

(I) MATERIAL LITIGATION AND ARBITRATION**1. Debt litigation brought by the Company on RMB12.199 million due from Northeast Electrical Transmission and Transformation Equipment Company Corporation Limited (“NET”)**

On 9 March 2005, Shenyang Intermediate People’s Court awarded a ruling ([2004] Shen Fa Zhi Zi No. 498 Civil (Execution)) on the debt litigation brought by the Company on the principal of the loan of RMB12,199 million due from NET and the interests accrued thereon. NET obtained the 70% equity interests in Shenyang Gaodongjia Desiccation Company Limited and completed the change registration. From September 2005 onward, it is consolidated into the financial statements of the Company. For details, please refer to the designated newspaper for disclosure dated 22 March 2005.

2. Litigation lodged by Shenyang Cable Corporation on the guarantee of a loan

On 30 June 2003, Bank of China (“BOC”) Shenyang branch prosecuted against the Company for joint guarantee responsibility for the capital of a loan of RMB20,000,000 for Shenyang Cable Corporation, the subsidiary of NET, which in turn the former controlling shareholder of the Company, plus interest thereon. Liaoning Province People’s Higher Court made the final decision on 30 December 2005 by which it revoked the civil judgment ((2004) Shenzhongmin(3)Hechuzi No. 5) made by Shenyang City People’s Intermediate Court and waived the Company’s guarantee responsibility for the loan of RMB20 million and retorted BOC’s claim with all litigation costs borne by it. The RMB15.29 million estimated debt made by the Company for 2004 would be written back for inclusion in the non-recurring profit/loss of the period. For details, please refer to the designated newspaper disclosure dated 24 February 2006.

3. Litigation lodged by ShuangJia Insulator & Electric Co., Ltd. (“ShuangJia”) on dispute over payment of goods

ShuangJia lodged a case with the Intermediate People’s Court of Xian City (“Xian’s Intermediate Court”) in April 2004 against Shenyang High-Voltage, the goods receiving party, in relation to the disputes on payment of goods. In light of the Company was a former shareholder of Shenyang High-Voltage and had property transactions with Shenyang High-Voltage, ShuangJia considered that the Company would transfer the payment to Shenyang High-Voltage at nil consideration and escape from the liability for repayment. The Company was thereby regarded as joint defendants in the case. The First Instance of the Xian’s Intermediate Court made a verdict for the 8 premises (total area: 18.414 sq.m) that the Company shall take the responsibility for repayment. Shanxi’s High Court gave the final decision ((2005) Shanminerzhongzi No. 37) on 18 October 2005 and maintained the judgment of the first instance. The Company was in opinion that Xian’s Intermediate Court and Shanxi’s High Court are materially in violation to the statutory procedure, and the fact and laws applied were not appropriate. The Company planned to lodge application for re-judgment with the Supreme Court. The Company exercised caution and have a debt estimated for such litigation for 2005 amounted to RMB9,250,000. For details, please refer to the designated newspaper disclosure dated 28 March 2006.

(I) MATERIAL LITIGATION AND ARBITRATION (Continued)**4. Litigation lodged by Jinzhou Power Capacitor Co. Ltd (“Jinzhou Capacitor”)**

On 19 May 2004, Jinzhou Capacitor, the former controlling subsidiary of the Company (the Company had transferred all its shares on 28 December 2004), entered into a RMB13,000,000 loan contract with BOC with a maturity of 12 months in which the Company will undertake the guarantee responsibility. BOC lodged a case with the Intermediate People’s Court of Jinzhou City (“Jinzhou’s Intermediate Court”) on 16 February 2005 under the circumstances of non-expiry of the loan contract and demanded Jinzhou Capacitor to make an early repayment with the Company undertaking the guarantee liability. Jinzhou’s Intermediate Court gave the civil judgment ((2005) Jinminsancheuzi No. 21) on 20 May 2005 by which it was decided that the Company shall undertake the joint repayment liability for the loan of RMB13 million to Jinzhou Capacitor. The Company had not lodged an appeal against the said decision yet and have a debt estimated for such litigation for 2005 amounted to RMB14,460,000. For details, please refer to the designated newspaper disclosure dated 24 February 2006.

5. Litigation lodged by China Development Bank for the debt of RMB150 million

China Development Bank lodged a litigation against Shenyang High-voltage Switchgears Company Limited for repayment of the principal of the debt of RMB150 million and the interests accrued thereon and also against the Company for acceptance of joint liabilities in relation to the debt. On 18 March 2005, Beijing Higher People’s Court made a ruling ((2004) Gao Min Chu Zi No. 802 Civil) that the litigation initiated by China Development Bank against New Northeast Electric (Shenyang) High-voltage Switchgears Limited, Shenyang Suntime High-voltage Electric Company Limited, Shenyang Chengtai Energy Power Company Limited, Shenyang Suntime Storage and Logistics Company Limited and Northeast Electric Development Company Limited be overruled. China Development Bank has lodged an appeal with the Supreme Court on 23 March 2005 and the case is in process. For details, please refer to the designated newspaper disclosure dated 25 March 2005 and 31 March 2005.

6. Litigation lodged by Shenyang representative office of Xinda Assets Management Corporation (“Xinda”) on dispute over a loan contract

Xinda lodged against Shenyang High-Voltage (“Shenyang High-Voltage”) in relation to a loan of RMB28.35 million borrowed by Shenyang High-Voltage from the Tiexi sub-branch of the Shenyang Branch of Bank of Communications in December 2003 which remained outstanding as at the due date, and on 12 May 2005 Xinda demanded Shenyang High-Voltage, the borrower, and Jinzhou Power Capacitors Co. Ltd. (“Jinzhou Capacitors”), the guarantor, to undertake the liabilities to compensate for the loan. As the former and current shareholders of Shenyang High-Voltage, the Company, Shenyang Chengan Electric Equipment Group Company Limited (“Shenyang Chengan”) and Shenyang Xinwei Logistics Company Limited (“Shenyang Xinwei”) were all prosecuted. The plaintiff requested the Company to undertake joint liabilities for the discrepancy of Shenyang High-Voltage’s investment amount and the outstanding make-up amount of the investment. On 20 March 2006, Liaoning’s High Court gave the civil judgment (2005) Liaominsancheuzi No. 8. It was decided that Shenyang High-Voltage and Jinzhou Capacitors shall undertake the liabilities for compensation, the plaintiff’s claims against the Company, Shenyang Chengan and Shenyang Xinwei were retorted because it was confirmed that the Company has already made sufficient investment in Shenyang High-Voltage. As at the date of this report, the Company did not receive any appeal notice from the plaintiff. For details, please refer to the designated newspaper disclosure dated 28 March 2006.

(I) MATERIAL LITIGATION AND ARBITRATION (Continued)**7. Debt and equity case brought by Liaoning Trust and Investment Company (“Liaoning Trust”) on RMB12 million**

The Company deposited US\$20 million in former Liaoning Trust in 1999. In November 2002, the liquidation team of Liaoning Trust repaid US\$8 million to the Company, and it agreed to repay the outstanding deposit of US\$12 million with an equivalent amount of assets. On 1 June 2005, Liaoning Trust transferred the RMB25 million (the principal and the interest accrued thereon) due from Jinhua Chemical Group Company Limited (“Jinhua”) to the Company. The relevant transfer procedure of equity with Shenzhen branch of China Securities Depository and Clearing Corporation Limited was completed on 9 March 2006. As to the remaining debt owed by the liquidation team to the Company, the Company has taken over the debt and equity owed by Ben Xi Iron Group from Liaoning Trust, which is enforced by legal means.

(II) ASSET ACQUISITIONS AND DISPOSALS DURING THE REPORTING PERIOD**1. Asset acquisition**

With approval from the board meeting on 1 August 2005, the Company invested RMB22,000,000 to acquire 10% equity of Kingdom Hotel Co., Ltd owned by Shenyang High-voltage Switchgear Co., Ltd.

In accordance to the civil judgment given by the Shenyang Intermediate Court, Northeast Electrical Transmission Equipment Group Corporation had to settle the principal and the interest RMB121,990,000 outstanding to the Company with its 70% equity of Shenyang Gaodongjia Desiccation Equipment Company Limited, and the registration of commercial and industrial updating was completed on 24 August 2005.

2. Asset disposal

With approval from the Board meeting on 27 December 2004, the Company transferred 99.99% equity owned in Jinzhou Power Capacitor Company Limited (“Jinzhou Power Capacitor”) to Northeast Construction and Installation Corporation, and the registration of commercial and industrial updating was completed on 15 April 2005.

(III) CONNECTED TRANSACTIONS

During the reporting period, there was no connected transactions as defined under the Listing Rules of Shenzhen Stock Exchange (Revised in 2005) nor had creditor rights and debt with connected parties at the end of the reporting period.

(IV) USE OF CAPITAL FOR CONNECTED PARTIES

Controlling shareholders or other connected parties did not use any capital during the reporting period.

(V) SIGNIFICANT CONTRACTS AND THEIR EXECUTIONS

1. During the reporting period, the Company did not enter into any material guarantee, trust, contractual or lease arrangement in respect of the assets of other companies nor did other companies enter into any trust, contractual or lease arrangement in respect of the assets of the Company nor have any fund management on trust or designated loan during the reporting period.
2. Guarantees:
 - (1) External guarantee granted by the Company

In late 2005, the total amount of external guarantee granted by the Company amounted to RMB59,060,000, of which RMB52,900,000 was guarantee granted to Jinzhou Power Capacitor and RMB6,160,000 was guarantee granted to Shenyang High-voltage Switch Gears Company Limited.
 - (2) Guarantee the Company granted to controlling subsidiaries

In 2005, guarantee and mutual guarantee the Company granted to controlling subsidiaries and subsidiaries respectively totaled at RMB58,610,000.
 - (3) The Company provided debt guarantee to the guaranteed parties with assets and liabilities ratio over 70%

As at the end of the reporting period, the debt guarantee provided to the guaranteed parties with assets and liabilities ratio over 70% was RMB59,060,000, which accounted for 7.4% of 2005 audited net assets, including RMB52,900,000 guarantee granted to Jinzhou Power Capacitor and RMB6,160,000 guarantee granted to Shenyang High-voltage Switchgear Co., Ltd.
 - (4) The Company did not provide guarantee to shareholders, actual controllers and their associates.
3. Litigation lodged by Liaoning Trust and Investment Company (“Liaoning Trust”) for the debt and equity of US\$12 million

Please refer “(1) Material Litigation and Arbitration” in “X. Significant Events”.

(VI) DURING THE REPORTING PERIOD, THE COMPANY AND ITS CONTROLLING SHAREHOLDERS DID NOT MAKE ANY DISCLOSURE OF ITS UNDERTAKINGS IN THE DESIGNATED NEWSPAPERS AND WEBSITE

(VII) APPOINTMENT AND DISMISSAL OF ACCOUNTANTS

Please refer to “V Report of Corporate Governance”

(VIII) DURING THE REPORTING PERIOD, THE COMPANY, THE BOARD OF DIRECTORS AND THE DIRECTORS HAD NOT BEEN INVESTIGATED, UNDER ADMINISTRATIVE PENALTY, CRITICIZED BY NOTICE BY THE CHINA SECURITIES REGULATORY COMMISSION AND OPENLY REPRIMANDED BY THE STOCK EXCHANGE

(IX) NO SIGNIFICANT EVENTS AS LISTED IN SECTION 62 OF THE SECURITIES LAW AND SECTION 17 OF DETAILS FOR IMPLEMENTATION OF INFORMATION DISCLOSURE BY SECURITIES ISSUERS (PILOT) DURING THE REPORTING PERIOD

(X) SUBSEQUENT EVENTS

1. Changes in share capital

Please refer to “(I) Changes in share capital under (III) Changes in Share Capital and Information about Shareholders”.

2. Commitments to share reform scheme

Pursuant to Guidance on Share Reform of Listed Companies as promulgated by the five departments and commissions including CSRC, a statement on share reform was published on 20 March 2006. All non-circulating shareholders commit to observe the law, legislation and regulations to discharge their statutory committed obligations. To ensure smooth implementation of the share reform scheme, New Northeast Electric Investment Co., Ltd, the controlling shareholder of the Company, specially commits to: the shares owned shall not be sold or transferred through listing in the Stock Exchange within 36 months from the implementation date of the share reform scheme, price of the original non-circulating shares sold through listing in the Stock Exchange upon expiry of the said period shall not be under RMB5. And, consideration payable by non-circulating shareholders who have not explicitly indicate that they consent to participate in the share reform scheme shall be reimbursed.