(1) DISCUSSION AND ANALYSIS OF OVERALL OPERATIONS FOR THE REPORTING PERIOD

During the reporting period, the Company focused to comply with the guidelines of enhanced communications in a view to come up with new ideas, specialized management for cost reduction, assured quality for continuous advancement, as well as innovation based on diligent operation. The Company enhanced and strengthened the management for infrastructure and conducted strict budget control system to control the cost and expenses. Further, to explore new markets actively and overcome the adverse impact of price rise of raw materials effectively so as to maintain a momentum for favourable development, the Company proactively adjusted the product mix and marketing strategies. During the reporting period, the sales revenue, profit from principal operations and net profit of the Company amounted to RMB549,890,000, RMB140,890,000 and RMB23,630,000 respectively, representing an increase of 58.5%, 52.0% and 955.5% respectively over the previous year. Major operating policies implemented during the reporting period were as follows:

1. Adjust product mix and marketing strategies to improve order quality

During the reporting period, the ability to adapt to the market changes of the sales and marketing team of the Company is enhanced fundamentally by adjusting geographical regions of markets and sales services system as well as enhance the structure of its sales team. In order to improve order quality and focus on implementation of major projects, subsidiaries of the Company developed an in-depth and refined operation. The gross profit margin of order contracts thereby increased substantially when compared with prior years.

2. Carry out quality improvement measures to enhance products quality steadily

During the reporting period, the Company focused on quality control by ensuring accuracy and implementation of adjustment measures. Quality improvement is critical to enhance the product quality which is mainly reflected from the substantial decrease of loss due to quality defects, improvement of product quality and improved passing rate in its one-off testing and examination.

3. Proximity to market needs entrenches scientific studies and new products development

Scientific studies and new product development during the reporting period featuring the proximity to market needs for upgrading to a new perspective and emphasizing on application value and practical effectiveness. It completed 8 important scientific studies and development of 16 new products, 6 more than what it planned.

(1) DISCUSSION AND ANALYSIS OF OVERALL OPERATIONS FOR THE REPORTING PERIOD *(Continued)*

4. Ease the pressure of capital shortage and productivity to increase the production steadily

In recent years, larger scale of sales and expanding production increasingly posed check and balance on capital and production conditions. Since capital for production was insufficient and did not provide in timely manner, the progress for procurement of raw materials and ancillary facilities was lagging behind which increase the difficulty in supply. Subsidiaries proactively adopted measures to tackle with difficulties and pressure they meet. The Company strengthened external communication with end-users and suppliers to obtain information, while internally, the production increased steadily by improving the effectiveness of resource allocation to cater for the need of key operation and production.

5. Informationalization is gaining fruits by stage and bringing to a higher, broader and deeper level

(1) ERP project, developed and ran by subsidiaries in Fufeng, has completed the development of sub-systems including procurement management, price quoting management and integrated enquiries and is operated in trial basis. The project is gaining fruits by stage.

(2) During the reporting period, the Company developed a modernized office management system which can facilitate the Company's need and implemented OA system management in the Company and its subsidiaries so that a majority of work does not consumed any paper basically.

(3) The website of the Company is revised during the reporting period to rationalize the Company and its subsidiaries' vision, mission and product mix as well as the image of its framework so as to strengthen the management of investor relations and communication.

6. Enlancing the standardized system

During the reporting period, the Company focused on enhancing the management system, which aims to concept transformation and management mode development to cater for the need of new development landscape, with practical progress is made. At the beginning of the year, the Company formulated and implemented 11 management systems including the "Budget control system" to provide with detailed standards and criteria of operations.

(2) OPERATION OF THE COMPANY DURING THE REPORTING PERIOD

1. Scope of principal business and its operation

(1) The Company and its subsidiaries are the major bases of manufacturing, research and export of electrical transmission and transformation equipment in China and the major supplier of electrical transmission and transformation equipment in China. The Company's principal business is the manufacture and sale of system protection and transmission equipment including high-voltage isolated switch, power capacitor and closed busbar.

(2) Operational results for the year

The Company recorded a revenue of RMB54,989,247.22, total profit of RMB41,761,817.39 and the net profit of RMB23,625,686.63.

Income from principal operations and profits from principal operations by business, product and regions segments:

Principal operations by business and product segment *Unit: RMB'000*

By business / By product	Income from principal operations	Costs of principal operations	Profit ratio of principal operations	Increase/ decrease (%) in income from principal operations as compared with the preceding year	Increase/ decrease (%) in costs of principal operations as compared with the preceding year	Increase/ decrease (%) in profit ratio of principal operations as compared with the preceding year
Electrical transmission and allocation and control facilities manufacturing	48,630.62	36,225.72	25.40%	57.95%	65.01%	(3.30)
Other transportation and storage	3,184.54	1,892.96	35.81%	275.26%	209.73%	7.83
Hotel	3,174.26	2,405.50	19.21%	3.88%	0.39%	(2.38)
Principal operations by product segment						
High-voltage switch circuit breaker	21,625.30	18,517.59	14.37%	161.23%	156.80%	1.47
Power capacitor	16,210.25	9,429.20	41.75%	(12.19)	(18.83)	4.75
Closed busbar	9,018.29	6,711.91	25.27%	165.16	153.31	3.18
Others	1,776.79	1,567.02	11.12%	173.43	228.00	(14.67)

(2) OPERATION OF THE COMPANY DURING THE REPORTING PERIOD *(Continued)*

1. Scope of principal business and its operation *(Continued)*

(3) Principal operations by region segment

Unit: RMB0'000

Region	Income from principal operations	Increase/decrease (%) in income from principal operations over last year
Northeast China	20,292.00	243.80%
Northern China (Shandong inclusive)	25,389.00	166.42%
Central	787.00	-72.03%
East China	1,135.00	-61.62%
South China	3,333.00	-1.53%
Southwest China	2,139.00	59.65%
Others	1,914.00	-78.16%
Total	54,989.00	58.50%

2. Operation and results of major controlling company and investee company

Unit: RMB0'000

Name	Principal Business	Registered capital	Percentage of share held by the Company (%)	Total asset	Net asset	Principal Business Income	Net profit
Fuxin Closed Busbars Company Limited	Closed busbar	1,809	100	10,481	1,921	9,026	233
Shenyang Kingdom Hotel Co., Ltd	Accomodation and catering	15,000	100	27,459	22,907	3,174	-602
New Northeast Electric (Shenyang) High-voltage Switchgears Limited	Insulated switchgear	US$21,500,000	74.4	42,385	18,032	10,218	95
Shenyang Suntime Storage and Logistics Co., Ltd	Storage, transportation	17,000	95	16,929	16,442	3,392	181
Shenyang Chengtai Energy Power Co., Ltd	Wind, water, electric services	9,000	95	10,905	8,440	1,777	23
New Northeast Electric (Jinzhou) Power Capacitors Co., Ltd	Lightning arrester, power capacitor	US$10,000,000	52	19,861	11,272	17,541	2,981
Jinzhou Jinrong Electric Company Limited	High-voltage capacitor	300	69.75	3,420	1,356	2,618	245
Northeast Electric (Hong Kong) Company Limited	Investment	US$900,000	100	20,745	5,443	—	3,160
Weida High-voltage Electric Company Limited	Investment	US$126,260,000	20.8	81,132	36,949	11,828	9,046
Shengang Gaodongjia Desiccation Company Limited		450	70	700	167	527	47

Note: Shenyang Northeast Electric Hitachi Power Transmission Equipment Company Limited was closed upon liquidation on 16 December 2005.

(2) OPERATION OF THE COMPANY DURING THE REPORTING PERIOD *(Continued)*

3. Major suppliers and customers

Total volume of purchase from the Company's top 5 suppliers amounted to RMB187,678,000, representing 55% of the total volume of purchase. Total volume of sales to the Company's top 5 customers amounted to RMB295,071,000, representing 54% of the total sales volume.

4. Impact of changes in operational environment and macro policies on the Company

The PRC will focus on water and electricity development in power generation development and put more effort on accelerating the nuclear construction during the period 11th "Five-year Plan" (the "Period"). State Grid Corporation of China and Southern Power Grid will invest approximately RMB1,250 billion in total during the Period, representing an average annual growth of 20% for the investment on power grid in the next five years. State Grid Corporation of China expects the total installed capacity will amount to 200 million KW during the Period and will continue to transmit power from the west to the east so as to drive the prosperous development of the overall power transmission and transformation industry.

(3) INVESTMENTS DURING THE REPORTING PERIOD

1. During the reporting period, the Company did not have substantial external investments.

2. During the reporting period, the Company neither had any proceeds nor situation under which the usage of proceeds prior to the reporting period needed to extend to the reporting period.

3. During the reporting period, there was no significant projects invested with non-raised funds.

(4) FINANCIAL CONDITIONS AND OPERATIONS RESULTS DURING THE REPORTING PERIOD

Unit: RMB

Items		2005	2004	Increase/ decrease (%)
1.	Total assets	1,266,245,850.57	1,356,156,532	-6.62
2.	Shareholders' fund	797,329,741.7	770,526,078	3.48
3.	Profits from principle operations	140,893,040.68	92,721,941	51.95
4.	Net profit	23,625,686.63	2,238,310	955.51
5.	Net increase in cash and cash equivalents	46,535,457.67	47,134,098	-1.27

Main reasons for increase or decrease:

Except for the increase in shareholder's funds showed in item 2 which is due to the increase in capital reserve and unallocated profit, the changes in other items are because of the changes in consolidated areas of the financial statements.

(1) Asset structure of the reporting period Unit: RMB0'000

Item As at 31 December 2005 As at 31 December 2004

	Amount	Percentage to total assets	Amount	Percentage to total assets	Change (%)
Other receivables	10130.54	8.00%	33,376.6	30.33%	-22.33
Inventory	8,551.37	6.75%	6,123.56	5.56%	1.19
Long-term equity investment	11,201.97	8.85%	8,101.97	7.36%	1.49
Fixed assets	72,410.00	57.18%	77,598.43	70.50%	-13.32
Construction in progress	31.03	0.02%	392.55	0.36%	-0.34
Short-term loan	8,481.00	6.70%	17,953.40	16.31%	-9.61
Total assets	126,624.59		110,062.83		

(4) FINANCIAL CONDITIONS AND OPERATIONS RESULTS DURING THE REPORTING PERIOD *(Continued)*

(1) Asset structure of the reporting period Unit: RMB0'000 *(Continued)*

Notes to changes:

1. The decrease in other receivables is due to: the transfer-out of the opening balance of other receivables of the former Jinzhou Capacitor as a result of its disposal.

2. The increase in inventory is mainly due to increased orders and commencing of production ahead of schedule for sales in 2006.

3. The increase in long-term equity investment is due to:

   1) an increase in investment in Jin Hua Chlor-Alkali, and

   2) the recognitions of the investment income from Weida High-voltage.

4. Fixed assets: the decrease is mainly due to the disposal of the former Jinzhou Capacitor.

5. Construction in progress: the decrease in balance is due to the disposal of the former Jinzhou Capcitor.

6. The decrease in short-term loan is mainly due to transfer-out as a result of the disposal of the former Jinzhou Capacitor.

(2) Expanses and income tax for the reporting period

Unit: RMB0'000

Item	2005	2004	Change
Operating expenses	3,975.30	2,231.26	78.16%
Management expense	7,403.58	5,147.15	43.84%
Financial costs	445.75	992.82	-55.10%
Income tax	241.91	817.60	-70.41%

Notes to changes:

1. The increase is operating expense is a result of the increased income from principal business;

2. The increase in management expense is due to the increased income from princiapal business;

3. The decrease in financial costs is due to the decrease in current bank loans bearing interest;

4. The decrease in income tax is due to the income tax preferential policy applicable to most of the current profits as a result of the increased number of foreign joint ventures of the Company.

(3) Note to the cash flow statements

During the reporting period, the Company recorded a total of RMB46,535,400 of net cash inflows, including RMB22,598,400 of net cash inflows from investment activities, RMB5,643,700 of net cash inflows from operating activities and RMB18,293,300 of net cash inflows from financing activities.

(5) THE BOARD'S EXPLANATION FOR OPINIONS GIVEN BY THE AUDITORS

The Board of Directors (the "Board") of the Company considered and accepted the auditors' report with a qualified opinion prepared by its accounting firm. The Board hereby confirms that the Company's 2005 annual financial statements prepared under relevant policies including the Accounting Standards for Business Enterprises (《企業會計準則》) and Accounting Standard for Joint Stock Limited Companies（《股份有限公司會計制度》）has truthfully, accurately and fairly, in all material respects, reflected the Company's financial position and operating results in 2005.

1. Explanation for related matters of qualified opinions

(1) The appropriateness of differentiating the equity premium and investment income generated from the disposal of Jinzhou Power Capacitor Company Limited ("Jinzhou Power Capacitor")

As indicated in note 45, with the approval of the Board via resolution on 27 December 2004, the Company transferred its 99.99% equity of Jinzhou Power Capacitor to Northeast Construction Installation Engineering Company Limited ("Northeast Construction") and completed the registration of commercial and industrial updating on 15 April, 2005. The Board of Directors considered that the disposal was completed, the transfer price is calculated based on the net asset value of Jinzhou Power Capacitor audited as at 31 December 2003, and operating profits of 錦容 from 1 January 2005 to the disposal date of the equity is RMB120,000. The Board confirmed that the transfer premium is RMB2,560,000. As the audit procedure required for the implementation of Jinzhou Power Capacitor's operating income had not been confirmed on the date of disposal, it was unable to accurately differentiate Jinzhou Power Capacitor's investment income recognized based on the interest means and the disposal of profit of equity. However, whether differentiating Jinzhou Power Capacitor's operating results and disposal of equity from 1 January 2005 to the date of disposal was appropriate or not, it could only affect the current consolidated profit statement (including the differentiation of Jinzhou Power Capacitor's operating profit and transfer profit), but not the current net profit and the future operating results of the Company.

(5) THE BOARD'S EXPLANATION FOR OPINIONS GIVEN BY THE AUDITORS *(Continued)*

1. Explanation for related matters of qualified opinions *(Continued)*

The disposal of cash received by subsidiaries shown in the consolidated cash flow statement is calculated based on the transfer price deducting Jinzhou Power Capacitor's initial cash remaining sum. As a result, the current cash changes of Jinzhou Power Capacitor could only affect the flow changes of the related matters in the cash flow statements, but not the current cash flow and cash remaining sum at the end of the period.

(2) The appropriateness of differentiating the equity premium and investment income generated from the disposal of Shenyang High-voltage Switchgear Co., Ltd ("Shenyang High-voltage") and accounted as capital reserve

As indicated in note 45 of 2004 financial report, with the Board's approval of disposing of its 48.95% equity of Shengyang High-voltage to an associated company on 15 March 2004, the RMB 1,870,000 premium recognized by the transfer price deducting Shengyang High-voltage end of 2003 audited net assets was recognized in the capital reserve (price difference of the connected transaction). As there was no assessment on the Company's equity of Shengyang High-voltage on the date of disposal, therefore the auditors had a qualified opinion on the Company's application of RMB1,870,000 to the capital reserve (price difference of the connected transaction). On the other hand, as the audit procedure required for the implementation of Shengyang High-voltage's operating income had not been confirmed on the date of disposal, it was unable to accurately differentiate Shengyang High-voltage's investment income recognized based on the interest means and the disposal of profit of equity.

According to January to February 2004 audit report prepared by 北京中才會計師事務所 for Shengyang High-voltage, Shengyang High-voltage realized a operating profit of RMB20,000 from January to February 2004. Therefore, the Company considered that premium RMB1,870,000 generated from the disposing of Shenyang High-voltage equity being recognized in the capital reserve (price difference of connected transaction) was relatively accurate and would not significantly affect the accuracy of differentiating the nature of investment income. In addition, the transfer of equity was completed in 2004, therefore it would not affect the Company's operating results during the reporting period and in the future.

(5) THE BOARD'S EXPLANATION FOR OPINIONS GIVEN BY THE AUDITORS *(Continued)*

2. Explanation for highlighted matters of qualified opinions

(1) Litigation lodged by China Development Bank ("the Bank") for the debt of RMB150 million

As the auditor reminded that concern should be shown, and as Note 52 (1) indicated, the Company's original associated company Shenyang High-voltage failed to settle the due debt, "the Bank" lodged a litigation with the Beijing Higher People's Court on 31 May 2004, the litigation was overruled by the court on 18 March 2005. Lodged an appeal with the Supreme Court on 23 March 2005, the case is in process, and the court has not made any final judgment.

For the purpose of this, the solicitors have issued a letter of legal opinion which considers: The transfer of equity of the Company is legal and valid, and does not violate the statutory provision of the national laws. After the appeal of the bank was overruled by the Beijing Higher People's Court, "the Bank" did not initiate new appeal and new evidence; in addition, as the appeal against the Company and the dispute over a loan guarantee contract do not conform to the same law, therefore the appeal initiated by the bank should not be supported by the court. As a result, the final judgment of the case would not constitute significant effect to the overall operating results of the Company.

The auditors expressed that the above highlighted matters did not affect the published audit opinion.

(6) OPERATING PLANS FOR THE NEW YEAR

In 2006, the Company shall leverage on favorable conditions of peripheral market. It is expected that the income and net profit from principal operations will grow rapidly through effective development in management and renewal and transformation of equipment and facilities of the Company in 2006, and that a beneficial cycle and a sustainable operating environment will be achieved as a result.

1. Major measures

(1) Effectively controlling major factors of input and output and promoting quality and effectiveness of economic operations

To enhance productivity and warranty of product quality relying on effective technological renovations; to step up management of cash flow and enhance asset efficiency; to step up cost control and increase room for profit; and to put into force core quality measures so as to perfect quality system building.

(2) Promote management standard of human resources and transforming the traditional "personnel management" to effective utilization of resources

The Company plans to introduce technical staff and core production staff, to implement strategic human resources management, establish appropriate corporate mechanism of selection, training, employment and retention of talent, to gradually establish and perfect human resources systems inlcuding organizational management, performance management and career development.

(3) Synchronizing exploration and development to achieve good results in both markets

In terms of development in the domestic market, focus will be placed on enhancing marketing mechanism and network establishment, to conduct in-depth analysis on the market environment and adopt target oriented marketing strategies, to make timely adjustments and improvements to the marketing strategies in the light of the ever-changing market competition. As to development in the international market, liaison and co-operation with foreign trading companies will be strengthened through establishment of import/export companies so as to gradually develop characteristic and internationally competitive tradability for an integrated set of export items.

(4) Enhance corporate implementation so as to avoid and solve operating risks

The Company will spend 2 to 3 years to gradually establish an up-to-date corporate culture that reflects the Company's characteristics. A harmonious and good corporate image will be build up to enhance cohesion of the Company, while corporate implementation and development will be enhanced through such a corporate culture. At the same time, a mechanism will be established for avoidance and solution of operating risks thus enhancing the Company's ability to control and respond to risks.

(6) OPERATING PLANS FOR THE NEW YEAR *(Continued)*

1. Major measures *(Continued)*

(5) Building up corporate image by keeping good and harmonious relationships with all parties concerned

Stress will be placed on serviceability for establishment of good relationship with clients and a market image of reliable products, perfect service and honesty. Efforts will be made to eliminate adverse effects brought by reforms. Good relationship will be kept with the banking sector to ensure financing channel for corporate development. Good relationship eliminate be kept with the legal sector so as to dissipate the joint liabilities resulting from asset reorganization. The corporation shall be governed by compliance with legislations. The supply channels will be integrated to perfect the supply chain. Appropriate amount of funds will be put into supply warranty necessary for production while ensuring rapid growth of production is in line with environment and safety.

2. Fund needs and usage plans of funds needed for implementation of strategies for future development and source of funds

It is predicted that more funds shall be needed during the process of implementation of strategies for future development (mainly upgrading of equipment and technological renovation). In this connection, the Company will actively widen its financing channels and solve fund needs by such means as of debt financing and equity financing. At present, the Company has a low gearing ratio. The self-owned funds are expected to be sufficient to meet the development needs for 2006. Should any discrepancy emerge, the Company will solve the problem with bank loans.

3. Possible risks faced by the Company

(1) Development strategy risks

At present, the Company is under-productive. Equipment upgrading and technological renovations are the most vital segments of our development cores. The Company will observe the market with alertness, stress on in-depth studies for first-hand information and will adopt scientific approaches will for feasibility studies and make full use of good opportunities to acquire companies for development at low cost. Development strategies will be incorporated into our daily work through the formulation of action plans and the implementation of duties of all functional departments. Hence strategic control and ongoing improvement mechanisms will be established. As the same time, more efforts shall be spent on enhancing implementation of strategies in line with the real situation, making them more pragmatic. Routine decisions and actions will be kept in line with long-term strategies so as to ensure implementation of strategies.

(6) OPERATING PLANS FOR THE NEW YEAR *(Continued)*

3. Possible risks faced by the Company *(Continued)*

(2) Market operation risks

The Company will prepare for possible future risks and endeavour to expand its market share and to ensure the Company's products' lead in the market solid foundation for our development. Great efforts are needed to do preliminary market research, enhance predictability of market trend and response to market needs. The Company will be more proactive in directly dealing with both upstream and downstream clients, step up market development and be more ambitions in expanding ordering channels. The Company will also expedite structural adjustment, enhance productivity, provide quality services, and promote economic effectiveness and market shares.

(3) Financial risks

Asset auditing will be conducted on a regular basis to implement the management responsibility system. Financial supervision and management will be strengthened while auditing will be conducted regularly. Changes in exchange and interest rates will be closely monitored for timely adjustments to financing arrangements. Financial management systems will be perfected and strictly implemented, the quality of personnel will be enhanced, and the supervisor accountability system will be implemented.