

FINANCIAL STATEMENT (UNAUDITED)

PREPARED IN ACCORDANCE WITH THE PRC ACCOUNTING RULES AND REGULATIONS

Balance Sheet

30 June 2006

Unit: RMB

Assets	Group		Holding company	
	Opening	Closing	Opening	Closing
CURRENT ASSETS:				
Cash and bank balances	112,448,651.46	31,767,942.31	13,344,545.39	3,556,754.06
Short-term investments	0.00	0.00	0.00	0.00
Bills receivable	13,400,000.00	11,400,000.00	0.00	0.00
Dividend receivable	2,165,010.00	2,141,193.60	0.00	0.00
Accounts receivable	244,313,827.33	270,277,852.67	34,900,328.00	39,932,180.00
Other receivables	97,230,587.15	152,058,792.27	335,796,568.38	329,615,925.36
Prepayments	80,747,978.55	73,214,256.85	0.00	0.00
Inventories	85,513,733.84	74,435,463.83	13,039,316.24	9,266,143.67
Deferred expenses	2,821,832.71	2,459,965.45	2,216,683.76	0.00
Total current assets	638,641,621.04	617,755,466.98	399,297,441.77	382,371,003.09
LONG-TERM INVESTMENTS:				
Long-term equity investments	112,019,656.88	122,711,192.05	697,139,183.71	708,809,047.91
Long-term creditor's right investments	0.00	0.00	0.00	0.00
Total long-term investments	112,019,656.88	122,711,192.05	697,139,183.71	708,809,047.91
FIXED ASSETS:				
Fixed assets-cost	724,099,773.53	728,328,606.63	6,618,178.87	6,920,277.87
Less: Accumulated depreciation	127,451,710.78	137,517,875.73	2,426,489.81	2,789,113.31
Fixed assets — net	596,648,062.75	590,810,730.90	4,191,689.06	4,131,164.56
Less: Provision for impairment	87,120,500.32	87,095,662.72	0.00	0.00
Fixed assets — net book value	509,527,562.43	503,715,068.18	4,191,689.06	4,131,164.56
Construction in progress	310,326.60	1,225,423.43	0.00	0.00
Liquidation of fixed assets	0.00	0.00	0.00	0.00
Total fixed assets	509,837,889.03	504,940,491.61	4,191,689.06	4,131,164.56
INTANGIBLE AND OTHER ASSETS:				
Intangible assets	5,746,683.62	5,735,271.88	0.00	0.00
Amortization of long-term deferred expenses	0.00	0.00	0.00	0.00
Other long-term assets	0.00	0.00	0.00	0.00
Total intangible and other assets	5,746,683.62	5,735,271.88	0.00	0.00
Borrowing of deferred taxes	0.00	0.00	0.00	0.00
Total assets	1,266,245,850.57	1,251,142,422.52	1,100,628,314.54	1,095,311,215.56

BALANCE SHEET (Continued)
(Unaudited)

30 June 2006

Unit: RMB

LIABILITIES AND OWNERS' EQUITY	Group		Holding company	
	Opening	Closing	Opening	Closing
CURRENT LIABILITIES:				
Short-term loans	84,810,000.00	74,210,000.00	0.00	0.00
Bills payable	3,000,000.00	11,093,200.00	0.00	0.00
Accounts payable	82,644,567.14	78,429,535.76	7,869,888.57	40,926,025.00
Advances from customers	60,600,858.93	33,635,257.25	24,754,660.00	1,460,875.20
Salaries and wages payable	0.00	0.00	0.00	0.00
Employee benefits payable	1,642,611.33	1,620,131.48	0.00	0.00
Dividends payable	0.00	0.00	0.00	0.00
Taxes payable	14,868,678.26	7,583,440.03	3,551,574.47	1,574,527.25
Other fee payables	33,931.63	10,295.75	0.00	0.00
Other payables	65,013,948.53	75,974,654.80	79,921,461.56	59,566,678.51
Accrued expenses	1,876,354.46	2,729,434.93	1,846,354.46	1,193,760.46
Provisions	54,711,289.00	54,711,289.00	54,711,289.00	54,711,289.00
Long-term liabilities				
due within one year	0.00	0.00	0.00	0.00
Other current liabilities	0.00	0.00	0.00	0.00
Total current liabilities	369,202,239.28	339,997,239.00	172,655,228.06	159,433,155.42
LONG-TERM LIABILITIES:				
Long-term loans	0.00	0.00	0.00	0.00
Bonds payable	0.00	0.00	0.00	0.00
Long-term accounts payable	0.00	0.00	0.00	0.00
Specific accounts payable	1,000,000.00	1,000,000.00	0.00	0.00
Other long-term liabilities	0.00	0.00	0.00	0.00
Total long-term liabilities	1,000,000.00	1,000,000.00	0.00	0.00
Total liabilities	370,202,239.28	340,997,239.00	172,655,228.06	159,433,155.42
Minority interests	98,713,869.59	103,539,773.27	0.00	0.00
OWNERS' EQUITY:				
Paid-up capital (shares)	873,370,000.00	873,370,000.00	873,370,000.00	873,370,000.00
Capital reserve	972,123,038.66	972,138,480.06	1,127,140,550.47	1,127,140,550.47
Surplus reserve	108,587,124.40	108,587,124.40	108,587,124.40	108,587,124.40
Including: Statutory				
public welfare				
fund	32,210,803.10	32,210,803.10	32,210,803.10	32,210,803.10
Undistributed profit	(1,157,605,354.19)	(1,147,941,741.40)	(1,181,124,588.39)	(1,173,219,614.73)
Translation reserve	854,932.83	451,547.19	0.00	0.00
Total owner's equity	797,329,741.70	806,605,410.25	927,973,086.48	935,878,060.14
Total Liabilities				
And Owners' Equity	1,266,245,850.57	1,251,142,422.52	1,100,628,314.54	1,095,311,215.56

Profit and Profit Appropriation Statement

(Unaudited)

For the period from January to June 2006

Unit :RMB

ITEMS	Group		Holding company	
	Current period	Same period last year	Current period	Same period last year
1. Revenues from principal operations	263,064,785.18	245,752,023.38	76,733,377.68	41,723,752.03
Less: (1) Costs of principal operations	204,868,291.59	190,778,452.21	73,114,540.20	38,517,591.13
(2) Taxes and surcharges for principal operations	1,314,443.31	1,871,151.78	0.00	0.00
2. Gross Profits from principal operations	56,882,050.28	53,102,419.39	3,618,837.48	3,206,160.90
Add: Other operating profits	487,798.19	3,020,468.65	0.00	0.00
Less: (1) Operating expenses	14,761,870.06	12,167,331.48	737,345.00	245,456.00
(2) General and administrative expenses	36,691,958.75	39,710,348.27	6,608,143.96	11,056,343.62
(3) Finance costs	1,735,786.80	2,496,227.98	(19,038.86)	(10,228.92)
3. Operating profit / (losses)	4,180,232.86	1,748,980.31	(3,707,612.62)	(8,085,409.80)
Add: (1) Investment income	10,691,535.17	12,912,566.40	11,669,864.20	16,944,339.61
(2) Subsidy income	0.00	0.00	0.00	0.00
(3) Non-operating income	432,122.90	676,737.29	0.00	392,000.00
Less: Non-operating expenses	195,660.06	616,395.58	57,277.92	519,881.16
Add: Adjustment of previous year's income and losses	0.00	0.00	0.00	0.00
4. Total profit / (losses)	15,108,230.87	14,721,888.42	7,904,973.66	8,731,048.65
Less: Income tax	618,714.40	1,241,074.84	0.00	0.00
Minority interests	4,825,903.68	4,749,764.38	0.00	0.00
5. Net profit	9,663,612.79	8,731,049.20	7,904,973.66	8,731,048.65
Add: Opening undistributed profit	(1,157,605,354.19)	(1,181,231,041.00)	(1,181,124,588.39)	(1,201,503,780.65)
Other transfer	0.00	0.00	0.00	0.00
6. Profits available for distribution	(1,147,941,741.40)	(1,172,499,991.80)	(1,173,219,614.73)	(1,192,772,732.00)
Less: Transfer to statutory surplus reserve	0.00	0.00	0.00	0.00
Transfer to statutory public welfare fund	0.00	0.00	0.00	0.00
Transfer of employee reward and welfare fund	0.00	0.00	0.00	0.00
Transfer of reserve fund	0.00	0.00	0.00	0.00
Transfer of enterprise development fund	0.00	0.00	0.00	0.00
Profit reversed to investment	0.00	0.00	0.00	0.00
7. Profits available for distribution to investors	(1,147,941,741.40)	(1,172,499,991.80)	(1,173,219,614.73)	(1,192,772,732.00)
Less: Dividend payable preferential shares	0.00	0.00	0.00	0.00
Transfer to discretionary surplus reserve	0.00	0.00	0.00	0.00
Dividend payable to ordinary shares	0.00	0.00	0.00	0.00
Dividend for ordinary shares converted into capital (share capital)	0.00	0.00	0.00	0.00
8. Undistributed profits	(1,147,941,741.40)	(1,172,499,991.80)	(1,173,219,614.73)	(1,192,772,732.00)

Profit and Profit Appropriation Statement

(Supplementary information)

For the period from January to June 2006

Unit :RMB

Items	Current period		Same period last year	
	Group	Holding company	Group	Holding company
1. Gain on disposal of investees			2,555,252.00	2,555,252.00
2. Losses incurred from natural disaster				
3. Increase (decrease) in profit due to changes in accounting policies				
4. Increase (decrease) in profit due to changes in accounting estimate				
5. Losses from debt restructuring				
6. Others				

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

CASH FLOW STATEMENT*(Unaudited)*

For the period from January to June 2006

Unit: RMB

ITEMS	Group		Holding company	
	Current period	Same period last year	Current period	Same period last year
1. Cash flows from operating activities:				
Cash received from sales of goods or rendering services	263,208,162.10	269,527,395.00	61,452,415.00	35,787,298.00
Refund of taxes	0.00	0.00	0.00	0.00
Other cash received relating to operating activities	27,316,621.17	26,990,893.00	6,180,643.00	15,235,956.00
Sub-total of cash inflows	290,524,783.27	296,518,288.00	67,633,058.00	51,023,254.00
Cash paid for goods and services	223,070,518.10	264,229,499.00	69,124,703.00	28,580,974.00
Cash paid to and on behalf of employees	22,598,446.68	16,935,057.00	1,927,275.00	1,642,228.00
Tax payments	19,972,667.76	19,495,798.00	1,037,347.00	957,073.00
Other cash paid relating to operating activities	90,948,098.67	80,406,091.00	5,029,425.00	68,123,329.00
Sub-total of cash outflows	356,589,731.21	381,066,445.00	77,118,750.00	99,303,604.00
Net cash lows from operating activities	(66,064,947.94)	(84,548,157.00)	(9,485,692.00)	(48,280,350.00)
2. Cash flows from investing activities:				
Cash received from disposal of investment	0.00	0.00	0.00	0.00
Cash received from disposal of subsidiary	0.00	54,000,000.00	0.00	54,000,000.00
Cash received from return on investments	0.00	0.00	0.00	0.00
Net cash receipts from disposal of fixed assets, intangible assets and other long-term assets	49,038.46	40,850.00	0.00	0.00
Net cash receipts from acquisition of subsidiaries	0.00	0.00	0.00	0.00
Sub-total cash inflows	49,038.46	54,040,850.00	0.00	54,000,000.00
Cash paid to acquire fixed assets, intangible assets and other long-term assets	2,507,139.09	3,984,382.00	302,099.00	0.00
Cash payments for investments	0.00	0.00	0.00	0.00
Cash decrease incurred in disposal of subsidiaries	0.00	6,472,072.00	0.00	0.00
Sub-total of cash outflows	2,507,139.09	10,456,454.00	302,099.00	0.00
Net cash flows from investment activities	(2,458,100.63)	43,584,396.00	(302,099.00)	54,000,000.00
3. Cash flows from financing activities:				
Cash received from equity investments	0.00	0.00	0.00	0.00
Cash received from borrowings	10,700,000.00	22,550,000.00	0.00	0.00
Other cash receipts relating to financing activities	0.00	0.00	0.00	0.00
Sub-total of cash inflows	10,700,000.00	22,550,000.00	0.00	0.00
Repayments of borrowings	21,300,000.00	12,000,000.00	0.00	0.00
Dividends paid, profit distributed or interest paid	1,557,660.58	2,355,434.00	0.00	0.00
Other cash payments relating to financing activities	0.00	0.00	0.00	0.00
Sub-total of cash outflows	22,857,660.58	14,355,434.00	0.00	0.00
Net cash flows from financing activities	(12,157,660.58)	8,194,566.00	0.00	0.00
4. Effect of foreign exchange rate changes on cash		4,214.00		0.00
5. Net decrease in cash and cash equivalents	(80,680,709.15)	(32,764,979.00)	(9,787,791)	5,719,650.00

CASH FLOW STATEMENT (Continued)*(Unaudited)*

For the period from January to June 2006

Unit: RMB

Supplementary information	Current period	Same period last year	Current period	Same period last year
1. Reconciliation of net profit to				
cash flow from operating activities				
Net profit	9,663,612.79	8,731,049.20	7,904,973.66	8,731,048.65
Add: Minority interests	4,825,903.68	4,749,764.38	0.00	0.00
Provision for diminution				
in value of assets	1,000,000.00	3,694,853.00	123,000.00	0.00
Depreciation of fixed assets	10,066,164.95	12,077,915.00	362,624	223,393.00
Amortization of intangible assets	113,411.74	86,495.00	0.00	0.00
Amortization of long-term				
deferred expenses	0.00	0.00	0.00	0.00
Decrease in deferred expenses				
(less: increase)	361,867.26	72,097.00	2,216,684	0.00
Increase in accrued expenses				
(less: decrease)	853,080.47	(1,000,741.00)	(652,594)	(282,960.00)
Losses on disposal of fixed assets,				
intangible assets and				
other long-term assets (less: gains)	(49,038.00)	0.00	0.00	0.00
Losses on retirement of fixed assets	0.00	0.00	0.00	0.00
Financial expenses	80,860.42	2,496,228.00	0.00	(10,229.00)
Losses arising from investments				
(less: gains)	(10,691,535.17)	(12,912,566.00)	(11,669,864.00)	(16,944,340.00)
Decrease in inventories				
(less: increase)	11,078,270.01	(29,179,463.00)	3,773,173	(184,222.00)
Decrease in receivables under				
operating activities				
(less: increase)	(71,258,508.76)	(169,123,159.00)	1,025,791	(72,556,263.00)
Increase in payables under				
operating activities				
(less: decrease)	(19,458,080.75)	93,529,878.00	(12,569,479.66)	32,668,383.00
Others	(2,650,956.58)	2,229,492.42	0.00	74,839.35
Net cash flows from operating activities	(66,064,947.94)	(84,548,157.00)	(9,485,692)	(48,280,350.00)
2. Net increase in cash and cash equivalents:				
Cash and bank balances at				
the end of the period	31,767,942.31	28,918,215.00	3,556,754.00	8,471,866.00
Less: Cash and balance balances at				
the beginning of the period	112,448,651.46	61,683,194.00	13,344,545.00	2,752,216.00
Net increase in cash and cash equivalents	(80,680,709.15)	(32,764,979.00)	(9,787,791.00)	5,719,650.00

NOTES TO THE FINANCIAL STATEMENTS

Interim Report 2006

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 18 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 13 December 1995. The total share capital of the Company is 873,370,000 shares. Details of classifications of shares and the amounts are set out in Note 28.

The principal operations of the Company are the manufacturing of transmission and transformation machinery and the provision of relevant services and hotel and catering services.

Up to 30 June 2006, details of the subsidiaries and their major scope of operations can be referred to note 4 controlling subsidiaries.

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

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

Accounting year

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

Reporting currency

The Company adopts Renminbi as its reporting currency.

Basis of accounting and principle of valuation

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

Foreign currencies

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

Cash and cash equivalents

Cash equivalents are short-term (generally refer to three months from date of purchase), highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value.

Accounting for bad debts

(1) Criteria for recognition of bad debts

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

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

The amount owed by a debtor who is unable to repay the obligations after the debts fall due, and the amount is irrecoverable or unlikely to be recovered as demonstrated by sufficient evidence.

(2) Accounting treatment for bad debt losses

Bad debt is accounted for using the allowance method and provided according to the recoverability of receivables at the year-end. The appropriate percentages of provision for bad debts relating to significant receivable accounts are reasonably determined based on relevant information such as past experience, actual financial position and cash flows of the debtors, as well as other relevant information. General provision for the remaining receivables is estimated, based on aging analysis, as follows:

Age of receivables	Percentage
Within 2 years	—
2 to 3 years	40%
3 to 4 years	60%
Over 4 years	100%

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

Calculation method of inventories

Inventories are initially recorded at cost. The cost of inventories comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Inventories mainly include raw materials, work in progress and finished goods.

Inventories are accounted for using the actual costing method. In determining the cost of inventories transferred out or issued for use, the actual costs are determined by the weighted average method.

Provision for decline in value of inventories

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

Recognition of recoverable amount

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

Calculation method of long-term investment

(1) Accounting treatment for long-term investments:

Initially recorded at its cost on acquisition.

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

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

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

When a long-term equity investment is accounted for using the equity method, the difference between the initial investment cost of the Company and its share of owners' equity of the investee enterprise is accounted for as "equity investment difference" and amortized on a straight-line basis and charged to the income statement accordingly. The amortization 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] No. 10, is credited to "long-term equity investment" equity investment difference", and amortised on a straight-line basis and charged to the income statement accordingly. The amortisation period is the investing period if it is stipulated in the investment contract. Otherwise, it is amortised over a period of not less than 10 years. The shortfall of the initial investment cost below the Company's share of owners' equity of the investee enterprise arising after the issuance of Caikuai [2003] No. 10 is credited to "capital surplus — provision for equity investment".

(2) Impairment on long-term investment

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

Fixed assets and depreciation

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

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

Impairment of fixed assets

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

Fixed assets under construction

Fixed assets under construction are recorded at the actual cost incurred for the construction.

Cost includes all expenditures incurred for construction projects, capitalised borrowing costs incurred on a specific borrowing for the construction of fixed assets before it has reached the working condition for its intended use, and other related expenses. A fixed asset under construction is transferred to fixed assets when it has reached the working condition for its intended use. No depreciation is provided for fixed assets under construction.

Impairment of fixed assets under construction

Where the work on a fixed asset under construction has been suspended for a long period of time and is not expected to re-commence within three years; or it is technically and physically obsolete and its economic benefits to the Company is uncertain; or there is other evidence indicating a decline in value of the fixed asset under construction, an impairment loss is recognised for the shortfall of the recoverable amount of the fixed asset under construction below its carrying amount.

Intangible assets

Intangible assets are recorded at the actual cost of acquisition. For an intangible asset received as a capital contribution by an investor, the actual cost is the value agreed by all investing parties. For a self-developed intangible asset that is obtained by legal application, the actual cost capitalised is the amount of expenditure incurred for the legal application for obtaining the asset, such as registration fees and legal fees. Other costs incurred in the research and development process are expensed in the current period. For a purchased intangible asset, the actual cost is the actual purchase price.

Land use rights purchased or acquired by payment of land transfer fees before the adoption of the "Accounting System for Business Enterprises", are accounted for as intangible assets and are amortised over the periods as stated below. Those purchased or acquired after the adoption of the "Accounting System for Business Enterprises", are accounted for as intangible assets before construction work for own-use purpose or development commences and are amortised over the periods as stated below. Upon using the land to construct fixed assets for own use, the carrying amount of the land use right is transferred to the cost of fixed assets under construction.

The cost of an intangible asset is amortised evenly over its expected useful life from the month in which it is obtained. If the expected useful life exceeds the beneficial period prescribed in the relevant contract or the effective period stipulated by law, the amortisation period is limited to the shorter of the beneficial period and the effective period. If the relevant contract does not prescribe the beneficial period and the law does not stipulate the effective period, the amortisation period is 10 years.

Impairment loss on intangible assets

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

Estimated debt

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

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

Borrowing costs

Borrowing costs comprise interest incurred on borrowings, amortization 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 capitalized 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 recognized as expenses and included as finance costs in the period in which they are incurred.

Specific accounts payable

Specific accounts payable is recognised when the receipt of specific government funds for specific purposes is confirmed. When the project is completed, any fixed assets formed are transferred to capital reserves at cost. The portion without fixed assets formed is written off when approved.

*Revenue recognition**Revenue from sales of goods*

Revenue is recognised when the Company has transferred to the buyer the significant risks and rewards of ownership of the goods, it retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold, the economic benefits associated with the transaction will flow to the Company, and the relevant amount of revenue and costs can be measured reliably.

Revenue from rendering services

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

Interest income

Interest income is measured based on the length of time for which the enterprise's cash is used by others and the applicable interest rate.

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 Consolidation

(1) Scope of consolidation

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

(2) Accounting for consolidation

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

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

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

3. Taxation

Value added tax

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

Sales tax

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

City construction tax

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

Educational surcharge

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

Income tax

Income tax is computed at rate of 33%.

4. Scope of Consolidation and Subsidiaries

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

Name of subsidiary	Registered capital	Investment percentage of equity interests	Scope of business	Whether consolidated during the period	Whether consolidated in 2005
Fuxin Closed Busbars Ltd.	USD2,800,000	100.00%	Manufacture of closed busbars	Yes	Yes
Shenyang Kingdom Hotel Ltd.	USD18,070,000	100.00%	Provision of hotel and catering services	Yes	Yes
Jinzhou Jinrong Electrical Equipment Co., Ltd.	RMB3,000,000	69.75%	Manufacture of high-voltage capacitors	Yes	Yes
Northeast Electric (Hong Kong) Ltd.	USD900,000	100.00%	Investments and trading	Yes	Yes
Shenyang Cheng Tai Energy and Power Co. Ltd.	RMB90,000,000	95.00%	Wind, water, electricity gas services	Yes	Yes
Shenyang Suntime Storage Logistics Co. Ltd.	RMB170,000,000	95.00%	Storage, transportation	Yes	Yes
New Northeast Electric (Shenyang) High-Voltage Isolator Co.Ltd.	USD21,500,000	74.40%	Manufacture of switches and isolators	Yes	Yes
Shenyang Gaodongjia Desiccation Company Limited	RMB4,500,000	70.00%	Manufacture of dryer equipment	Yes	Yes
New Northeast Electric (Jinzhou) Power Capacitors Co., Ltd.	USD10,000,000	52.00%	Manufacture of power capacitors	Yes	Yes
Great Talent Technology Limited	USD1	100.00%	Investments and trading	Yes	Yes

5. Cash and Bank Balances

	Closing			Opening		
	Foreign currency	Exchange rate	RMB	Foreign currency	Exchange rate	RMB
Cash						
RMB			584,985.28			181,104.80
USD	1,162.34	8.29	9,637.87	1,162.34	8.29	9,637.87
Bank deposits						
RMB			25,066,257.35			64,631,433.67
USD	42.36	8.29	351.21			
HKD	149,573.91	1.03	153,510.60	41,693,150.45	1.04	43,396,475.12
Other cash deposits						
RMB			5,953,200.00			4,230,000.00
			<u>31,767,942.31</u>			<u>112,448,651.46</u>

6. Bills Receivable

Type	Closing RMB	Opening RMB
Bank acceptance	<u>11,400,000.00</u>	<u>13,400,000.00</u>

7. Dividend Receivable

Name	Closing RMB	Opening RMB
Great Power Technology Ltd.	<u>2,141,193.60</u>	<u>2,165,010.00</u>

8. Accounts Receivable

The aging analysis of accounts receivable is as follows:

	Closing				Opening			
	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	189,809,383.26	64	(537,190.00)	189,272,193.26	195,472,828.21	72	(596,100.00)	194,876,728.21
1 to 2 years	62,981,322.25	21	(148,380.00)	62,832,942.25	36,589,985.46	13	(1,706,283.74)	34,883,701.72
2 to 3 years	15,995,956.26	5	(3,864,054.00)	12,131,902.26	26,087,765.82	10	(13,310,349.28)	12,777,416.54
3 to 4 years	15,514,392.69	5	(9,646,555.56)	5,867,837.13	5,213,497.10	2	(3,529,499.24)	1,683,997.86
Over 4 years	14,097,982.19	5	(13,925,004.42)	172,977.77	8,270,934.72	3	(8,178,951.72)	91,983.00
Total	<u>298,399,036.65</u>	<u>100</u>	<u>(28,121,183.98)</u>	<u>270,277,852.67</u>	<u>271,635,011.31</u>	<u>100</u>	<u>(27,321,183.98)</u>	<u>244,313,827.33</u>

The total amount of the five largest outstanding accounts receivable is RMB106,527,891.33, representing 35.70% of the total balance of accounts receivable.

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

9. Other Receivables

The aging analysis of other receivables is as follows:

	Closing				Opening			
	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	50,293,084.54	32	(97,529.50)	50,195,555.04	16,554,235.44	16	(1,936,032.93)	14,618,202.51
1 to 2 years	25,005,310.58	16	(1,838,503.44)	23,166,807.14	6,735,771.55	7	(595,797.17)	6,139,974.38
2 to 3 years	3,179,194.31	2	(515,587.06)	2,663,607.25	194,056.84	—	(53,811.25)	140,245.59
3 to 4 years	426,570.08	0	(5,876.84)	420,693.24	76,368,179.43	76	(203,114.76)	76,165,064.67
Over 4 years	77,531,604.10	50	(1,919,474.50)	75,612,129.60	1,453,250.54	1	(1,286,150.54)	167,100.00
Total	<u>156,435,763.61</u>	<u>100</u>	<u>(4,376,971.34)</u>	<u>152,058,792.27</u>	<u>101,305,493.80</u>	<u>100</u>	<u>(4,074,906.65)</u>	<u>97,230,587.15</u>

The total amount of the five largest outstanding other receivables is RMB120,222,283.16, representing 76.85 % of the total balance of other receivables.

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

10. Provisions for Bad Debts

	Accounts receivable RMB	Other receivables RMB	Total RMB
Opening balance	27,321,183.98	4,074,906.65	31,396,090.63
Provision for this period	800,000.00	302,064.69	1,102,064.69
Reversals / write-back for the period	—	—	—
Other decrease / transfer for this period	—	—	—
Closing balance	<u>28,121,183.98</u>	<u>4,376,971.34</u>	<u>32,498,155.32</u>

11. Prepayment

Ageing analysis of prepayments are as follows:

	Closing		Opening	
	RMB	%	RMB	%
Within 1 year	73,214,256.85	100	80,747,978.55	100
1 to 2 years	—	—	—	—
2 to 3 years	—	—	—	—
Over 3 years	—	—	—	—
	<u>73,214,256.85</u>	<u>100</u>	<u>80,747,978.55</u>	<u>100</u>

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

12. Inventories and Provision for Diminution in Value

	Closing			Opening		
	Amount	Provision for decline in value	Net book value	Amount	Provision for decline in value	Net book value
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
Materials under delivery	10,052.00		10,052.00			
Low value consumables	246.73		246.73	473,936.10		473,936.10
Raw materials	28,386,353.45	(787,761.31)	27,598,592.14	31,232,314.98	(841,861.31)	30,390,453.67
Work in progress	11,897,593.07	(124,245.33)	11,773,347.74	14,180,497.16	(124,245.33)	14,056,251.83
Finished goods	24,985,326.65	—	24,985,326.65	40,641,056.93	(47,964.69)	40,593,092.24
Inventories of merchandises	10,067,898.57		10,067,898.57			
Self-made semi finished products						
Total	<u>75,347,470.47</u>	<u>(912,006.64)</u>	<u>74,435,463.83</u>	<u>86,527,805.17</u>	<u>(1,014,071.33)</u>	<u>85,513,733.84</u>

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

	<i>RMB</i>
Opening balance	1,014,071.33
Provisions for the period	—
Reversals for the period	(54,100)
Other transfers	(47,964.69)
Closing balance	<u>912,006.64</u>

13. Deferred Expenses

Category	Closing <i>RMB</i>	Opening <i>RMB</i>
Heating expenses	663,327.33	243,510.01
Leasehold expenses	1,275,000.00	—
Insurance	288,215.16	321,922.34
Input VAT	—	2,216,683.76
Newspaper expenses		
Interest	37,037.60	—
	<u>67,527.00</u>	<u>—</u>
Others	<u>128,858.36</u>	<u>39,716.60</u>
Total	<u>2,459,965.45</u>	<u>2,821,832.71</u>

14. Long-term Equity Investments

	Closing RMB	Opening RMB
Investments in associates	87,442,383.17	76,852,880.00
Other equity investments	36,595,224.82	36,595,224.82
Including: Long-term equity investment differences	(1,326,415.94)	(1,428,447.94)
Total	122,711,192.05	112,019,656.88
Less: Provision for diminution in value of on long-term equity investments		
Long-term equity investments — Net	122,711,192.05	112,019,656.88

(1) Movements of other equity investments:

Name of investees	Initial investment RMB	Change in equity for the year RMB	Accumulated changes RMB	Share of registered capital of the investee %	Provision for diminution in value RMB	Addition / withdrawal RMB	Closing book value RMB
Jinzhou Commercial Bank Co., Ltd.	11,787,000.00	—	—	4.35	—		11,787,000.00
Jinhua Chlor-Alkali Stock Co., Ltd.	24,808,224.82	—	—	3.57	—	—	24,808,224.82
	<u>36,595,224.82</u>						<u>36,595,224.82</u>

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

Name of investee	Change in equity for the period RMB	Initial investment RMB	Share of the registered capital of the investee %	Change in equity interests of the investee company RMB	Accumulated changes RMB	Provision for diminution in value RMB	Closing book value RMB	Principal business activities
Great Power Technology Ltd.	67,322,731.52		20.8	10,589,503.17	20,119,651.65	87,442,383.17		High-Voltage switchgears and control equipment
Total	<u>67,322,731.52</u>		<u>20.8</u>	<u>10,589,503.17</u>	<u>20,119,651.65</u>	<u>87,442,383.17</u>		

(3) Long-term equity investment differences

Name of investee	Initial investment RMB	Opening balance RMB	Period of amortization	Amortization for the period RMB	Closing balance RMB	Reason
Jinzhou Jinrong Electrical Equipment Co., Ltd.	(2,040,640.00)	(1,428,447.94)	10 years	102,032.00	(1,326,415.94)	Acquisition of equity interests
Total	<u>(2,040,640.00)</u>	<u>(1,428,447.94)</u>	10 years	<u>102,032.00</u>	<u>(1,326,415.94)</u>	

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

	Buildings RMB	Plant and machinery RMB	Transportation equipment and others RMB	Fixed assets improvements RMB	Land RMB	Total RMB
Cost						
1st January 2006	529,381,739.88	126,188,532.14	18,797,108.91	2,278,192.60	47,454,200.00	724,099,773.53
Additions	193,142.00	2,221,163.53	2,095,023.57	33,699.00		4,543,028.10
Disposals for the period		(63,905.00)	(250,290.00)			(314,195.00)
30 June 2006	<u>529,574,881.88</u>	<u>128,345,790.67</u>	<u>20,641,842.48</u>	<u>2,311,891.60</u>	<u>47,454,200.00</u>	<u>728,328,606.63</u>
Accumulated depreciation						
1st January 2006	55,018,053.23	59,966,415.73	5,723,416.74	1,407,192.60	5,336,632.48	127,451,710.78
Charge for the period	5,268,757.39	2,666,608.80	1,305,408.65	96,583.64	809,416.26	10,146,774.74
Transfers — out on disposals for the period		(39,046.25)	(41,563.54)			(80,609.79)
30 June 2006	<u>60,286,810.62</u>	<u>62,593,978.28</u>	<u>6,987,261.85</u>	<u>1,503,776.24</u>	<u>6,146,048.74</u>	<u>137,517,875.73</u>
Provision for impairment						
1st January 2006	80,650,672.10	6,248,907.08	220,921.14			87,120,500.32
Charges for the period						
Transfers-out on disposals for the period		(24,837.60)				(24,837.60)
30 June 2006	<u>80,650,672.10</u>	<u>6,224,069.48</u>	<u>220,921.14</u>			<u>87,095,662.72</u>
Net book value:						
1 January 2006	<u>393,713,014.55</u>	<u>59,973,209.33</u>	<u>12,852,771.03</u>	<u>871,000.00</u>	<u>42,117,567.52</u>	<u>509,527,562.43</u>
30 June 2006	<u>388,637,399.16</u>	<u>59,527,742.91</u>	<u>13,433,659.49</u>	<u>808,115.36</u>	<u>41,308,151.26</u>	<u>503,715,068.18</u>
Including:						
Pledged asset at period end-net:	<u>6,172,663.56</u>					<u>6,172,663.56</u>

16. Construction in progress

Name of Project	Balance for the opening of the period RMB	Current period Additions RMB	Current period Transfer of completed construction for the period RMB	Current period Other decrease for the period RMB	Balance for the end of the period RMB
Air Compression Station	6,627.00	296,398.70	(303,025.70)		0
Power technology Improvement	20,750.00	1,257,505.34	(1,278,255.34)		0
Project of positive / negative 500KV	282,949.60	276.00			283,225.60
House repairment		440,180.00			440,180.00
Project of fixing		354,075.33			354,075.33
Fitting shop and space		147,942.50			147,942.50
Total	310,326.60	2,496,377.87	(1,581,281.04)		1,225,423.43
Impairment provision of construction in progress					
Net value	310,326.60	2,496,377.87	(1,581,281.04)		1,225,423.43

17. Intangible assets

Items	Ways of obtainment	Initial amount RMB	Opening balance RMB	Increase in the period RMB	Decrease in the period RMB	Amount of Amortization RMB	Closing balance RMB	Remaining period of amortization
Land user rights	Payment for disposal of land	12,358,831.72	5,419,600.33			67,745.05	5,351,855.28	38.5 years
Franchise	Self development	500,000	225,000.00			22,500.00	202,500.00	4.5 years
Erp software	Purchase	105,000.00	102,083.29			17,500.03	84,583.26	2.4 years
caxa	Purchase	102,000.00		102,000.00		5,666.66	96,333.34	2.8 years
		13,065,831.72	5,746,683.62	102,000.00		113,411.74	5,735,271.88	

The net value of the land use rights pledged at the end of the year amounted to RMB5,351,855.28.

18. Short-term loans

Type	Closing amount of the period RMB	Opening amount of the period RMB
Pledged loans		
— RMB	11,400,000.00	11,400,000.00
Mortgage loan		
— RMB		9,800,000.00
Guaranteed loans		
— RMB	62,810,000.00	63,610,000.00
Total	<u>74,210,000.00</u>	<u>84,810,000.00</u>

19. Notes payable

	Closing amount of the period RMB	Opening amount of the period RMB
Bills of exchange from business	—	
Bills of exchange from bank	11,093,200.00	3,000,000.00
Total	<u>11,093,200.00</u>	<u>3,000,000.00</u>

20. Accounts payable

The aging analysis of accounts payable is as follows:

	Closing amount of the period		Opening amount of the period	
	Amount RMB	Percentage (%)	Amount RMB	Percentage (%)
Within 1 year	59,060,463.32	75	65,571,081.36	79
1 to 2 years	9,074,025.10	12	15,146,790.86	18
2 to 3 years	8,837,181.86	11	714,480.47	1
Over 3 years	1,457,865.48	2	1,212,214.45	2
	<u>78,429,535.76</u>	<u>100</u>	<u>82,644,567.14</u>	<u>100</u>

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

21. Accounts receivables

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

The amount of account receivables with aging exceeding 1 year were RMB5,000,000, the amount is mainly deposits receivables in accordance with sales contract or agreements.

22. Tax payable

	Closing amount of the period <i>RMB</i>	Opening amount of the period <i>RMB</i>
Income tax	(238,084.55)	405,540.13
Value added tax	3,062,140.29	9,178,642.61
Business tax	220,896.19	321,719.48
City construction tax	11,553.78	52,916.58
Individual income tax	54,331.07	275,786.97
House property tax	4,471,003.25	4,560,589.99
Others	1,600.00	73,482.50
Total	<u>7,583,440.03</u>	<u>14,868,678.26</u>

23. Other fee payables

Nature	Closing amount of the period <i>RMB</i>	Opening amount of the period <i>RMB</i>
Education additional tax	10,295.75	33,931.63
Total	<u>10,295.75</u>	<u>33,931.63</u>

24. Other payables

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

The amount of payables with aging exceeding 3 years were RMB40,570,000 with relevant party concerned. Up to the financial report date, the above amount has not been repaid.

25. Accrued expenses

	Closing amount of the period <i>RMB</i>	Opening amount of the period <i>RMB</i>	Reason of arising
Interest expenses	440,459.68	30,000.00	Incurred but not settled
Service expense from intermediates	1,193,760.46	1,845,354.46	Incurred but not settled
Repairment fee	574,557.43		Incurred but not settled
Process fee			
Land use rights fee			
Others	520,657.36	1,000.00	Incurred but not settled
Total	<u>2,729,434.93</u>	<u>1,876,354.46</u>	

26. Pending litigation

	Closing RMB	Opening RMB
Provision for loss on guarantees	<u>54,711,289.00</u>	<u>54,711,289.00</u>

Northeast Electrical Transmission and Transformation Group Corporation Limited, the original controlling shareholder of the Company, and China Everbright Bank signed a loan agreement in respect of a loan for the sum of RMB30,000,000.00 and the Company acted as a guarantor and undertook joint guarantee liability. In 2001, China Everbright Bank instituted legal proceedings against the Company for repayment of the principal of the loan and overdue interest amounting to RMB26,402,000.00 and RMB4,591,929.00 respectively. On 19 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 13 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 in 2004. As at the date of announcement of financial statements, China Everbright Bank has not yet demand the Company for repayment.

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 verdict from Jinzhou Intermediate People's Court ruling that the Company shall bear the joint and several liabilities for the loan principal and interest accrued thereon. Accordingly, the Company made the provision for loss on guarantee given to Jinzhou Power Capacitors of RMB14,464,500.00 based on the rule from court in 2005.

ShuangJia Insulator & Electric Co. Ltd. ("Shuangjia"), the supplier of Shenyang High-Voltage, lodged a case with the Intermediate People's Court of Xian City in 2004 against Shenyang High-Voltage in relation to the disputes on payment of goods, demanding Shenyang High-Voltage to settle the bills of the goods amounted to RMB14,280,007.35 and requesting the Company, the former shareholder of Shenyang High-Voltage to bear joint and several liabilities for the above bills in connection with the eight properties that purchased by the Company from Shenyang High-Voltage. On 30 May 2005, the Intermediate Court of Xian City in Shaanxi Province determined that the Company shall be responsible for the above debts of Shenyang High-Voltage and shall bear joint and several liabilities for the eight properties that purchased by the Company from Shenyang High-Voltage. On 15 June 2005, the Company appealed to the People's High Court of Shaanxi Province. The People's High Court of Shaanxi Province made final judgment on 18 October 2005 and maintained the judgment of the first instance. A provision for loans of RMB9,252,860.00 in relation to the above eight properties was made according to the court's verdict in 2005.

27. Specific accounts payable

	Opening amount of the period RMB	Closing amount of the period RMB
Grants for technology improvement	500,000.00	500,000.00
Optical electricity mutual inductor	200,000.00	200,000.00
Super big capacity capacitor development	300,000.00	300,000.00
Total	<u>1,000,000.00</u>	<u>1,000,000.00</u>

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

28. Share capital

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

	Opening amount of the period <i>(Shares)</i>	Changes for the period (increase or decrease) <i>(Shares)</i>	Closing amount of the period <i>(Shares)</i>
Non-listed circulating shares			
1. Stated owned shares	266,520,000	-266,520,000	—
2. Domestic legal person held shares	205,300,000	-230,620,000	435,920,000
Listed circulating shares			
1. Domestic RMB ordinary shares	143,600,000	+35,900,000	179,500,000
2. Overseas listed foreign investment shares	257,950,000	—	257,950,000
Total of listed shares	<u>873,370,000</u>	<u>—</u>	<u>873,370,000</u>

- The above shares have nominal value of RMB1 each.
- Domestic RMB ordinary shares represent the shares listed on the Shenzhen Stock Exchange.
- Overseas listed foreign investment shares (“H shares”) represent the shares listed on the Stock Exchange of Hong Kong Limited.
- All the domestic and H shares rank pari passu in all respects.
- The movement of share capital during this period is based on A share equity reformation.

29. Capital reserves

	Opening amount of the period <i>RMB</i>	Additions for the period <i>RMB</i>	Decrease for the period <i>RMB</i>	Closing amount of the period <i>RMB</i>
Capital premium	115,547,484.00	—	—	115,547,484.00
Difference on related parties transactions	5,783,699.46	—	—	5,783,699.46
Provision for equity investment	204,999,026.52	—	—	204,999,026.52
Other capital reserve	645,792,828.68	15,441.40	—	645,808,270.08
Total	<u>972,123,038.66</u>	<u>15,441.40</u>	<u>—</u>	<u>972,138,480.06</u>

30. Surplus reserves

	Statutory surplus reserve fund <i>RMB</i>	Discretionary surplus reserve <i>RMB</i>	Statutory public welfare fund <i>RMB</i>	Total <i>RMB</i>
Opening and closing balance	<u>48,091,633.00</u>	<u>28,284,688.00</u>	<u>32,210,803.00</u>	<u>108,587,124.00</u>

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

31. Undistributed profit

	Amount RMB
Undistributed profit at the beginning of the period	(1,157,605,354.19)
Add: net profits for the period	9,663,612.79
Undistributed profit at the end of the period	<u>(1,147,941,741.40)</u>

32. Revenue of principal operations

	Accumulated amount of the period RMB	Amount of the period of previous year RMB
High voltage switches	101,876,369.13	84,156,248.00
Power capacitors	66,963,514.01	90,002,311.00
Enclosed busbars	53,786,461.57	31,244,749.00
Food, beverage and accommodation	15,050,420.43	15,313,567.00
Storage and logistics	11,135,232.06	16,106,745.00
Wind, water, electricity and gas service	9,256,155.10	8,928,403.00
Others	4,996,632.88	—
Total	<u>263,064,785.18</u>	<u>245,752,023.00</u>

Cost of sales, the top 5 customers amounted to RMB102,513,530.54, representing 38.97% of total cost of sales.

33. Cost of sales of principal operations

	Accumulated amount of the period RMB	Amount of the period of previous year RMB
High voltage switches	91,006,338.40	74,537,424
Power capacitors	43,363,094.41	62,843,584
Enclosed busbars	40,153,658.07	23,892,700
Food, beverage and accommodation	12,062,466.75	11,864,141
Storage and logistics	6,460,228.39	10,464,281
Wind, water, electricity and gas service	8,262,135.14	7,176,322
Others	3,560,370.43	—
Total	<u>204,868,291.59</u>	<u>190,778,452</u>

Cost of purchase, the top 5 suppliers amounted to RMB186,169,540.98, representing 90.87% of total cost of purchase.

34. Sales tax

Category of tax	Tax rate	Amount
City construction fee	7%	70,091.34
Educational surcharge	4%	40,052.19
Business tax	5% - 20%	1,204,299.78
Others		—
Total		<u>1,314,443.31</u>

35. Other operating profits

	Accumulated amount of the period <i>RMB</i>	Amount of the period of previous year <i>RMB</i>
Sales of materials		
— Revenue	6,352,575.46	9,827,015.00
— Costs	5,864,777.27	6,806,546.00
Total	<u>487,798.19</u>	<u>3,020,469.00</u>

36. Finance costs

	Accumulated amount of the period <i>RMB</i>	Amount of the period of previous year <i>RMB</i>
Interest expenses	1,627,468.73	2,106,437.00
Less: Interest income	170,009.74	46,305.00
Exchange gains	(11,052.27)	(221,095.00)
Others	267,275.54	215,001.00
Total	<u>1,735,786.80</u>	<u>2,496,228.00</u>

37. Investment income

	Accumulated amount of the period <i>RMB</i>	Amount of the period of previous year <i>RMB</i>
Long-term investment income		
Shares of investee's profit recognised under equity method	10,589,503.17	10,321,820.00
Income from disposal of long-term equity investment		2,555,252.00
Amortization of long-term equity investment difference	102,032.00	35,494.00
Other income	—	
Total	<u>10,691,535.17</u>	<u>12,912,566.00</u>

38. Non-operating income

Type	Accumulated amount of the period <i>RMB</i>	Amount of the period of previous year <i>RMB</i>
Gain on disposals of fixed assets	49,038.46	531,875.00
Income from sales of waste	163,061.55	
Penalty income	56,125.00	1,850.00
Others	163,897.89	143,012.00
Total	<u>432,122.90</u>	<u>676,737.00</u>

39. Non-operating expenses

Type	Accumulated amount of the period RMB	Amount of the period of previous year RMB
Loss on disposals of fixed assets		517,012.00
Penalty expenses	87,290.75	57,028.00
Others	108,369.31	42,356.00
Total	<u>195,660.06</u>	<u>616,396.00</u>

40. Income tax

	Accumulated amount of the period RMB	Amount of the period of previous year RMB
Income tax payable by subsidiaries	618,714.40	1,241,075.00
Total	<u>618,714.40</u>	<u>1,241,075.00</u>

41 Notes to the financial statements of the Company

(1) Other receivables

The aging analysis of other receivables is as follows:

	Closing				Opening			
	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	4,133,671.29	1		4,133,671.29	255,632,455.81	76	(1,735,014.61)	253,897,441.20
1 to 2 years	245,660,016.68	74	(1,942,658.93)	243,717,357.75	6,232,622.49	2	(423,495.31)	5,809,127.18
2 to 3 years	6,013,747.31	2	(338,850.99)	5,674,896.32	5,876.84	—	(5,876.84)	—
3 to 4 years	5,876.84	—	(5,876.84)	—	76,180,517.76	22	(90,517.76)	76,090,000.00
Over 4 years	76,180,517.76	23	(90,517.76)	76,090,000	—	—	—	—
Total	<u>331,993,829.88</u>	<u>100</u>	<u>(2,377,904.52)</u>	<u>329,615,925.36</u>	<u>338,051,472.90</u>	<u>100</u>	<u>(2,254,904.52)</u>	<u>335,796,568.38</u>

(2) Long-term investment

	Closing RMB	Opening RMB
Investment in subsidiaries	697,022,047.91	685,352,183.71
Investment in joint venture enterprises		
Investment in other equity	<u>11,787,000.00</u>	<u>11,787,000.00</u>
Total	708,809,047.91	697,139,183.71
Less: Impairment loss on long-term equity investments	<u>—</u>	<u>—</u>
Long-term equity investments — Net	<u><u>708,809,047.91</u></u>	<u><u>697,139,183.71</u></u>

Details of movement in other equity investments for the period

Name of investee	Invested amount RMB	Increase / decrease in equity for the period RMB	Aggregate increase / decrease RMB	Share in the registered capital of the investee %	Provision of diminution in value RMB	Additional investments (less investment) RMB	Closing Book value RMB
Jinzhou City Commercial Bank, Co. Ltd.	11,787,000.00		—	4.35	—		11,787,000.00
Total	<u>11,787,000.00</u>			<u>4.35</u>			<u>11,787,000.00</u>

Details of movements in investment in subsidiaries:

Items	Opening amount in the period RMB	Addition RMB	Disposals RMB	Closing amount in the period RMB
Investment cost	749,691,203.43			749,691,203.43
Share of losses of subsidiaries	(64,339,019.72)	11,669,864.20		(52,669,155.52)
Share of other equity changes of subsidiaries				
Total	<u>685,352,183.71</u>	<u>11,669,864.20</u>		<u>697,022,047.91</u>

(3) Investment income

Items	Accumulated amount of the period RMB	Amount of the period of previous year RMB
Long-term investment income		
Gain on disposal of long-term equity investment		2,555,252.00
Profit declared by investee under equity method	11,669,864.20	14,389,088.00
Amortization of long-term equity investment difference		
Total	<u>11,669,864.20</u>	<u>16,944,340.00</u>

42. Related party relationships and transactions

- (1) Connected party with controlling relation

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

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

Name of the related party	30th June, 2006 RMB	1st January, 2006 RMB
New Northeast Electric Investment Co., Ltd.	135,000,000.00	135,000,000.00

- (3) The proportion of shareholding or equity of connected party with controlling relation and change thereon

Name of the related party	Opening amount of the period		Closing amount of the period	
	RMB	%	RMB	%
New Northeast Electric Investment Co., Ltd.	230,000,000.00	26.34%	209,513,138.00	23.99%

- (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
New Northeast Electric (Shenyang) High-voltage Switchgear Ltd.	A subsidiary of associate

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

	Accumulated amount of the period	Amount of the period of previous year
Purchase of products to the connected parties	48,288,205.12	
Purchase of raw material and equipments from the connected parties	1,991,358.90	4,864,957.00
Sales of products to the connected parties	28,673,660.00	41,328,402.00
Provision of industrial service to the connected parties	22,349,940.01	15,849,600.00
Provision of hotel service	443,716.97	478,507.00

Transaction prices with connected parties are determined based on the contract or agreement and the price are the same as those with other unconnected parties.

(6) Flow of creditor's rights and debt

Project	Connected parties	Amount at the beginning of the period RMB	Amount of the end of the period RMB
Trade receivables and other receivables	New Northeast Electric (Shenyang) High-voltage Switchgear Ltd.	80,482,215.10	72,644,615.00
Trade payable and other payables	New Northeast Electric (Shenyang) High-voltage Switchgear Ltd.	14,633,953.57	15,852,481.00
Notes receivables	New Northeast Electric (Shenyang) High-voltage Switchgear Ltd.		2,000,000.00
Dividend receivables	Great Power Technology Limited	2,141,193.60	2,165,010.00

43. Contingency

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

- (1) In 1998, Shenyang High-Voltage and China Development Bank (the "Bank") signed a Loan Agreement and obtain loan from the Bank, the loan was guaranteed by other companies based on a Guarantee Agreement which signed between the guarantor and the Bank. In 2003 and 2004, 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 31 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 Civil Written Order issued by Beijing Higher Court on 18 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 right. 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 22 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. Up to date, the Court does not have final judgment.
- (2) Up to the date of the report, the Company has acted as guarantor for Shenyang High-Voltage in respect of a loan of RMB2.46 million and for Jinzhou Power Capacitors Limited in respect of a loan of RMB52,900,000.

- (3) Shenyang High-Voltage Switchgears Co. Ltd. (“Shenyang High-Voltage”) entered into a Borrowing Contract with Bank of Communication Shenyang Branch (the “Bank”) in 2003 to secure a bank borrowing from the Bank, which was guaranteed by other companies who entered into a Guarantee Contract with the Bank. Thereafter, on 7 June 2004, the Bank and Xinda Assets and Management Company (“Xinda”) entered into the Debt Transfer Agreement, 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 (the “Court”) in May 2005, for the repayment of 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 deficit of the Company’s investment in Shenyang High-Voltage. Xinda further appealed to the Court demanding the Company to execute asset protection for part of the land owned by the Company on 11 May 2005. A civil ruling (2005) Lao Min San Chu Zi No. 8 made by the Court on 26 May 2005 frozen part of the land use rights of the Company. On 20 March 2006, the Court rejected Xinda’s claims against the Company, confirming Shenyang High-Voltage has made sufficient investment. (1) The plaintiff appealed to the Supreme People’s Court on 13 April 2006. Up to date, the Court does not have final judgment.

44. Undertakings

As of the balance sheet date, there were no undertakings that require the Company’s explanations.

45. Other Material Events

The former shareholder of the Company, NET, transferred the shareholding of Kingdom Hotel Shenyang to the Company as compensation for a debt due in 2000 and the name of Kingdom Hotel Shenyang was changed to Kingdom Hotel Limited Shenyang thereafter. However, the property license and the corresponding land use right license in respect of the bowling alley, office, restaurant and staff quarters have not yet been transferred from the former Kingdom Hotel Shenyang.

46. Approval of the Financial Statements

The financial statements for the year were approved and authorized for issue by the board of directors on 16 August, 2006.

Supplementary information:

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

	30 June 2006 Net profit <i>RMB</i>	30 June 2006 Net asset value <i>RMB</i>
Amount per financial statements prepared in accordance with the PRC accounting standards	9,663,612.79	806,605,410.25
Adjustments under the Hong Kong accounting principles		
Welfare fund payable	<u>(22,479.85)</u>	<u>1,620,131.48</u>
Amount per financial statements prepared in accordance with the Hong Kong accounting principles	<u><u>9,641,132.94</u></u>	<u><u>808,225,541.73</u></u>

2. Extraordinary profit and loss items

Unit: RMB

Deducting daily additions under regulations of corporate accounting system of non-operating income and expenses less asset impairment loss provision (net)	236,462.84
Total	<u>236,462.84</u>

3. Details of provision for impairment loss on assets

Unit: RMB

Items	Opening balance	Increase changes for the period	Switched back for the period	Other transfer for the period	Closing balance
1 Provision for bad debts	31,396,090.63	1,102,064.69			32,498,155.32
Including: Accounts receivable	27,321,183.98	800,000			28,121,183.98
Other receivable	4,074,906.65	302,064.69			4,376,971.34
2 Impairment loss on short term investment					
Including: Investment in securities					
Investment in debenture					
3 Provision for Inventory	1,014,071.33		(54,100)	(47,964.69)	912,006.64
Including: Finished goods	47,964.69			(47,964.69)	0
Raw materials	841,861.31		(54,100)		787,761.31
Work in progress	124,245.33				124,245.33
4 Impairment loss on long-term equity investment					
Including: Long term equity investment					
Long term debenture investment					
5 Impairment loss on fixed asset	87,120,500.32			(24,837.60)	87,095,662.72
Including: Building plant	80,650,672.10				80,650,672.10
Machinery and equipment	6,248,907.08			(24,837.60)	6,224,069.48
Motor vehicles and others	220,921.14				220,921.14
6 Impairment loss on intangible assets					
Including: Franchise					
Trademark					
7 Impairment loss on construction in progress					
8 Impairment loss of trust loans					

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

Condensed consolidated income statement

	Note	Six months ended 30 June	
		2006 RMB'000 (unaudited)	2005 RMB'000 (unaudited)
Turnover	3	261,750	245,752
Cost of sales		(204,868)	(190,778)
Gross profit		56,882	54,974
Other income		1,090	3,697
Distribution costs		(14,762)	(12,167)
Administrative expenses		(36,714)	(39,134)
Other operating expenses		(196)	(2,487)
Profit from operations	4	6,300	4,883
Interest on bank borrowings		(1,906)	(2,496)
Investment income from associates		10,692	10,358
Gain on disposal of associates		—	—
Gain on disposal of subsidiary		—	2,555
Profit before taxation		15,086	15,300
Taxation	5	(619)	(1,241)
Profit after taxation		14,467	14,059
Profit attributable to shareholders		9,641	9,309
Profit attributable to minority shareholders		4,826	4,750
		<u>14,467</u>	<u>14,059</u>
Earnings per share – basic	7	<u>1.10 cents</u>	<u>1.07 cents</u>

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

1. Bases of preparation

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

2. Principal accounting policies

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

The accounting policies adopted in preparing the 2006 interim financial information are consistent with those followed in preparing the financial statements for the year ended 31 December 2005.

3. Segment information

The Group’s turnover and gross profit from operations for the six months ended 30 June 2005 and 2006, analysed by business segments and by geographical segments, are as follows:

Business segments	For the six months ended 30 June 2006		For the six months ended 30 June 2005	
	Turnover RMB'000	Segment results RMB'000	Turnover RMB'000	Segment results RMB'000
High-voltage switch / Power capacity / Closed busbar	222,626	15,208	205,097	7,303
Hotel and catering services	14,292	(2,535)	14,546	(3,675)
Storage and transportation	10,640	395	15,372	1,131
Others	14,192	(6,768)	8,866	124
Composite	261,750	6,300	243,881	4,883

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

4. Profit from operations

	Six months ended 30 June	
	2006 RMB'000	2005 RMB'000
Profit from operations has been arrived at after deducting:		
Depreciation and charging:	<u>10,260</u>	<u>12,164</u>
Interest income on bank deposits	<u>170</u>	<u>46</u>

5. Taxation

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

The Company had no taxable profit for the period (2005: Nil). The charge for the period mainly represents provision for income tax calculated at 33% of the assessable income of certain PRC subsidiaries.

No Hong Kong profits tax has been provided as the Company and its subsidiaries had no taxable profit in Hong Kong (2005: Nil).

As at 30 June 2006, the Company and the Group had no significant deferred tax (2005: Nil).

6. Interim dividend

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

7. Earnings per share

The calculation of earnings per share is based on the net profit attributable to shareholders of about RMB 9,641,000 (2005: RMB9,309,000) and the total number of shares in issue amounting to 873,370,000 (2005: 873,370,000) at the end of the period.

8. Connected transactions

- During the period, the Group conducted the following transactions with its associates

	As at 30 June 2006 <i>RMB'000</i>	As at 30 June 2005 <i>RMB'000</i>
Purchase of products and spare parts from connected parties	50,279	4,865
Sales of products to connected parties	28,674	41,328
Provision of industrial services to connected parties	22,350	15,850
Provision of hotel services	<u>444</u>	<u>479</u>

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

- Creditors' rights and debts between the Group and its associates

Item	As at 30 June 2006 <i>RMB'000</i>
Dividend receivable	2,141
Account receivables and other receivables	80,482
Account payables and other payables	<u>14,634</u>