inventories	66,024,300.00	3,685,812.00	61,235,552.00	3,501,589.00
Deferred expenses	456,740.00	0.00	1,005,085.00	0.00
Long term debt investment due within one year				
Other current assets				
Total current assets	644,338,330.00	364,939,356.00	714,440,114.00	286,511,712.00
LONG-TERM INVESTMENTS:				
Long-term equity investments	91,412,545.00	690,729,574.00	81,019,736.00	727,785,234.00
Long-term debt investments	0.00	0.00		0.00
Total long-term investments	91,412,545.00	690,729,574.00	81,019,736.00	727,785,234.00
Differences in consolidation		0.00	0.00	0.00
FIXED ASSETS:				
Fixed assets - at cost	688,463,237.00	5,977,139.00	775,984,341.00	5,959,258.00
Less: Accumulated depreciation	116,596,499.00	2,071,369.00	141,868,142.00	1,847,976.00
Fixed assets - net book value	571,866,738.00	3,905,770.00	634,116,199.00	4,111,282.00
Less: Provision for diminution in value of fixed assets	87,120,500.00	0.00	87,628,424.00	0.00
Fixed assets - net	484,746,238.00	3,905,770.00	546,487,775.00	4,111,282.00
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Construction in progress	348,697.00	0.00	3,925,492.00	0.00
Liquidation of fixed assets	0.00	0.00		0.00
Total fixed assets	485,094,935.00	3,905,770.00	550,413,267.00	4,111,282.00
INTANGIBLE AND OTHER ASSETS:				
Intangible assets	5,655,429.00	0.00	10,283,416.00	0.00
Long-term deferred expenses	7,070,039.00	0.00		0.00
Other long-term assets	0.00	0.00	0.00	0.00
Total intangible and other assets	12,725,468.00	0.00	10,283,416.00	0.00
Deferred taxes:				
Borrowing of deferred taxes	0.00	0.00	0.00	0.00
TOTAL ASSETS	1,233,571,278.00	1,059,574,700.00	1,356,156,533.00	1,018,408,228.00

Liabilities and Owners' Equity

Unit: RMB

Liabilities and owners' equity	Closing		Opening	
	Group	Holding company	Group	Holding company
CURRENT LIABILITIES:				
Short-term loans	73,650,000.00	0.00	179,534,000.00	0.00
Bills payable	0.00	0.00	13,000,000.00	0.00
Accounts payable	92,996,825.00	31,185,745.00	85,643,105.00	14,549,408.00
Receipts in advance	38,028,237.00	3,119,900.00	21,571,865.00	1,997,320.00
Salaries and wages payable	0.00	0.00	0.00	0.00
Employee benefits payable	1,253,527.00	0.00	675,862.00	0.00
Dividends payable	40,018.00	0.00		0.00
Taxes payable	9,096,303.00	2,753,228.00	15,261,400.00	2,866,671.00
Other fees payable	24,026.00	0.00	3,047,280.00	0.00
Other payables	79,030,195.00	60,913,222.00	61,541,810.00	45,890,313.00
Accrued expenses	2,543,921.00	1,424,026.00	3,544,661.00	1,706,985.00
Estimated debt	46,285,654.00	46,285,654.00	46,285,654.00	46,285,654.00
Long-term liabilities due within one year	0.00	0.00	33,550,000.00	0.00
Other current liabilities	0.00	0.00		0.00
Total current liabilities	342,948,706.00	145,681,775.00	463,655,636.00	113,296,351.00
LONG-TERM LIABILITIES:				
Long-term loans	0.00	0.00		0.00
Bonds payable	0.00	0.00		0.00
Long-term accounts payable	0.00	0.00		0.00
Specific accounts payable	700,000.00	0.00	16,166,648.00	0.00
Other long-term liabilities	0.00	0.00		0.00
Total long term liabilities	700,000.00	0.00	16,166,648.00	0.00
DEFERRED TAXES:				
Loans of deferred taxes	0.00	0.00	0.00	0.00
Total liabilities	343,648,706.00	145,681,775.00	479,822,284.00	113,296,351.00
Minority interests	110,557,934.00	0.00	105,808,170.00	0.00
Owners' equity				
(Shareholders' Equity):				
Paid-up capital (share capital)	873,370,000.00	873,370,000.00	873,370,000.00	873,370,000.00
Less: Reversed investment	0.00	0.00	0.00	0.00
Paid-up capital (share capital), net	873,370,000.00	873,370,000.00	873,370,000.00	873,370,000.00
Capital reserves	969,879,384.00	1,124,708,533.00	969,763,485.00	1,124,658,534.00
Surplus reserves	108,587,124.00	108,587,124.00	108,587,124.00	108,587,124.00
Including: Statutory public welfare fund	32,210,803.00	32,210,803.00	32,210,803.00	32,210,803.00
Unappropriated profits	(1,172,499,992.00)	(1,192,772,732.00)	(1,181,231,041.00)	(1,201,503,781.00)
Including: cash dividend				
Unrecognised investment losses				
Differences on foreign currency translation	28,122.00	0.00	36,510.00	0.00
Total owners' equity (shareholders' equity)	779,364,638.00	913,892,925.00	770,526,078.00	905,111,877.00
Total liabilities and owners' equity				
(shareholders' equity)	1,233,571,278.00	1,059,574,700.00	1,356,156,533.00	1,018,408,228.00

Profit and Profit Appropriation Statement (Unaudited)

For the period from January to June 2005

Unit: RMB

Items	Current period		Same period last year	
	Group	Holding company	Group	Holding company
1. Revenues from principal operations	245,752,023.38	41,723,752.03	148,008,208.00	25,360,171.00
Less: Costs of principal operations	190,778,452.21	38,517,591.13	111,064,263.00	23,319,060.00
Taxes and surcharges for principal operations	1,871,151.78	0.00	1,444,698.00	0.00
2. Gross Profits / (losses) from principal operations	53,102,419.39	3,206,160.90	35,499,247.00	2,041,111.00
Add: Other operating profits	3,020,468.65	0.00	13,229.00	0.00
Less: Operating expenses	12,167,331.48	245,456.00	7,857,007.00	799,216.00
General and administrative expenses	39,710,348.27	11,056,343.62	18,822,435.00	3,563,292.00
Finance costs	2,496,227.98	(10,228.92)	6,131,707.00	(15,858.00)
3. Operating profit / (losses)	1,748,980.31	(8,085,409.80)	2,701,327.00	(2,305,539.00)
Add: Investment income	12,912,566.40	16,944,339.61	7,874,597.00	9,605,382.00
Subsidy income	0.00	0.00	0.00	0.00
Non-operating income	676,737.29	392,000.00	116,919.00	0.00
Less: Non-operating expenses	616,395.58	519,881.16	237,014.00	1,260.00
Add: Adjustment of previous year's income and losses		0.00		
4. Total profit / (losses)	14,721,888.42	8,731,048.65	10,455,829.00	7,298,583.00
Less: Income tax	1,241,074.84	0.00	2,901,721.00	
Minority interests	4,749,764.38	0.00	255,525.00	
Add: Unrecognised investment losses incurred in the period				
5. Net profit	8,731,049.20	8,731,048.65	7,298,583.00	7,298,583.00
Add: Opening undistributed profit	(1,181,231,041.00)	(1,201,503,780.65)	(1,183,469,350.00)	(1,183,469,350.00)
Other transfer				
6. Profits available for distribution	(1,172,499,992.00)	(1,192,772,732.00)	(1,176,170,767.00)	(1,176,170,767.00)
Less: Transfer to statutory surplus reserve				
Transfer of statutory public welfare fund				
Transfer of employee reward and welfare fund				
Transfer of reserve fund				
Transfer of enterprise development fund				
Profit reversed to investment				
7. Profits available for distribution to investors	(1,172,499,992.00)	(1,192,772,732.00)	(1,176,170,767.00)	(1,176,170,767.00)
Less: Dividend payable preferential shares				
Transfer to discretionary surplus reserve				
Dividend payable to ordinary shares				
Dividend for ordinary shares converted into capital (share capital)				
8. Undistributed profits	<u>(1,172,499,992.00)</u>	<u>(1,192,772,732.00)</u>	<u>(1,176,170,767.00)</u>	<u>(1,176,170,767.00)</u>

Cash Flow Statement (Unaudited)

For the period from January to June 2005

Unit: RMB

Items	Current period	
	Group	Holding company
1. Cash flow from operating activities:		
Cash received from sales of goods or rendering of services	269,527,395.00	35,787,298.00
Refund of tax		
Other cash received relating to operating activities	26,990,893.00	15,235,956.00
Sub-total of cash inflows	296,518,288.00	51,023,254.00
Cash paid for goods and services	264,229,499.00	28,580,974.00
Cash paid to and on behalf of employees	16,935,057.00	1,642,228.00
Tax payments	19,495,798.00	957,073.00
Other cash paid relating to operating activities	80,406,091.00	68,123,329.00
Sub-total of cash outflows	381,066,445.00	99,303,604.00
Net cash flows from operating activities	(84,548,157.00)	(48,280,350.00)
2. Cash flows from investment activities:		
Cash received from of investments	54,000,000.00	54,000,000.00
Cash received from return on investments		
Net cash receipts from disposal of fixed assets, intangible assets and other long-term assets	40,850.00	
Other cash received relating to investment activities		
Sub-total of cash inflows	54,040,850.00	54,000,000.00
Cash paid to acquire fixed assets, intangible assets and other long-term assets	3,984,382.00	
Cash payments for investments		
Cash decrease incurred in disposal of subsidiaries		
Other cash paid relating to investment activities	6,472,072.00	
Sub-total of cash outflows	10,456,454.00	0.00
Net cash flows from investment activities	43,584,396.00	54,000,000.00
3. Cash flows from financing activities:		
Cash received from equity investments		
Cash received from borrowings	22,550,000.00	
Other cash receipts relating to financing activities		
Sub-total of cash inflows	22,550,000.00	
Repayments of borrowings	12,000,000.00	
Dividends paid, profit distributed or interest paid	2,355,434.00	
Other cash payments relating to financing activities		
Sub-total of cash outflows	14,355,434.00	
Net cash flows from financing activities	8,194,566.00	
4. Effect of foreign exchange rate changes on cash	4,215.00	
5. Net decrease in cash and cash equivalents	(32,764,980.00)	5,719,650.00

Cash Flow Statement Supplementary information

For the period from January to June 2004

Items	Unit: RMB	
	Current period Group	Holding company
1. Reconciliation of net profit to cash flow from operating activities		
Net profit	8,731,049.20	8,731,048.65
Add: Minority interests	4,749,764.38	
Add: Provision for diminution in value of assets	3,694,853.00	
Depreciation of fixed assets	12,077,915.00	223,393.00
Amortization of intangible assets	86,495.00	
Amortization of long-term deferred expenses		
Losses on disposal of fixed assets, intangible assets and other long-term assets (less: gains)	72,097.00	
Decrease in deferred expenses (less: increase)	(1,000,741.00)	(282,960.00)
Increase in accrued expenses (less: decrease)		
Losses on retirement of fixed assets		
Financial expenses	2,496,228.00	(10,229.00)
Losses arising from investments (less: gains)	(12,912,566.00)	(16,944,340.00)
Loans in deferred taxes (less: borrowings)		
Decrease in inventories (less: increase)	(29,179,463.00)	(184,222.00)
Decrease in receivables under operating activities (less: increase)	(169,123,159.00)	(72,556,263.00)
Increase in payables under operating activities (less: decrease)	93,529,878.00	32,668,383.00
Others	2,229,492.42	74,839.35
Minority interests	4,749,764.38	
Net cash flows from operating activities	(84,548,157.00)	(48,280,350.00)
2. Investment and financing activities not involved in cash income and expenditure		
Transfer of debt into capital		
Convertible debentures due within one year		
Finance lease of fixed assets		
3. Net increase in cash and cash equivalents:		
Cash and bank balances at the end of the period	28,918,215.00	8,471,866.00
Less: Cash and bank balances at the beginning of the period	61,683,194.00	2,752,216.00
Add: Balance of cash equivalents at the end of the period		
Less: Balance of cash equivalents at the beginning of the period		
Net increase in cash and cash equivalents	(32,764,979.00)	5,719,650.00

Profit statement (Supplementary information)

Items	Unit: RMB			
	Current period		Same period last year	
	Group	Holding company	Group	Holding company
1. Gain sale and on disposal of divisions or invested units	2,555,252.00	2,555,252.00		
2. Losses incurred from natural disaster				
3. Increase (decrease) in total profit due to changes in accounting policies				
4. Increase (decrease) in total profit due to changes in accounting estimates				
5. Losses from debt restructuring				
6. Others				

NOTES TO THE FINANCIAL STATEMENTS

For the period from January to June 2004

1. General

Northeast Electric Development Company Limited (formerly known as Northeast Electrical Transmission & Transformation Machinery Manufacturing Company Limited) (the “Company”) is 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 28.

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.

As of 30 June 2005, details of the subsidiaries and their major scope of operations can be referred to note 4 controlling subsidiaries.

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

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

Accounting year

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

Reporting currency

The Company adopts Renminbi as its reporting currency.

Basis of accounting and principle of valuation

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

Foreign currencies

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

Cash and cash equivalents

Cash equivalents are short-term (generally refer to three months from date of purchase), 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%

The Company made full provisions for those bad debts that are account receivables showing clear evidence that cannot be recovered.

Calculation method of 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.

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.

Recognition of 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.

Calculation method of long term investment

(1) Accounting treatment for long term investments

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" 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" 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".

(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 referred to those tangible assets held for the purposes of producing goods, provision of services, leasing, operating or non-operating management with use of life exceeding one year and whose unit value are relatively higher.

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

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

Impairment of fixed assets

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

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 recommence 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.

Estimated debt

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.

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.

Basis of Consolidation

(1) Scope of consolidation

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

(2) Accounting for consolidation

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

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

All significant intra-group transactions and balances are eliminated on consolidation.

3. Taxation

Value added tax

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

Sales tax

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

City construction tax

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

Educational surcharge

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

Income tax

Income tax is computed at rate of 33%.

4. Scope of Consolidation and Subsidiaries

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

Name of subsidiary	Registered capital	Investment percentage of equity interests	Scope of business	Whether consolidated during the period	Whether consolidated in 2004
Fuxin Closed Busbars Ltd.	RMB18,090,000	100%	Manufacture of closed busbars	Yes	Yes
Shenyang Kingdom Hotel Ltd.	RMB150,000,000	90%	Provision of hotel and catering services	Yes	Yes
Jinzhou Jinrong Electrical Equipment Co., Ltd	RMB3,000,000	69.75%	Manufacture of power capacitors	Yes	Yes
New Northeast (Jinzhou) Power Capacitors Ltd.	USD10,000,000	52%	Power capacitors etc.	Yes	Yes
Northeast Electric (Hong Kong) Ltd.	USD900,000	100%	Trading	Yes	Yes
Shenyang Suntime Energy and Power Co. Ltd.	RMB90,000,000	95%	Wind, water, electricity, gas services	yes	yes
Shenyang Suntime Storage Logistics Co. Ltd.	RMB17,000,000	95%	Storage, transportation	yes	yes
Shenyang Suntime High-voltage Electric Co. Ltd.	US\$21,500,000	74.4%	Insulating switch	yes	yes
Great Talent Technology Limited	US\$1	100%	Investment	yes	yes

Note: The Company sold all the equity interests in Jinzhou Power Capacitor Limited in the period. Therefore, the company ceased to be incorporated into the scope of consolidation starting from this period.

5. Cash and Bank Balances

	Closing			Opening		
	Foreign currency	Exchange rate	RMB	Foreign currency	Exchange rate	RMB
Cash						
RMB			227,864			245,204
Bank deposits						
RMB			28,662,444			49,455,278
USD						
HKD	27,294	1.0225	27,907	6,651,943	1.0637	7,075,672
Other cash deposits						
RMB						4,907,040
			<u>28,918,215</u>			<u>61,683,194</u>

6. Accounts Receivable

The aging analysis of accounts receivable is as follows:

	Closing				Opening			
	Amount RMB	Percentage (%)	Bad debts provision RMB	Net book value RMB	Amount RMB	Percentage (%)	Bad debts provision RMB	Net book value RMB
Within 1 year	118,122,333	48	—	118,122,333	187,631,167	69	(266,886)	187,364,281
1 to 2 years	116,631,166	48	—	116,631,166	29,650,474	10	—	29,650,474
2 to 3 years	2,650,474	1	(197,663)	2,452,811	21,401,178	8	(8,665,997)	12,735,181
3 to 4 years	1,134,570	0	(680,742)	453,828	9,869,592	4	(5,921,755)	3,947,837
Over 4 years	6,913,159	3	(6,913,159)	—	24,186,132	9	(24,186,132)	—
Total	<u>245,451,702</u>	<u>100</u>	<u>(7,791,564)</u>	<u>237,660,138</u>	<u>272,738,543</u>	<u>100</u>	<u>(39,040,770)</u>	<u>233,697,773</u>

The total amount of the five largest outstanding accounts receivable is RMB71,511,914, representing 29.13% of the total balance of accounts receivable.

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

7. Other Receivables

The aging analysis of other receivables is as follows:

	Closing				Opening			
	Amount RMB	Percentage (%)	Bad debts provision RMB	Net book value RMB	Amount RMB	Percentage (%)	Bad debts provision RMB	Net book value RMB
Within 1 year	47,474,790	7	0	47,474,790	229,271,530	69	(126,222)	229,145,308
1 to 2 years	115,496,887	49	(291,215)	115,205,672	710,435	—	(209,913)	500,522
2 to 3 years	99,932,895	42	(280,023)	99,652,872	100,024,646	30	(602,834)	99,421,812
3 to 4 years	802,187	0	(481,312)	320,875	408,222	—	(59,974)	348,248
Over 4 years	2,954,342	1	(2,954,342)	0	3,351,140	1	(2,792,969)	558,171
Total	<u>266,661,101</u>	<u>100</u>	<u>4,006,892</u>	<u>262,654,209</u>	<u>333,765,973</u>	<u>100</u>	<u>(3,791,912)</u>	<u>329,974,061</u>

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

The total amount of the five largest outstanding other receivables is RMB187,908,995, representing 70.47% of the total balance of other receivables.

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

8. Provision for Bad Debts

	Accounts receivable RMB	Other receivables RMB	Total RMB
Opening balance	39,040,769	3,791,912	42,832,681
Additions for the period	857,436	2,837,417	3,694,853
Reversals / write-back for the period			
Other transfers for the period	(32,106,641)	(2,622,437)	(34,729,078)
Closing balance	<u>7,791,564</u>	<u>4,006,892</u>	<u>11,798,456</u>

9. Prepayment

Ageing analysis of prepayments are as follows:

	Opening		Closing	
	RMB	%	RMB	%
Within 1 year	48,599,270	99.95	26,608,612	99
1 to 2 years			235,837	1
2 to 3 years	25,458	0.05	—	—
Over 3 years			—	—
	<u>48,624,728</u>	<u>100</u>	<u>26,844,449</u>	<u>100</u>

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

10. Inventories and Provision for Diminution in Value

	Closing			Opening		
	Amount RMB	Provision for decline in value RMB	Net book value RMB	Amount RMB	Provision for decline in value RMB	Net book value RMB
Materials under delivery	1,050		1,050			
Low value consumables				454,591		454,591
Raw materials	23,693,102	(841,861)	22,851,241	21,697,077	(1,700,072)	19,997,005
Work in progress	8,864,382	(124,246)	8,740,136	11,687,945	(2,113,242)	9,574,703
Finished goods	30,612,975	(47,965)	30,565,010	40,273,233	(9,063,980)	31,209,253
Inventories of merchandises	3,685,812		3,685,812			
Self-made semi finished products	181,051		181,051			
	<u>67,038,372</u>	<u>(1,014,072)</u>	<u>66,024,300</u>	<u>74,112,846</u>	<u>(12,877,294)</u>	<u>61,235,552</u>

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

	RMB
Opening balance	12,877,294
Provisions for the period	—
Reversals for the period	
Other transfers	(11,863,222)
Closing balance	<u>1,014,072</u>

11. Deferred Expenses

Category	Closing RMB	Opening RMB
Heating expenses		605,880
Water and electricity expenses	3,209	
Insurance	445,163	321,573
Taxes to be deferred	2,325	
Newspaper expenses	6,043	
Others		77,632
Total	<u>456,740</u>	<u>1,005,085</u>

12. Long-term Equity Investments

	Closing RMB	Opening RMB
Investments in associates	81,999,563	71,642,248
Other equity investments	11,010,000	11,277,000
Long-term equity investment differences	(1,597,018)	(1,632,512)
Total	91,412,545	81,286,736
Less: Provision for diminution in value of on long-term equity investments		(267,000)
Long-term equity investments - Net	<u>91,412,545</u>	<u>81,019,736</u>

(1) Movements of other equity investments:

Name of investees	Initial investment RMB	Change in equity for the year RMB	Accumulated Changes RMB	Share of the registered capital of the investee %	Provision for diminution in value RMB	Addition/ (withdrawal) RMB	Closing book value RMB
Jinzhou City Co-operative Bank	11,010,000	—	—	4.35	—		11,010,000
	<u>11,010,000</u>						<u>11,010,000</u>

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

Name of investees	Initial investment RMB	Changes in equity for the year RMB	Share of the registered capital of the investee %	Change in equity interests of the investee company RMB	Accumulated changes RMB	Provision for diminution in value RMB	Closing book value RMB	Principal operations
Northeast Electrical Hitachi Transmission and Transformation Machinery Co., Ltd.	4,068,353		49.00	45,279	296,443		4,364,795	Power transmission and transformation, equipment,
Weider High-voltage Switchgears Ltd.	67,322,732		20.8	10,312,036	10,312,036		77,634,768	High-voltage switchgears and control equipment
Total	<u>71,391,084</u>			<u>10,357,314</u>	<u>10,608,479</u>		<u>81,999,563</u>	

(3) Long-term equity investment differences

Name of investees	Initial investment RMB	Opening balance RMB	Period of amortization	Amortization for the period RMB	Closing balance RMB	Reason
Jinzhou Jinrong Electrical Equipment Co., Ltd.	(2,040,640)	(1,632,512)	10 years	35,494	(1,597,018)	Acquisition of equity interests
Total	<u>(2,040,640)</u>	<u>(1,632,512)</u>	10 years	<u>35,494</u>	<u>(1,597,018)</u>	

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

	Buildings RMB	Plant and machinery RMB	Tranportation equipment and others RMB	Fixed assets improvements RMB	Lamd RMB	Total RMB
Cost:						
1 January 2005	545,335,424	163,479,026	17,813,498	1,902,193	47,454,200	775,984,341
Additions	150,138	1,107,241	2,378,307			3,635,686
Capitalized interest			1,803,556			1,803,556
Transferred from disposals of subsidiaries	(41,084,800)	(44,358,449)	(6,530,209)			(91,973,458)
Disposals for the period			(986,888)			(986,888)
30 June 2005	<u>504,400,762</u>	<u>120,227,818</u>	<u>14,478,264</u>	<u>1,902,193</u>	<u>47,454,200</u>	<u>688,463,237</u>
Accumulated depreciation						
1 January 2005	53,301,255	78,640,991	4,535,648	1,135,590	4,254,658	141,868,142
Charge for the period	4,629,031	2,636,027	2,902,675		1,910,182	12,077,915
Transferred from disposals of subsidiaries	(9,420,833)	(24,899,848)	(2,769,632)			(37,090,313)
Transfers-out on disposals for the period			(259,245)			(259,245)
30 June 2005	<u>48,509,453</u>	<u>56,377,170</u>	<u>4,409,446</u>	<u>1,135,590</u>	<u>6,164,840</u>	<u>116,596,499</u>
Provision for diminution in value:						
1 January 2005	80,741,768	6,657,036	229,620			87,628,424
Charge for the period						
Other transfers-out	(19,600)	(488,324)				(507,924)
Write-off for the period						
30 June 2005	<u>80,722,168</u>	<u>6,168,712</u>	<u>229,620</u>			<u>87,120,500</u>
Net book value:						
1 January 2005	<u>411,292,402</u>	<u>78,180,999</u>	<u>13,048,230</u>	<u>766,603</u>	<u>43,199,542</u>	<u>546,487,774</u>
30 June 2005	<u>375,169,141</u>	<u>57,681,936</u>	<u>9,839,198</u>	<u>766,603</u>	<u>41,289,360</u>	<u>484,746,238</u>
Including:						
Pledged assets at period end-net	<u>3,157,444</u>					<u>3,157,444</u>

14. Construction in progress

Name of Project	Balance of 1st January, 2005 RMB	Additions RMB	Transfer of completed construction for the period RMB	Other decrease for the period RMB	Balance for the end of the period RMB
Supreme High-voltage transmission project	2,166,922	—	—	2,166,922	—
Direct and alternate current filter-capacitor	—	—	—	—	—
Project of domestical production	1,810,660	—	—	1,810,660	—
House repairment	—	12,021	—	—	12,021
Renovation for the tank of mutual inductor	—	15,175	—	—	15,175
Purification machine for mutual inductor	—	21,500	—	(21,500)	—
Project of positive negative 500	—	100,000	—	—	100,000
Project of fixing	—	200,000	—	—	200,000
Total	3,977,582	348,696	—	3,977,582	348,696
Impairment provision of construction in progress	(52,090)	—	—	(52,090)	—
Net value	3,925,492	348,696	—	3,925,492	348,696

15. Intangible assets

Items	Ways of obtainment	Initial amount RMB	Opening balance RMB	Increase in the period RMB	Decrease in the period RMB	Amount of amortization RMB	Closing balance RMB	Remaining period of amortization
Land user rights	payment for disposal of land	12,358,832	10,013,416	—	4,541,492	67,745	5,404,179	39.5 years
Franchise	self development	500,000	270,000	—	—	18,750	251,250	6 years
		<u>12,858,832</u>	<u>10,283,416</u>	<u>—</u>	<u>4,541,492</u>	<u>86,495</u>	<u>5,655,429</u>	

The net value of the land use rights pledged at the end of the year amounted to RMB3,566,774.

16. Short-term loans

Type	30th June 2005 RMB	1st January 2004 RMB
Pledged loans		
— RMB	10,000,000	25,000,000
Guaranteed loans		
— RMB	63,650,000	151,584,000
— USD converted into RMB	—	—
Loans on credit		
— RMB	—	2,950,000
	<u>73,650,000</u>	<u>179,534,000</u>

17. Notes payable

	30th June 2005 RMB	1st January 2004 RMB
Bills of exchange from business	—	
Bills of exchange from bank	—	13,000,000
Total	<u>—</u>	<u>13,000,000</u>

18. Accounts payable

The aging analysis of accounts payable is as follows:

	30th June 2005		1st January 2004	
	Amount RMB	Percentage %	Amount RMB	Percentage %
Within 1 year	89,656,653	97	76,912,637	90
1 to 2 years	1,873,911	2	3,499,532	4
2 to 3 years	1,214,678	1	2,319,140	3
Over 3 years	251,583	—	2,911,796	3
	<u>92,996,825</u>	<u>100</u>	<u>85,643,105</u>	<u>100</u>

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

19. Accounts receivables

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

20. Tax payable

	30th June 2005 RMB	1st January 2004 RMB
Income tax	478,592	3,943,055
Value added tax	3,169,293	6,014,548
Business tax	255,334	18,985
City construction tax	35,552	479,945
Others	5,157,532	4,804,867
	<u>9,096,303</u>	<u>15,261,400</u>

21. Other fee payables

Nature	30th June 2005 RMB	1st January 2004 RMB
Education additional tax	24,026	346,829
Energy fund		1,052,184
Estimated adjustment fund		1,648,266
Total	<u>24,026</u>	<u>3,047,279</u>

22. Other payables

The aging analysis of other payables is as follows:

	30th June 2005		1st January 2004	
	Amount RMB	Percentage %	Amount RMB	Percentage %
Within 1 year	28,922,353	37	21,278,462	35
1 to 2 years	19,817,605	25	4,306,182	7
2 to 3 years	9,815,330	12	24,852,312	40
Over 3 years	20,474,907	26	11,104,854	18
	<u>79,030,195</u>	<u>100</u>	<u>61,541,810</u>	<u>100</u>

Large amount of payables with ageing exceeding 3 years were current amount not yet settled with relevant party concerned.

No amount due to shareholders with share equity of over 5 % among the balance of other payables.

23. Accrued expenses

	30th June 2005 RMB	1st January 2004 RMB	Reason of arising
Interest expenses	140,000	30,000	Incurred but not settled
Service expense from intermediaries	1,424,025	1,705,984	Incurred but not settled
Repairment fee	949,238		Incurred but not settled
Process fee		1,036,774	Incurred but not settled
Land use rights fee		451,836	Incurred but not settled
Others	30,657	320,067	Incurred but not settled
Total	<u>2,543,920</u>	<u>3,544,661</u>	

24. Provisions

	30th June 2005 <i>RMB</i>	1st January 2004 <i>RMB</i>
	<u>46,285,654</u>	<u>46,285,654</u>

Pending litigation

Northeast Electrical Transmission and Transformation Group Corporation Limited (“the Group Company”), 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. As at 30th June 2005, the Company provided liability of RMB30,993,929.00.

The Company acted as a guarantor and undertook joint guarantee liability for RMB20,000,000.00 loan drawn down by Shenyang Cable Co., Limited (“Shenyang Cable”) from Bank of China Shenyang Branch. As at 30 June, 2005, the Company provided RMB15,291,725.00 liability.

The aforesaid expected liability had not formed actual losses.

25. Long-term debt due within one year

	30th June 2005 <i>RMB</i>	1st January 2004 <i>RMB</i>
Bank borrowings (pledged)	<u>—</u>	<u>33,550,000</u>

26. Long term loans

Currency	30th June, 2005 <i>RMB</i>	1st January, 2005 <i>RMB</i>	Terms of loans
RMB	—	27,000,000	Pledged
RMB	—	6,400,000	Guaranteed
RMB	—	150,000	Credit
Less: amount due within 1 year	—	(33,550,000)	
Total	<u>—</u>	<u>—</u>	

27. Specific accounts payable

	30th June 2005 <i>RMB</i>	1st January 2004 <i>RMB</i>
The three funds set aside for technology development,	<u>700,000</u>	<u>16,166,648</u>
Total	<u>700,000</u>	<u>16,166,648</u>

Fund and others set aside for research and development on projects of optical electricity mutual inductor and bushed bar were provided by National Development and Plan Commission, Jinzhou and Fuxin municipality, which have not been settled.

28. Share capital

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

	1st January, 2005 (Shares)	Change for the period (increase/decrease) (Shares)	30th June, 2005 (Shares)
I. Non-listed shares			
1. Promoter's shares			
— Stated owned shares	266,520,000	—	266,520,000
— Domestic legal person held shares	205,300,000	—	205,300,000
II. Listed shares			
1. Domestic RMB ordinary shares	143,600,000	—	143,600,000
2. Overseas listed foreign investment shares	257,950,000	—	257,950,000
III. Total of listed shares	873,370,000	—	873,370,000

- The above shares have nominal value of RMB1 each.
- Domestic RMB ordinary shares represent the shares listed on the Shenzhen stock Exchange.
- Overseas listed foreign investment shares (“H shares”) represent the shares listed on the Stock Exchange of Hong Kong Limited.
- All the domestic and ‘H’ shares rank pari passu in all respects.

29. Capital reserves

	Balance on 1st January, 2005 RMB	Additions for the period RMB	Decrease for the period RMB	Balance by 30th June, 2005 RMB
Capital premium	115,547,484	—	—	115,547,484
Difference on related parties transactions	5,783,699	—	—	5,783,699
Provision for equity investment	202,689,473	—	—	202,689,473
Other capital reserve	645,742,829	115,899	—	645,858,728
Total	<u>969,763,485</u>	<u>115,899</u>	<u>—</u>	<u>969,879,384</u>

30. Surplus reserves

	Statutory surplus reserve fund RMB	Discretionary surplus reserve RMB	Statutory Public welfare fund RMB	Total RMB
Opening and closing balance	<u>48,091,633</u>	<u>28,284,688</u>	<u>32,210,803</u>	<u>108,587,124</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.

31. Undistributed profit

	Amount RMB
At 1st January	(1,181,231,041)
Add: net profits for the period	8,731,049
At 31st December	<u>(1,172,499,992)</u>

32. Revenue of principal operations

	Accumulated amount of the period RMB	Amount of the period of previous year RMB
High voltage switches	84,156,248	25,360,171
Power capacitors	90,002,311	95,168,724
Enclosed busbars	31,244,749	13,118,437
Food, beverage and accommodation	15,313,567	14,360,876
Storage and logistics	16,106,745	—
Wind, water, electricity and gas service	8,928,403	—
Others	—	—
Total	<u>245,752,023</u>	<u>148,008,208</u>

Cost of sales, the top 5 customers amounted to RMB59,040,210, representing 24.02% of total cost of sales.

33. Cost of sales of principal operations

	Accumulated amount of the period RMB	Amount of the period of previous year RMB
High voltage switches	74,537,424	23,319,060
Power capacitors	62,843,584	65,816,886
Enclosed busbars	23,892,700	9,991,403
Food, beverage and accommodation	11,864,141	11,936,914
Storage and transportation	10,464,281	—
Wind, water, electricity and gas service	7,176,322	—
Others	—	—
Total	<u>190,778,452</u>	<u>111,064,263</u>

Cost of purchase, the top 5 suppliers amounted to RMB49,982,412, representing 26.20% of total cost of purchase.

34. Sales tax

Category of tax	Tax rate	Amount
City construction fee	7%	206,468
Educational surcharge	4%	117,981
Business tax	5% - 20%	1,546,703
Other		—
Total		<u>1,871,152</u>

35. Other operating profits

	Accumulated amount of the period RMB	Amount of the period of previous year RMB
Sales of materials		
— Revenue	9,827,015	80,708
— Costs	<u>6,806,546</u>	<u>67,479</u>
	<u>3,020,469</u>	<u>13,229</u>
Rental of houses		
— Revenue		
— Costs		
Others		
— Revenue		
— Costs		
Total	<u>3,020,469</u>	<u>13,229</u>

36. Finance costs

	Accumulated amount of the period RMB	Amount of the period of previous year RMB
Interest expenses	2,106,437	6,118,091
Less: Interest income	46,305	56,966
Exchange losses (less: exchange gains)	(221,095)	
Others	<u>215,001</u>	<u>70,582</u>
Total	<u>2,496,228</u>	<u>6,131,707</u>

37. Investment income

	Accumulated amount of the period <i>RMB</i>	Amount of the period of previous year <i>RMB</i>
Long-term investment income		
Shares of investee's profit recognised under equity method	10,321,820	5,899,066
Income from disposal of long-term equity investment	2,555,252	1,873,499
Amortisation of long-term equity investment difference	35,494	102,032
Other income	—	—
Total	<u>12,912,566</u>	<u>7,874,597</u>

38. Non-operating income

Type	Accumulated amount of the period <i>RMB</i>	Amount of the period of previous year <i>RMB</i>
Gain on disposals of fixed assets	531,875	—
Penalty income	1,850	32,278
Others	143,012	84,641
Total	<u>676,737</u>	<u>116,919</u>

39. Non-operating expenses

Type	Accumulated amount of the period <i>RMB</i>	Amount of the period of previous year <i>RMB</i>
Loss on disposals of fixed assets	517,012	832
Penalty expenses	57,028	86,237
Others	42,356	149,945
Total	<u>616,396</u>	<u>237,014</u>

40. Income tax

	Accumulated amount of the period <i>RMB</i>	Amount of the period of previous year <i>RMB</i>
Income tax payable by subsidiaries	1,241,075	2,901,721
Total	<u>1,241,075</u>	<u>2,901,721</u>

41. Segment information

As the total external operating revenue of electricity transmission and transformation represented over 80% of the total amount, while the external operating revenue of other revenue did not reach 10% of the revenue from principal operation of the current period, therefore there was no need for preparing segment statement.

42. Notes to the financial statements of the Company

(1) Other receivables

The aging analysis of other receivables is as follows:

	30th June, 2005				1st January 2005			
	Amount	Percentage	Bad debt provision	Net book value	Amount	Percentage	Bad debt provision	Net Book value
	RMB	(%)	RMB	RMB	RMB	(%)	RMB	RMB
Within 1 year	213,629,792	68		213,629,792	158,866,653	61	(91,542)	158,775,111
1 to 2 years	(236,473)			(236,473)	5,877		(5,877)	—
2 to 3 years	99,232,895	31		99,232,895	99,323,413	39	(90,518)	99,232,895
3 to 4 years	3,821,402	1	(35,419)	3,785,983				
Total	316,447,616	100	(35,419)	316,412,197	258,195,943	100	(187,937)	258,008,006

(2) Long-term investment

	30th June, 2005 RMB	1st January, 2005 RMB
Investment in subsidiaries	675,354,781	712,455,719
Investment in joint venture enterprises	4,364,793	4,319,515
Investment in other equity	11,010,000	11,010,000
Total	690,729,574	727,785,234
Less: Impairment loss on long-term equity investments	—	—
Long-term equity investments - Net	690,729,574	727,785,234

Details of movement in other equity investments for the period

Name of investee	Invested amount RMB	Increase/Decrease in equity for the period RMB	Aggregate increase/decrease RMB	Share in the registered capital of the investee (%)	Provision of diminution in value RMB	Additional investment (less investment) RMB	Closing book value RMB
Jinzhou City Co-operative bank	11,010,000	—	—	4.35	—	—	11,010,000
Total	11,010,000	—	—	4.35	—	—	11,010,000

Details of movements in investment in associates:

Name of investee	Invested period RMB	Invested amount RMB	Accumulated equity changes RMB	Share in the registered capital of the investee %	Provision of diminution in value changes RMB	Closing book value RMB	Principle operation RMB
Northeast Electrical Hitachi Transmission and Transformation Machinery Co., Ltd.	25 years	4,068,352	296,442	49.00	—	4,364,794	Production of Transmission and Transformation Machinery
Total	4,068,352	296,442	—	—	—	4,364,794	

Details of movements in investment in subsidiaries:

Item	1st January, 2005 RMB	Addition RMB	Disposals RMB	30th June, 2005 RMB
Investment cost	812,938,203		54,238,796	758,699,407
Share of losses of subsidiaries	(100,482,484)	14,224,208	(2,913,650)	(83,344,626)
Share of other equity changes of subsidiaries				
Total	<u>712,455,719</u>	<u>14,224,208</u>	<u>51,325,146</u>	<u>675,354,781</u>

(3) Investment income

	Accumulated amount of the period RMB	Amount of the period of previous year RMB
Long-term investment income:		
Gain on disposal of long-term equity investment	2,555,252	1,873,499
Profit declared by investee under equity method	14,389,088	7,731,883
Amortisation of long-term equity investment difference		
Total	<u>16,944,340</u>	<u>9,605,382</u>

43. Related party relationships and transactions

(1) Connected party with controlling relation

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

(2) The register capital of connected party with controlling relation and the change thereon

Name of the related party	30th June, 2005 RMB	1st January, 2005 RMB
New Northeast Electric Investment Co., Ltd.	135,000,000.00	135,000,000.00

(3) The proportion of shareholding and equity interest held by connected party with controlling relation and change thereon

Name of the related party	1st January, 2005 RMB	%	30th June, 2005 RMB	%
New Northeast Electric Investment Co., Ltd.	230,000,000	26.34%	230,000,000	26.34%

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

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

- (5) During the reporting period, the Company did not have any connected transactions with New Northeast electric Investment Company Limited and connected transactions between the Company and New Northeast Electric (Shenyang) High-voltage Switchgear are as follows

	Accumulated amount of the period	Amount of the period of previous year
Purchase of raw material and equipments from the connected parties	4,864,957	20,669,230
Sales of products to the connected parties	41,328,402	—
Provision of industrial service to the connected parties	15,849,600	—
Provision of hotel service	478,507	—

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

- (6) Flow of creditor's rights and debt

Project	Connected parties	Amount of the end of period RMB	Amount at the beginning of period RMB
Trade receivables and other receivables	New Northeast Electric (Shenyang) High-voltage Switchgear Ltd.	53,245,390	72,644,615
Trade payable and other payables	New Northeast Electric (Shenyang) High-voltage Switchgear Ltd.	33,894,490	15,852,481

44. CONTINGENT LIABILITIES

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

- 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.

- 2) The Company provided guarantee for bank loans of Jinzhou Power Capacitors Limited. As of 30 June 2005, the balance was RMB52,900,000. The nature of guarantee was joint liability guarantee.
- 3) The Company provided guarantee for the bank loans of Shenyang High-voltage Switchgears Co. Ltd. As of 30 June 2005, the balance was RMB6,890,000. The nature of guarantee was joint liability guarantee.

45. Undertakings

As of the balance sheet date, there were undertakings that require the Company's explanations.

	30th June 2005 <i>RMB</i>	1st January 2004 <i>RMB</i>
Contracted but not yet recognised in accounting statement		
- Commitment of purchase and construction of assets	—	72,257,144
Total	<u>—</u>	<u>72,257,144</u>

46. 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. 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.

47. Approval of the Financial Statements

The financial statements for the year were approved and authorised for issue by the board of directors on 10th August, 2005.

Supplementary information:

1. Differences between the accounting principles generally accepted in Hong Kong and PRC accounting regulations

	Net profit for the year ended 30th June 2005 <i>RMB</i>	Net asset value as at ended 1st January 2004 <i>RMB</i>
Amount per financial statements prepared in accordance with the PRC accounting standards	8,731,049	779,452,133
Adjustments under the Hong Kong accounting principles		
Welfare fund payable	<u>577,665</u>	<u>1,253,527</u>
Amount per financial statements prepared in accordance with the Hong Kong accounting principles	<u>9,308,714</u>	<u>780,705,660</u>

2. Extraordinary profit and loss items

Unit: RMB

Deducting daily additions under regulations of corporate accounting system	
Noo-operating income and expenses less asset impairment loss provision (net)	60,342
Income from disposal of long-term equity investment	2,555,252
Total	2,615,594

3. Details of provision for impairment loss on assets

Unit: RMB

Items	Opening balance	Increase/decrease changes for the period	Transfer for the year	Written back for the year	Closing balance
1 Provision for bad debts	42,832,681	3,694,853		(34,729,078)	11,798,456
Including: Accounts receivable	39,040,769	857,436	—	(32,106,641)	7,791,564
Other receivables	3,791,912	2,837,417		(2,622,437)	4,006,892
2 Impairment loss on short term investment					
Including: Investment in securities					
Investment in debenture					
3 Provision for Inventory	12,877,294			(11,863,222)	1,014,072
Including: Finished goods	9,063,980			(9,016,015)	47,965
Raw materials	1,700,072			(858,211)	841,861
Work in progress	2,113,242			(1,988,996)	124,246
4 Impairment loss on long-term equity investment	267,000			—	—
Including: Long term equity investment	267,000			(267,000)	—
Long term debenture investment					
5 Impairment loss on fixed asset	87,628,424			(507,924)	87,120,500
Including: Building	80,741,768			(19,600)	80,722,168
Plant, machinery and equipment	6,657,036			(488,324)	6,168,712
Motor vehicles and others	229,620			—	229,620
6 Impairment loss on intangibles assets					
Including: Franchise					
Trademark					
7 Impairment loss on construction in progress	52,090	—	—	(52,090)	—
8 Impairment loss of trust loans					

4. Return on net assets and earnings per share after fully dilution and weight average

Unit: RMB

Profit for the reporting year	Return on net assets (%)		Earnings per share (RMB/Share)	
	Fully diluted	Weighted average	Fully diluted	Weighted average
Gross profit	0.0681	0.0662	0.06	0.06
Operating income	0.0023	0.0023	0.002	0.002
Net profit	0.0112	0.0112	0.01	0.01
Net profit after extraordinary profit and loss	0.0078	0.0079	0.007	0.007

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

Condensed consolidated income statement

	Note	Six months ended 30 June	
		2005 RMB'000 (unaudited)	2004 RMB'000 (unaudited)
Turnover	3	245,752	146,563
Cost of sales		(190,778)	(111,064)
Gross profit		54,974	35,499
Other income		3,697	188
Distribution costs		(12,167)	(7,857)
Administrative expenses		(39,134)	(18,787)
Other operating expenses		(2,487)	(237)
Profit from operations	4	4,883	8,806
Interest on bank borrowings		(2,496)	(6,189)
Investment income from associates		10,358	5,899
Gain on disposal of associates		—	1,873
Gain on disposal of subsidiary		2,555	—
Profit before taxation		15,300	10,390
Taxation	5	(1,241)	(2,901)
Profit after taxation		14,059	7,489
Profit attributable to minority shareholders		4,750	256
Earnings per share – basic	7	1.07cents	0.83cents

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

1. Bases of preparation

The condensed financial statements are prepared under of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“Listing Rules”), together with the relevant disclosure requirements of the Hong Kong Accounting Standard No. 34 “Interim Financial Reporting” (HKAS34).

2. Principal accounting policies

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

Apart from complying with the accounting standards in Hong Kong newly issued on 1 January 2005, the accounting policies of the Group adopted in preparing interim financial information for the six months ended 30 June 2005 are consistent with those followed by the Group in preparing the financial statements for the year ended 31 December 2004.

3. Segment information

The Group’s turnover and gross profit from operations for the six months ended 30 June 2004 and 2005, analysed by business segments and by geographical segments, are as follows:

Business segments	For the six months ended 30 June 2005		For the six months ended 30 June 2004	
	Turnover RMB’000	Segment results RMB’000	Turnover RMB’000	Segment results RMB’000
High-voltage switch / Power capacity / Closed busbar	205,097	7,303	—	12,529
Hotel and catering services	14,546	(3,675)	14,361	(3,723)
Storage and transportation	15,372	1,131	—	—
Others	8,866	124	—	—
Composite	243,881	4,883	6,563	8,806

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

4. Profit from operations

	Six months ended 30 June	
	2005 RMB’000 (unaudited)	2004 RMB’000 (unaudited)
Profit from operations has been arrived at after deducting:		
Depreciation and and charging:	<u>12,164</u>	<u>8,455</u>
Interest income on bank deposits	<u>46</u>	<u>57</u>

5. Taxation

Apart from the two subsidiaries enjoying the tax-exemption period of income tax, the Company and its subsidiaries are subject to income tax at the statutory rate of 33%.

The Company had no taxable profit for the period (2004: Nil). The charge for the period mainly represents provision for income tax calculated at 33% of the assessable income of certain PRC subsidiaries.

No Hong Kong profits tax has been provided as the Company and its subsidiaries had no taxable profit in Hong Kong (2004: Nil).

As at 30 June 2005, the Company and the Group had no significant deferred tax (2004: Nil).

6. Interim dividend

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

7. Earnings per share

The calculation of earnings per share is based on the net profit attributable to shareholders of about RMB9,309,000 (2004: RMB7,233,000) and the total number of shares in issue amounting to 873,370,000 (2004: 873,370,000) at the end of the period.

8. Connected transactions

1. During the period, the Group conducted the following transactions with its associates

	As at 30 June 2005 <i>RMB'000</i>	As at 30 June 2004 <i>RMB'000</i>
Purchase of products and spare parts from connected parties	4,865	20,669
Sales of products to connected parties	41,328	—
Provision of industrial services to connected parties	15,850	—
Provision of hotel services	479	—
	<u>479</u>	<u>—</u>

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

2. Creditors' rights and debts between the Group and its associates

Item	As at 30 June 2005 <i>RMB'000</i>	As at 30 June 2004 <i>RMB'000</i>
Account receivables and other receivables	53,245	72,645
Account payables and other payables	<u>33,894</u>	<u>15,852</u>