Deloitte.
德勤

TO THE MEMBERS OF
NORTHEAST ELECTRIC DEVELOPMENT COMPANY LIMITED
(A sino-foreign joint stock company established in the People's Republic of China with limited liability)

We have audited the financial statements on pages 52 to 103 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

BASIS OF OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") except that the scope of our work was limited as explained below.

An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Group, consistently applied and adequately disclosed.

We planned our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. However, the evidence available to us was limited as follows:

1) The Group's former subsidiary, Jinzhou Power Capacitors Limited ("Jinzhou Power") was disposed of on 15th April, 2005. The profit incurred by Jinzhou Power during the period from 1st January, 2005 up to the date of disposal ("Profit Incurred by Jinzhou Power for the Period") amounting to approximately RMB120,000 has been included in the consolidated income statement based on unaudited management accounts. Accordingly, for the purpose of our audit, we were unable to assess as to whether Profit Incurred by Jinzhou Power for the Period and the related gain on disposal of Jinzhou Power amounting to approximately RMB2,555,000 were free from material misstatement. In addition, in the absence of sufficient financial information of Jinzhou Power for the period from 1st January, 2005 up to the date of disposal, the directors have used the related assets and liabilities of Jinzhou Power at 31st December, 2004 to prepare the relevant disclosures included in the notes to the financial statements and the consolidated cash flow statement, thereby assuming no movements up to the date of disposal. Accordingly, we were unable to assess as to whether the amount disclosed in the consolidated cash flow statement, details relating to the disposal included in certain notes to the financial statements and the details of the assets and liabilities of Jinzhou Power at the date of disposal disclosed in note 37 to the financial statements were free from material misstatement. Any adjustment to these figures would affect the classification of the consolidated income statement and cash flow statement and the related amounts disclosed in the notes to the financial statements in respect of Jinzhou Power.

2) The Group's former associate, Shenyang High-Voltage Switchgears Limited ("Shenyang High-Voltage") was disposed of on 24th March, 2004. In the absence of sufficient financial information of Shenyang High-Voltage as at the date of disposal, the directors have not included the share of results of Shenyang High-Voltage for the period from 1st January, 2004 to the date of disposal in the comparative consolidated income statement for the year ended 31st December, 2004 in accordance with the requirements of Hong Kong Accounting Standard No. 28 "Investments in associates" issued by the HKICPA and the gain on disposal of Shenyang High-Voltage of RMB1,873,000 has been treated as a capital contribution. Accordingly, we were unable to quantify the amount to be included in the capital contribution as at 31st December, 2004 arising from gain on disposal of the associate. Our auditor's report on the financial statements for the year ended 31st December, 2004 was modified accordingly. Any adjustments to the figures would affect the Group's profit for the year ended 31st December, 2004 as well as the classification of the gain arising on the disposal of the associate included in the opening balance of the capital contribution reserve as at 1st January, 2005.

In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

FUNDAMENTAL UNCERTAINTY RELATING TO LITIGATION

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

In May 2004, a lawsuit was brought by the Bank against the Company and certain of its subsidiaries and its associate in relation to the repayment of loan of RMB150,000,000 borrowed by Shenyang High-Voltage, a former associate of the Company and the interest accrued thereon as well as certain sale and purchase agreements entered into between the Company and Shenyang High-Voltage. The details of which are set out in note 2 to the financial statements. These claims were rejected subsequently by the Beijing Higher People's Court (the "Beijing Higher Court") of the People's Republic of China. However, on 22nd March, 2005, the Bank filed an appeal to Beijing Supreme People's Court (the "Supreme Court") for a retrial. There has been no further progress up to the date of this report. Although the Company has taken legal advice which anticipates that the Supreme Court will take the same view as the Beijing Higher Court, the final outcome cannot be determined with certainty at this time. The financial statements do not include any adjustments that might be necessary if the Bank's appeal was to be upheld by the Supreme Court. We consider that the fundamental uncertainty has been adequately disclosed in the financial statements and our opinion is not qualified in this respect.

QUALIFIED OPINION ARISING FROM LIMITATION OF AUDIT SCOPE

Except for any adjustments that might have been found to be necessary had we been able to obtain sufficient evidence concerning the accounting for Jinzhou Power and Shenyang High-Voltage, in our opinion the financial statements give a true and fair view of the state of affairs of the Group as at 31st December, 2005 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
18th April 2006

	NOTES	2005 RMB'000	2004 RMB'000
Turnover	7	**546,135**	342,338
Cost of sales		**(405,242)**	(249,616)
Gross profit		**140,893**	92,722
Other income	9	**9,303**	6,714
Distribution costs		**(39,753)**	(22,313)
Administrative expenses		**(73,262)**	(51,094)
Other expenses		**(671)**	(398)
Interest on bank borrowings wholly repayable within five years		**(4,578)**	(12,864)
Share of results of associates		**18,835**	15,649
Gain on deemed disposal of partial interest in subsidiaries	36	**—**	17,313
Gain on disposal of a subsidiary	37	**2,555**	—
Provision for loss on guarantees	31	**(8,425)**	(15,292)
Profit before taxation		**44,897**	30,437
Taxation	12	**(2,419)**	(8,176)
Net profit for the year	10	**42,478**	22,261
Attributed to:			
Equity holders of the parent		**26,761**	20,934
Minority interests		**15,717**	1,327
		42,478	22,261
		RMB	*RMB*
Earnings per share – basic	14	**0.031**	0.024

CONSOLIDATED BALANCE SHEET

For the Year ended 31st December 2005 (Prepared in accordance with Accounting Principles Generally Accepted in Hong Kong)

	NOTES	2005 RMB'000	2004 RMB'000 (Restated)
Non-current assets			
Property, plant and equipment	15	**467,410**	503,288
Construction in progress	16	**310**	3,925
Prepaid lease payments	17	**46,320**	51,684
Interests in associates	19	**76,853**	71,622
Available-for-sale investments	20	**36,595**	—
Investments in securities	20	**—**	11,010
Negative goodwill	21	**—**	(1,633)
Amount due from a non-bank financial institution	22	**—**	99,233
		627,488	739,129
Current assets			
Inventories	23	**85,514**	61,236
Trade receivables	24	**170,102**	204,914
Bill receivables	24	**13,400**	—
Other receivables, deposits and prepayments	25	**184,510**	112,463
Amount due from an associate	26	**74,211**	72,644
Amount due from a former associate	26	**—**	99,545
Amount due from a related company	26	**—**	689
Pledged bank deposits	27	**4,230**	—
Bank balances and cash	27	**108,219**	61,683
		640,186	613,174
Current liabilities			
Trade payables	28	**77,327**	71,813
Bill payables	28	**3,000**	13,000
Other payables, advances from customers and accruals	29	**138,604**	95,170
Amount due to an associate	26	**8,722**	15,852
Bank borrowings	30	**84,810**	213,084
Provision for loss on guarantees	31	**54,711**	46,286
Tax payable		**406**	3,943
		367,580	459,148
Net current assets		**272,606**	154,026
Total assets less current liabilities		**900,094**	893,155

	NOTES	2005 RMB'000	2004 RMB'000
Capital and reserves			
Share capital	32	**873,370**	873,370
Reserves		**(72,990)**	(102,190)
Equity attributed to equity holders of the parent		**800,380**	771,180
Minority interests		**98,714**	105,808
Total Equity		**899,094**	876,988
Non-current liability			
Government grant	34	**1,000**	16,167
		900,094	893,155

The financial statements on pages 52 to 103 were approved and authorised for issue by the board of directors on 18th April 2005 and are signed on its behalf by:

DIRECTOR *DIRECTOR*

STATEMENT OF CHANGES IN EQUITY

For the Year ended 31st December 2005 (Prepared in accordance with Accounting Principles Generally Accepted in Hong Kong)

	Attributable to equity holders of the parent										
	Share capital RMB'000	Capital reserve RMB'000 (note 33)	Capital contribution RMB'000 (note 33)	Statutory common reserve RMB'000 (note 33)	Statutory public welfare reserve RMB'000 (note 33)	Discretionary common reserve RMB'000 (note 33)	Translation reserve RMB'000	Accumulated losses RMB'000	Total RMB'000	Minority interests RMB'000	Total RMB'000
At 1st January, 2004											
– As originally stated	873,370	603,394	—	48,091	32,212	32,424	—	(1,025,664)	563,827	—	563,827
– Effects of changes in accounting policies	—	—	—	—	—	—	—	—	—	27,005	27,005
– As restated	873,370	603,394	—	48,091	32,212	32,424	—	(1,025,664)	563,827	27,005	590,832
Profit for the year and recognised income for the year	—	—	—	—	—	—	—	20,934	20,934	1,3272	2,261
Capital contribution arising from acquisition of subsidiaries (note 36)	—	—	184,546	—	—	—	—	—	184,546	—	184,546
Capital contribution arising from disposal of an associate	—	—	1,873	—	—	—	—	—	1,873	—	1,873
Acquisition of subsidiaries	—	—	—	—	—	—	—	—	—	24,548	24,548
Capital contribution from minority shareholders	—	—	—	—	—	—	—	—	—	55,378	55,378
Dividend paid to minority shareholders	—	—	—	—	—	—	—	—	—	(2,450)	(2,450)
At 31st December, 2004 and at 1st January, 2005	873,370	603,394	186,419	48,091	32,212	32,424	—	(1,004,730)	771,180	105,808	876,988
Effects of changes in accounting policies (note 3A)	—	—	—	—	—	—	—	1,633	1,633	—	1,633
At 1st January, 2005 as restated	873,370	603,394	186,419	48,091	32,212	32,424	—	(1,003,097)	772,813	105,808	878,621
Exchange differences arising on translation of foreign operations and income recognised directly in equity	—	—	—	—	—	—	806	—	806	—	806
Profit for the year	—	—	—	—	—	—	—	26,761	26,761	15,717	42,478
Total recognised income for the year	—	—	—	—	—	—	806	26,761	27,567	15,717	43,284
Acquisition of a subsidiary	—	—	—	—	—	—	—	—	—	359	359
Acquisition of additional interest in a subsidiary	—	—	—	—	—	—	—	—	—	(23,170)	(23,170)
At 31st December, 2005	873,370	603,394	186,419	48,091	32,212	32,424	806	(976,336)	800,380	98,714	899,094

	2005 *RMB'000*	2004 RMB'000
OPERATING ACTIVITIES		
Profit before taxation	**44,897**	30,437
Adjustments for:		
Allowance for bad and doubtful debts	**5,779**	183
Amortisation of prepaid lease payments	**1,217**	1,529
Depreciation of property, plant and equipment	**19,041**	18,258
Discount on acquisition of a subsidiary	**(838)**	—
Dividend income	**(777)**	(1,010)
Gain on acquisition of additional interest in a subsidiary	**(1,170)**	—
Gain on deemed disposal of partial interest in subsidiaries	**—**	(17,313)
Gain on disposal of a subsidiary	**(2,555)**	–
Interest expense	**4,578**	12,864
Interest income	**(567)**	(3,100)
Loss (gain) on disposal of property, plant and equipment	**203**	(190)
Loss on dissolution of an associate	**202**	—
Negative goodwill released to income statement	**—**	(204)
Profit of Jinzhou Power for the period from 1st January, 2005 to 15th April, 2005	**(120)**	—
Provision for loss on guarantees	**8,425**	15,292
Reversal of allowance for inventories	**—**	(3,350)
Share of results of associates	**(18,835)**	(15,649)
Operating cash flows before movements in working capital	**59,480**	37,747
(Increase) decrease in inventories	**(47,005)**	1,350
Increase in bill receivables	**(13,400)**	-
Increase in trade receivables	**20,083**	(21,485)
(Increase) decrease in other receivables, deposits and prepayments	**(101,571)**	65,815
Increase in amount due from an associate	**576**	(64,144)
Increase in pledged bank deposits	**(4,230)**	—
Increase in trade payables	**44,361**	8,721
Decrease in bill payables	**(10,000)**	—
Increase (decrease) in other payables, advances from customers and accruals	**67,151**	(65,854)
(Decrease) increase in amount due to an associate	**(7,130)**	15,852
Cash (used in) generated from operations	**8,315**	(21,998)
Income tax paid	**(3,249)**	(8,804)
NET CASH GENERATED (USED IN) OPERATING ACTIVITIES	**5,066**	(30,802)

	NOTES	**2005**	2004
		RMB'000	*RMB'000*
INVESTING ACTIVITIES			
Net cash inflow from disposal of a subsidiary	37	**47,528**	—
Dividend income received from an associate		**7,266**	—
Proceeds on dissolution/disposal of an associate		**3,494**	24,000
Proceeds on disposal of property, plant and equipment		**1,256**	2,228
Repayment from (advance to) a related company		**689**	(689)
Interest received		**567**	3,100
Subsidies granted by the government		**500**	2,000
Net cash inflow from acquisitions of subsidiaries	36	**114**	1,240
Purchase of property, plant and equipment		**(27,481)**	(7,753)
Payment for acquisition of a subsidiary		**(9,917)**	—
Addition of construction in progress		**(439)**	(3,457)
Advance to a former associate		**—**	(51,528)
Decrease in non-current prepayments		**—**	33,109
Repayment from a third party		**—**	26,000
Proceeds on disposal of investments in securities		**—**	7,458
NET CASH FROM INVESTING ACTIVITIES		**23,577**	35,708
FINANCING ACTIVITIES			
Other borrowings raised		**89,980**	—
New bank borrowings raised		**30,000**	175,160
Repayments of other borrowings		**(89,980)**	—
Repayments of bank borrowings		**(8,290)**	(172,996)
Interest paid		**(3,817)**	(12,864)
Contribution from minority shareholders		**—**	55,378
Dividend paid to minority shareholders		**—**	(2,450)
NET CASH FROM FINANCING ACTIVITIES		**17,893**	42,228
NET INCREASE IN CASH AND CASH EQUIVALENTS		**46,536**	47,134
CASH AND CASH EQUIVALENTS AT 1ST JANUARY		**61,683**	14,549
CASH AND CASH EQUIVALENTS AT 31ST DECEMBER, representing bank balances and cash		**108,219**	61,683

1. GENERAL

The Company is a sino-foreign joint stock company established in the People's Republic of China (the "PRC") with limited liabilities, its shares are listed on the Stock Exchange of Hong Kong Limited and Shenzhen Stock Exchange. The addresses of the registered office and principal place of business of the Company are disclosed in the Company profile of the annual report.

The financial statements are presented in Renminbi, which is the functional currency of the Company.

The Company is an investment holding company. The principal activities of its subsidiaries are described in note 18.

2. LITIGATION RELATING TO CHINA DEVELOPMENT BANK

In May 2004, a lawsuit was brought by China Development Bank (the "Bank") against the Company and certain of its subsidiaries, Shenyang Chengtai Energy Power Company Limited ("Chengtai Energy"), New Northeast (Shenyang) High-Voltage Isolator Company Limited (formerly known as Shenyang Suntime High-Voltage Electric Company Limited) ("High-Voltage Isolator ") and Shenyang Suntime Storage and Logistics Company Limited ("Suntime Storage"), and the Company's associate, New Northeast Electric (Shenyang) High-Voltage Switchgear Company Limited ("New High-Voltage" and hereinafter collectively referred to the "Named Companies"), requesting: 1) the Company and the Named Companies to bear joint and several liabilities in relation to the repayment of the principal of the loan of RMB150,000,000 granted in August 1998 by the Bank to Shenyang High-Voltage Switchgears Limited ("Shenyang High-Voltage"), a former associate of the Company and the interest accrued thereon, which was then in default and 2) to void the sale and purchase agreements over equity interests in the Named Companies entered into between the Company and Shenyang High-Voltage between August 2003 and June 2004.

Pursuant to the civil written order (民事裁定書) [2004 高民初字第802號] issued by the Beijing Higher People's Court (the "Beijing Higher Court") of the PRC on 18th March, 2005, the Beijing Higher Court ruled out that there is no legal relationship between the claims brought by the Bank against the Company, the Named Companies and Shenyang High-Voltage and accordingly rejected the claim by the Bank against the Company and the Named Companies.

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

3. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS/CHANGES IN ACCOUNTING POLICIES

In the current year, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards ("HKFRS(s)"), Hong Kong Accounting Standards ("HKAS(s)") and Interpretations (hereinafter collectively referred to as "new HKFRS(s)") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") that are effective for accounting periods beginning on or after 1st January, 2005. The application of the new HKFRSs has resulted in a change in the presentation of the consolidated income statement, consolidated balance sheet and consolidated statement of changes in equity. In particular, the presentation of minority interests has been changed. The changes in presentation have been applied retrospectively. The adoption of the new HKFRSs has resulted in changes to the Group's accounting policies in the following areas that have an effect on how the results for the current or prior accounting years are prepared and presented:

(a) Business combinations

In the current year, the Group has applied HKFRS 3 "Business Combinations" which is effective for business combinations for which the agreement date is on or after 1st January, 2005. The principal effects of the application of HKFRS 3 to the Group are summarised below:

In accordance with HKFRS 3, any excess of the Group's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over the cost of acquisition ("discount on acquisition") is recognised immediately in profit or loss in the period in which the acquisition takes place. In previous periods, negative goodwill was presented as a deduction from assets and released to income based on an analysis of the circumstances from which the balance resulted. In accordance with the relevant transitional provisions in HKFRS 3, the Group has derecognised all negative goodwill as at 1st January, 2005 with a corresponding decrease to accumulated losses (see Note 3A for the financial impact).

(b) Financial instruments

In the current year, the Group has applied HKAS 32 "Financial Instruments: Disclosure and Presentation" and HKAS 39 "Financial Instruments: Recognition and Measurement". HKAS 32 requires retrospective application. HKAS 39, which is effective for annual periods beginning on or after 1st January 2005, generally does not permit the recognition, derecognition or measurement of financial assets and liabilities on a retrospective basis. The application of HKAS 32 has had no material impact on how financial instruments of the Group are presented for current and prior accounting periods. The principal effects resulting from the implementation of HKAS 39 are summarised below:

Classification and measurement of financial assets and financial liabilities

The Group has applied the relevant transitional provisions in HKAS 39 with respect to the classification and measurement of financial assets and financial liabilities that are within the scope of HKAS 39.

3. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS/CHANGES IN ACCOUNTING POLICIES *(Continued)*

(b) Financial instruments - continued

Classification and measurement of financial assets and financial liabilities - continued

By 31st December 2004, the Group classified and measured its debt and equity securities in accordance with the benchmark treatment of Statement of Standard Accounting Practice 24 ("SSAP 24"). Under SSAP 24, investments in debt or equity securities are classified as "investment securities", "other investments" or "held-to-maturity investments" as appropriate. "Investment securities" are carried at cost less impairment losses (if any) while "other investments" are measured at fair value, with unrealised gains or losses included in profit or loss. Held-to-maturity investments are carried at amortised cost less impairment losses (if any). From 1st January 2005 onwards, the Group has classified and measured its debt and equity securities in accordance with HKAS 39. Under HKAS 39, financial assets are classified as "financial assets at fair value through profit or loss", "available-for-sale investments", "loans and receivables", or "held-to-maturity financial assets". "Financial assets at fair value through profit or loss" and "available-for-sale investments " are carried at fair value, with changes in fair values recognised in profit or loss and equity respectively. Available-for-sale equity investments that do not have quoted market prices in an active market and whose fair value cannot be reliably measured are measured at cost less impairment after initial recognition. "Loans and receivables" and "held-to-maturity financial assets" are measured at amortised cost using the effective interest method after initial recognition. As at 1st January, 2005, the Group reclassified investments in securities amounted to RMB11,010,000 as available-for-sale investments (See Note 3A for the financial impact).

(c) Owner-occupied leasehold interest in land

In the current period, the Group has applied HKAS 17 "Leases" to account for the owner-occupied land use rights in the PRC which were include in intangible assets and measure at cost less accumulated amortisation and impairment previously. This change in accounting policy has been applied retrospectively (See Note 3A for the financial impact).

(d) Hotel properties

HKAS Interpretation 2 "The Appropriate Accounting Policies for Hotel Properties" clarifies the accounting policy for owner-operated hotel properties. In previous periods, the Group's self-operated hotel properties were carried at cost less accumulated depreciation and impairment. HKAS Interpretation 2 requires owner-operated properties to be classified as property, plant and equipment in accordance with HKAS 16 "Property, plant and equipment" and therefore be accounted for either using the cost model or the revaluation model. The Group has resolved to account for these hotel properties using the cost model. The application of HKAS Interpretation 2 has had no material impact on the Group's result for the current or prior year.

3. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS/CHANGES IN ACCOUNTING POLICIES *(Continued)*

3A. SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES

The effects of the changes in the accounting policies described above on the results for the current and prior years are as follows:

	2005 *RMB'000*	2004 *RMB'000*
Decrease in release of negative goodwill to income statement	204	—
Decrease in profit for the year	204	—

The cumulative effects of the application of the new HKFRSs on 31st December, 2004 and 1st January, 2005 are summarised below:

	As at 31st December, 2004 (originally stated) *RMB'000*	Retrospective adjustments HKAS1 *RMB'000*	Retrospective adjustments HKAS 17 *RMB'000*	As at 31st December, 2004 (restated) *RMB'000*	Prospective adjustments HKAS 39 *RMB'000*	Prospective adjustments HKFRS 3 *RMB'000*	As at 1st January, 2005 (restated) *RMB'000*
Intangible assets	53,213	—	(53,213)	—	—	—	—
Available-for-investments	—	—	—	—	11,010	—	11,010
Investments in securities	11,010	—	—	11,010	(11,010)	—	—
Negative goodwill	(1,633)	—	—	(1,633)	—	1,633	—
Prepaid lease payments	—	—	51,684	51,684	—	—	51,684
Other receivables, deposits and prepayments	110,934	—	1,529	112,463	—	—	112,463
Others assets and liabilities	703,464	—	—	703,464	—	—	703,464
Total effects on assets and liabilities	876,988	—	—	876,988	—	1,633	878,621
Minority assets	(105,808)	105,808	—	—	—	—	—
	771,180	105,808	—	876,988	—	1,633	878,621
Share capital	873,370	—	—	873,370	—	—	873,370
Retained earnings	(1,004,730)	—	—	(1,004,730)	—	1,633)	(1,003,097)
Other reserves	902,540	—	—	902,540	—	—	902,540
Equity attributed to equity holders of the parent	771,180	—	—	771,180	—	1,633	772,813
Minority interests	—	105,808	—	105,808	—	—	105,808
Total equity	771,180	105,808	—	876,988	—	1,633	878,621

3. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS/CHANGES IN ACCOUNTING POLICIES *(Continued)*

3A. SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES - Continued

The financial effects of the application of the new HKFRSs to the Group's equity on 1st January, 2004 are summarised below:

	As originally stated	HKAS 1	As restated
	RMB'000	*RMB'000*	*RMB'000*
Share capital	873,370	—	873,370
Other reserves	(309,543)	—	(309,543)
Equity attributable to equity holders of the parent	563,827	—	563,827
Minority interests	—	27,005	27,005
Total effects on equity	563,827	27,005	590,832

At the date of authorisation of these financial statements, the following new HKFRSs, amendments and Interpretations were in issue but not yet effective:

HKAS 1 (Amendment)	Capital Disclosure[1]
HKAS 19 (Amendment)	Actuarial Gains and Losses, Group Plans and Disclosures[2]
HKAS 21 (Amendment)	Net Investment in a Foreign operation[2]
HKAS 39 (Amendment)	Cash Flow Hedge Accounting of Forecast Intragroup Transactions[2]
HKAS 39 (Amendment)	The Fair Value Option[2]
HKAS 39 and HKFRS 4 (Amendments)	Financial Guarantee Contracts[2]
HKFRS 6	Exploration for and Evaluation of Mineral Resources[2]
HKFRS 7	Financial Instruments: Disclosures[1]
HK (IFRIC) - INT 4	Determining whether an Arrangement Contains a Lease[2]
HK (IFRIC) - INT 5	Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds[2]
HK (IFRIC) - INT 6	Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment[3]
HK (IFRIC) - INT 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies[4]

1 Effective for annual periods beginning on or after 1st January, 2007.
2 Effective for annual periods beginning on or after 1st January, 2006.
3 Effective for annual periods beginning on or after 1st December, 2005.
4 Effective for annual periods beginning on or after 1st March, 2006.

The Group expects that HKAS 39 and HKFRS 4 "Financial Guarantee Contracts" may have impact on the Group's result but the potential impact cannot be reasonably estimated as at the balance sheet date.

4. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with HKFRSs issued by HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and the Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis except for financial instruments, which are measured at fair values at initial recognition as explained in the accounting policies set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Minority interests in the net assets of consolidated subsidiaries are presented separately from the Group's equity therein. Minority interests in the net assets consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

Business combinations

The acquisition of subsidiaries after 1st January, 2005 is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under HKFRS 3 are recognised at their fair values at the acquisition date.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Business combinations *(continued)*

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss.

As explained in note 3 above, all negative goodwill as at 1st January, 2005 has been derecognized with a corresponding adjustment to retained earnings.

The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

Investments in associates

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the profit or loss and of changes in equity of the associate, less any identified impairment loss. When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

Where a group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts and sales related taxes.

Sales of goods are recognised when goods are delivered and title has passed.

4. SIGNIFICANT ACCOUNTING POLICIE *(Continued)*

Revenue arising from hotel operations and service income are recognised when the relevant services are provided.

Dividend income from investments is recognised when the shareholders' right to receive payment have been established.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Service and guarantee income is recognised over the period the related services/guarantee are provided.

Leasing

Rental payable under operating leases is charged to income statement on a straight-line basis over the term of the relevant lease.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in its functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise, except for exchange differences arising on a monetary item that forms part of the Company's net investment in a foreign operation, in which case, such exchange differences are recognised in equity in the consolidated financials statements. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity, in which cases, the exchange differences are also recognised directly in equity.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Company (i.e. Renminbi) at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised as a separate component of equity (the translation reserve). Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in net profit or loss in the year in which they are incurred.

Retirement benefit costs

The Group participates in defined contribution retirement schemes organised by the PRC government. The contributions to the schemes are charged as an expense as they fall due.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax base used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any identified impairment loss.

Depreciation is charged so as to write off the cost of property, plant and equipment over their estimated useful lives and after taking into account their estimated residual value, using the straight-line method, at the following rates per annum:

Buildings	20 to 40 years
Hotel property	40 years
Plant, machinery and equipment	8 to 20 years
Motor vehicles and others	6 to 17 years

The gain or loss arising on the disposal is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the consolidated income statement.

Research and development expenditure

Expenditure on research activities is recognised as an expense in the year in which it is incurred.

An internally-generated intangible asset arising from the Group's development is recognised only if all of the following conditions are met:

- an asset is created that can be identified;
- it is probable that the asset created will generate future economic benefits; and
- the development cost of the asset can be measured reliably.

Construction in progress

Construction in progress are carried at cost less any identified impairment loss. Cost includes professional fees and, for qualifying assets, borrowing cost capitalised in accordance with the Group's accounting policy. Depreciation of these assets, on the same basis as property, plant and equipment, commences when the assets are ready for their intended use.

Land use rights

Payment for obtaining land use rights are accounted for as prepaid lease payments and are charged to the income statement on a straight line basis over the lease terms. Land use rights which are to be charged to the income statement in the next twelve months or less are classified as current asset.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment of tangible assets

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

Provision

Provision is recognised when the Group has a present legal or constructive obligation as a result of a past event which is probable and will result in an outflow of economic benefits that can be reasonably estimated.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method.

Government grants

Government grants are recognised as income when the Group has fulfilled the conditions attaching to them and the grants are/will be received.

Financial instruments

Financial assets and financial liabilities are recognised on the balance sheet when a Group entity becomes a party to the contractual provisions of the instruments. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

The Group's financial assets are classified as loans and receivables and available-for-sale investments. The accounting policies adopted in respect of each category of financial assets are set out below.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including bill receivables, trade receivables, other receivables, amount due from an associate, a former associate and a related company and bank balances) are carried at amortised cost using the effective interest method, less any identified impairment losses. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the assets' carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Available-for-sale investments

For available-for-sale investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, they are measure at cost less any identified impairment losses at each balance sheet date subsequent to initial recognition. An impairment loss is recognised in profit or loss when there is objective evidence that the investment is impaired. An impairment loss for the investment is not reversed in subsequent periods.

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. The accounting policies adopted in respect of financial liabilities and equity instruments are set out below.

Financial liabilities

Financial liabilities including trade payables, bill payables, other payables, advances from customers and accruals, amount due to an associate and bank borrowings are subsequently measured at amortised cost, using the effective interest rate method.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received is recognised in profit or loss.

For financial liabilities, they are removed from the Group's balance sheet (i.e. when the obligation specified in the relevant contract is discharged, cancelled or expired). The difference between the carrying amount of the financial liability derecognised and the consideration received or receivable is recognised in profit or loss.

5. KEY SOURCES OF ESTIMATION UNCERTAINTY

The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Provision for loss on guarantees

At 31st December, 2005, the Group's outstanding litigations are set out in notes notes 2, 31 and 39. Based on court ruling and legal advice obtained, an aggregate amount of RMB54,711,000 was accounted for as provisions for loss on guarantees at 31st December, 2005. Certain litigations are still in progress and the final outcome of the appeal, if any, may result in adjustment to the amount of provision for loss on guarantees being accounted for.

Income taxes

As at 31st December, 2005, the Group has unrecognised deferred tax assets of RMB398,276,000. The realisability of the deferred tax asset mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future. In cases where the circumstances arise that it becomes probable that the deferred tax assets could be utilised against future profits, deferred tax assets will be recognised in future periods.

5. KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

Useful lives and impairment assessment of property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and identified impairment losses. The Group depreciates the property, plant and equipment on straight-line basis over the estimated useful life of 6 to 40 years. The estimated useful life reflects the directors' estimate of the periods that the Group intends to derive future economic benefits from the use of the Group's property, plant and equipment. The estimation of their useful lives impacts the level of annual depreciation expenses recorded. In addition, property, plant and equipment are evaluated for possible impairment on a specific asset basis or in groups of similar assets, as applicable this process requires management's estimate of future cash flows generated by each asset or group of assets for any instance where this evaluation process indicates impairment, the appropriate asset's carrying values are written down to the recoverable amount and the amount of the written-down is changed against the results of operations.

Allowances for bad and doubtful debts

The policy for allowance of bad and doubtful debts of the Group is based on the evaluation of collectability and aging analysis of accounts and on management's judgment. A considerable amount of judgment is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each customer. If the financial conditions of customers of the Group were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

Allowances for inventories

The management of the Group reviews an aging analysis at each balance sheet date, and makes allowance for obsolete and slow-moving inventory items identified that are no longer suitable for use in production. The management estimates the net realisable value for such finished goods and work-in progress based primarily on the latest invoice prices and current market conditions. The Group carries out an inventory review on a product-by-product basis at each balance sheet date and makes allowance for obsolete items.

6. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments include equity investments, bill receivables, trade receivables, other receivables, amount due from an associate, a former associate, trade payables, bill payables, other payables, advance from customers and accruals, amount due to an associate, bank borrowings and bank balances and financial guarantees. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

6. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Currency risk

Certain bank balances of the Group are denominated in foreign currencies. The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposures should the need arises.

Interest rate risk

The Group is exposed to fair value interest rate risk through the impact of rate changes on interest bearing bank borrowings with fixed interest. The interest rate and terms of repayment of bank borrowings of the Group are disclosed in note 30.

Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations as at 31st December, 2005 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated balance sheet. In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The Group has no significant concentration of credit risk except for the amount due from Bengang Group (note 22(b)), with exposure spread over a number of counterparties and customers.

The Group's credit risk on liquid funds and bill receivables is limited because the counterparties are banks established in the PRC with good reputation.

Price risk

The Group's available-for-sale investments are measured at cost less impairment at the balance sheet date. Accordingly, the Group is exposed to equity price risk should the value of the investments fluctuate. The Group currently does not have diversification policy for its investments. However, the management regularly monitors the value of the investments and will consider diversifying its investments should the need arises.

7. TURNOVER

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

	2005	2004
	RMB'000	RMB'000
Sales of goods	**465,926**	298,936
Revenue from provision of hotel, catering and entertainment services	**30,152**	29,018
Revenue from provision of storage and logistic services	**32,411**	7,972
Revenue from provision of energy and power services	**17,646**	6,412
	546,135	342,338

8. BUSINESS AND GEOGRAPHICAL SEGMENTS

Business segments

For management purposes, the Group is currently organised into two operations - manufacture of transmission machinery and others (including hotel, storage and power supply operations). These operations are the basis on which the Group reports its primary segment information.

Segment information about these businesses is presented below:

2005

	Manufacture of transmission machinery	**Others**	**Consolidated**
	RMB'000	*RMB'000*	*RMB'000*
INCOME STATEMENT			
TURNOVER	465,926	80,209	546,135
RESULT			
Segment result	40,624	(4,114)	36,510
Finance costs	(4,578)		
Share of results of associates	18,835	—	18,835
Gain on disposal of a subsidiary	2,555	—	2,555
Provision for loss on guarantees			(8,425)
Profit before taxation			44,897
Taxation			(2,419)
Net profit for the year			42,478

8. BUSINESS AND GEOGRAPHICAL SEGMENTS *(Continued)*

	Manufacture of transmission machinery *RMB'000*	**Others** *RMB'000*	**Consolidated** *RMB'000*
OTHER INFORMATION			
Capital additions			
- through acquisition of subsidiaries	564	—	564
- others	27,920	—	27,920
Depreciation	3,040	16,001	19,041
Allowance for bad and doubtful debts	4,212	1,567	5,779
BALANCE SHEET			
Assets			
Segment assets	525,434	552,938	1,078,372
Interests in associates	76,853	—	76,853
Unallocated corporate assets			112,449
Consolidated total assets			1,267,674
Liabilities			
Segment liabilities	247,667	35,697	283,364
Unallocated corporate liabilities			85,216
Consolidated total liabilities			368,580

8. BUSINESS AND GEOGRAPHICAL SEGMENTS *(Continued)*

2004

	Manufacture of transmission machinery *RMB'000*	**Others** *RMB'000*	**Consolidated** *RMB'000*
INCOME STATEMENT			
TURNOVER	298,936	43,402	342,338
RESULT			
Segment result	29,268	(3,637)	25,631
Finance costs			(12,864)
Share of results of associates	15,649	—	15,649
Gain on deemed disposal of partial interest in subsidiaries	12,404	4,909	17,313
Provision for loss on guarantees			(15,292)
Profit before taxation			30,437
Taxation			(8,176)
Net profit for the year			22,261

	Manufacture of transmission machinery *RMB'000* *(Restated)*	**Others** *RMB'000* *(Restated)*	**Consolidated** *RMB'000* *(Restated)*
OTHER INFORMATION			
Capital additions			
- through acquisition of subsidiaries	52,657	93,079	145,736
- others	9,774	1,436	11,210
Depreciation	7,985	10,273	18,258
Allowance for bad and doubtful debts	40	143	183

8. BUSINESS AND GEOGRAPHICAL SEGMENTS *(Continued)*

	Manufacture of transmission machinery *RMB'000*	**Others** *RMB'000*	**Consolidated** *RMB'000*
BALANCE SHEET			
Assets			
Segment assets	763,256	455,742	1,218,998
Interests in associates	71,622	—	71,622
Unallocated corporate assets			61,683
Consolidated total assets			1,352,303
Liabilities			
Segment liabilities	222,103	36,185	258,288
Unallocated corporate liabilities			217,027
Consolidated total liabilities			475,315

Geographical Segment

More than 90% of the Group's income are derived from the PRC and the income earned outside the PRC is insignificant.

More than 90% of the carrying amount of segment assets, and additions to property, plant and equipment are located in PRC and the assets outside the PRC is insignificant.

Accordingly, geographical segment information has not been presented.

9. OTHER INCOME

	2005 ***RMB'000***	2004 RMB'000
Sales of materials	**3,691**	593
Net rental income of machinery and equipment received from an associate	**1,699**	416
Discount on acquisition of additional interest in a subsidiary (note 38(a))	**1,170**	—
Discount on acquisition of a subsidiary (note 36)	**838**	—
Dividend from available-for-sale investments	**777**	1,010
Interest income from an associate	**501**	2,932
Interest on bank deposits	**66**	168
Guarantee income	—	950
Release of negative goodwill to income statement	—	204
Gain on disposal of property, plant and equipment	—	190
Others	**561**	251
	9,303	6,714

10. NET PROFIT FOR THE YEAR

Net profit for the year has been arrived at after charging and crediting:

	2005	2004
	RMB'000	*RMB'000*
Depreciation	**19,041**	18,258
Land use rights charge for the year (included in administrative expenses)	**1,217**	1,529
Loss (gain) on disposal of property, plant and equipment	**203**	(190)
Loss on dissolution of an associate	**202**	—
Research and development costs	**327**	250
Reversal of allowance for inventories	**—**	(3,350)
Allowance for bad and doubtful debts	**5,779**	183
Auditors' remuneration	**2,755**	2,315
Staff costs, including directors' emoluments	**36,610**	35,279

11. DIRECTORS' EMOLUMENTS AND SENIOR EXECUTIVES' EMOLUMENTS

(a) Directors' emoluments

The emoluments paid or payable to each of the 13 (2004: 13) directors were as follows:

	Qu Lin	Wang Shouguan	Zhang Bin	Tian Li	Su Weiguo	Li Hongliang	Liu Qingmin	Niu Wenjun	Gao Chuang	Kang Jinjiang	Liang Jie	Lin Wenbin	Liu Hongguang	2005 Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Fees	—	—	—	—	—	—	—	44	44	44	44	44	—	220
Other emoluments														
Salaries and other benefits	72	—	60	—	48	71	27	31	—	—	—	—	—	309
Bonuses	250	—	170	—	130	65	113	—	—	—	—	—	—	728
Contribution to retirement benefit schemes	22	—	18	—	14	14	—	—	—	—	—	—	—	68
Total emoluments	344	—	248	—	192	150	140	31	44	44	44	44	44	1,325

	Qu Lin	Wang Shouguan	Zhang Bin	Tian Li	Su Weiguo	Li Hongliang	Liu Qingmin	Niu Wenjun	Gao Chuang	Kang Jinjiang	Liang Jie	Lin Wenbin	Liu Hongguang	2004 Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Fees	—	—	—	—	—	—	—	—	35	35	35	35	35	175
Other emoluments														
Salaries and other benefits	77	—	58	—	48	48	30	36	—	—	—	—	—	297
Bonuses	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Contribution to retirement benefit Schemes	15	—	11	—	10	10	6	7	—	—	—	—	—	59
Total emoluments	92	—	69	—	58	58	36	43	35	35	35	35	35	531

The amount disclosed above include directors' fees of RMB220,000 (2004: RMB175,000) payable to independent non-executive directors.

No emoluments were paid by the Group to the directors of the Company as an inducement to join or upon joining the Group or as compensation for loss of office and none of the directors has waived the right to receive their emoluments for both years.

11. DIRECTORS' EMOLUMENTS AND SENIOR EXECUTIVES' EMOLUMENTS *(Continued)*

(b) Senior executives' emoluments

The emoluments paid or payable to each of the 3 (2004: 3) senior executives were as follows:

	Dong Lianshen *RMB'000*	**Dai Guiqin** *RMB'000*	**Fu Siuhang** *RMB'000*	**Total 2005** *RMB'000*
Fees	—	—	—	—
Other emoluments				
Salaries and other benefits	60	—	28	88
Bonuses	—	—	—	—
Contribution to retirement benefit schemes	12	—	—	12
Total emoluments	72	—	28	100

	Dong Lianshen *RMB'000*	**Xu Xiuqin** *RMB'000*	**Yuan Limin** *RMB'000*	**Total 2004** *RMB'000*
Fees	—	—	—	—
Other emoluments				
Salaries and other benefits	60	—	—	60
Bonuses	—	—	—	—
Contribution to retirement benefit schemes	12	—	—	12
Total emoluments	72	—	—	72

11. DIRECTORS' EMOLUMENTS AND SENIOR EXECUTIVES' EMOLUMENTS *(Continued)*

(c) Five highest-paid individuals

During the year, the five highest-paid individuals included three (2004: five) directors of the Company and details of their emoluments are set out in (a) above. The emoluments of the remaining two (2004: Nil) highest-paid individual were as follows:

	2005	2004
	RMB'000	*RMB'000*
Salaries and other benefits	**142**	—
Contributions to retirement benefit schemes	**28**	—
	170	—

12. TAXATION

	2005	2004
	RMB'000	*RMB'000*
The charge comprises:		
Income tax for certain PRC subsidiaries		
– Current year	**2,419**	8,176

The tax charge for the year represents the income tax in the PRC which is calculated at the prevailing tax rate on the taxable income of subsidiaries in the PRC. Certain subsidiaries of the Group in the PRC are eligible for certain tax holidays and concessions and were subject to tax exemption or 50% reduction in tax rate for both years.

Hong Kong Profits Tax has not been provided as the Company and its subsidiaries had no assessable profit in Hong Kong for both years.

Details of unrecognised deferred tax assets are set out in note 35.

12. TAXATION *(Continued)*

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

	2005	2004
	RMB'000	*RMB'000*
Profit before taxation	**44,897**	30,437
Tax at the domestic income tax rate of 33% (2004: 33%)	**14,816**	10,044
Tax effect of income not taxable for tax purpose	**(1,899)**	(5,896)
Tax effect of expenses not deductible for tax purpose	**3,861**	4,709
Utilisation of deductible temporary differences not recognised	**(1,387)**	—
Tax effect of tax losses not recognised	**4,653**	3,534
Tax effect of deductible temporary differences not recognised	**—**	1,908
Income tax on concessionary rate	**(11,409)**	(959)
Tax effect of share of results of associates	**(6,216)**	(5,164)
Tax expenses	**2,419**	8,176

13. DIVIDEND

No dividend was paid or proposed during the year, nor has any dividend been proposed since the balance sheet date.

14. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the net profit for the year attributable to equity holders of the parent of RMB26,761,000 (2004: RMB20,934,000) and on the number of 873,370,000 ordinary shares in issue during both years.

Diluted earnings per share is not shown as the Company has no potential ordinary shares outstanding for both years.

15. PROPERTY, PLANT AND EQUIPMENT

	Buildings *RMB'000*	Hotel property *RMB'000*	Plant, machinery and equipment *RMB'000*	Motor vehicles and others *RMB'000*	Total *RMB'000*
COST					
At 1st January, 2004	55,183	370,960	154,118	11,103	591,364
Additions	632	—	1,542	5,579	7,753
Transferred from construction in progress	2,048	—	2,285	-	4,333
Acquisition of subsidiaries	113,438	—	28,879	3,419	145,736
Disposals	—	—	(8)	(2,552)	(2,560)
Disposal upon share exchange (Note)	—	—	(27,879)	—	(27,879)
At 31st December, 2004 and 1st January, 2005	171,301	370,960	158,937	17,549	718,747
Additions	16,121	—	6,481	4,879	27,481
Transferred from construction in progress	92	—	37	—	129
Acquisition of a subsidiary	—	—	523	41	564
Assets received upon dissolution of an associate	507	—	—	—	507
Disposal of a subsidiary	(32,128)	—	(48,486)	(2,761)	(83,375)
Disposals	(546)	—	(17)	(1,166)	(1,729)
At 31st December, 2005	155,347	370,960	117,475	18,542	662,324
ACCUMULATED DEPRECIATION AND IMPAIRMENT LOSS					
At 1st January, 2004	13,461	107,109	73,590	3,563	197,723
Charge for the year	2,952	6,680	7,168	1,458	18,258
Eliminated on disposals	—	—	(2)	(520)	(522)
At 31st December, 2004 and 1st January, 2005	16,413	113,789	80,756	4,501	215,459
Charge for the year	4,253	6,680	6,015	2,093	19,041
Disposal of a subsidiary	(9,306)	—	(29,259)	(751)	(39,316)
Eliminated on disposals	(2)	—	(10)	(258)	(270)
At 31st December, 2005	11,358	120,469	57,502	5,585	194,914
NET BOOK VALUES					
At 31st December, 2005	143,989	250,491	59,973	12,957	467,410
At 31st December, 2004	154,888	257,171	78,181	13,048	503,288

The Group has pledged buildings and plant, machinery and equipment having a net book value of approximately RMB6,290,000 and Nil respectively (2004: RMB12,000,000 and RMB14,000,000) to secure general banking facilities granted to the Group.

All the buildings and hotel property are located in the PRC and held under medium-term leases.

15. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

The Group is in the process of obtaining ownership certificate of certain portion of the hotel property including bowling centre, office floors, restaurants on 15, 24 and 25 floors and staff quarters. In addition, the Group is in the process of obtaining ownership certificate of certain buildings with net book value of RMB1,432,000 (2004: RMB1,523,000).

Included in plant, machinery and equipment is net interest capitalised of Nil (2004: RMB1,284,000).

Note: The amount represents six 120MW and four 200MW steam turbine generating units ("the Generators") disposed of by the Company at their carrying value to exchange for equity interest in an enterprise and subsequently used the entire equity interest in this enterprise to exchange for 74.4% equity interest in High-Voltage Isolator. Details of which are set out in the Company's disclosable and major acquisition circular dated 17th September, 2004.

16. CONSTRUCTION IN PROGRESS

	2005 ***RMB'000***	2004 *RMB'000*
COST		
At 1st January	**3,925**	4,801
Additions	**439**	3,457
Transferred to property, plant and equipment	**(129)**	(4,333)
Disposal of a subsidiary	**(3,925)**	—
At 31st December	**310**	3,925

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

17. PREPAID LEASE PAYMENTS

	Land use rights *RMB'000*
COST	
At 1st January, 2004	10,266
Acquisition of subsidiaries	44,476
Charge for the year	(1,529)
At 31st December, 2004 and 1st January, 2005	53,213
Disposal of a subsidiary	(4,459)
Charge for the year	(1,217)
At 31st December, 2005	47,537

17. PREPAID LEASE PAYMENTS - CONTINUED

	2005	2004
	RMB'000	*RMB'000*
Analysed as:		
Current assets (included in other receivables, deposits and prepayments)	**1,217**	1,529
Non-current assets	**46,320**	51,684
	47,537	53,213

Land use right is amortised on a straight-line basis over the lease term of 50 years.

The Group has pledged land use rights having a net book value of approximately RMB5,420,000 (2004: RMB10,013,000) to secure banking facilities granted to the Group. Included is also land use rights with carrying amount of RMB14,540,000 frozen by the court as a result of litigation brought against the Group by Xinda Asset Management Corporation ("Xinda"). Details are set out in note 39.

The Group is in the process of obtaining land use right certificate of amount with net book value of RMB5,420,000 (2004: RMB10,013,000).

18. SUBSIDIARIES

The details of the subsidiaries at 31st December, 2005 are as follows:

Name of subsidiary	Place of establishment/ incorporation and operation	Registered capital	Percentage of registered capital held by the Company		Principal activities
			Directly %	Indirectly %	
Chengtai Energy	PRC *(Note a)*	RMB90,000,000	95%	—	Provision of wind, water, electricity aznd steam power and equipment maintenance services
Fuxin Enclosed Busbars Limited	PRC *(Note c)*	RMB18,090,000	100%	—	Manufacture of enclosed busbars
Great Talent Technology Limited	British Virgin Islands	US$1	—	100%	Investment holding
Jinzhou Jinrong Electrical Equipment Co., Limited	PRC (Note a)	RMB3,000,000	69.75%	—	Manufacture of electrical equipment
Kingdom Hotel Shenyang Co. Limited ("Kingdom Hotel Shenyang")	PRC (Note c)	RMB150,000,000	100%	—	Provision of hotel and catering services
New Northeast Jinzhou Power Capacitors Limited ("New Jinzhou Power")	PRC (Note c)	US$10,000,000	—	52%	Manufacture of power capacitors
Northeast Electric (Hong Kong) Company Limited	Hong Kong	US$900,000	100%	—	Investment holding
High-Voltage Isolator (Note b)	PRC	US$21,500,000	74.4%	—	Manufacture of electrical transmission and transformation equipment
Suntime Storage (Note a)	PRC	RMB170,000,000	95%	—	Provision of storage and logistics services
Shenyang Gaodongjia Equipment Company Limited ("Gaodongjia")	PRC (Note b)	US$778,500	70%	—	Manufacture of dryer equipment

Notes:

(a) The companies are limited companies incorporated under Company Law of the PRC.
(b) The companies are sino-foreign joint venture companies.
(c) The company is a wholly foreign owned company.

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

19. INTERESTS IN ASSOCIATES

	2005 *RMB'000*	2004 *RMB'000*
Unlisted share, at cost	**48,182**	52,250
Share of post-acquisition profits	**28,671**	19,372
	76,853	71,622

The details of the associates at 31st December, 2005 are as follows:

Name of associate	Place of establishment/ incorporation and operation	Proportion of registered capital held by the Group Directly %	Indirectly %	Principal activities
Great Power Technology Limited	BVI	20.8%	—	Investment holding
Smart Power Technology Limited	BVI	—	20.8%	Investment holding
New High-Voltage	PRC	—	20.8%	Manufacture of electrical equipment and machineries

Note: Northeast Electrical Hitachi Transmission and Transformation Machinery Company Limited ("Northeast Hitachi"), a former associate which was engaged in the manufacture of transformers and transmission equipment, of which the Group held 49% interest, was dissolved during the year ended 31 December, 2005.

The summarised financial information in respect of the Group's associates is set out below:

	2005 *RMB'000*	2004 *RMB'000*
Total assets	**811,323**	727,012
Total liabilities	**(441,838)**	(394,530)
Net assets	**369,485**	332,482
Group's share of net assets of associates	**76,853**	71,622
Revenue	**1,118,279**	651,877
Profit for the year	**90,463**	72,186
Group's share of results of associates for the year	**18,835**	15,649

20. AVAILABLE-FOR-SALE INVESTMENTS/INVESTMENTS IN SECURITIES

	2005	2004
	RMB'000	*RMB'000*
Unlisted investment, at cost net of impairment loss recognised	**36,595**	11,010

The details of the unlisted investment at 31st December, 2005 are as follows:

Name of securities	**EQUITY INTEREST 2005 %**	2004 %	**2005 *RMB'000***	2004 *RMB'000*
Jinzhou City Co-operative Bank	**4.35%**	4.35%	**11,787**	11,010
錦化化工集團氯城股份有限公司 ("錦化氯城") (Note)	**3.57%**	—	**24,808**	—
			36,595	11,010

Note: The amount represents 12,124,346 non-circulating shares in 錦化氯城. On 15th February, 2006, 錦化氯城 announced a share reform scheme to convert all non-circulating A shares into circulating A shares by allocating 3.1 non-circulating A shares to holders of circulating A shares for every 10 circulating A shares held. Accordingly, the Group's shares in 錦化氯城 was converted into 10,553,031 A shares which represent 3.10% interest in 錦化氯城 after conversion. The conversion was completed on 13th March, 2006. Under the arrangement, these A shares held by the Group cannot be disposed of until 13th March, 2007.

The above investments are measured at cost less impairment at the balance sheet date because the range of reasonable fair value estimates is so significant that the directors of the Company are of the opinion that their fair values cannot be measured reliably.

21. NEGATIVE GOODWILL

	RMB'000
GROSS AMOUNT	
At 1st January, 2004	1,837
Release in the income statement	(204)
At 31st December, 2004	1,633
Derecognised upon the application of HKFRS 3	(1,633)
At 1st January, 2005 and 31st December, 2005	—

As explained in Note 3, all negative goodwill arising on acquisitions prior to 1st January, 2005 was derecognised as a result of an application of HKFRS 3.

22. AMOUNT DUE FROM A NON-BANK FINANCIAL INSTITUTION

The amount was originally a long-term deposit of US$20,000,000 (equivalent to RMB165,532,000), placed with Liaoning Trust and Investment Company ("Liaoning Trust") as a condition for Liaoning Trust granting a guarantee for a syndicated loan of US$40,000,000. Liaoning Trust was a third party non-bank financial institution registered in the PRC. In November 2001, the People's Bank of China withdrew Liaoning Trust's Financial Institution Legal Person Licence (金融機構私人許可證) and Financial Institution Business Licence (金融機構營業許可證). Its entire financial activities were suspended with effect from the date of notice for a liquidation process. The Company registered with the Liaoning Trust Liquidation Team (遼寧信託投資公司清算組) its deposits of US$20,000,000 previously placed with Liaoning Trust with the relevant proof of debt.

Up to the year ended 31st December, 2004, Liaoning Trust repaid US$8,000,000 to settle part of the debt owing to the Company and the remaining balance was US$12,000,000 (equivalent to approximately RMB99,233,000) at 31st December, 2004.

On 5th March, 2005, the Company signed a Letter of Intent with 撫順特殊鋼集團有限責任公司 Fushun Special Steel Group Corporation ("Fushun Special Steel") and Prosper Power Company Limited, pursuant to which Fushun Special Steel agreed to transfer its equity interests in 東北特殊鋼集團有限責任公司Northeast Special Steel Group Incorporation, as confirmed and valued at US$12,000,000 by an independent intermediary appraisal company, to the Company to exchange the Company's debt due from Liaoning Trust of US$12,000,000. The above transfer was subsequently not executed. In April 2005, pursuant to the approval of Bureau of Finance of Liaoning Province (遼財[2005] 63號《關於遼信與東北電氣發展股份有限公司債權置換問題的請示》), the followings were assigned to the Group to offset the deposits originally placed in Liaoning Trust:

(a) The Company obtained 12,124,346 non-circulating shares of 錦化氯城which represents approximately 3.57% shareholding in 錦化氯城. 錦化氯城 is a company listed on the Shenzhen Stock Exchange and is engaged in manufacture of chemical products. The investment in錦化氯城was recorded as available-for-sale investments at a carrying value of RMB24,808,000 at 31st December 2005 (note 20).

(b) The Company obtained an aggregate of RMB76,090,000 receivables due from Benxi Iron & Steel (Group) Limited 本溪鋼鐵(集團)有限責任公司 ("Bengang Group"). The amount due from Bengang Group was recorded as other receivables at a carrying amount of approximately RMB74,425,000 at 31st December 2005 (note 25). Subsequently, the Company commenced litigation against Bengang Group for the repayment of the debts of RMB76,090,000. On 16th December, 2005, Shenyang Higher People's Court ruled that the Company has legally obtained the right to the debts of RMB15,900,000 and Bengang Group is liable to repay the principal and the accrued interest thereon to the Company. On 10th March, 2006, Notice of Execution was issued by Shenyang Higher People's Court and delivered to Bengang Group for the outstanding debts of RMB15,900,000. Further on 30th March, 2006 Shenyang Intermediate People's Court ruled that the Company has also legally obtained the right to the debts of remaining RMB60,190,000 and Bengang Group is also liable to repay the principal and the accrued interest thereon to the Company.

22. AMOUNT DUE FROM A NON-BANK FINANCIAL INSTITUTION *(Continued)*

The Company is currently in negotiation with Bengang Group on the settlement of these debts of RMB76,090,000 in aggregate and accrued interest thereon. The directors are of the opinion that the amount due from Bengang Group will be recovered in full on the completion of the negotiation with Bengang Group, taking into account its financial position and the Company's right to seize an equivalent amount of assets pursuant to the Notice of Execution issued by the court.

23. INVENTORIES

	2005	2004
	RMB'000	*RMB'000*
Raw materials and consumables	**30,865**	20,298
Work in progress	**14,056**	9,800
Finished goods	**40,593**	31,138
	85,514	61,236

The cost of inventories recognised as expense in the consolidated income statement were approximately RMB339,439,000 (2004: RMB227,685,000).

24. TRADE RECEIVABLES AND BILL RECEIVABLES

The credit terms given to the customers vary which are based on the sales contracts signed with individual customers and are generally based on the financial strengths of individual customers. The following is the aged analysis of trade and bill receivables:

	2005	2004
	RMB'000	*RMB'000*
Within 1 year	**134,661**	158,848
1 to 2 years	**36,590**	29,650
2 to 3 years	**26,088**	21,401
3 to 4 years	**5,213**	9,870
Over 4 years	**8,271**	24,186
	210,823	243,955
Allowance for doubtful debts	**(27,321)**	(39,041)
	183,502	204,914

The directors consider that the carrying amounts of the trade and bill receivables approximate to their fair values.

25. OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	2005	2004
	RMB'000	*RMB'000*
Receivables from Bengang Group (note 22(b))	**74,425**	—
Prepayments for purchase of goods	**52,600**	24,529
Others	**57,485**	87,934
	184,510	112,463

The directors consider that the carrying amounts of the other receivables, deposits and prepayments approximate to their fair values.

26. AMOUNTS DUE FROM(TO) AN ASSOCIATE/A FORMER ASSOCIATE/A RELATED COMPANY

	Relationship	**2005**	2004
		RMB'000	*RMB'000*
Amounts due from:			
New High-Voltage	Associate	**74,211**	72,644
Shenyang High-Voltage (note a)	Former associate	**—**	99,545
Shenyang Chengan Electric Equipment Group Co. Limited. (Chengan Electric)	Former related company (note b)	**—**	689
		74,211	172,878
Amount due to:			
New High-Voltage	Associate	**8,722**	15,852

The amounts are unsecured and repayable on demand. The directors consider that the carrying amounts of amounts due from (to) an associate/a former associate/a related company approximate to their fair values. Except an amount due from New High-Voltage of RMB33,393,000 (2005: Nil) at 31st December, 2004 bears interest at 6% per annum, the remaining balances are interest free.

Notes:

(a) Certain amount due from Shenyang High-Voltage were exchanged during the year ended 31st December, 2005 (note 38(a)).

(b) Chengan Electric is once a substantial shareholder of the Company during the year ended 31st December, 2004.

27. PLEDGED BANK DEPOSIT AND BANK BALANCES AND CASH

Pledged deposits represents deposits pledged to banks to banking facilities of the Group. The bank deposits and bank balances carry interest at prevailing market rates. The directors consider that the carrying amounts of bank deposits and bank balances approximate to their fair values.

28. TRADE PAYABLES AND BILL PAYABLES

The following is an aged analysis of trade and bill payables:

	2005	2004
	RMB'000	*RMB'000*
Within 1 year	**60,648**	76,082
1 to 2 years	**16,408**	3,500
2 to 3 years	**1,279**	2,319
3 to 4 years	**731**	972
Over 4 years	**1,261**	1,940
	80,327	84,813

The directors consider that the carrying amounts of the trade and bill payables approximate to their fair values.

29. OTHER PAYABLES, ADVANCES FROM CUSTOMERS AND ACCRUALS

	2005	2004
	RMB'000	*RMB'000*
Advances from customers	**60,601**	18,973
Others	**78,003**	76,197
	138,604	95,170

The directors consider that the carrying amounts of the other payables, advances from customers and accruals approximate to their fair values.

30. BANK BORROWINGS

	2005	2004
	RMB'000	*RMB'000*
RMB bank loans repayable within one year or on demand	**84,810**	213,084
Analysed as:		
Secured	**21,200**	42,000
Unsecured	**63,610**	171,084
	84,810	213,084

The bank loans are secured by certain bill receivables of RMB11,400,000 (2004: Nil), property plant and equipment and land use rights as set out in notes 15 and 17, respectively. All bank loans are with fixed interest rate ranges from 6.14% to 9.49% (2004: 4.35% to 7.56%) per annum.

Note:

Included above are loans of RMB29,000,000 (2004: RMB24,000,000) which have been overdued as at 31st December 2005. The loans have not yet been repaid as at 31st December, 2005 and the Group are in the process of negotiating with the bankers on the settlement plan.

31. PROVISION FOR LOSS ON GUARANTEES

	2005	2004
	RMB'000	*RMB'000*
Provision for loss on guarantees given to:		
Northeast Electrical Transmission Group Corporation ("NET") (note a)	**30,994**	30,994
Jinzhou Power Capacitors Limited ("Jinzhou Power") (note b)	**14,465**	—
Shuangjia Insulator & Electric Co. Ltd ("Shuangjia") (note c)	**9,252**	—
Shenyang Cable Company Limited ("Shenyang Cable") (note d)	**—**	15,292
	54,711	46,286

31. PROVISION FOR LOSS ON GUARANTEES *(Continued)*

Notes:

(a) The Company acted as the guarantor for a 10-months loan amounting to RMB30,000,000 which was entered into by NET and the China Everbright Bank in June 1998 and this guarantee was not approved by the Company's Board of directors and shareholders. In December 2001, the China Everbright Bank commenced litigation against the Company and NET for the repayment of loan principal of RMB26,402,000 and the related interest.

On 13th May, 2003, the Company received a verdict of final trial from the Beijing Higher People's Court which ruled that the Company be jointly held responsible for the repayment of the loan principal of RMB26,402,000 and the related interest of RMB4,592,000. Accordingly, a provision for loss on guarantee given to NET of RMB30,994,000 has been made during the year ended 31st December, 2003. The Group is in process of negotiating with China Everbright Banks for the settlement plan.

(b) In 2004, the Company acted as the guarantor for a 12-months loan amounting to RMB13,000,000 which was entered into by Jinzhou Power, a subsidiary at that time, and a bank. In March 2005, the Company disposed of Jinzhou Power. At the loan fall due date, Jinzhou Power did not repay the loan principal and the related interest. The bank commenced litigation against Jinzhou Power and the Company.

On 20th May, 2005, the Company received a verdict from the Shenyang Intermediate People's Court which ruled that the Company be jointly held responsible for the repayment of the loan principal and interest accrued thereon. Accordingly, provision for loss on guarantee given to Jinzhou Power of RMB14,465,000 and accrued interest thereon has been made during the year ended 31st December 2005.

(c) In April 2004, Shuangjia commenced litigation against Shenyang High-Voltage, the goods receiving party, in relation to the disputes on payment of goods. In July 2004, the Company, being a former shareholder of Shenyang High-Voltage, was included as additional joint defendants. On 18th October, 2005, the Company received a verdict from the Shanxi Higher People's Court which ruled that the Company shall undertake the joint repayment liability for amount equivalent to the fair value of certain properties in question. Accordingly, provision for loss of RMB9,252,000 has been made during the year ended 31st December 2005.

(d) In April 1999, Shenyang Cable, a subsidiary of NET, entered into a bank loan agreement amounting to RMB20,000,000 with the Bank of China, Shenyang Branch ("BOC Shenyang"), in respect of which the Company acted as the guarantor and is jointly and severally liable. In July 2001, the BOC, Shenyang commenced litigation against the Company and Shenyang Cable for the repayment of the loan but it was overruled by the Intermediate Peoples' Court in Shenyang Liaoning Province because Shenyang Cable had already declared bankruptcy in August 2000.

On 9th July, 2004, the Company received a verdict of final trial from the Shenyang Intermediate People's Court which ruled that the Company be jointly held responsible for the repayment of the loan principal of RMB11,030,000 and interest accrued thereon.

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

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

On 30th December, 2005, the Company received a final trial from Shenyang Higher People's Court which ruled that the Company should not be held liable for the repayment of the principal amount and interest accrued thereon. Accordingly, the provision for loss on guarantee has been reversed during the year ended 31st December, 2005.

32. SHARE CAPITAL

	2005 & 2004
	RMB'000
Registered, issued and fully paid-up capital:	
615,420,000 ordinary 'Domestic' shares of RMB1 each, of which:	
- Non-listed	471,820
- Listed "A" shares	143,600
	615,420
257,950,000 Listed "H" shares of RMB1 each	257,950
	873,370

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

33. RESERVES

Capital reserve

Capital reserve represents premium on issue of shares net of issuing expenses and an amount arising as a result of the original restructuring of the Group. Capital reserve can only be used to increase share capital.

Statutory common reserve

According to their respective Articles of Association, the Company and each of its subsidiaries are required to transfer 10% of their profit after taxation to the statutory common reserve until the reserve reaches 50% of the registered capital. The statutory common reserve shall only be used for the following purposes:

- to make up losses;
- to expand production facilities; or
- to be converted into capital. The Company and each of its subsidiaries may, with the sanction of a resolution of shareholders in general meeting, convert their statutory common reserve into capital and issue bonus shares to existing shareholders in proportion to their original shareholdings or to increase the par value of each share. When converting the statutory common reserve into capital, the amount of such reserve remaining unconverted must not be less than 25% of the registered capital of the Company and each of its subsidiaries.

33. RESERVES *(Continued)*

Statutory public welfare reserve

According to their respective Articles of Association, the Company and each of its subsidiaries are required to transfer 5% to 10% of their profit after taxation to the statutory public welfare fund. This fund can be used for the collective welfare of the employees of the welfare of the employees of the Group in PRC. The public welfare is not distributable to shareholders. There has been no utilisation of the public welfare fund during the year. Pursuant to the revised Companies Ordinance in the PRC which became effective on 1st January, 2006, the statutory public welfare reserve will be transferred to statutory common reserve.

Discretionary common reserve

According to their respective Articles of Association, the Company and each of its subsidiaries shall transfer at their discretion a certain percentage of their profit after taxation, to the discretionary common reserve (in accordance with the PRC Accounting Regulations). The discretionary common reserve may be used for the same purposes as the statutory common reserve.

Capital contribution

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

34. GOVERNMENT GRANTS

	RMB'000
ADVANCES FROM GOVERNMENT	
At 1st January, 2004	14,167
Additions	2,000
At 31st December, 2004 and 1st January, 2005	16,167
Additions	500
Disposal of a subsidiary	(15,667)
At 31st December, 2005	1,000

Amounts represent government grants received to be used mainly for technical improvement. They are recorded as liabilities as the conditions attaching to them have not yet been fulfilled.

35. DEFERRED TAX

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

	2005	2004
	RMB'000	*RMB'000*
Deductible temporary difference available	**176,712**	223,852
Tax losses	**219,712**	205,612
	396,424	429,464

No deferred tax asset has been recognised due to the unpredictability of future profit streams. Included in unrecognised tax losses are losses of RMB219,712,000 (2004: RMB205,612,000) that will expire in 2010 (2004: 2009).

36. ACQUISITIONS OF SUBSIDIARIES

On 9th March, 2005, the Company received a ruling served by Shenyang Intermediate People's Court of Liaoning Province that NET is ruled to transfer the 70% equity interests in Gaodongjia and 75% equity interests in 瀋陽東北輸變電設備成套工程有限公司 Shenyang Northeast Equipment Complete Engineering Company Limited ("Shenyang Equipment") held by Shenyang High-Voltage, to the Company to set off debts due to the Company with principal of RMB8,310,000 and the interests accrued thereon, together with the penalty for overdue repayment commencing from 10th October, 2000, of which the Company has made full allowance in prior years. The acquisition was completed on 24th August, 2005. The fair value and carrying amounts of the assets and liabilities of Gaodongjia at acquisition date are set out below which resulted in a discount on acquisition of RMB838,000. The 75% equity interests in Shenyang Equipment was disposed of immediately at nil consideration. No gain or loss arised from the disposal of Shenyang Equipment.

During the year ended 31st December 2004, the Group acquired 74.4% equity interest in High-Voltage Isolator, 95% equity interest in Chengtai Energy and 95% equity interest in Suntime Storage. The details of which were set out in the Company's disclosable and major transactions circular dated 17th September, 2004.

36. ACQUISITIONS OF SUBSIDIARIES *(Continued)*

The effect of acquisitions of subsidiaries during both years were as follows:

	2005	2004
	RMB'000	*RMB'000*
Property, plant and equipment	**564**	145,736
Prepaid lease payments	**—**	44,476
Inventories	**1,664**	15,363
Trade receivables	**1,106**	30,094
Other receivables, deposits and prepayments	**24**	116,338
Bank balances and cash	**114**	1,240
Trade payables	**(1,149)**	(14,446)
Other payables, advance from customers and accruals	**(1,070)**	(79,855)
Tax payable	**(56)**	(2,060)
Minority interests	**(359)**	(24,548)
	838	232,338
Capital contribution arising from acquisition of subsidiaries	**—**	(184,546)
Gain on deemed disposal of partial interest in subsidiaries recognised in income statement	**—**	(17,313)
Gain on acquisition of a subsidiary recognised in income statement	**(838)**	—
Total consideration	**—**	30,479
Satisfied by:		
Amount due from NET	**—**	—
Property, plant and equipment (note 15)	**—**	27,879
Value added tax on property, plant and equipment	**—**	2,600
	—	30,479
Net cash inflow arising on acquisitions:		
Cash and bank balances acquired	**114**	1,240

The subsidiary acquired during the year contributed RMB5,268,000 (2004: RMB43,911,000) in aggregate to the Group's turnover and profit of RMB330,000 (2004: RMB8,679,000) in aggregate to the Group's profit from operations.

If the acquisition of Gaodonjia has been completed on 1st January, 2005, total group revenue for the period would have been RMB550,295,000 and profit for the period would have been RMB41,433,000. The proforma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1st January, 2005, nor is it intended to be a projection of future results.

37. DISPOSALS OF A SUBSIDIARY

On 28th December, 2004, the Company entered into a sale and purchase agreement with a third party, 東北建築安裝工程緻公司 Northeast Construction Work Company ("Northeast Construction"), pursuant to which the Company agreed to sell the 99.99% equity interest in Jinzhou Power at a cash consideration of RMB54,000,000. The transaction was approved by the shareholders on 21st March, 2005 and completed on 15th April, 2005.

The aggregate net assets of the subsidiary disposed of at date of disposal were as follows:

	2005	2004
	RMB'000	*RMB'000*
Property, plant and equipment	**42,023**	—
Construction in progress	**4,010**	—
Prepaid lease payments	**4,459**	—
Investment in securities	**9,835**	—
Inventories	**22,275**	—
Trade receivables	**52,695**	—
Other receivables, deposits and prepayments	**111,242**	—
Tax recoverable	**44**	—
Amount due from a former associate	**41,515**	—
Bank balances and cash	**2,340**	—
Trade payables	**(55,430)**	—
Other payables, advance from customers and accruals	**(17,982)**	—
Bank borrowing	**(149,914)**	—
Government grants	**(15,667)**	—
	51,445	—
Gain on disposal of a subsidiary recognised in income statement	**2,555**	—
Total consideration	**54,000**	—
Satisfied by:		
Cash	**54,000**	—
Net cash inflow arising on disposal:		
Cash consideration	**54,000**	—
Bank balances and cash disposed of at 31st December, 2004 (Note)	**(6,472)**	—
Net cash inflow arising on disposal	**47,528**	—

Note: The financial information of Jinzhou Power as at disposal date was not included in the preparation of the consolidated cash flow statement and related notes to financial statements.

During the year ended 31st December, 2005, Jinzhou Power contributed RMB9,026,000 to the Group's turnover and RMB179,000 to the Group's profit before taxation. The cash flow contributed or utilised by Jinzhou Power was not significant.

38. NON-CASH TRANSACTIONS

During the year ended 31st December, 2005, the Group has the following non-cash transactions:

(a) During the year ended 31st December, 2005, amount due from Shenyang High-Voltage of RMB58,030,000 was exchanged for certain trade receivables of Shenyang High-Voltage with a fair value of RMB58,030,000 in aggregate.

Subsequently during the year ended 31st December, 2005, trade receivables of RMB15,993,000 in aggregate included in RMB58,030,000 above originally exchanged from Shenyang High-Voltage as well as amount due from Shenyang High-Voltage of RMB6,007,000 was exchanged for additional 10% equity interests in Kingdom Hotel Shenyang with a fair value of RMB23,170,000 which resulted in discount on acquisition of RMB1,170,000 (note 9).

In addition, during the year ended 31st December, 2005, amount due from Shenyang High-Voltage arising during the year ended 31st December, 2005 of RMB783,000 was exchanged for certain trade receivables of Shenyang High-Voltage with a fair value of RMB783,000.

(b) The Group's former associate, Northeast Hitachi, with a capital contribution of RMB4,203,000 was dissolved during the year and the amount was satisfied by cash proceeds of RMB3,494,000 and property, plant and equipment received upon dissolution of RMB507,000 and resulted in a loss on dissolution of RMB202,000.

Non-cash transactions for the year ended 31st December, 2004, were disclosed in notes 15 and 36, respectively.

39. CONTINGENT LIABILITIES

	2005	2004
	RMB'000	*RMB'000*
Guarantees given to banks in respect of banking facilities utilised by other entities:		
Former subsidiary	**52,900**	—
Former associate	**6,160**	88,000
Third parties	**—**	19,770
	59,060	107,770

At 31st December, 2005, the Company gave guarantees to banks in respect of banking facilities utilised by its subsidiaries and the amount utilised was RMB55,710,000 (2004: RMB112,900,000).

39. CONTINGENT LIABILITIES *(Continued)*

In addition, on 12th May, 2005, Xinda commenced litigation against the Shenyang High-Voltage, the borrower, and Jinzhou Capacitors, the guarantor, for the repayment of loan principal of RMB28,350,000. The Company, being the former shareholder, was requested to undertake joint liabilities for the discrepancy of Shenyang High-Voltage's investment amount and the outstanding make-up amount of the investment. In addition, certain land use rights of the Group with carrying amount of RMB14,540,000 was frozen accordingly. On 20th March, 2006, Liaoning Higher Peoples' Court ruled that the plaintiff's claims against the Company were rejected. Up to the date of this report, the Company was not advised that Xinda has submitted appeal to the higher court.

40. LEASE COMMITMENTS

The Group as lessor

Property rental income earned during the year was RMB2,340,000 (2004: RMB1,598,000) and outgoings of RMB641,000 (2004: RMB1,182,000). All the properties held have committed tenants for the next year.

At the balance sheet date, the Group had contracted with tenants for the following future minimum lease payments:

	2005	2004
	RMB'000	*RMB'000*
Within one year	**1,216**	716
In the second to fifth year inclusive	**2,768**	1,600
After five years	**—**	133
	3,984	2,449

The Group as lessee

	2005	2004
	RMB'000	*RMB'000*
Minimum lease payments under operating leases	**2,555**	213

At the balance sheet date, the Group had outstanding commitments under non-cancellable operating leases, which fall due as follows:

	2005	2004
	RMB'000	*RMB'000*
Within one year	**2,575**	—
In the second to fifth year inclusive	**7,572**	—
After five years	**1,532**	—
	11,679	—

42. CAPITAL COMMITMENTS

	2005	2004
	RMB'000	*RMB'000*
Capital expenditure contracted for but not provided for in the financial statements in respect of:		
Acquisition of property, plant and equipment	**—**	72,257

43. RELATED PARTY TRANSACTIONS

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

	2005	2004
	RMB'000	*RMB'000*
Sales to:		
New High-Voltage	**62,403**	21,101
Shenyang High-Voltage	**—**	1,186
	62,403	22,287
Purchase from:		
New High-Voltage	**109,014**	46,739
Shenyang High-Voltage	**—**	7,023
	109,014	53,762
Interest income received from:		
New High-Voltage	**501**	2,932
Rental income received from:		
New High-Voltage	**2,340**	1,473
Shenyang High-Voltage	**—**	125
	2,340	1,598
Service fee income received from:		
New High-Voltage	**51,436**	14,490
Service paid to:		
New High-Voltage	**5,212**	—
Transportation expenses paid to:		
Shenyang High-Voltage	**—**	106

43. RELATED PARTY TRANSACTIONS *(Continued)*

Besides, during the year ended 31st December, 2005 and 2004, certain creditors' rights and debts between the Group and related companies were exchanged (See note 38).

Other related party transactions, including acquisition of Chengtai Energy, Suntime Storage and High-Voltage Isolator from Shenyang High-Voltage during the year ended 31st December 2004, were disclosed in notes 36. As at the date of the acquisition, both the Company, and Shenyang High-Voltage are under the common control of Suntime Electric.

44. RETIREMENT BENEFITS PLANS, HEALTH CARE ASSURANCE AND HOUSING FUND

The Group's full-time employees are covered by a government-sponsored defined contribution pension scheme, and are entitled to a monthly pension at their retirement dates. The PRC government is responsible for the pension liability to these retired employees. The Group is required to make annual contributions to the retirement plan at a rate of 23.5% of employees' salaries, which are charged to operations as an expense when the contributions are due. For the years ended 31st December, 2005 and 2004, the retirement plan contributions made by the Group amounted to RMB3,803,000 and RMB3,810,000 are charged to the income statement respectively.

Pursuant to regulations stipulated by the State Council and the government, the Group started a defined contribution health care scheme in 2001. Under this scheme, all full-time employees of the Group have to make a specified contribution for health care benefits calculated at a certain percentage of their salaries, and the Group is required to match the employees contribution. For the years ended 31st December, 2005 and 2004, the medical care contributions made by the Group amounted to RMB1,498,000 and RMB945,000 are charged to the income statement respectively.

Furthermore, the Group's full-time employees are entitled to participate in a state-sponsored housing fund. The fund can be used by the employees to purchase housing, or claimed upon their retirement. The Group is required to make annual contributions to the housing fund equal to a percentage of each full-time employee's salary based on service period and position. For the years ended 31st December, 2005 and 2004, the Group's housing fund contributions amounting to RMB1,469,000 and RMB1,511,000 are charged to the income statement respectively.

45. POST BALANCE SHEET EVENT

(a) Pursuant to the approval of State-owned Assets Supervision and Administration Commission of the People's Government in Liaoning Province, all of the Company's state-owned shares of 266,520,000 held by two shareholders were converted into domestic legal person held shares. The conversion was completed on 9th March, 2006.

(b) On 27th March, 2006, the Company announced a share reform scheme ("Share Reform Scheme") to convert all Non-circulating A shares into Circulating A shares. Pursuant to the Share Reform Scheme, it is proposed that all holders of Non-circulating A share to allocate 2.5 Non-circulating A shares to holders of Circulating A shares for every 10 Circulating A shares held. Based on the Company's total 143,600,000 Circulating A shares in issue, a total of 35,900,000 A shares will be offered to holders of Circulating A shares. Subject to relevant moratorium, all Non-circulating A shares (including those offered to holders of Circulating A shares) will be entitled to listing and trading on Shenzhen Stock Exchange on the first trading day immediately following completion of the Share Reform Scheme. The Non-circulating A shareholders have no intention to offer similar arrangement or proposal to H shareholders. Details of the Share Reform Scheme are set out in the Company's announcement dated 27th March, 2006.

These financial statements are prepared in accordance with accounting principles generally accepted in Hong Kong, which differ in certain significant aspects from those in the PRC Accounting Regulations. The significant differences relate principally to the following items and the adjustments considered necessary to restate net profit attributable to shareholders and net assets in accordance with PRC Accounting Regulations are shown in the tables set out below.

	Net assets *RMB'000*	**Net profit** *RMB'000*
Under accounting principles generally accepted in Hong Kong	**899,094**	26,761
Accrued staff welfare expenses	**(1,643)**	(967)
Negative goodwill	**(1,428)**	(2,008)
Amortisation of negative goodwill	**—**	205
Others	**21**	(365)
Under the PRC Accounting Regulations	**896,044**	23,626

Deloitte.
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De Shi jing (Shen) Bao Zi (06) No. 129

TO THE SHAREHOLDERS OF
NORTHEAST ELECTRIC DEVELOPMENT COMPANY LIMITED

We have audited the accompanying balance sheets of Northeast Electric Development Company Limited (the "Company") and the Group as of 31st December, 2005 and the related statements of profit and profit appropriation and cash flow statements of the Company and the Group for the year then ended. The preparation of these financial statements is the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

Except for issues stated in the 3 & 4 paragraphs of the report, we planned and performed our audit in accordance with China's Independent Auditing Standards to obtain reasonable assurance as to whether the financial statements are free of material misstatement. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit includes assessing the accounting policies used and significant accounting estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As disclosed in note 45, the profit incurred by the Group's former subsidiary, Jinzhou Power Capacitors Limited Company ("Jinzhou Power") during the period from 1st January 2005 to the date of disposal ("profit incurred by Jinzhou Power") amounting to RMB120,000 and the gain on disposal of Jinzhou Power amounting to RMB2,560,000 have been included in the consolidated income statement based on unaudited management accounts. The evidence available to us is limited in respect of the disposal of Jinzhou Power. Accordingly, we are unable to assess as to whether the profit incurred by Jinzhou Power and the net assets at the date of disposal thereof are free from material misstatement, nor are we able to judge whether the classification of the consolidated income statement in respect the above-mentioned profit and gain is reasonable. However, we noted that the classification relating to profit incurred by Jinzhou Power and the gain on disposal would have no affect on total profit of the Company and the Group for the year ended 31st December 2005. In addition, in the absence of sufficient financial information of Jinzhou Power for the period from 1st January, 2005 up to the date of disposal, the directors have used the related assets and liabilities of Jinzhou Power at 31st December, 2004 to prepare the relevant disclosures included in the notes to the financial statements and the consolidated cash flow statement, which would not affect the consolidated assets and liabilities at the end of the year.

We noted that the Company recognised in 2004 the gain of RMB1.87 million relating to the disposal of equity of an associate, Shenyang High-Voltage Switchgears Limited ("Shenyang High-voltage"), to a related company as capital reserve (difference of related party transaction). The gain was calculated based on the consideration less share of net assets of Shenyang High-voltage as at 31st December, 2003. In absence of the financial statements of Shenyang High-Voltage of the date of disposal, we cannot determine the reasonableness of classification in respect of the investment income recognized under the equity method for the year ended 31 December 2004 and gain on disposal of Shenyang High-voltage, nor can we confirm the appropriateness of recognizing the total gain as capital reserve (difference in related party transaction).

In our opinion, other than effects of the issues as described above, the financial statements set out on pages 3 to 46 present fairly the financial position of the Company and the Group as of December 31, 2005 and the results of their operations and cash flows for the year then ended, and are prepared in conformity with "Accounting Standards for Business Enterprises" and "Accounting System for Business Enterprises" promulgated by the state.

In addition, we would like to draw your attention to the following:

As stated in note 9, the debts receivable from Benxi Iron & Steel (Group) Limited ("Bengang Group") with an aggregate face value amount of RMB76,090,000 was included in the balance sheet as at 31st December, 2005. The debts receivable, pursuant to the approval of Finance Bureau of Liaoning Province, was assigned to the Group to offset partial deposits of RMB74,424,671.45 originally placed in Liaoning Trust and Investment Company ("Liaoning Trust"). On 16th December, 2005, Shenyang Higher People's Court ruled that the Company has legally obtained the right to the debts of RMB15,900,000 and Bengang Group is liable to repay the principal and the accrued interest thereon to the Company (filed as Liao Min Er Zhong Zi [2005] No. 220). During the year ended 31st December 2005, the Company has taken legal actions to enforce the Group's rights for the repayment of the debts from Bengang Group. On 10th March, 2006, Notice of Execution was issued by Shenyang Higher People's Court and delivered to Bengang Group for the outstanding debts of RMB15,900,000. Further on 30th March, 2006, Shenyang Intermediate People's Court ruled that the Company has also legally obtained the right to the remaining debts of RMB60,190,000 and Bengang Group is liable to repay the principal and accrued interest thereon to the Company (filed as Shen Zhong Min Si He Chu Zi [2005] No.21, 22 and 23). The Company is currently in negotiation with Bengang Group as to the settlement of these debts and the accrued interest thereon.

As stated in note 52(1), due to failure of a former associate of the Company to repay loans which has fall due, a lawsuit was brought by China Development Bank (the "Bank") on 31st May, 2004 with Beijing Higher People's Court ("Beijing Higher Court") against Shenyang High-voltage requesting: 1) the Company, New Northeast Electric (Shenyang) High-Voltage Isolator ("New Shengao"), Shenyang Suntime High-Voltage Electric Company Limited ("Suntime High-voltage"), Shenyang Suntime Storage and Logistics Company Limited ("Suntime Logistics"), Shenyang Chengtai Energy Power Company Limited ("Chengtai Energy") (collectively hereinafter referred to "named companies"), to bear joint and several liabilities in relation to the repayment of the principal of the loan of RMB150 million and 2) to void the sales and purchase agreements over equity interests in the Named companies entered into between the Company and Shenyang HighVoltage. The Beijing Higher Court rejected the request by the Bank against the Company and its' related companies in March, 2005. However, the Bank filed an appeal to Beijing Supreme People's Court ("Supreme Court"). There has been no further progress up to the date of this report. The final outcome would have significant affect on the Company.

We consider that the fundamental uncertainty has been adequately disclosed in the financial statements and our opinion is not qualified in this respect.

Deloitte Touche Tohmatsu CPA Ltd. Beijing Branch
Chinese Certified Public Accountants

Cui Jin
Xu Bin
18th April, 2006

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

BALANCE SHEET

At 31st December, 2005 (Prepared in accordance with the PRC Accounting Rules and Regulations)

Assets	Notes	**Group closing RMB**	Group opening RMB	**Company closing RMB**	Company opening RMB
CURRENT ASSETS					
Cash and bank balances	5	**112,448,651.46**	61,683,193.79	**13,344,545.39**	2,752,216.23
Bills receivable	6	**13,400,000.00**	—	**—**	—
Dividend receivable	7	**2,165,010.00**	—	**—**	—
Accounts receivable	8, 10	**244,313,827.33**	233,697,772.98	**34,900,328.00**	21,969,401.20
Other receivables	9, 10	**97,230,587.15**	329,974,060.93	**335,796,568.38**	258,008,005.77
Prepayments	11	**80,747,978.55**	26,844,448.81	**—**	280,500.00
Inventories	12	**85,513,733.84**	61,235,551.66	**13,039,316.24**	3,501,589.46
Deferred expenses	13	**2,821,832.71**	1,005,085.17	**2,216,683.76**	—
Total current assets		**638,641,621.04**	714,440,113.34	**399,297,441.77**	286,511,712.66
LONG-TERM INVESTMENTS					
Long-term equity investments	14	**112,019,656.88**	81,019,736.37	**697,139,183.71**	727,785,234.03
Including: Difference		**(1,428,447.94)**	(1,632,511.93)	**—**	—
Total long-term investments		**112,019,656.88**	81,019,736.37	**697,139,183.71**	727,785,234.03
FIXED ASSETS					
Fixed assets - cost	15	**724,099,773.53**	775,984,340.74	**6,618,178.87**	5,959,258.00
Less: Accumulated depreciation	15	**127,451,710.78**	141,868,142.30	**2,426,489.81**	1,847,976.23
Fixed assets °V net		**596,648,062.75**	634,116,198.44	**4,191,689.06**	4,111,281.77
Less: Provision for impairment	15	**87,120,500.32**	87,628,424.04	**—**	—
Fixed assets °V net book value	15	**509,527,562.43**	546,487,774.40	**4,191,689.06**	4,111,281.77
Construction in progress	16	**310,326.60**	3,925,491.92	**—**	—
Total fixed assets		**509,837,889.03**	550,413,266.32	**4,191,689.06**	4,111,281.77
INTANGIBLE AND OTHER ASSETS					
Intangible assets	17	**5,746,683.62**	10,283,415.82	**—**	—
Total intangible and other assets		**5,746,683.62**	10,283,415.82	**—**	—
TOTAL ASSETS		**1,266,245,850.57**	1,356,156,531.85	**1,100,628,314.54**	1,018,408,228.46

BALANCE SHEET *(Continued)*

At 31st December, 2005 (Prepared in accordance with the PRC Accounting Rules and Regulations)

Assets	**Notes**	**Group closing** *RMB*	Group opening *RMB*	**Company closing** *RMB*	Company opening *RMB*
LIABILITIES AND OWNERS' EQUITY					
Short-term loans	18	**84,810,000.00**	179,534,000.00	**—**	—
Bills payable	19	**3,000,000.00**	13,000,000.00	**—**	—
Accounts payable	20	**82,644,567.14**	85,643,104.58	7,869,888.57	14,549,407.50
Advances from customers	21	**60,600,858.93**	21,571,864.55	**24,754,660.00**	1,997,320.00
Employee benefits payable		**1,642,611.33**	675,861.82	**—**	-
Taxes payable	22	**14,868,678.26**	15,261,399.81	**3,551,574.47**	2,866,670.62
Other fee payable	23	**33,931.63**	3,047,279.51	**—**	-
Other payables	24	**65,013,948.53**	61,541,810.94	**79,921,461.56**	45,890,314.20
Accrued expenses	25	**1,876,354.46**	3,544,660.94	**1,846,354.46**	1,706,984.56
Provisions	26	**54,711,289.00**	46,285,654.00	**54,711,289.00**	46,285,654.00
Long-term liabilities due within one year	27	**—**	33,550,000.00	**—**	—
Total current liabilities		**369,202,239.28**	463,655,636.15	**172,655,228.06**	113,296,350.88
LONG-TERM LIABILITIES					
Specific accounts payable	28	**1,000,000.00**	16,166,647.73	**—**	—
Total long term liabilities		**1,000,000.00**	16,166,647.73	**—**	—
Total liabilities		**370,202,239.28**	479,822,283.88	**172,655,228.06**	113,296,350.88
Minority interests		98,713,869.59	105,808,169.53	**—**	—
OWNERS' EQUITY					
Paid-up capital (shares)	29	**873,370,000.00**	873,370,000.00	**873,370,000.00**	873,370,000.00
Capital reserve	30	**972,123,038.66**	969,763,485.09	**1,127,140,550.47**	1,124,658,533.79
Surplus reserve	31	**108,587,124.40**	108,587,124.40	**108,587,124.40**	108,587,124.40
Including: Statutory public welfare fund	31	**32,210,803.10**	32,210,803.10	**32,210,803.10**	32,210,803.10
Accumulated losses	32	**(1,157,605,354.19)**	(1,181,231,040.82)	**(1,181,124,588.39)**	(1,201,503,780.61)
Translation reserve		**854,932.83**	36,509.77	**—**	—
Total owners' equity		**797,329,741.70**	770,526,078.44	**927,973,086.48**	905,111,877.58
TOTAL LIABILITIES AND OWNERS' EQUITY		**1,266,245,850.57**	1,356,156,531.85	**1,100,628,314.54**	1,018,408,228.46

The accompanying notes form an integral part of the financial statements.

Profit and Profit Appropriation Statement

At 31st December, 2005 (Prepared in accordance with the PRC Accounting Rules and Regulations)

		Group		Company	
		2005	2004	**2005**	2004
	Notes	***RMB***	*RMB*	***RMB***	*RMB*
Revenue	33	**549,894,247.22**	346,938,363.00	**125,012,220.34**	63,325,376.82
Less: Cost of sales	34	**405,241,777.39**	249,615,581.10	**115,590,038.06**	56,384,510.01
Sales taxes and surcharges	35	**3,759,429.15**	4,600,841.29	**-**	151,584.84
Gross profit		**140,893,040.68**	92,721,940.61	**9,422,182.28**	6,789,281.97
Add: Other operating profits	36	**5,126,347.09**	1,906,859.07	**1,886,700.00**	997,500.00
Less: Operating expenses		**39,752,966.69**	22,312,613.90	**1,434,033.70**	1,892,491.00
General and administrative expenses		**74,035,817.47**	51,471,527.67	**16,895,669.84**	14,106,110.11
Finance costs	37	**4,457,496.74**	9,928,215.44	**(62,035.82)**	(1,688,170.61)
Profit (loss) from operations		**27,773,106.87**	10,916,442.67	**(6,958,785.44)**	(6,523,648.53)
Add: Investment income	38	**22,169,493.31**	16,177,756.87	**35,979,521.46**	3,781,463.28
Non-operating income	39	**16,005,952.63**	337,912.18	**15,291,725.00**	-
Less: Non-oeprating expenses	40	**24,186,735.42**	15,690,455.68	**23,933,268.80**	15,292,245.00
Profit before tax		**41,761,817.39**	11,741,656.04	**20,379,192.22**	(18,034,430.25)
Less: Income tax	41	**2,419,149.00**	8,175,999.36	**-**	-
Minority interest		**15,716,981.76**	1,327,347.14	**-**	-
Net profit (loss) for the year		**23,625,686.63**	2,238,309.54	**20,379,192.22**	(18,034,430.25)
Add: opening undistributed losses (accumulated losses)		**(1,181,231,040.82)**	(1,183,469,350.36)	**(1,201,503,780.61)**	(1,183,469,350.36)
Losses available for distribution		**(1,157,605,354.19)**	(1,181,231,040.82)	**(1,181,124,588.39)**	(1,201,503,780.61)
Less: Transfer to statutory surplus reserve		**-**	-	**-**	-
Transfer to statutory public welfare fund		**-**	-	**-**	-
Losses available for distribution to shareholders		**(1,157,605,354.19)**	(1,181,231,040.82)	**(1,181,124,588.39)**	(1,201,503,780.61)
Less: Dividend payable to ordinary shares		**-**	-	**-**	-
Undistributed losses		**(1,157,605,354.19)**	(1,181,231,040.82)	**(1,181,124,588.39)**	(1,201,503,780.61)

	Group		Company	
	2005	2004	**2005**	2004
Supplementary information	***RMB***	*RMB*	***RMB***	*RMB*
Gain on disposal of investees	**2,353,472.59**	-	**2,245,545.24**	(15,774,123.02)
Losses incurred from natural disaster	**-**	-	**-**	-
Increase (decrease) in profit due to changes in accounting policies	**-**	-	**-**	-
Increase (decrease) in profit due to changes in accounting estimate	**-**	-	**-**	-
Losses from debt restructuring	**-**	-	**-**	-
Others	**-**	-	**-**	-

The accompanying notes form an integral part of the financial statements.

		Group		Company	
		2005	2004	**2005**	2004
	Notes	***RMB***	*RMB*	***RMB***	*RMB*
Cash flows from operating activities					
Cash received from sales of goods or rendering services		**686,777,367.89**	346,551,164.68	155,706,711.00	56,485,864.51
Other cash received relating to operating activities	43	**12,205,861.93**	28,528,346.21	40,701,787.35	51,864,328.13
Sub-total of cash inflows		**698,983,229.82**	375,079,510.89	196,408,498.35	108,350,192.64
Cash paid for goods and servies		**553,267,018.42**	287,553,807.02	152,720,044.21	68,420,817.21
Cash paid to and on behalf of employees		**44,961,647.58**	34,028,045.39	3,414,149.67	2,649,492.70
Tax payments		**27,462,055.53**	35,059,131.21	492,518.70	784,694.32
Other cash paid relating to operating activities	44	**67,648,759.94**	58,423,212.40	119,398,108.20	109,879,555.79
Sub-total of cash outflows		**693,339,481.47**	415,064,196.02	276,024,820.78	181,734,560.02
Net cash flows from operating activities		**5,643,748.35**	(39,984,685.13)	(79,616,322.43)	(73,384,367.38)
Cash flows from investing activities					
Cash received from disposal of investment		**51,022,481.46**	24,000,000.00	100,467,873.14	75,528,048.78
Including: Cash received from disposal of subsidiary	45	**47,527,928.32**	—	96,973,320.00	—
Cash received from return on investments		**7,265,570.00**	1,000,000.00	—	1,000,000.00
Net cash receipts from disposal of fixed assets, intangible assets and other long-term assets		**1,169,729.07**	2,152,413.56	799,000.00	—
Net cash receipts from acquisition of subsidiaries	46	**113,732.48**	43,768,239.62	—	—
Sub-total of cash inflows		**59,571,513.01**	70,920,653.18	101,266,873.14	76,528,048.78
Cash paid to acquire fixed assets, intangible assets and other long-term assets		**27,056,189.50**	11,944,478.17	1,141,301.55	2,613,147.00
Cash payments on investments		**9,916,920.00**	—	9,916,920.00	—
Sub-total of cash outflows		**36,973,109.50**	11,944,478.17	11,058,221.55	2,613,147.00
Net cash flows from investing activities		**22,598,403.51**	58,976,175.01	90,208,651.59	73,914,901.78

		Group		Company	
		2005	2004	**2005**	2004
	Notes	***RMB***	*RMB*	***RMB***	*RMB*
Cash flows from financing activities					
Cash received from investments		**—**	38,842,390.00	—	—
Including: Cash received from minority interests		**—**	38,842,390.00	—	—
Cash received from borrowings		**119,979,943.00**	175,160,000.00	—	—
Sub-total of cash inflows		**119,979,943.00**	214,002,390.00	—	—
Repayments of borrowings		**98,269,943.00**	172,996,000.00	—	—
Dividend paid, profit distributed or interest paid		**3,416,694.19**	12,863,781.57	—	—
Sub-total of cash outflows		**101,686,637.19**	185,859,781.57	—	—
Net cash flows from financing activities		**18,293,305.81**	28,142,608.43	—	—
Effect of foreign exchange rate changes on cash and cash equivalents		**—**	—	—	—
Net increase (decrease) in cash and cash equivalents		**46,535,457.67**	47,134,098.31	10,592,329.16	530,534.40

SUPPLEMENTARY INFORMATION

	Notes	Group 2005 RMB	Group 2004 RMB	Company 2005 RMB	Company 2004 RMB
Reconciliation of net profit to cash flows from operating activities		**23,625,686.63**	2,238,309.54	**20,379,192.22**	(18,034,430.25)
Add: Minority interests		**15,716,981.76**	1,327,347.14	**—**	—
Impairment losses on assets		**5,778,660.87**	(4,871,133.12)	**401,638.60**	70,235.28
Depreciation of fixed assets		**20,123,154.62**	19,008,279.35	**658,370.78**	481,830.62
Amortisation of intangible assets		**183,406.79**	323,792.56	**—**	—
Decrease (Deduct: increase) in deferred expenses		**(2,292,995.46)**	163,965.39	**(2,216,683.76)**	—
Increase (Deduct: decrease) in accrued expenses		**(1,668,306.48)**	(813,216.80)	**139,369.90**	(1,514,045.48)
Increase (Deduct: decrease) in provisions		**8,425,635.00**	15,291,725.00	**8,425,635.00**	15,291,725.00
Losses (Deduct: gains) on disposal of fixed assets, intangible assets and other long term assets		**202,770.45**	(189,735.57)	**160,158.80**	—
Finance costs		**3,728,991.21**	12,863,781.57	**—**	—
Investment losses (Deduct: increase)		**(22,169,493.31)**	(16,177,756.87)	**(35,979,521.46)**	(3,781,463.28)
Decrease (Deduct: increase) in inventories		**(46,583,277.41)**	1,351,309.78	**(9,537,726.78)**	(3,501,589.46)
Decrease in operating receivables (deduct: increase)		**(42,681,081.49)**	(14,137,273.83)	**(79,270,076.05)**	(67,198,626.91)
Increase in operating payables (deduct: decrease)		**43,253,615.17**	(56,364,079.27)	**17,223,320.32**	4,801,997.10)
Net cash flows from operating activities		**5,643,748.35**	(39,984,685.13)	**(79,616,322.43)**	(73,384,367.38)
Investing and financing activities that do not involve cash receipts and payments					
Investments in terms of generators		**—**	27,878,800.00	**—**	27,878,800.00
Debts receivable exchanged for equity	4(Note2)	**22,000,000.00**	—	**—**	—
Debts receivale written-off with equity	46	**—**	—	**—**	—
Repayment of bank borrowings with pledged accounts receivable	8	**2,000,000.00**	—	**—**	—
Fixed assets withdrawn from disposal of associate		**506,635.00**	—	**506,635.00**	—
Net increase in cash and cash equivalents					
Cash and cash equivalents at the end of the year	5	**108,218,651.46**	61,683,193.79	**13,344,545.39**	2,752,216.23
Less: Cash and cash equivalents at the beginning of the year		**61,683,193.79**	14,549,095.48	**2,752,216.23**	2,221,681.83
Net increase in cash and cash equivalents		**46,535,457.67**	47,134,098.31	**10,592,329.16**	530,534.40

The accompanying notes form an integral part of the financial statements.

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 (1992) 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 29.

The Company is mainly engaged in the manufacturing of transmission and transformation machinery and the provision of the relevant services and hotel and catering sevices.

2. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

Accounting system and standards

The Company adopts the "Accounting Standards for Business Enterprises", the "Accounting System for Business Enterprises" and the supplementary regulations.

Basis of accounting and principle of measurement

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

Accounting year

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

Reporting currency

The recording currency of the Company is Renminbi.

Foreign currencies

Transactions denominated in foreign currencies (currencies other than the recording currency) are translated into Renminbi at the applicable rate of exchange ("market exchange rate") prevailing at the beginning of the month in which the transaction occurs. Monetary assets and liabilities denominated in foreign currencies are translated into Renminbi at the market exchange rate prevailing at the balance sheet date. Exchange gains or losses incurred on specific borrowing for the acquisition or construction of a fixed asset are capitalised as part of the cost of fixed asset; other exchange gains or losses are dealt with as finance costs.

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

Cash equivalents

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value.

Accounting for bad debts

(1) Criteria for recognition of bad debts

Bad debts are recognised when:

1) The irrecoverable amount of a bankrupt debtor after pursuing the statutory procedures;

2) The irrecoverable amount of a debtor who has deceased and has insufficient estate to repay;

3) 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 for bad debt losses

Bad debts are 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%

Transfer/discount of bills and accounts receivable

Where the accounts and bills receivable are transferred to or discounted by financial institutions, difference of the received consideration less the carrying amount of transferred/discounted debts receivable and the taxes arising is recognized in profit and loss account in case the risks and rewards thereof have been transferred; otherwise, the difference is recognized as pledged bank loans.

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

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.

Low value consumables are amortized on the one-time amortization basis upon issuance.

The Company adopts perpetual inventory system.

Provision for decline in value of inventories

Inventories are measured at the lower of cost and net realisable value at the end of each period. Where the net realisable value is lower than the cost, the difference is recognised as a provision for decline in value. Provision for decline in value of inventories is made by comparing cost with net realisable value on an individual item basis. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs to completion, the estimated expenses and the related taxes necessary to make the sale.

Recoverable amount

Recoverable amount is the higher of an asset's net selling price, and the present value of estimated future cash flows expected to arise from the continuing use of the asset and from its disposal at the end of its useful life.

Long-term investments

(1) Accounting treatment for long term investments

A long term investment is initially recorded at its cost on acquisition.

The cost method is used to account for a long-term equity investment when the Company does not have control, joint control or significant influence over the investee enterprise. The equity method is used when the Company can control, jointly control or has significant influence over the investee enterprise.

When the cost method is adopted, the amount of investment income recognised is limited to the amount distributed out of accumulated net profits of the investee enterprise that has arisen after the investment was made. The amount of profits or cash dividends declared by the investee enterprise in excess of the above threshold is treated as return of investment cost, and the carrying amount of the investment is reduced accordingly.

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

Long-term investments *(Continued)*

(1) Accounting treatment for long term investments *(Continued)*

When the equity method is adopted, the investment income for the current period is recognised according to the attributable share of the net profit or loss of the investee enterprises. The attributable share of net losses incurred by the investee enterprise is recognised to the extent that the carrying amount of the investment is reduced to zero. If the investee enterprise realizes net profits in subsequent periods, the carrying amount of the investment is resumed by the excess of the Company's attributable share of profits over the share of unrecognised losses.

When a long term equity investment is accounted for using the equity method, the difference between the initial investment cost of the Company and its share of owners' equity of the investee enterprise is accounted for as "equity investment difference". An excess of the initial investment cost over the Company's share of owners' equity of the investee enterprise is debited to "long-term equity investment °V equity investment difference" and amortised on a straight-line basis and charged to the income statement accordingly. The amortisation period is the investing period if it is stipulated in the investment contract. Otherwise, it is amortised over a period of not more than 10 years. A shortfall of the initial investment cost below the Company's share of owners' equity of the investee enterprise arising before the issuance of Caikuai [2003] 10 is credited to "long-term equity investment °V equity investment difference", and amortised on a straight-line basis and charged to the income statement accordingly. The amortisation period is the investing period if it is stipulated in the investment contract. Otherwise, it is amortised over a period of not less than 10 years. The shortfall of the initial investment cost below the Company's share of owners' equity of the investee enterprise arising after the issuance of Caikuai [2003] 10 is credited to "capital surplus °V 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, provision for impairment loss on the long term investment is recognised for the difference.

Fixed assets and depreciation

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

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

Fixed assets and depreciation *(Continued)*

Category of fixed assets	Residual value	Useful life	Annual depreciation rate
Land use rights	-	40 years	2.5%
Buildings	3%	20 to 50 years	1.94%-4.85%
Plant and machinery	3%	8 to 20 years	4.85%-12.13%
Transportation equipment and others	3%	6 to17 years	5.71%-16.17%
Leasehold improvement	-		Over the useful life

Any subsequent expenditure in relation to a fixed asset is added to the carrying amount of the fixed asset when it is probable that an inflow of economic benefits arising therefrom is in excess of the originally estimated amount, subject to the recoverable amount of the fixed asset.

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.

Construction in progress

Construction in progress is 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. At the end of each period, the Company determines whether an impairment loss should be recognised for construction in progress by considering the indications that such a loss may have occurred. Where the recoverable amount of any construction in progress is lower than its carrying amount, an impairment loss on construction in progress is recognised for the difference.

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.

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

Intangible assets *(Continued)*

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.

Provisions

The obligation related to a contingency is recognised as a liability when it meets the following conditions: (1) the obligation is a present obligation of the Company; (2) it is probable that an outflow of economic benefits from the Company will be required to settle the obligation; and (3) a reliable estimate can be made of the amount of the obligation.

Where some or all of the expenditure required to settle a liability that meets the above recognition criteria is expected to be reimbursed by a third party or other parties, the reimbursement is separately recognised as an asset when, and only when, it is virtually certain that the reimbursement will be received. The amount recognised for the reimbursement is limited to the carrying amount of the liability recognised.

Borrowing costs

Borrowing costs comprise interest incurred on borrowings, amortisation of discounts or premiums, ancillary costs incurred in connection with the arrangement of borrowings, and exchange differences arising from foreign currency borrowings. Borrowing costs incurred on a specific borrowing for the acquisition or construction of a fixed asset, are capitalised as the cost of the fixed asset to the extent that they are incurred before the fixed asset has reached the working condition for its intended use and limited to the amount calculated by applying the capitalization rate to the weighted average amount of accumulated expenditure for the fixed asset. Other borrowing costs are recognised as expenses and included as finance costs in the period in which they are incurred.

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

Specific accounts payable

Specific accounts payable are 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.

Leased assets

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

Lease payments under operating leases are recognized as an expense in the income statement on a straight-line basis over the lease term.

Lease income from operating leases is recognized as income using the straight-line method over the lease term.

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

Income tax

Income tax is provided under the tax payable method. The income tax provision is calculated based on the accounting profit for the year as adjusted in accordance with the relevant tax laws.

Basis of preparation for consolidation

(1) Scope of consolidation

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

(2) Accounting for consolidation

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

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

All significant intercompany transactions and balances between group enterprises are eliminated on consolidation.

Translation of foreign currency financial statements

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

The assets and liabilities are translated at the exchange rate prevailing on 31st December, 2005. Except for unappropriated profits, owners' equity items are reported at the market exchange rates at the dates of the transactions. Income statement items and profit appropriations in the year are translated at the average market exchange rates for the year. The unappropriated profits brought forward are reported at the prior year's closing balance. The unappropriated profits carried forward are calculated, based on the translated amounts of net income and other profit appropriation items. All exchange differences resulting from the translation are recognised as "translation reserve" in the balance sheet.

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

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

3. TAXATION

Value added tax

Value added tax ("VAT") on sales is calculated at 17% on revenue from principal operations and paid after deducting input VAT on purchases.

Income tax

The enterprise income tax rate applicable to the Company and certain subsidiaries including Kingdom Hotel Shenyang Co., Ltd ("Kingdom Hotel"), Jinzhou Power Capacitors Ltd. ("Jinzhou Power"), Suntime Storage & Logistics Co., Ltd. ("Suntime Storage"), Shenyang Chentai Energy Co., Ltd. ("Chengtai Energy") and Fuxin Enclosed Busbars Limted ("Fuxin Enclosed") is 33%.

The enterprise income tax rate applicable to the Company's subsidiary, New Northeast Electric (Shenyang) High-Voltage Isolator (formerly"Suntime High-Voltage Electric Co., Ltd" and hereinafter referred to "High-Voltage Isolator") which is an industrial foreign invested enterprise located in Liaoning Economic Development Zone, is 27%, pursuant to Povisional Regulations of the Ministry of Finance Concerning the Reduction and Exemption from Enterprise Income Tax and Consolidated Industrial and Commercial Tax (filed as Caishui [1988] No.91). Further pursuant to Income Tax Law of the People's Republic of China for Enterprises with Foreign Investment and Foreign Enterprises and approval by Shenyang State Tax Bureau, High-Voltage Isolator is entitled to tax exemption for two years ended 31st December 2005 and 50% reduction for the succeeding three fiscal years. In addition, High-Voltage Isolator is entitled to exemption of local income tax for the periods from 2004 up to 2008 and 50% reduction for the fiscal years from 2009 to 2011.

The enterprise income tax rate applicable to the Company's subsidiary, New Northeast Electric (Jinzhou) Power Capacitors Co., Ltd. ("New Jinzhou Power") which is an industrial foreign invested enterprise located in Liaoning Economic Development Zone, is 27%, pursuant to Povisional Regulations of the Ministry of Finance Concerning the Reduction and Exemption from Enterprise Income Tax and Consolidated Industrial and Commercial Tax (filed as Caishui [1988] No.91). Further pursuant to Income Tax Law of the People's Republic of China for Enterprises with Foreign Investment and Foreign Enterprises, the New Jinzhou Power is entitled to certain tax exemption or 50% reduction of income tax. The New Jinzhou Power has entered into its profitable year and has filed application with responsible tax authorities for tax exemtption or reduction of enterprise income tax and local income tax. No enterprise income tax has been provided for the year ended 31st December 2005. Up to the approval and issuance of the financial statement, the New Jinzhou Power has not yet obtained reply from responsible tax authorities.

The enterprise income tax rate applicable to the Company's subsidiary, Shenyang Gaodongjia Equipment Company Limited ("Gaodongjia") which is an industrial foreign invested enterprise located in Liaoning Economic Development Zone, is 27%, pursuant to Povisional Regulations of the Ministry of Finance Concerning the Reduction and Exemption from Enterprise Income Tax and Consolidated Industrial and Commercial Tax (filed as Caishui [1988] No.91).

Northeast Electric (Hongkong) Company Limited is the subsidiary solely established by the Company in the HKSAR and applicable to the Hongkong profit tax rate of 17.5%.

Great Talent Technology Limited ("Great Talent") is the subsidiary solely established by Northeast Electric (Hongkong) Company Limited in British Virgin Islands subject to enterprise income tax of zero.

3. TAXATION *(Continued)*

Other tax

Business tax is calculated at 5 - 20% of assessable income.

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

Educational surcharge is calculated at 4% of value added tax and business tax.

4. SCOPE OF CONSOLIDATION, SUBSIDIARES AND ASSOCIATES

All of the subsidiaries owned by the Company as at 31st December, 2005 are as follows:

Name of subsidiary	Place of registration	Equity directly held by the Company and/or its subsidiaries	Principal business activities	Type of enterprises	Legal representative	Consolidated or not in 2005	Consolidated or not in 2004
Jinzhou Power	Jinzhou	(Note1)	Manufacture of power capacitors	Limited company	Cai Qi	(Note 1)	Yes
Kingdom Hotel	Shenyang	100% (Note2)	Provision of hotel and catering services	Wholly-foreign owned enterprise	Huang Chuan	Yes	Yes
Jinzhou Jinrong Electrical Equipment	Jinzhou	69.75%	Manufacture of high-voltage capacitors	Limited company	Li Hongliang	Yes	Yes
High-Voltage Isolator	Shenyang	74.4%	Manufacture of switches and isolators	Sino-foreign joint venture	Shi Li	Yes	Yes
Suntime Logistics	Shenyang	95%	Provision of storage and logistics services	Limited company	Lin Zhiwu	Yes	Yes
Chengtai Energy	Shenyang	95%	Provision of wind, water, electricity and steam power	Limited company	Jiang Hai	Yes	Yes
Fuxin Enclosed	Fuxin	100%	Manufacture of enclosed busbars	Wholly-foreign owned enterprise	Liu Tongmiao	Yes	Yes
Gaodongjia	Shenyang	70% (Note3)	Manufacture of dryer equipment	Sino-foreign joint venture	Zhang Debeng	Yes	No
New Jinzhou Power	Jinzhou	52%	Manufacture of power capacitors	Wholly-foreign owned enterprise	Li Hongliang	Yes	Yes
Northeast Electric (Hong Kong) Company Limited	Hongkong	100%	Investments	Limited company	Huangchuan	Yes	Yes
Great Talent	British Virgin Islands	100%	Investments	Limited company	Liangbin	Yes	Yes

Note1: The subsidiary of the Company, Jinzhou Power, was disposed on 15th April, 2005 ("date of disposal") and accordingly was not included in the consolidated balance sheet as of 31st December 2005, except that the profit of Jinzhou Power has been included in the consolidated income statement for the year then ended. Details about disposal of Jinzhou Power are disclosed in note 45.

Note 2: The Company acquired the 10% equity in Kingdom Hotel held by High-Voltage Isolator through its wholly-owned subsidiary at the consideration of debts receivable amounting to RMB22 million in September 2005. Accordingly, the percentage of equity held in Kingdom Hotel by the Company has been increased from 90% to 100% and Kingdom Hotel becomes the wholly-owned subsidiary.

4. SCOPE OF CONSOLIDATION, SUBSIDIARES AND ASSOCIATES - CONTINUED

Note 3: Gaodongjia is the subsidiary acquired and included in the scope of the consolidation for the current year and the profit and cash flows thereof after the date of acquisition have been included in the consolidated income statement and cash flow statement respectively for the year. Financial position of Gaodongjia at the date of acquisition and the profit for the period from the date of acquisition up to 31st December 2005 are stated in note 46.

Note: Notes 5-47 and 49-56 represent notes to the consolidated financial statements and note 48 represents the notes to financial statements of the Company.

5. CASH AND BANK BALANCES

	31st December, 2005			31st December, 2004		
	Foreign currency	**Exchange rate**	**RMB**	Foreign currency	Exchange rate	RMB
Cash						
RMB			**181,104.80**			245,203.51
USD	**1,162.34**	**8.2918**	**9,637.87**	—	—	—
Bank balance						
RMB			**64,631,433.67**			49,455,278.87
HKD	**41,693,150.45**	**1.0409**	**43,396,475.12**	6,651,943.05	1.0637	7,075,671.83
Other cash deposits						
RMB			**4,230,000.00**			4,907,039.58
Total cash and bank balances			**112,448,651.46**			61,683,193.79
Less: Deposits			**4,230,000.00**			—
Total cash and cash equivalents			**108,218,651.46**			61,683,193.79

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

6. BILLS RECEIVABLE

Type	**31st December, 2005** *RMB*	31st December, 2004 *RMB*
Bank acceptance	**13,400,000.00**	—

Particulars of the bank acceptance discounted for the year are as follows:

Issuer	**Issuing date**	**Maturity**	**Amount** *RMB*
Jinzhou Power	7th December, 2005	7th June, 2006	11,400,000.00

7. DIVIDEND RECEIVABLE

Name	**31st December, 2005** *RMB*	31st December, 2004 *RMB*
Great Power	**2,165,010.00**	—

8. ACCOUNTS RECEIVABLE

The aging analysis of accounts receivable is as follows:

	31st December, 2005				31st December, 2004			
	Amount *RMB*	**Percentage** *(%)*	**Bad debt provision** *RMB*	**Net book value** *RMB*	Amount *RMB*	Percentage *(%)*	Bad debt provision *RMB*	Net book value *RMB*
Within 1 year	**187,631,166.48**	**69**	**(266,885.69)**	**187,364,280.79**	110,276,305.40	56	(64,800.00)	110,211,505.40
1 to 2 years	**29,650,474.47**	**10**	**—**	**29,650,474.47**	34,515,590.64	17	(1,130,188.85)	33,385,401.79
2 to 3 years	**21,401,178.00**	**8**	**(8,665,996.86)**	**12,735,181.14**	11,958,575.99	6	(5,175,413.75)	6,783,162.24
3 to 4 years	**9,869,591.43**	**4**	**(5,921,754.85)**	**3,947,836.58**	11,653,741.83	6	(8,515,675.22)	3,138,066.61
Over 4 years	**24,186,132.08**	**9**	**(24,186,132.08)**	**—**	29,182,021.71	15	(29,182,021.71)	—
Total	**272,738,542.46**	**100**	**(39,040,769.48)**	**233,697,772.98**	197,586,235.57	100	(44,068,099.53)	153,518,136.04

8. ACCOUNTS RECEIVABLE *(Continued)*

The five largest accounts receivable are as follows:

Total of the five largest outstanding accounts receivable	Percentage of total balance of accounts receivable
RMB	*%*
115,855,083.08	43

There are no accounts receivable from shareholders that hold 5% (including 5%) of the shares of the Company.

Agreement on Domestic Commercial Bills Discount was signed between the subsidiary of the Company, Fuxin Enclosed, and the Bank of China Fuxin Branch ("BOC Fuxin Branch") on 13th September, 2005. Pursuant to the Agreement, Fuxin is eligible to transfer its accounts receivable acknowledged by BOC Fuxin Branch to BOC Fuxin Branch that will make payment to Fuxin Enclosed after deduction of discount rate subject to the credit line of RMB2 million. In case accounts have not been received till the maturity date, BOC Fuxin Branch may take recourse. The annum discount rate stipulated in the Agreement is 5.22% and credit line shall be effective within 1 year after sign-off the Agreement.

Details of the accounts receivable transferred by Fuxin Enclosed pursuant to the Agreement are as follows:

	Amount	Bad debts provision	Aging	Discounted
	RMB	*RMB*		*RMB*
Accounts receivable from Yunnan Diandong Energy Co., Ltd.	2,000,000.00	—	1 month	1,970,243.35

BOC Fuxin Branch has received the named accounts for the period and accordingly there are no pledged bank loans at the end of the year.

9. OTHER RECEIVABLES

The aging analysis of other receivables is as follows:

	31st December, 2005				31st December, 2004			
	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	**16,554,235.44**	**16**	**(1,936,032.93)**	**14,618,202.51**	229,271,529.61	69	(126,221.81)	229,145,307.80
1 to 2 years	**6,735,771.55**	**7**	**(595,797.17)**	**6,139,974.38**	710,434.86	—	(209,913.08)	500,521.78
2 to 3 years	**194,056.84**	**—**	**(53,811.25)**	**140,245.59**	100,024,646.37	30	(602,833.92)	99,421,812.45
3 to 4 years	**76,368,179.43**	**76**	**(203,114.76)**	**76,165,064.67**	408,222.12	—	(59,974.33)	348,247.79
Over 4 years	**1,453,250.54**	**1**	**(1,286,150.54)**	**167,100.00**	3,351,139.68	1	(2,792,968.57)	558,171.11
Total	**101,305,493.80**	**100**	**(4,074,906.65)**	**97,230,587.15**	333,765,972.64	100	(3,791,911.71)	329,974,060.93

The debts receivable from Benxi Iron & Steel (Group) Limited ("Bengang Group") with an aggregate face value amount of RMB76,090,000 was included in the other receivables as at 31st December, 2005. The debts receivable, pursuant to the approval of Finance Bureau of Liaoning Province, was assigned to the Group to offset partial deposits of RMB74,424,671.45 originally placed in Liaoning Trust and Investment Company ("Liaoning Trust"). On 16th December, 2005, Shenyang Higher People's Court ruled that the Company has legally obtained the right to the debts of RMB15,900,000 and Bengang Group is liable to repay the principal and the accrued interest thereon to the Company (filed as Liao Min Er Zhong Zi [2005] No. 220). During the year ended 31st December 2005, the Company has taken legal actions to enforce the Group's rights for the repayment of the debts from Bengang Group. On 10th March, 2006, Notice of Execution was issued by Shenyang Higher People's Court and delivered to Bengang Group for the outstanding debts of RMB15,900,000. Further on 30th March, 2006, Shenyang Intermediate People's Court ruled that the Company has also legally obtained the right to the remaining debts of RMB60,190,000 and Bengang Group is liable to repay the principal and accrued interest thereon to the Company (filed as Shen Zhong Min Si He Chu Zi [2005] No.21, 22 and 23). Beginning of April 2006, Benggang Group submitted the intention letter to Shenyang Intermediate People's Court for settlement negotiation. The Company is currently in negotiation with Bengang Group as to the settlement of these debts and the accrued interest thereon. The directors are of the opinion that the amount due from Benggang Group will be recovered in full on completion of the negotiation with Benggang Group, taking into account its financial position and the Company's right to seize equivalent amount of assets pursuant to the Notice of Execution issued by the court. Therefore, no provision has been made on the accounts receivable.

9. OTHER RECEIVABLES *(Continued)*

The five largest other receivables are as follows:

Total of the five largest outstanding other receivables	Percentage of total balance of other receivables
RMB	*%*
90,182,218.76	89

There are no other receivables from shareholders who hold 5% (including 5%) of the shares of the Company.

10. BAD DEBTS PROVISION

	Opening	Provisions for the year	Increase	Reversal	Decrease	Closing
	RMB	RMB	RMB	RMB	RMB	RMB
Bad debts provision						
Accounts receivable	39,040,769.48	5,541,070.62	14,917,267.79	—	(32,177,923.91)	27,321,183.98
Other receivables	3,791,911.71	401,638.60	2,009,765.62	(164,048.35)	(1,964,360.93)	4,074,906.65
Total	42,832,681.19	5,942,709.22	16,927,033.41	(164,048.35)	(34,142,284.84)	31,396,090.63

In the current year, the increase of RMB16,927,033.41 is comprised of the following:

1) difference amounting to RMB10,948,180.42 of the carrying amount of accounts receivable by Shenyang High-Voltage in excess of the carrying amount of debts receivable by High-Voltage Isolator;

2) increase of RMB4,313,524.44 due to acquisition of the subsidiary;

3) an excess of RMB1,665,328.55 of accounts receivable from Benggang Group by Liaoning Trust over the repayment to the Company, refer to note 9.

The decrease for the year represents the transfer-out of opening bad debts provision of Jinzhou Power due to its disposal.

11. PREPAYMENTS

The aging analysis of prepayments is as follows:

	31st December, 2005		31st December, 2004	
	RMB	**%**	*RMB*	%
Within 1 year	**80,747,978.55**	**100**	26,608,611.16	99
1 to 2 years	**—**	**—**	235,837.65	1
	80,747,978.55	**100**	26,844,448.81	100

There are no prepayments of shareholders who hold 5% (including 5%) of the shares of the Company.

12. INVENTORIES

	31st December, 2005			31st December, 2004		
	Amount	**Provision for decline in value**	**Net book value**	Amount	Provision for decline in value	Net book value
	RMB	***RMB***	***RMB***	*RMB*	*RMB*	*RMB*
Low value consumables	473,936.10	—	473,936.10	454,591.27	—	454,591.27
Raw materials	31,232,314.98	(841,861.31)	30,390,453.67	21,697,076.32	(1,700,071.76)	19,997,004.56
Work in progress	14,180,497.16	(124,245.33)	14,056,251.83	11,687,945.32	(2,113,242.07)	9,574,703.25
Finished goods	40,641,056.93	(47,964.69)	40,593,092.24	40,273,233.18	(9,063,980.60)	31,209,252.58
	86,527,805.17	(1,014,071.33)	85,513,733.84	74,112,846.09	(12,877,294.43)	61,235,551.66

None of the above inventories have been pledged.

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

	1st January, 2005	**Decrease**	**31st December, 2005**
	RMB	*RMB*	*RMB*
Provision for decline in value			
Raw materials	1,700,071.76	(858,210.45)	841,861.31
Work in progress	2,113,242.07	(1,988,996.74)	124,245.33
Finished products	9,063,980.60	(9,016,015.91)	47,964.69
Total	12,877,294.43	(11,863,223.10)	1,014,071.33

The decrease for the current year represents transfer-out of the opening provision of Jinzhou Power due to its disposal.

13. DEFERRED EXPENSES

Category	**2005 31st December, RMB**	2004 31st December, RMB	**Reason for carry-forward**
Prepaid heating fee	**243,510.01**	605,880.33	Within beneficial period
Prepaid insurance	**321,922.34**	321,572.80	Within beneficial period
Input VAT	**2,216,683.76**	—	VAT invoices not confirmed by tax bureau
Others	**39,716.60**	77,632.04	Within beneficial period
	2,821,832.71	1,005,085.17	

14. LONG-TERM EQUITY INVESTMENTS

	31st December, 2005 RMB	31st December, 2004 RMB
Investments in associates (note 14(2))	**76,852,880.00**	71,642,248.30
Other equity investments (note 14(3))	**36,595,224.82**	11,277,000.00
Difference (note 14(4))	**(1,428,447.94)**	(1,632,511.93)
Total	**112,019,656.88**	81,286,736.37
Less: Impairment loss on long-term equity investments	**—**	(267,000.00)
Long-term equity investments - net	**112,019,656.88**	81,019,736.37

Movements of provision for impairment on long-term equity investment are as below:

	RMB
31st December, 2004	267,000.00
Decrease	(267,000.00)
31st December, 2005	—

The decrease for the year represents transfer-out of the opening provision for impairment on long-term equity investments of Jinzhou Power due to its disposal.

14. LONG-TERM EQUITY INVESTMENTS *(Continued)*

(1) Details of long-term security investment are as follows:

Name of securities	Nature of shares	Number Shares	% of regisgered capital of the investee %	Amount RMB	Provision for impairment RMB	Net book value -closing RMB	Initial investment RMB
Jinhua Chlor-Alkali Stock Co., Ltd. ("Jinhua Chlor- shares alkali")	Non-listing legal person	12,124,346	3.57	24,808,224.82	-	24,808,224.82	24,808,224.82

Pursuant to the approval by responsible authorities of Liaoning Province, Liaoning Trust repaid the Company partial deposits of RMB2.481 million originally placed with Liaoning Trust with debts of RMB25 million receivable from Jinhua Chemical Corporation Co., Ltd. ("Jinhua Corporation") in June 2005. In September 2005, the Company transferred the debts receivable from Jinhua Corporation to its subsidiary, Fuxin Enclosed, which then filed an application with Shenyang Intermediate People's Court for repayment through auction of state-owned shares held by Jinhua Corporation. Shenyang Intemediate People's Court issued ruling on 12th December 2005 (Shen Fa Zhi Zi [2003] No. 230-2), pursuant to which 3.57% equity in Jinhua Chlor-Alkali held by Jinhua Corporation shall be transferred to the Company's subsidiary, Fuxin Enclosed, to set off the debts of RMB25 million due to Fuxin Enclosed.

Jinhua Chlor-Alkali announced a share reform scheme on 15th February, 2006 to convert all non-circulating A shares into circulating A shares by allocating 3.1 non-circulating A shares to holders of circulating A shares for every 10 circulating A shares held.

14. LONG-TERM EQUITY INVESTMENTS *(Continued)*

(2) Investments in associate:

Name of investee	Initial investment	Disposals	increase / decerase in equity	Cash dividend	Cumulative Increase / decrease	Net book value at the end of the year	% of the registered capital of investee
	RMB	*RMB*	*RMB*	*RMB*	*RMB*	*RMB*	*%*
Northeast Electrical Hitachi Transmission and Transformation Machinery Co., Ltd	4,068,352.40	(4,202,968.00)	(116,546.78)	—	134,615.60	—	—
Great Power	67,322,731.52	—	18,939,148.48	9,409,000.00	9,530,148.48	76,852,880.00	20.80
	71,391,083.92	(4,202,968.00)	18,822,601.70	9,409,000.00	9,664,764.08	76,852,880.00	

(3) Other equity investments:

Name of investee	Period	% of the registered capital of investee	Investment	Provision for impairment	Net book value at the end of the year
		%	*RMB*	*RMB*	*RMB*
Jinhua Chlor-Alkali	Long-term	3.57	24,808,224.82	—	24,808,224.82
Jinzhou Commercial Bank	Long-term	4.35	11,787,000.00	—	11,787,000.00
			36,595,224.82	—	36,595,224.82

(4) Difference

Name of investee	Initial investment	Period of amortization	Opening	Charge for the year	Closing	Reason
	RMB		*RMB*	*RMB*	*RMB*	
Jinzhou Power Capacitors	(2,040,639.91)	10 years	(1,632,511.93)	204,063.99	(1,428,447.94)	Equity acquisition

15. FIXED ASSETS, ACCUMULATED DEPRECIATION AND IMPAIRMENT

	Land use rights *RMB*	Buildings *RMB*	Plant and machinery *RMB*	Transportation equipment and others *RMB*	Leasehold improvements *RMB*	Total *RMB*
Cost						
1st January, 2005	47,454,200.00	545,335,424.16	163,479,026.12	17,813,497.86	1,902,192.60	775,984,340.74
Additions due to acquisition of subsidiaries	—	—	4,695,724.42	407,946.61	—	5,103,671.03
Reversals	—	(32,128,326.81)	(48,486,327.73)	(2,761,119.29)	—	(83,375,773.83)
Additions	—	16,122,383.41	6,479,948.94	4,502,693.86	376,000.00	27,481,026.21
Transfer— in from construction in progress	—	91,844.12	36,675.39	—	—	128,519.51
Return due to disposal of associate	—	506,635.00	—	—	—	506,635.00
Disposals	—	(546,220.00)	(16,515.00)	(1,165,910.13)	—	(1,728,645.13)
31st December, 2005	47,454,200.00	529,381,739.88	126,188,532.14	18,797,108.91	2,278,192.60	724,099,773.53
Accumulated depreciation						
1st January, 2005	4,254,658.38	53,301,254.82	78,640,990.74	4,535,648.02	1,135,590.34	141,868,142.30
Additions due to acquisition of subsidiary	—	—	4,172,283.50	367,151.95	—	4,539,435.45
Reversals	—	(9,214,408.86)	(28,851,371.17)	(742,883.59)	—	(38,808,663.62)
Charge for the year	1,081,974.10	10,932,796.62	6,014,971.82	1,821,809.82	271,602.26	20,123,154.62
Disposals	—	(1,589.35)	(10,459.16)	(258,309.46)	—	(270,357.97)
31st December, 2005	5,336,632.48	55,018,053.23	59,966,415.73	5,723,416.74	1,407,192.60	127,451,710.78
Provision for impairment						
1st January, 2005	—	80,741,767.53	6,657,036.37	229,620.14	—	87,628,424.04
Reversals	—	(91,095.43)	(408,129.29)	(8,699.00)	—	(507,923.72)
31st December, 2005	—	80,650,672.10	6,248,907.08	220,921.14	—	87,120,500.32
Net book value						
1st January, 2005	43,199,541.62	411,292,401.81	78,180,999.01	13,048,229.70	766,602.26	546,487,774.40
31st December, 2005	42,117,567.52	393,713,014.55	59,973,209.33	12,852,771.03	871,000.00	509,527,562.43
Including: Pledged assets at the year end— Net	—	6,290,054.40	—	—	—	6,290,054.40

15. FIXED ASSETS, ACCUMULATED DEPRECIATION AND IMPAIRMENT *(Continued)*

The pledged buildings are for the purpose of obtaining bank borrowing by the subsidiary of the Company as disclosed in note 18.

At the end of the year, certain land use rights of the Company with the net book value of RMB14,539,606.26 have been frozen due to the involvement in litigation, see note 52(3). Up till the report, the above-mentioned land use rights have not been defrozen.

The reversals for the year represent the transfer-out of beginning fixed assets, related depreciation and provsion for impairment in respect of Jinzhou Power due to its disposal.

16. CONSTRUCT IN PROGRESS

Name of Project	1st January, 2005	Increase	Completed and transferred to fixed assets	Decrease	31st December, 2005	Source of fund	Budget	Percentage of completion
	RMB	*RMB*	*RMB*	*RMB*	*RMB*		*RMB*	
High— voltage transmission and transformation project	2,166,922.19	—	—	(2,166,922.19)	—	Self— raising	18,000,000.00	—
Homemade direct/alternate current filter— capacitor project	1,810,659.77	—	—	(1,810,659.77)	—	Self— raising	72,500,000.00	—
Positive/negative 500 project	—	282,949.60	—	—	282,949.60	Self— raising	300,000.00	94.32
House remedy	—	91,844.12	(91,844.12)	—	—	Self— raising	74,000.00	124.11
Mutual inductance upgrade	—	15,175.39	(15,175.39)	—	—	Self— raising	15,000.00	101.17
Decontamination room upgrade	—	21,500.00	(21,500.00)	—	—	Self— raising	20,000.00	107.50
Air compression station	—	6,627.00	—	—	6,627.00	Self— raising	7,000.00	94.67
Power technology improvement	—	20,750.00	—	—	20,750.00	Self— raising	25,000.00	83.00
Less: Provision	(52,090.04)	—	—	52,090.04	—			
	3,925,491.92	438,846.11	(128,519.51)	(3,925,491.92)	310,326.60			

The decrease for the current year represents the transfer-out of the opening construction in progress of Jinzhou Capacitor due to its disposal.

17. INTANGIBLE ASSETS

	Land use rights *RMB*	Franchise *RMB*	Software *RMB*	Total *RMB*
Method of acquisition:	Payment	Invention	Purchasing	
Cost				
1st January, 2005	12,358,831.72	500,000.00	26,000.00	12,884,831.72
Decrease	(5,584,330.40)	—	—	(5,584,330.40)
Increase	—	—	105,000.00	105,000.00
31st December, 2005	6,774,501.32	500,000.00	131,000.00	7,405,501.32
Accumulated amortization				
1st January, 2005	2,345,415.90	230,000.00	26,000.00	2,601,415.90
Decrease	(1,126,004.99)	—	—	(1,126,004.99)
Charge for the year	135,490.08	45,000.00	2,916.71	183,406.79
31st December, 2005	1,354,900.99	275,000.00	28,916.71	1,658,817.70
Net book value				
1st January, 2005	10,013,415.82	270,000.00	—	10,283,415.82
31st December, 2005	5,419,600.33	225,000.00	102,083.29	5,746,683.62
Including: Pledged assets at the end of the year	5,419,600.33	—	—	5,419,600.33
Remaining year of amortization	39	5	4	

The pledged land use rights are collateral for the purpose of obtaining bank borrowing as stated in note 18.

For the current year, the decrease represents the transfer-out of opening intangible assets and amortization of Jinzhou Power due to its disposal.

18. SHORT-TERM LOANS

		31st December, 2005 RMB	31st December, 2004 RMB
Bank		**84,810,000.00**	179,534,000.00
Including:			
Collateralized loans	(Note 1)	**11,400,000.00**	—
Pledged loans	(Note 2)	**9,800,000.00**	25,000,000.00
Guaranteed loans	(Note 3)	**63,610,000.00**	151,584,000.00
Credit loans		**—**	2,950,000.00
		84,810,000.00	179,534,000.00

Note 1: Collateralized loans represent the loans obtained with bank acceptance as collaterals, see note 6. The interest rate for collateralized loans is 3.56% per annum.

Note 2: Pledged loans represent the loans obtained with buildings and land use rights as pledge, see notes 15 & 17. The interest rate for pledged loans is 6.14% per annum.

Note 3: Northeast Transmission and Transformation Equipment Corporation has been the guarantor for the loans of RMB5,000,000 of the Company's subsidiary. The aggregate face value of guaranteed loans provided by the Company and inter-subsidiaries amounts to RMB58,610,000. The interest rate for guaranteed loans is ranging from 6.90% to 9.49% per annum.

The loans of RMB29 million of the Company's subsidiary, Kingdom Hotel, granted by Industrial and Commercial Bank of China Shenyang Branch Yinxin Sub-branch at an interest rate of 7.56% per annum, is overdue, of which RMB24 million is guaranteed by the Company that bears joint and several liability. Up till the financial statements, the loans are in default.

19. BILLS PAYABLE

	31st December, 2005 RMB	31st December, 2004 RMB
Bank acceptance	**3,000,000.00**	13,000,000.00

20. ACCOUNTS PAYABLE

There are no accounts payable to shareholders who hold 5% (including 5%) of the shares of the Company.

The balance of the accounts payble with aging over 3 years amounts to RMB1.99 million, mainly representing the warranty fund to be paid. Up till the financial statements, the amount has not been settled.

21. ADVANCES FROM CUSTOMERS

There are no advances from shareholders who hold 5% (including 5%) of the shares of the Company.

The balance of the advances from customers with aging over 1 year approximately amounts to RMB3.67 million, mainly representing the advances received based on sales contract. The sales realized by the Company after the report date is recorded as RMB2.45 million.

22. TAXES PAYABLE

	31st December, 2005	31st December, 2004
	RMB	*RMB*
Income tax	**405,540.13**	3,943,054.64
Value added tax	**9,178,642.61**	6,014,548.18
Business tax	**321,719.48**	18,985.13
City construction and maintenance tax	**52,916.58**	479,944.81
Individual income tax	**275,786.97**	(570,917.90)
Property tax	**4,560,589.99**	5,130,395.85
Others	**73,482.50**	245,389.10
	14,868,678.26	15,261,399.81

23. OTHER FEE PAYABLES

	31st December, 2005	31st December, 2004
	RMB	*RMB*
Educational surcharges	**33,931.63**	346,829.14
Energy fund	**—**	1,052,183.98
Budget adjustment fund	**—**	1,648,266.39
	33,931.63	3,047,279.51

24. OTHER PAYABLES

There are no other payables to shareholders who hold 5% (including 5%) of the shares of the Company.

The balance of the other payables with aging over 3 years approximately amounts to RMB31.04 million, mainly representing the accounts payable to former subsidiary before the date of disposal. Up till the financial statements, the other payables have not been settled.

25. ACCRUED EXPENSES

	2005 31st December, *RMB*	2004 31st December, *RMB*	**Reason for carry-forward**
Interest fee	**30,000.00**	30,000.00	Occurred but unpaid
Intermediary fee	**1,845,354.46**	1,705,984.56	Occurred but unpaid
Processing fee	**—**	1,036,773.71	
Land use fee	**—**	451,836.00	
Others	**1,000.00**	320,066.67	Occurred but unpaid
	1,876,354.46	3,544,660.94	

26. PROVISIONS

	31st December, 2005 ***RMB***	31st December, 2004 *RMB*
Provision for loss on guarantees *(note1)*	**54,711,289.00**	30,993,929.00
Pending litigations *(note 2)*	**—**	15,291,725.00
	54,711,289.00	46,285,654.00

Note 1: Northeast Electrical Transmission and Transformation Group Corporation Limited, the original controlling shareholder of the Company, and China Everbright Bank signed a loan agreement in respect of a loan for the sum of RMB30,000,000.00 and the Company acted as a guarantor and undertook joint guarantee liability. In 2001, China Everbright Bank instituted legal proceedings against the Company for repayment of the principal of the loan and overdue interest amounting to RMB26,402,000.00 and RMB4,591,929.00 respectively. On 19th April, 2002, the Beijing First Intermediate People's Court ruled that the Company be responsible for the repayment of the principal and corresponding overdue interest. On 15 August, 2002, the Company appealed to the Beijing Higher People's Court. On 13th May 2003, the Beijing Higher People's Court ruled in the verdict of final trial. The Company made the provision for guarantees of RMB30,993,929.00 based on the rule from court. Up to the the financial statements, China Everbright Bank has not demanded the repayment by the Company.

The Company acted as the guarantor for a loan amounting to RMB13,000,000.00 which was entered into by Jinzhou Power Capacitors, a subsidiary of the Company, and Bank of China Jinzhou Branch. In February 2005, Bank of China Jinzhou Branch lodged litigation with Jinzhou Intermediate People's Court requesting Jinzhou Power to repay the loan principal of RMB13,000,000.00 and interest accrued thereon and the Company to bear the joint and several liabilities. In May 2005, the Company received a verdit from Jinzhou Intemediate People's Court ruling that the Company shall bear the joint and several liabilities for the loan principal and interest accrued thereon. Accordingly, provision for loss on guarantee given to Jinzhou Power Capacitors of RMB14,464,500.00. Up till the financial statements, Bank of China Jinzhou Branch has not requested the repayment.

Shuangjia lodged litigation against Shenyang High-Voltage, the goods receiving party, in relation to the disputes on payment of goods. In July 2004, the Company, being a former shareholder of Shenyang High-Voltag, was included as additional joint defendants. On 18th October 2005, the Company received a verdict from the Shanxi Higher People's Court ruling that the Company shall bear the joint and several liabilities for the repayment. Accordingly, provision for loss of RMB9,252,860.00 has been made.

27. PROVISIONS

Note 2: GThe Company acted as a guarantor and undertook joint guarantee liability for RMB20,000,000.00 loan drawn down by Shenyang Cable Co., Limited from Bank of China Shenyang Branch. On June, 2003, Bank of China Shenyang Branch instituted legal proceedings against the Company and demanded the Company to bear joint repayment liability. On October, 2003, Shenyang Intermediate People's Court ruled that the Company be responsible for the repayment of the principal RMB20,000,000.00 and interest accrued thereon. On November, 2003, the Company appealed to the Liaoning Higher People's Court. On December, 2003, Liaoning Higher People's Court ruled that the reality ruled by Shenyang Intermediate People's Court is unclear, evidence insufficient and released Shenyang Intermediate People's Court's ruling and demanded Shenyang Intermediate People's Court to judge the case again. On 9th July, 2004, Shenyang Intermediate People's Court ruled the Company to repay Bank of China Shenyang Branch the principal of RMB11,030,147.13 and the interest thereon so as to release the joint guarantee liability of RMB8,969,852.87. On 28th July, 2004, the Company appealed to the Liaoning Higher People's Court. Up to the sign of the financial statements, Liaoning Higher People's Court does not made any finalised judgement. The Company provided RMB15,291,725.00 liability based on Shenyang Intermediate People's Court ruling. 30th December, 2005, the final verdit was issued by the Liaoning Higher People's Court ruling to free the Company from the guarantee liability for RMB20 million and reject the request of Bank of China Shenyang Branch. Accordingly, the provision of RMB15,291,725.00 was reversed in the current year.

28. LONG TERM LOANS

Lender	**31st December, 2005** *RMB*	31st December, 2004 *RMB*	**Loan expired**	**Annual interest rate** %	**Terms**
Industrial & Commercial Bank of China Jinzhou Branch	—	5,000,000.00	October 2005	7.25	Pledged loans
Industrial & Commercial Bank of China Jinzhou Branch	—	15,000,000.00	May 2005	5.58	Pledged loans
Industrial & Commercial Bank of China Jinzhou Branch	—	6,400,000.00	September 2005	6.59	Guaranteed loans
Bank of Communications Jinzhou Branch Operation Department	—	150,000.00		7.722	Credit loans
Industrial Bank of China Jinzhou Branch Cheng Nei Sub-branch	—	—		7.722	Guaranteed loans
Industrial Bank of China Jinzhou Branch Cheng Nei Sub-branch	—	7,000,000.00	September 2005	7.722	Pledged loans
Sub-total	—	33,550,000.00			
Less: Long-term loans due within 1 year	—	(33,550,000.00)			
Long-term loans due over 1 year	—	—			

29. SPECIFIC ACCOUNTS PAYABLE

	31st December, 2005	31st December, 2004
	RMB	*RMB*
Grants for technology improvement	**1,000,000.00**	16,166,647.73

Grants for technology improvement mainly represent the grants for development in relation to capacitors and enclosed busbars subsidized by the Finance Bureau of Liaoning Province and Jinzhou Finance Bureau, which have not been settled.

30. PAID-UP CAPITAL (SHARES)

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

		1st January, 2005 and 31st December, 2005
		(No. of shares)
Non-listing circulating shares		
Promoter shares		
– State-owned shres		266,520,000
– Domestic legal person shares		205,300,000
Non-listed circulating shares		471,820,000
Total listed circulating shares		
RMB ordinary shares	(1)	143,600,000
Overseas listing foreign shares	(2)	257,950,000
Total listed circulating shares		401,550,000
Total shares		873,370,000

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

The above shares have nominal value of RMB1 each.

1) Domestic RMB ordinary shares represent the shares listed on the Shenzhen stock Exchange.

2) Overseas listed foreign investment shares (“H shares”) represent the shares listed on the Stock Exchange of Hong Kong Limited.

3) All the domestic and ‘H’ shares rank pari passu in all respects.

31. CAPITAL RESERVE

2005

	1st January, 2005 *RMB*	**Increase** *RMB*	**Decrease** *RMB*	**31st December, 2005** *RMB*
Premium on capital	115,547,484.00	—	—	115,547,484.00
Equity investment difference	202,689,472.95	2,309,553.57 (Note)	—	204,999,026.52
Difference of related party transactions	5,783,699.46	—	—	5,783,699.46
Other capital reserve	645,742,828.68	50,000.00	—	645,792,828.68
	969,763,485.09	2,359,553.57	—	972,123,038.66

2004

	1st January, 2005 *RMB*	**Increase** *RMB*	**Decrease** *RMB*	**31st December, 2005** *RMB*
Premium on capital	115,547,484.00	—	—	115,547,484.00
Equity investment difference	2,316,785.02	202,682,990.68	(2,310,302.75)	202,689,472.95
Difference of related party transactions	3,910,200.00	1,873,499.46	—	5,783,699.46
Other capital reserve	643,432,525.93	2,310,302.75	—	645,742,828.68
	765,206,994.95	206,866,792.89	(2,310,302.75)	969,763,485.09

Note: The increase in equity investment difference for the year mainly represents the difference amounting to 1,977,731.56 of initial investment lower than share in owners' equity of investee, of which difference of RMB837,967.00 arising from acquisition of 70% equity in Gaodongjia held by Northeast Transmission & Transformation Corporation, difference of RMB1,139,764.56 arising from acquisition of 10% equity in Kingdom Hotel held by Shenyang High-Voltage and the remaining of RMB331,822.01 represents the share calculated by the Company based on the holding percentage due to increase in capital reserve of the subsidiary.

31. SURPLUS RESERVES

	Statutory surplus reserve fund	**Discretionary surplus reserve**	**Statutory Public welfare fund**	**Total**
	RMB	*RMB*	*RMB*	*RMB*
31st December, 2005 and 1st January, 2005	48,091,633.34	28,284,687.96	32,210,803.10	108,587,124.40

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 employees of the Company.

32. ACCUMULATED LOSSES

	2005	2004
	RMB	*RMB*
Accumulated losses at the beginning of the year	**(1,181,231,040.82)**	(1,183,469,350.36)
Add: Profit for the year	**23,625,686.63**	2,238,309.54
Accumulated losses at the end of the year	**(1,157,605,354.19)**	(1,181,231,040.82)

33. REVENUE

	2005	2004
	RMB	*RMB*
Ancillary products for transformers	**4,526,527.05**	669,290.80
High voltage switches	**211,726,452.41**	82,114,526.09
Power capacitors	**162,102,486.71**	184,602,197.06
Enclosed busbars	**90,182,911.42**	34,011,180.49
Hotel and catering service	**31,742,640.78**	30,556,995.04
Storage and logistics	**31,845,358.79**	8,486,134.95
Wind, water, electricity and steam service	**17,767,870.06**	6,498,038.57
	549,894,247.22	346,938,363.00

Total sales from the top 5 customers	**Share of total revenue**
RMB	*%*
295,070,918.83	54

34. SALES OF COST

	2005 *RMB*	2004 *RMB*
Ancillary products for transformers	**4,595,528.83**	743,905.61
High voltage switches	**180,580,324.28**	71,364,403.99
Power capacitors	**94,292,030.99**	116,159,777.92
Enclosed busbars	**67,119,146.31**	26,497,321.75
Hotel and catering service	**24,055,031.73**	23,960,931.36
Storage and logistics	**18,929,500.04**	6,111,691.50
Wind, water, electricity and steam service	**15,670,215.21**	4,777,548.97
	405,241,777.39	249,615,581.10

35. SALES TAXES AND SURCHARGES

Tax	2005 *RMB*	2004 *RMB*
City construction and maintenance tax	**487,353.92**	1,476,126.15
Educational surcharges	**269,405.30**	843,500.69
Business tax	**3,002,669.93**	2,281,214.45
	3,759,429.15	4,600,841.29

36. OTHER OPERATING PROFITS

	2005 *RMB*	2004 *RMB*
Sales of materials		
– Revenue	**18,448,917.02**	976,469.53
– Cost	**(15,169,465.69)**	(484,174.86)
	3,279,451.33	492,294.67
House leasing		
– Revenue	**2,008,708.40**	1,694,302.50
– Cost	**(309,257.50)**	(1,277,642.98)
	1,699,450.90	416,659.52
Others		
– Revenue	**4,025,518.62**	1,000,404.88
– Cost	**(3,878,073.76)**	(2,500.00)
	147,444.86	997,904.88
Total	**5,126,347.09**	1,906,859.07

37. FINANCE COSTS

	2005 *RMB*	2004 *RMB*
Interest fee	**4,578,994.62**	12,863,781.57
Less: Income income	**323,274.82**	3,099,636.41
Exchange losses (Deduct: income)	**(28,053.04)**	36,472.69
Others	**229,829.98**	127,597.59
	4,457,496.74	9,928,215.44

38. INVESTMENT INCOME

	2005 *RMB*	2004 *RMB*
Long-term investment income		
Income recognized under the equity method	**18,834,956.73**	14,963,692.88
Profit appropriation of investee under the cost method	**777,000.00**	1,010,000.00
Amortization of difference in long-term equity investments	**204,063.99**	204,063.99
Gain on disposal of long-term equity investments	**2,353,472.59**	—
	22,169,493.31	16,177,756.87

39. NON-OPERATING INCOME

Type	2005 *RMB*	2004 *RMB*
Gain on disposal of fixed assets	**9,281.09**	190,567.21
Income from sales of waste	**411,641.44**	101,506.67
Penalty income	**147,316.50**	4,768.30
Reversal of provision (see note 26(note 2))	**15,291,725.00**	—
Others	**145,988.60**	41,070.00
	16,005,952.63	337,912.18

40. NON-OPERATING EXPENDITURE

Type	2005 *RMB*	2004 *RMB*
Compensation arising from litigations (note 26)	**23,717,360.00**	15,291,725.00
Penalty expenditure	**188,115.71**	389,696.24
Net loss on disposal of fixed assets	**212,051.54**	831.64
Others	**69,208.17**	8,202.80
	24,186,735.42	15,690,455.68

41. INCOME TAX

	2005 *RMB*	2004 *RMB*
Income tax payable	**2,419,149.00**	8,175,999.36

42. NET PROFIT AFTER EXTRAORDINARY ITEMS

	2005 *RMB*	2004 *RMB*
Net profit	**23,625,686.63**	2,238,309.54
Add/less: Extraordinary items		
— Net gain on disposal of long-term equity investments	**(2,353,472.59)**	—
— Losses/gains on disposal of fixed assets	**202,770.45**	(189,735.57)
— Fund appropriation fund	**(192,852.26)**	(2,932,029.86)
— Other deductible non-operating income	**(15,996,671.54)**	(147,344.97)
— Other deductible non-operating expenses	**23,974,683.88**	15,689,624.04
— Reversals of provision		
Reversal of provision for bad debt	**(164,048.35)**	(2,891,927.39)
Reversal of provision for decline in inventories	**—**	(3,350,327.94)
Effects of extraordinary items on income tax	**—**	—
Net profit after extraordinary items	**29,096,096.22**	8,416,567.85

43. OTHER CASH RECEIPTS RELATING TO OPEATING ACTIVITIES

	2005 *RMB*	2004 *RMB*
Payment received for consigned goods	**6,892,242.57**	2,528,346.21
Others	**5,313,619.36**	26,000,000.00
	12,205,861.93	28,528,346.21

44. OTHER CASH PAYMENTS RELATING TO OPERATING ACTIVITIES

	2005	2004
	RMB	*RMB*
Administrative expenses	**2,503,674.86**	717,795.02
Traveling expenses	**6,084,566.05**	1,744,424.28
Power fee	**2,548,848.31**	730,746.09
Fuelling fee	**3,130,615.50**	897,536.74
Audit fee	**2,315,000.00**	2,756,000.00
Consignment charge	**3,000,000.00**	860,089.74
Contract and deduction	**3,562,674.85**	1,021,406.70
Transportation charge	**9,252,359.16**	2,652,619.72
Consultacy	**3,273,921.35**	1,798,711.79
Sales commission	**4,137,622.76**	1,186,242.29
Meeting expenses	**2,211,601.42**	634,058.56
Entertainment expenses	**5,412,439.10**	1,551,727.78
Rental payment	**3,194,516.73**	915,857.02
Bidding deposit	**4,544,461.36**	1,302,881.53
Draft deposit	**4,230,000.00**	—
Others	**8,246,458.49**	39,653,115.14
	67,648,759.94	58,423,212.40

45. DISPOSAL OF SUBSIDIARIES

The Company on 27th December, 2004, as approved by shareholders' resolution, entered into a sales and purchase agreement with a third party, Northeast Construction Work Company ("Northeast Construction"), pursuant to which the Company agreed to sell the 99.99% equity in Jinzhou Power Capacitors at a cash consideration of RMB54,000,000.00. The transaction was approved by the shareholders on 12th March 2005 and all the consideration has been received on 15th April, 2005 (date of dispoal) by the Company and the related industrial & commercial registry for change has been undertaken. Given Jinzhou Power Capacitors has been disposed and acquirer agrees that transaction price shall not be affected by profit of Jinzhou Power Capacitors for the period from 1st Janury up till the date of disposal, the classification in respect of profit for the period from 1st January, 2005 to the date of disposal and gain on disposal of equity would not affect the consolidated income statement for the year. Gain on disposal of the subsidiary is calculated based on the transaction price less the unaudited net assets at the date of disposal of Jinzhou Power Capacitorsm. Net cash inflows are recognized on the basis of consideration after deduction of opening cash and bank balances of Jinzhou Power Capacitors.

45. DISPOSAL OF SUBSIDIARIES *(Continued)*

Financial position of Jinzhou Power at the date of disposal and 31st December 2004 is as follows:

	Date of disposal *RMB* (Unaudited)	31st December, 2004 RMB
Current assets	**230,067,105.79**	222,105,936.59
Long-term assets	**9,833,592.10**	9,936,295.76
Fixed assets	**46,033,600.97**	47,984,678.41
Other assets	**4,458,325.41**	4,458,325.41
Total assets	**290,392,624.27**	284,485,236.17
Current liabilities	**223,281,228.99**	183,943,441.58
Long-term liabilities	**15,666,647.73**	49,216,647.73
Total liabilties	**238,947,876.72**	233,160,089.31
Net assets	**51,444,747.55**	51,325,146.86
Gain on disposal of Jinzhou Power	**2,555,252.45**	
Total	**54,000,000.00**	
Consideration from disposal		
Cash	**54,000,000.00**	
Net cash inflows from disposal of Jinzhou Power		
Cash consideration	**54,000,000.00**	
Less: Cash and bank balances of Jinzhou Power at 31st December, 2005	**6,472,071.68**	
	47,527,928.32	

45. DISPOSAL OF SUBSIDIARIES *(Continued)*

Profit for the period of 1st Janury, 2005 to the date of disposal and for the year ended 31st December, 2004

	1st January, 2005 to date of disposal	31st December, 2004
	RMB	*RMB*
	(Unaudited)	
Revenue	**9,025,567.07**	192,104,365.20
Profit from main operations	**1,050,239.48**	54,056,178.85
Total profit	**178,508.50**	8,445,607.66
Income tax	**58,907.81**	5,903,326.21
Net profit	**119,600.69**	2,542,281.45

46. ACQUISITION OF SUBSIDIARIES

On 9th March, 2005, the Company received a ruling served by Shenyang Intermediate People's Court of Liaoning Province that Northeast Transimission is ruled to transfer the 70% equity in Gaodongjia and 75% equity interest in Shenyang Northeast Equipment Complete Engineering Company Limited ("Shenyang Equipment") held by Shenyang High-Voltage, to the Company to set off debts due to the Company with principal of RMB8.31 million and interest accrued thereon, of which the Company has made full allowance in prior years. Gaodongjia has finished the related industrial & commercial registry for change on 24th August, 2005 (date of acquisition). The 75% equity in Shenyang Equipment was disposed of immediately at nil consideration. No gain or loss arised from the disposal of Shenyang Equipment.

46. ACQUISITION OF SUBSIDIARIES *(Continued)*

Financial position of Gaodongjia at the date of acquisition is as follows:

	Date of acquisiton *RMB*
Current assets	2,908,323.17
Fixed assets	564,235.58
Total assets	3,472,558.75
Current liabilities	2,275,463.04
Total liabilities	2,275,463.04
Minority interests	359,128.71
Share of net assets of the Company	837,967.00
Capital reserve - equity investment difference	837,967.00
Total	—
Received consideration:	
Due from Northeast Transmission and Transformation	—
Net cash inflows from acquisition of subsidiary	
Cash consideration	—
Cash and bank balances of the acquired subsidiary	113,732.48
	113,732.48

Operating results of Gaodongjia for the period from the date of acquisition up to 31st December, 2005 is as follows:

	From date of acquistion to 31st December, 2005 *RMB*
Revenue	5,268,275.78
Profit from main operations	735,751.88
Minority interests	141,521.13
Net profit	330,215.98

47. SEGMENT INFORMATION

	Manufacture of transmission Equipments and auxillary		Hotel, catering and other services		Elimination		Total	
	2005	2004	**2005**	2004	**2005**	2004	**2005**	2004
	RMB	*RMB*	***RMB***	*RMB*	***RMB***	*RMB*	***RMB***	*RMB*
Revenue	**468,538,377.59**	301,397,194.44	**83,434,097.63**	45,541,168.56	**(2,078,228.00)**	—	**549,894,247.22**	346,938,363.00
Total cost of sales	**(346,587,030.41)**	(214,765,409.27)	**(58,654,746.98)**	(34,850,171.83)	**—**	—	**(405,241,777.39)**	(249,615,581.10)
Sales taxes and surcharges	**(534,341.20)**	(2,461,582.35)	**(3,225,087.95)**	(2,139,258.94)	**—**	—	**(3,759,429.15)**	(4,600,841.29)
Other operating income	**4,986,287.06**	1,906,859.07	**140,060.03**	—	**—**	—	**5,126,347.09**	1,906,859.07
Total expenses	**(98,138,168.00)**	(71,799,602.60)	**(22,186,340.90)**	(11,912,754.41)	**2,078,228.00**	—	**(118,246,280.90)**	(83,712,357.01)
Total profit	**28,265,125.04**	14,277,459.29	**(492,018.17)**	(3,361,016.62)	**—**	—	**27,773,106.87**	10,916,442.67
Total assets	**715,603,827.08**	898,517,252.69	**550,642,023.49**	457,639,279.16	**—**	—	**1,266,245,850.57**	1,356,156,531.85
Total liabilities	**295,151,740.56**	401,709,721.06	**75,050,498.72**	78,112,562.82	**—**	—	**370,202,239.28**	479,822,283.88

48. NOTES TO THE FINANCIAL STATEMENTS OF THE COMPANY

(1) Accounts Receivable

The aging analysis of accounts receivable is as follows:

	31st December, 2005				31st December, 2004			
	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	**30,363,668.00**	**87**	**—**	**30,363,668.00**	21,787,341.20	99	—	21,787,341.20
1 to 2 years	**4,536,660.00**	**13**	**—**	**4,536,660.00**	182,060.00	1	—	182,060.00
Total	**34,900,328.00**	**100**	**—**	**34,900,328.00**	21,969,401.20	100	—	21,969,401.20

The five largest accounts receivables are as follows:

Total balance of the five largest accounts receivable	**% of the total accounts receivable**
RMB	*%*
33,607,148.00	96

There are no accounts receivable from shareholders who hold more than 5% (including 5%) of the shares of the Company.

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

(2) Other receivables

The aging analysis of other receivables is as follows:

	31st December, 2005				31st December, 2004			
	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	**255,632,455.81**	**76**	**(1,735,014.61)**	**253,897,441.20**	158,866,653.28	61	(91,542.77)	158,775,110.51
1 to 2 years	**6,232,622.49**	**2**	**(423,495.31)**	**5,809,127.18**	5,876.84	—	(5,876.84)	—
2 to 3 years	**5,876.84**	**—**	**(5,876.84)**	**—**	99,323,413.02	39	(90,517.76)	99,232,895.26
3 to 4 years	**76,180,517.76**	**22**	**(90,517.76)**	**76,090,000.00**	—	—	—	—
Total	**338,051,472.90**	**100**	**(2,254,904.52)**	**335,796,568.38**	258,195,943.14	100	(187,937.37)	258,008,005.77

At the end of the year, debts principal due from Bengang Group of RMB76,090,000.00 is included in the other receivables with aging of 3 to 4 years. See note 9.

The five largest other receivables are as follows:

Total balance of the five largest other receivables	**% of the total other receivables**
RMB	*%*
324,970,890.79	96

There are no other receivables from shareholders who hold more than 5% (including 5%) of the shares of the Company.

(3) Bad debts provision

	Opening	**Increase**	**Decrease**	**Closing**
	RMB	*RMB*	*RMB*	*RMB*
Bad debts provision				
Other receivables	187,937.37	401,638.60	1,665,328.55	2,254,904.52

Increase for the year is disclosed in note 10.

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

(4) Inventories

	31st December, 2005			1st, January, 2005		
	Cost	**Provision**	**Net book value**	Cost	Provision	Net book value
	RMB	***RMB***	***RMB***	*RMB*	*RMB*	*RMB*
Finished products	**13,039,316.24**	**—**	**13,039,316.24**	3,501,589.46	—	3,501,589.46

The inventories have not been pledged.

(5) Long term equity investments

i. Investments in subsidiaries and associates

		31st December, 2005 RMB	31st December, 2004 RMB
Investment in subsidiaries		**685,352,183.71**	712,455,717.25
Investment in associate		**—**	4,319,516.78
Other equity investmetns	(ii)	**11,787,000.00**	11,010,000.00
Total		**697,139,183.71**	727,785,234.03
Less: Impairment loss on long-term equity investments		—	—
Long-term equity investments - net		**697,139,183.71**	727,785,234.03

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

(5) Long term equity investments *(Continued)*

i. Particulars of the other equity investments are as follows:

Name of investee	Period of investment	% of registered capital of investee	Amount	Provision	Carrying amount at the end of the year
		%	*RMB*	*RMB*	*RMB*
Jinzhou Commercial Bank	Long-term	4.35	11,787,000.00	—	11,787,000.00

Particulars of the investment in associate are as follows:

Name of investee	Initial investment	Disposal	% of registered capital of investee	Increase/ decrease	Bonus distributed	Increase/ decrease accumulative	Carrying amount at the end of the year
	RMB	*RMB*	*%*	*RMB*	*RMB*	*RMB*	*RMB*
Shenyang Northeast Hitachi Transmission and transformation Equipment Co., Ltd.	4,068,352.40	(4,202,968.00)	49.00	(116,546.78)	—	134,615.60	—

Particulars of the investments in subsidiaries are as follows:

Item	Opening	Increase	Decrease	Closing
	RMB	*RMB*	*RMB*	*RMB*
Investment	812,938,201.70	34,017,116.65	(97,264,114.92)	749,691,203.43
Increase/ decrease in share of equity of subsidiaries	(100,482,484.45)	33,405,345.01	2,738,119.72	(64,339,019.72)
Total	712,455,717.25	67,422,461.66	(94,525,995.20)	685,352,183.71

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

(6) Capital reserve

2005

	Opening *RMB*	**Increase** *RMB*	**Decrease** *RMB*	**Closing** *RMB*
Premium on capital	115,547,484.00	—	—	115,547,484.00
Equity investment difference	357,584,521.65	2,432,016.68 (note)	—	360,016,538.33
Difference of related party transactions	5,783,699.46	—	—	5,783,699.46
Other capital reserve	645,742,828.68	50,000.00	—	645,792,828.68
	1,124,658,533.79	2,482,016.68	—	1,127,140,550.47

2004

	Opening *RMB*	**Increase** *RMB*	**Decrease** *RMB*	**Closing** *RMB*
Premium on capital	115,547,484.00	—	—	115,547,484.00
Equity invsetment difference	2,316,785.02	357,578,039.38	(2,310,302.75)	357,584,521.65
Difference of related party transaction	3,910,200.00	1,873,499.46	—	5,783,699.46
Other capital reserve	643,432,525.93	2,310,302.75	—	645,742,828.68
	765,206,994.95	361,761,841.59	(2,310,302.75)	1,124,658,533.79

Note: In current year, the increase of capital reserve - provision for equity investment was mainly due to the initial investment cost by the Company lower than the investee's equity portion of RMB2,100,194.67, included in the amount was RMB837,967.00 which arise from acquisition of 70% equity in Gaodongjia held by Northeast Transmission; RMB1,139,764.56 which arise from acquisition of 10% equity in Kingdom Hotel held by Shenyang High-voltage. The Company also recognised RMB122,463.11 provision for equity investment which arise from the transfer of subsidiaries and associates among the Group (eliminated on consolidation level). The remaining increased amount of RMB331,822.01 mainly represents the increased of capital reserve due to acquisition of subsidiaries based on the shareholding of the subsidiaries.

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

(7) Revenue and cost of sales

	2005 Revenue RMB	2005 Cost of sales RMB	2004 Revenue RMB	2004 Cost of sales RMB
High-voltatage switchgears	**125,012,220.34**	**115,590,038.06**	63,325,376.82	56,384,510.01

(8) Investment income

	2005 *RMB*	2004 *RMB*
Gains on long-term investments		
Income recognized under the equity method	**32,956,976.22**	18,545,586.30
Profit appropriation recognized under the cost method	**777,000.00**	1,010,000.00
Gains/losses on disposal of long-term equity investments	**2,245,545.24**	(15,774,123.02)
	35,979,521.46	3,781,463.28

49. RELATED PARTY RELATIONSHIP AND TRANSACTINS

(1) Except for subsidiaries listed under Note 4, details of the sole major shareholder are as follows:

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	Sole major shareholder	Limited company	Tian Li

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

Name of the related party	1st January, 2005 and 31st December, 2005 *RMB*
New Northeast Electric Investment Co., Ltd.	135,000,000.00

49. RELATED PARTY RELATIONSHIP AND TRANSACTINS *(Continued)*

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

Name of the related party	1st January, 2005 and 31st December, 2005 *RMB*	*%*
New Northeast Electric Investment Co., Ltd.	230,000,000.00	26. 34

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

Name of the related party	Relationship with the Company
Great Power Technology Limited	an associate
Shenyang High-voltage Switchgear Ltd	a subsidiary of associate

(5) During the year, the Company has entered into the following transactions with the subsidiaries:

(a) Sales and purchases

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

	Year ended 31st December, 2005 ***RMB***	Year ended 31st December, 2004 *RMB*
Sales to:		
Shenyang High-voltage Switchgear Ltd	**62,403,418.75**	21,100,566.43
Purchase from:		
Shenyang High-voltage Switchgear Ltd	**109,013,825.24**	46,739,388.10

The transaction price between the Company and the related parties is determined based on the contract or agreement and the price occurred is not in excess of 120% of the carrying amount of goods.

49. RELATED PARTY RELATIONSHIP AND TRANSACTINS *(Continued)*

(5) During the year, the Company has entered into the following transactions with the subsidiaries: *(Continued)*

(b) Others

	31st December, 2005 *RMB*	31st December, 2004 *RMB*
Interest income received from:		
New High-Voltage	**192,852.26**	2,932,029.86

The interest is recognized based on the non-trading debts attributable to the Company and at the interest rate of 6% per annum.

The interest is recognized based on the non-trading debts attributable to the Company and at the interest rate of 6% per annum.

	2005 *RMB*	2004 *RMB*
Rental income received from:		
New High-Voltage	**2,339,716.80**	1,473,285.00
Storage and transportation received from:		
New High-Voltage	**29,660,166.70**	7,992,404.95
Wind, water, power and steam related service New High-Voltage	**21,282,148.74**	6,498,038.57
Installation and processing income received from:		
New High-Voltage	**493,796.12**	—
Plating expenses		
New High-Voltage	**2,211,926.98**	—
Consignment commission		
New High-Voltage	**3,000,000.00**	—

More than 95% of revenue of the Company's subsidiaries, Suntime Storage and Chengtai Energy, arise from the transactions with New High-Voltage.

The service rendered by the Company to the related parties is recognized based on the calculation method stipulated in contract or agreement and the transaction price does not differ significantly from that with other related parties.

49. RELATED PARTY RELATIONSHIP AND TRANSACTINS *(Continued)*

(5) During the year, the Company has entered into the following transactions with the subsidiaries: *(Continued)*

(c) Amounts due to/from related parties

Types	Name of the related parties	31st December, 2005 RMB	31st December, 2004 RMB
Bills receivable	New High-Voltage	**2,000,000.00**	—
Dividend receivable	Great Power	**2,165,010.00**	—
Accounts receivable	New High-Voltage	**74,210,618.48**	26,441,576.52
Other receivables	New High-Voltage	**—**	46,203,038.43
Accounts payable	New High-Voltage	**5,317,763.57**	13,207,000.00
Other payables	New High-Voltage	**3,404,590.00**	2,645,481.00

Except for the fund appropriation fee in respect of the non-trading debts, the above amounts due to/from related parties are interest free, unsecured or unguaranteed with no fixed term of repayment.

(d) Remuneration of key management

	2005 RMB	2004 RMB
Remuneration of key management	**1,593,849.00**	264,000.00

50. CAPITAL COMMITMENTS

	31st December, 2005 *RMB*	31st December, 2004 *RMB*
Capital expenditure contracted for but not provided for		
In the financial statements in respect of:		
– Acquisition of property, plant and equipment	—	72,257,144.23

The amount at 31st December, 2004 represents the capital commitments of Jinzhou Power, subsidiary disposed by the Company.

51. LEASE COMMITMETNS

At the balance sheet, the Company has outstanding commitments, under non-cancellable operating leases, which fall due as follows:

	31st December, 2005 *RMB*	31st December, 2004 *RMB*
Minimum lease payments under non-cancellable operating leases		
Within 1 year	**2,575,471.50**	20,111.50
In the second year	**2,555,360.00**	—
In the third year	**2,555,360.00**	—
After three years	**3,992,413.33**	—
Total	**11,678,604.83**	20,111.50

52. CONTINGENCY

At the balance sheet date, the Company has the following contingencies:

(1) In 1998, Shenyang High-voltage and China Development Bank (the "Bank") signed a Loan Agreement and obtain loan from the Bank, the loan was guaranteed by other companies based on a 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. 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 does 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 has acted as guarantor for Shenyang High-Voltage in respect of a loan of RMB6.16 million.

52. CONTINGENCY *(Continued)*

(3) Shenyang High-Voltage entered into a borrowing contract with Bank of Communication Shenyang Branch ("Bank") in 2003, which is guaranteed by other companies with related guarantee contract signed with Bank. Further on 7th June, 2004 the debts transfer agreement was inked between the Bank and Xinda Assets Management Company ("Xinda"), pursuant to which Xinda has the legal rights of the debts due from Shenyang High-Voltage to Xinda. Xinda lodged litigation against the Shenyang High-Voltage with the Liaoning Higher People's Court in May 2005, for the repayment overdue loan principal and accrued interest thereon totaled RMB51,152,083.03 and requested the Company to undertake the joint and several liabilities for the discrepancy for Shenyang High-Voltage's investment and the outstanding make-up amount of the investment. In addition, certain land use rights of the Group was frozen accordingly. Liaoning Higher People's Court ruled that the plaintiff's claims against the Company were rejected. Up to the date of the report, the Company was not advised that Xinda has submitted appeal to the higher court. The directors of the Company are of the opinion that based on the court's ruling and lawyers' idea, the Company would not bear any liabilities for repayment and the litigation would not affect the financial position and profit for the year of the Company.

53. NON-ADJUSTED POST BALANCE SHEET EVENTS

(1) On 23th June, 2005, Tianli acquired 82.22% equity in the sole majoy shareholder, New Northeast Electric Investment Co., Ltd. through equity transfer. Pursuant to the approval issued by the State-owned Assets Supervision and Administrative Commission of Liaoning Province on 10th February, 2006, considering nature of privatization of New Northeast Electric Investment Co., Ltd. and Shenyang Suntime Equipments Co., Ltd., the state-owned shares of 2 billion shares and 36.52 million shares held respectively by the above two companies can be changed to domestic legal person shares. The two companies have compeleted the filing of change in shares's nature on 9th March, 2006.

(2) The Company announced the share reform scheme on 20th March, 2006 prescribing that 2.5 shares shall be allocated by non-circulating shareholders to all circulating shareholders for holding of 10 circulating shares. The share reform scheme has been submitted for approval by shareholders meeting on 26th April, 2006.

54. OTHER MATERIAL EVENTS

The former shareholder of the Company, NET, transferred the shareholding of Kingdom Hotel Shenyang to the Company as compensation for a debt due in 2000 and the name of Kingdom Hotel Shenyang was changed to Kingdom Hotel Limited Shenyang thereafter. The cost of building, owned by kingdom Hotel Limited Shenyang, is RMB362,160,000. At the date of approval of the financial statements, the property license from 1st floor to 14th floor had been changed. However, the property license and the corresponding land use right license in respect of the bowling alley, office, restaurant of 15th floor, 24th floor and 25th floor and staff quarters have not yet been transferred from the former Kingdom Hotel Shenyang.

55. COMPARATIVE FIGURES

Certain comparative figures have been restated to conform to current year's presentation.

56. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements for the year ended 31st December, 2005 of the Company and the Group have been approved and authorized for issue by the board of directors on 18th April, 2006.