



ANNUAL REPORT 2007

输送光明和动力的桥梁



東北電氣發展股份有限公司
NORTHEAST ELECTRIC DEVELOPMENT CO., LTD.

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東北電氣發展股份有限公司

NORTHEAST ELECTRIC DEVELOPMENT CO., LTD.

(A joint stock limited company incorporated in the People's Republic of China with limited liability)

(Stock Code: 0042)

Summary of Annual Results for 2007

HIGHLIGHT

Consolidated turnover was RMB 618,500,000 an increase of 152,510,000 over 2006.

Loss attributable to equity holders of the Company amounted to RMB 31148, a decrease of 34102 over 2006.

Loss per share attributable to equity holders of the Company amounted to RMB 0.36, representing a decrease of 0.394 over 2006.

The Board does not recommend to distribute dividend, which is subject to the approval by the 2007 Annual General Meeting to be convened on 16 June 2008.

Information disclosure is made pursuant to the Listing Rules as follows:

1. BASIC INFORMATION OF THE COMPANY

1.1 Basic Information

Stock name	Northeast Electric	東北電氣
Stock code	000585(A Shares)	0042(H Shares)
Place of listing	Shenzhen Stock Exchange	Hong Kong Stock Exchange
Registered address	No. 78 Hunnan High and New Technology Development Zone, Shenyang, the PRC	
Office address	14/F, Kingdom Hotel, No. 189 Taiyuan South Street, Heping District, Shenyang, the PRC	
Postcode	110001	
Website	www.nee.com.cn	www.nee.wsfg.hk
E-mail address	nee@nee.com.cn	

1.2 Contact person and means of communication

	Secretary to	Representative for
	the Board of Directors	securities affairs
Name	Shi Li	Zhu Xinguang
E-mail address	nemm585@sina.com	nemm585@sina.com
Office address	14/F, Kingdom Hotel, No. 189 Taiyuan South Street, Heping District, Shenyang, the PRC	
Telephone	(86) 24-23527083	(86) 24-23501976
Fax	(86) 24-23527081	

2. SUMMARY OF ACCOUNTING DATA AND FINANCIAL INDICATORS PREPARED UNDER THE PRC ACCOUNTING RULES AND REGULATIONS

2.1 Principal accounting data

Unit: RMB

	2007	2006	Increase/ Decrease in 2007 over 2006(%)	2005
Income from principal operations	639,700,849.31	560,207,377.16	14.19	574,377,391.26
Net profit	-321,790,459.60	40,880,423.46	-	41,557,753.40
Net profit that belongs to shareholders of listed company	-311,875,926.04	29,529,236.62	-	23,421,622.64
Net profit after extraordinary items	-88,107,110.77	13,548,235.43	-	28,892,032.23
Total assets	1,073,974,339.91	1,282,102,227.11	-16.23	1,268,984,986.37
Shareholders' funds (excluding minority interests)	513,191,910.61	830,895,472.92	-38.24	800,068,877.50
Net cash flow from operating activities	-25,695,727.14	-13,197,000.88	-94.70	5,643,748.35

Extraordinary profit and loss Items

the profits and losses on the disposal of non-current assets	56,137,433.77
the profits and losses arising from accrued liabilities which have no relations with the Company's principal business	-70,256,578.25
Other net non-operating income exclusive of the above items	-169,649,670.79
Others	-40,000,000.00
Total	-223,768,815.27

2.2 Principal financial indicators

Unit: RMB

	2007	2006	Increase/ Decrease in 2007 over 2006(%)	2005
Earnings per share	-0.36	0.03	-	0.027
Return on net assets	-60.77	3.55	decrease 64.32 percent	2.93
Return on net assets after net profit of extraordinary items	-17.17	1.63	decrease 18.8 percent	3.61
Net cash flow from operating activities per share	-0.029	0.015	-	0.01
	As at 31st December, 2007	As at 31st December, 2006	Decrease Increase/in 2007 over 2006 (%)	As at 31st December, 2005
Net assets per share	0.59	0.95	-37.89	0.92

2.3 Financial statement prepared under Accounting Principles Generally Accepted in Hong Kong (“HKGAAP”)

Unit: RMB'000

Items	2007	2006	2005	2004	2003
Turnover	618,496	465,989	546,135	342,338	622,618
Profit before taxation	(264,949)	34,892	44,897	30,437	36,456
Profit attributable to shareholders	(311,479)	29,540	26,761	20,934	27,799
Total assets	1,073,800	1,295,288	1,267,674	1,352,303	989,728
Earnings per share	-0.36	0.034	0.031	0.024	0.032
Net assets per share	0.59	0.95	0.92	0.88	0.65
Gearing ratio (%)	51.82	28.13	29.08	35.15	40.30

2.4 Differences between Hong Kong Accounting Standards and the PRC Accounting Standards in the calculation during the reporting period

	Net assets <i>RMB'000</i>	Net profit <i>RMB'000</i>
Under accounting principles generally accepted in Hong Kong	517,333	(318,509)
Amortisation of negative goodwill	-	(1,140)
Income from Government Subvention		162
Return on Equity Disposal	(174)	1,375
Under the PRC Accounting Regulations	517,507	(318,906)

2.5 Final Dividend: The Board does not recommend to distribute the final dividend.

3. CHANGES IN SHARE CAPITAL AND INFORMATION OF SHAREHOLDERS

3.1 Table of changes in share capital

	Beginning of the year	Increase/ (decrease) (+/-)	<i>Unit: Share</i> End of the year
1. Shares subject to trading moratorium	435,920,000	-211,949,772	223,970,228
State-owned shares	4,591,841	-4,591,841	0
Public legal person shares	431,328,159	-207,247,061	223,970,228
2. Shares not subject to trading moratorium	437,450,000	+211,949,772	649,399,772
Domestic listed A Shares	179,500,000	+211,949,772	391,449,772
Overseas listed H Shares	257,950,000	0	257,950,000
3. Total shares	873,370,000	0	873,370,000

Notes: After the implementation of reform scheme on equity distribution of A shares on 16 May 2006, the Company, respectively on 16 May 2007 and 4 December 2007, totally relieved 211,949,772 shares with trading restrictions, which added to the same number of shares without trading restrictions.

3.2 Shareholdings of the top ten shareholders

Total number of shareholders at the end of the reporting period was 142,898

Shareholdings of the top ten shareholders

Unit: share

Name of shareholders (full name)	Increase/ decrease within the year	Number of shares held at the end of the year	Percentage (%)	Stock category	Number of shares pledged or frozen	Nature of shareholders
HKSCC Nominees Limited	-1,644,002	256,305,998	29.35%	tradable	unknown	H shares
New Northeast Electric Investment Co., Ltd.(note)	+2,478,272	211,991,410	24.27%	untradable	No	A shares subject to trading moratorium
Shanghai Bao Yu Real Estate Investment Consultation Co., Ltd.	-31,918,500	11,750,000	1.95%	tradable	unknown	A shares not subject to trading moratorium
Shanghai Bao Yu Real Estate Investment Consultation Co., Ltd.	0	5,298,818	0.61%	untradable	unknown	A shares subject to trading moratorium
Shenzhen Zhongda Software Development Co., Ltd	0	3,550,000	0.41%	untradable	unknown	A shares subject to trading moratorium
Shanxi Qinjian Science and Technology Investment Co., Ltd	0	1,420,000	0.16%	Untradable	unknown	A shares subject to trading moratorium
Wang Yixuan	+1,005,000	1,005,000	0.12%	tradable	unknown	A shares not subject to trading moratorium
Shanghai Taige Advertisement Co., Ltd	+32,359	956,271	0.11%	Tradable	unknown	A shares not subject to trading moratorium
Shanghai Naozhen Biological Technology Co., Ltd	+720,000	720,000	0.08%	tradable	unknown	A shares not subject to trading moratorium
Shenzhen Baoan Kengjing Development Company	0	710,000	0.08%	untradable	unknown	A shares subject to trading moratorium
An Qingyue	+700,000	700,000	0.08%	tradable	unknown	A shares not subject to trading moratorium

Note:

- (1) So far as the Company is aware, there is no connected relationship among the top ten shareholders or are parties acting in concert as required in “Methods of Information Disclosure of Shareholding Changes of Listed Companies”.
- (2) On 12 February 2007, New Northeast Electric Investment Co., Ltd. pledged 33,802,817 non-circulating shares with Shenyang Jindu branch of Huaxia Bank of six months. At present, the pledge has relieved due to its expiration.
- (3) Respectively on 16 May 2007 and 4 December 2007, New Northeast Electric Investment Co., Ltd withdrew totally 2,478,272 shares, an advancement for other non-tradable shareholders during the implementation of reform scheme on equity distribution of A shares.

3.3 Information on the controlling shareholder and the actual controller0.

Name of the controlling Shareholder	New Northeast Electric Investment Co., Ltd.
Legal representative:	Tian Li
Incorporation date:	8 February 2002
Registered capital:	RMB135 million
Scope of business:	Investment holding, trading of motors and spare parts, electrical and mechanical equipment , metals and electrical appliances, wires and cables, electrical transmission and transformation equipment, building materials ,ferrous materials, rubber products, plastic products, live-stock produces, necessities products, wholesaling and retailing of knitting and weaving products; vehicles repairs and maintenance, science and technology development.
Equity structure:	Ms. Tian Li, the natural person, contributed RMB111 million, representing 82.2% of the registered capital; and Ms. Xie Meiyan, the natural person, contributed RMB24 million, representing 17.8% of the registered capital.

4. CHANGES IN THE SHARES HELD BY THE DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT AND THEIR REMUNERATION

Name	Position	Age	Terms of office	Number of	Number of	Remuneration (RMB0'000)
				Shares held at the beginning of the year	shares held at at the end of the year	
Sun Zhen	Chairman	33	2007/3/7-2010/3/6	0	0	14.52
Wang Shouguan	Vice Chairman	64	2007/3/7-2010/3/6	0	0	7.20
Zhang Bin	Vice Chairman /General Manager	42	2007/3/7-2010/3/6	0	0	11.78
Su Weiguo	Director	46	2007/3/7-2010/3/6	0	0	9.11
Liu Qingmin	Director	45	2007/3/7-2010/3/6	0	0	11.52
Shi Li	Director/ Secretary to the Board of Directors	41	2007/3/7-2010/3/6	0	0	9.11
Du Kai	Director	40	2007/3/7-2010/3/6	0	0	5.42
Bi Jianzhong	Director	31	2007/10/12-2010/3/6	0	0	5.62
Wu Qicheng	Independent Director	63	2007/3/7-2010/3/6	0	0	3.50
Lin Wenbin	Independent Director	64	2007/3/7-2010/3/6	0	0	3.50
Xiang Yongchun	Independent Director	65	2007/3/7-2010/3/6	0	0	3.50
Liang Jie	Independent Director	47	2007/3/7-2010/3/6	0	0	3.50
Liu Hongguang	Independent Director	41	2007/3/7-2010/3/6	0	0	3.50
Dong Liansheng	Chairman of the Supervisory Committee	61	2007/3/7-2010/3/6	0	0	6.00
Fu Xiuheng	Supervisor	60	2007/3/7-2010/3/6	0	0	2.90
Dai Guiqing	Supervisor	39	2007/3/7-2010/3/6	0	0	0

5. REPORT OF THE BOARD OF DIRECTORS

5.1 Discussion and analysis of overall operations for the reporting period

During the reporting period, under the leadership of the board of directors and the supports of mass shareholders, the Company adhered to the guideline of “consolidating the foundation and strengthening the principal operations” to conduct assets reorganization and resources optimization. At the same time, it laid more emphasis on the operative efficiency and benefits through further improving its interior organization and focusing on the execution of major contracts, and paid special attention to the expansion of future markets by strengthening product R& D and technical transformation as well as increasing productive capacity and quality assurance level, thus actively overcoming the difficulties in material supply and funds and continuing to steady growth in operation. In the whole year, the Company realized sales revenue from principal operations of RMB 639,700,000, increase by 14.2% compared with the same period of last year; loss of RMB 318,910,000, decrease by RMB 358,380,000 compared with the same period of last year.

The operation conditions mainly showed the following characteristics:

1. Production continued keeping steady growth. The productive balance and complete set ability have increased to some extent through further strengthening of plan coordination and field management as well as initial success in technological transformation. In the whole year, the Company realized the total industrial output value (the current rate) RMB 463,960,000, increase by 29.3% compared with the same period of last year.
2. Continuous growth was registered in principal business revenue. Some subsidiaries like New Jingrong and New Shenkai hit or approached an all-time high. In addition, the Company’s competitiveness further improved. Handsome increase was scored in the quantity of products ordered, among which the quantity of capacitors increased by 52% compared with the same period of last year, and the quantity and variety of high-voltage insulated switchgear increased to varied extent.
3. During the period, the Company’s net profit was reduced by RMB 358,380,000 compared with the same period of last year, which was mainly caused by extraordinary profit losses arising from problems left by history like guarantees and lawsuits. At the same time, the Company’s gross profit rate was slightly reduced due to rise in the price of raw materials, energy, and power.
4. Progress was made in the research, development and application of new products and new technology as well as in quality improvement. The primary qualification rate of product test of the subsidiaries improved due to the implementation of quality improvement measures and the optimization of process control.

5. In order to develop continuously and expand the market, the Company conducted overall planning, paid more attention to investment and management in technical transformation, and made great efforts to improve the Company's key competitiveness and development potentiality.

5.2 Principal operations by business and product segment

Unit: RMB0'000

By Business or Product	Income from principal operations	Costs of principal operations	Gross profit margin (%)	Increase/ (decrease)in income from principal operations as compared with last year (%)	Increase/ (decrease) in cost of principal operations as compared with last year (%)	Increase/ (decrease) in gross profit margin as compared with last year (%)
1. By Business						
Electric transmission and transformation	59,675	49,051	17.80	23.70	35.96	decrease 7.39 percent
Accommodation and catering	1,874	1,645	12.22	-42.89	-36.57	decrease 3.42 percent
2. By Product						
High voltage switch, circuit breaker	32,449	28,165	13.20	118.33	125.68	decrease 2.83 percent
Power capacitor	15,697	11,738	25.22	-25.80	-18.78	decrease 6.45 percent
Closed busbar	10,594	8,349	21.19	0.10	8.25	decrease 5.93 percent
Others	935	799	14.55	-43.00	-44.18	Increase 2.47 percent

5.3 Principal operations by geographical segments

Unit: RMB0'000

Region	Income from principal operations	Increase/ (decrease)in income from principal operations compared with last year (%)
Domestic	59,810	14.41
Overseas	1,740	14.47

5.4 Purchasing and sales

Total amount of purchase from the top five suppliers	RMB104,524,000	Percentage to the Company's total amount of purchase	34%
Total amount of sales to the top five customers	RMB208,762,000	Percentage to the Company's total amount of sales	33%

5.5 Operation and results of major controlling company and Investee Company

Unit: RMB 0,000

name	principal business	registered capital	percentage of share held by the company	total assets	net assets	income from principal operations	net profit
Fuxin closed busbars Company Limited	Closed busbars	US\$2,800,000	100	37,954	4,907	10,594	718
New Northeast Electric (Shenyang) High-voltage Isolator Co. Ltd	Insulated switchgear	US\$21,500,000	100	38,449	18,489	12,615	-286
New Northeast Electric (Jinzhou) Power Capacitors Co., Ltd	Lightning arrester, power capacitor	US\$10,000,000	100	26,468	6,955	16,249	-1,369
Jinzhou Jinrong Electric Company Limited	High-voltage capacitor	300	69.75	1,364	962	807	-201
Shenyang Gaodongjia Desiccation Company Limited	Desiccation equipment	450	70	871	469	884	4
Northeast Electric (Hong Kong) Company Limited	Investment	US\$20,000,000	100	43,349	23,233	2,910	1,814
New Northeast Electric (Shenyang) High-voltage Switchgear Co., Ltd	Manufacture of switches and equipment	US\$168,000,000	20.8	334,165	150,458	142,891	14,298
Weida High-voltage Electric Co., Ltd	Investment	US\$12,626	20.8	22,006	9,234	6,996	6,603
Shenyang Kaiyi Electric Co., Ltd	High-voltage electric equipment	100	100	8,570	60	0	-40
Shenyang Jiatai Machinery Equipment Co., Ltd	manufacture of general machinery equipment	500	100	624	511	61	11
Northeast Electric (Beijing) Co., Ltd	sales of machinery equipment	200	100	442	193	179	-7
Great Power Technology Limited	Investment and Trading	US\$1	100	9,840	-4	0	0

5.6 Analysis of material changes in financial conditions, operations results and profit composition compared with last year

Unit:RMB

Item	2007	2006	Increase/ decrease(%)
1. Total assets	1,073,974,339.91	1,282,102,227.11	-16.23
2. Shareholder's fund excluding minority interests	513,191,910.61	830,895,472.92	-38.24
3. Profit from principal business	-81,884,210.56	40,346,800.93	-
4. Net Profit	-318,906,062.93	39,472,179.47	-
5. Net increase in cash and cash equivalent	24,454,208.56	-71,325,050.47	-

Note:

1. The greater changes in total assets and shareholder's equity arose from the changes in merger scope caused by equity disposal of Shenyang Kingdom Hotel Co., Ltd;
2. The greater changes in principal business profit arose from the Company's withdrawal of assets impairment loss;
3. The greater changes in net profit arose from the Company's withdrawal of assets impairment loss, increase of anticipation liabilities and compensation for transaction consideration;
4. The greater changes in cash and cash equivalent arose from the payment the Company received.

5.7 Operating plans of the Board for the new fiscal year

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

2008 is a cardinal year of the "11th five-year plan" of our economic contraction. It is expected that the installed capacity of power generation newly increased will be up to about 80 million KW in China. Top priority will be given to structural adjustment and grid construction in power industry so as to address the balanced development of power supply and grid construction. With fast growth of grid construction and sequential implementation of ultra-high voltage alternating and direct current projects, grid equipment manufacturers face an unprecedented market opportunity for sustained development.

In 2008, the market space and overall environment are more favorable for the development of the trade. In addition, the increasing investment in power infrastructure will accelerate the promotion of business results of our company. However, with the new increment and constant expansion of like enterprises at home and abroad, as well as the influence of such factors as obvious reduction in the growth rate of power construction and rise in the price of raw materials, we still have to face greater challenge and risk.

2. Business Objectives and Main Works

In 2008, the Company will make timely adjustment and improvement in accordance with market demand. It will further strengthen market development, dispose resources in a scientific and rational way, give full play to the effect of previous market exploitation, technological transformation and accumulated research and development, better increase productive capacity, technology and quality level, and market share, as well as enhance adaptability and competitiveness so as to expand and increase the scope of business.

Work in the following aspects should be done well:

- (1) Make strong efforts to expand market, and increase enterprise economic benefits with market at its core

In the face of the fierce market competition, we will adjust marketing tactics, further strengthen detailed management, and make great efforts to expand new markets at home and abroad. In addition, we will ensure positive cycle of the Company's capital through strengthening market management, reducing the scale of the account receivable and improving the efficiency of capital.

- (2) Insist on technological innovation, and establish corporate brand image with quality at its core

We will keep the Company's key competitiveness through innovation of science and technology, and concentrate our advantages to do a good job in technical research and transformation. Besides, we will increase investment in scientific research and development, make a strict standard for the process control of product quality and improve the product quality so as to maintain the Company's reputation and product image.

- (3) Strengthen budget control, and improve overall profit ability with gain at its core

Sticking to tightened budget management system, we will further subdivide the scope of budget management, make great efforts to budget management and stress the establishment of internal control mechanism. Based on the management of expenses and costs, we will implement detailed budget management, further integrate the Company's resources, improve the control of purchase cost and production process, thus reducing costs and increasing benefits.

- (4) Advance management innovation, and realize long-term development strategy with human at its core

Adhering to reform and innovation, the Company will accelerate the development through reform, motivate people relying on policies, make a stricter standard of performance appraisal, and establish a complete system of performance appraisal. Base on human resources, the Company will carry out an overall project to promote staff's quality by the establishment of a complete talent motivation system, therefore expanding the talent team with high skills.

3. Possible risks faced by the Company and strategy

- (1) Development strategy risks

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

- (2) Market operation risks

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

(3) Financial risks

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

5.9 The Board of Directors' Draft plan on Profit Distribution

During the reporting period, the Company recorded loss of RMB318,906,062.93 and the accrued profit distributable to shareholders at the end of the year is RMB-1,438,523,595.67. Therefore the Board resolved not to make any profit distribution and not to transfer any capital reserve into share capital during the reporting period.

5.10 Foreign exchange risk

Most of the revenue, expenditure, assets and liabilities of the Company are denominated in Renminbi and the Company is not subjected to any significant risks from fluctuation of foreign exchange.

5.11 Analysis of the Company's financial condition under generally accepted accounting principles of Hong Kong

The Company's cash liquidity, financial resources, capital structure and assets pledged during the reporting period:

As at end of the year, the balance of monetary fund was RMB36,635,000.

There's no obvious seasonal principle in the Company's funding requirements.

The funds are mainly satisfied by 1) the cash flow from the Company's operation and capital operation and 2) the borrowings from financial institutions.

As at the end of the year 2007, the Company had bank loans amounting to RMB50,369,000, representing 4.69% of the total assets. These bank loans bear fixed interests.

The debt equity ration of the Company was 9.82% (debt equity ration= total bank loan/total share capital reserve * 100%)

As at the end of the year 2007, the Company had net asset of 56,302,000 as security.

6. SIGNIFICANT EVENTS

6.1 Personnel movement

The second extraordinary general meeting of 2007 held on 7 March 2007 voted 8 executive directors namely Mr. Sun Zhen, Mr. Zhang Bin, Mr. Su Weiguo, Mr. Liu Qingmin, Mr. Shi Li, Mr. Du Kai , Mr. Liu Tongyan and 5 independent non-executive directors namely Mr. Wu Qicheng, Mr. Lin Wenbin, Mr. Xiang Yongchun, Ms. Liang Jie and Mr. Liu Hongguang to compose the Fifth Session of the Board of Directors. Mr. Sun Zhen was voted as the Chairman ; Mr. Zhang Bin was appointed to be the General Manager; Mr. Su Weiguo was appointed to be Deputy General Manager; Mr. Shi Li was appointed to be Deputy General Manager and Secretary of Board and Mr. Bi Jianzhong was appointed to be Chief Accountant of the Company.

The second extraordinary general meeting of 2007 held on 7 March 2007 voted 2 shareholder representatives, namely Mr. Fu Xiuheng, Ms. Dai Guiqing, and 1 employee representative, namely Mr. Dong Liansheng to compose the Fifth Session of the Supervisory Committee, and Mr. Dong Liansheng was appointed to be the Chairman of the Supervisory Committee.

On 7 March 2007, 3 executive directors, namely Mr. Qu Lin, Ms. Tian Li and Mr. Li Hongliang and 2 independent non-executive directors, namely Mr. Gao Chuang and Mr. Kang Jinjiang ceased to be directors duo to expiration of their term.

Approved by the board of directors on 27 August 2007, Mr. Liu Tongyan has resigned as executive director of the Company due to work relocation.

Mr. Bi Jianzhong was elected the executive director with approval of the sixth extraordinary general meeting of 2007 held on 12 October 2007.

6.2. Material litigation and arbitration

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

According to the announcement dated 9 January 2008, CBD lodged litigation against Shenyang High-voltage Switchgears Company Limited (the“Shenyang High-voltage”) on dispute over a loan contract and also against the Company for acceptance of joint compensation. On 7 January 2008, the civil written order ((2004) Gao Min Chu zi No. 802) dated 19 July 2007 made by Beijing Higher Court was transferred to the Company from its attorney. According to the order, Beijing Higher Court canceled the contract signed by the Company and Shenyang High-voltage in relation to swapping the Company’s creditor’s rights of RMB76,660,000 for the equity of Shenyang High-voltage. Beijing Higher Court ruled out that the Company should return the related equity to Shenyang High-voltage, and if not, the Company should compensate for loss to Shenyang High-voltage within limit of the value of share capital of RMB247,120,000; Shenyang High-voltage should return the creditor’s rights of RMB76,660,000 to the Company, and if not, Shenyang High-voltage should compensate for loss to the Company within limit of RMB76,660,000. On 23 August 2007, CBD filed an appeal to the Supreme Court. Now, the court’s decision is awaited.

2. Progress of debt and equity case brought by Liaoning Trust and Investment Company (“Liaoning Trust”) on US\$12 million

According to the announcement dated 13 December 2007, recently, the Company received the civil judgment ((2007) Liao Li Min Jian Zi No.56) dated June 20, 2007 made by Liaoning Higher Court on the case of RMB15,900,000. According to the court’s decision, another collegial panel will be composed to retry the case, and the execution of the original judgment will be suspended during the retrial.

As for the case of RMB60,190,000, there has not been any new progress since the announcement made on March 12, 2007.

3. Litigation lodged by Jinzhou City Commercial Bank Co., Ltd (the “Commercial Bank”) for the loan guarantee of RMB17 million

According to the announcement dated 10 September 2007, On 20 April 2004, Jinzhou Power Capacitors Co., Ltd, the former holding subsidiary of the Company (the “Jinzhou Capacitors”), signed a 12-month contract with the Commercial Bank on a loan of RMB17,000,000 by using the new loan to pay the old one, with the Company providing the guarantee. Because the payment was overdue, the Commercial Bank brought a lawsuit to the Jinzhou Intermediate Court in March 2007, requesting Jinzhou Capacity to repay the loan, and the Company to bear the guarantee liabilities. On 13 June 2007, the Jinzhou Intermediate Court issued a civil written order ((2007) Jin Min San Chu Zi No. 49) and ruled out that the Company should bear the guarantee liabilities of Jinzhou Capacity’s loan of RMB17, 000,000. The Company once filed an appeal to the Liaoning Higher People’s Court, but then applied to withdraw it. On 30 October 2007, the Liaoning Higher People’s Court issued a civil written order ((2007) Liao Min Er Zhong Zi No.305), which allowed the Company to withdraw the lawsuit and maintained the previous judgment.

4. Litigation lodged by Industrial And Commercial Bank Of China Limited Jinzhou Branch (the “Jinzhou ICBC”) for the loan guarantee of RMB22.9 million

According to the announcements dated 26 October 2007 and 17 March 2008, on 20 December 2003, Jinzhou Power Capacitor Co., Ltd (the “Jinzhou Capacitor”), the former holding subsidiary of the Company, signed a one-year contract with the Jinzhou ICBC in relation to the loan of RMB22, 900,000, with the Company providing the joint guarantee liabilities. Because the payment was overdue, the Jinzhou ICBC brought a lawsuit to the Jinzhou Intermediate Court in December 2006, requesting Jinzhou Capacity to repay the loan, and the Company to bear the joint guarantee obligation. On 18 July 2007, the Jinzhou Intermediate Court issued a civil written order (Jin Min San Chu Zi No.19) and ruled out that the Company the guarantee liabilities of Jinzhou Capacity’s loan of RMB22, 900,000.

6.3 During the reporting period, the Company did not enter into any trust, contractual or lease arrangement in respect of the assets of other companies nor did other companies enter into any trust, contractual or lease arrangement in respect of the assets of the Company nor have any fund management on trust or designated loan.

6.4 Guarantees

With the approval of the board meeting on 19 December 2007, the Company provided guarantee against an integrated credit line of RMB68,570,000 in the Shenyang Branch of Shanghai Pudong Development Bank for Northeast Electric (Shenyang) High-voltage Switchgear Co., Ltd, a joint company of the Company. The guarantee is valid from the due date of debt to two years. The guarantees of the Company for the joint company against its integrated credit line in the Shenyang Branch of Shanghai Pudong Development Bank totaled RMB220,000,000. At the same time, the Company also provided guarantee against both the loan of RMB40, 000,000 in the Shenzhen Development Bank Dalian Branch and the loan of RMB 40,000,000 in the Industrial Bank Shenyang Branch for its joint company with total guarantees of RMB 300,000,000

(1) Foreign guarantees of the Company

By the end of 2007, the foreign guarantee of the company totaled RMB 368,850,000, including RMB 300,000,000 for New Northeast Electric (Shenyang) High-voltage Switchgear Co., Ltd (Please refer to the announcement dated 27 December 2007 for details); RMB 39,900,000 for Jinzhou Power Capacitors Co., Ltd (Please refer to the announcement dated 26 October 2007 for details); RMB 28,950,000 for Shenyang Kingdom Hotel Co., Ltd (Please refer to the announcement dated 10 September 2007 for details).

(2) Guarantees for the holding subsidiaries of the Company

In 2007, the Company offered guarantees of RMB 37,000,000 in total for its holding subsidiaries.

(3) Guarantee of the Company for the guaranteed company with assets liabilities over 70%

As of the end of the reporting period, the guarantee of the Company for Jinzhou Power Capacitors Co., Ltd with assets liabilities over 70% was RMB 39,900,000, accounting for 7.77% of the audited net assets of the Company for 2007, which was translated into liabilities in total.

(4) The Company hasn't any other guarantees for its shareholder, effective controller and other parties concerned.

6.5.1 Acquisitions and Disposal of Assets

With the approval of the board meeting on 14 May 2007 and the fifth extraordinary general meeting on 16 August 2007, the Company transferred 100 % of its equity in Shenyang Kingdom Hotel Co., Ltd, which is held by its fully funded subsidiary Great Power Technology Limited, to Prosper Power Company Ltd at the price of RMB 180,000,000, acquiring 48% equity of New Northeast Electric (Jinzhou) Power Capacitors Co., Ltd and 25.6% equity of New Northeast electric (Shenyang) High-Voltage Isolator Co., Ltd, which are held by Prosper Power Company Ltd.. Shenyang Kingdom Hotel Co., Ltd has been out of the scope of the Company's consolidated statements since September 2007.

The disposal of 100% equity of Shenyang Kingdom Hotel Co., Ltd brought the transferred return of RMB 1,311,900.00 to current period.

6.5.2 Overseas investment

(1) Capital Increase of Northeast Electric (Hong Kong) Co., Ltd

With the approval of the Ministry of Commerce of the PRC, the Company, in January 2007, made a capital increase of US\$ 19,100,000 for the registered capital of Northeast Electric (Hong Kong) Co., Ltd, the fully funded subsidiary of the Company, thus increasing the registered capital from US\$ 900,000 to US\$ 20,000,000.

(2) Establishment of Shenyang Kaiyi Electric Co., Ltd

With registered capital of RMB 1,000,000, Shenyang Kaiyi Electric Co., Ltd is a wholly-owned subsidiary of the Company. Its scope of business includes the manufacture of high-voltage electric equipment, switchgears, power capacitors, die castings, machinery parts, hardware tools, insulating material, mechanical and electronic equipment, rubber products and metallic material. On 2 April 2007, its industrial and commercial registration was done.

(3) Establishment of Northeast Electric (Beijing) Co., Ltd

With registered capital of RMB 2,000,000, Northeast Electric (Beijing) Co., Ltd is a wholly-owned subsidiary of the Company. Its scope of business includes the sales of machinery equipment, electronic products, hardware & electric apparatus, metal material, chemical products (exclusive of dangerous chemical products); export and import business in goods, agent and technology. On 15 May 2007, its industrial and commercial registration was done.

(4) Establishment of Shenyang Jiatai Machinery Equipment Co., Ltd

With registered capital of RMB 5,000,000, Shenyang Jiatai Machinery Equipment Co., Ltd is a wholly-owned subsidiary of the Company. Its scope of business includes manufacture of general machinery equipment, manufacture, installation, and maintenance of metal cabinet, spinning products, and drying equipment as well as the machining of corresponding parts. On 2 July 2007, its industrial and commercial registration was done.

6.6 Implementation of Commitments

Commitments on equity distribution reform

New Northeast Electric Investment Co., Ltd, the controlling shareholder of the Company made a special commitment during the Share Reform Scheme that it will not sell or transfer the shares of Northeast Electric Development Co., Ltd on Shenzhen Stock Exchange within 36 months from the date for implementation of the Share Reform Scheme. Following the expiry of the said 36 months, the original Non-circulating Shares which are publicly sold on Shenzhen Stock Exchange will not less than RMB5.

New Northeast Electric Investment Co., Ltd fully complied with the commitments.

6.7 Connected Transaction

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

Pursuant to the requirements of the Listing Rules of Hong Kong Stock Exchange, the Company transferred 100 % of its equity in Shenyang Kingdom Hotel Co., Ltd, which is held by its fully funded subsidiary Great Power Technology Limited, to Prosper Power Company Ltd at the price of RMB 180,000,000, acquiring 48% equity of New Northeast Electric (Jinzhou) Power Capacitors Co., Ltd and 25.6% equity of New Northeast electric (Shenyang) High-Voltage Isolator Co., Ltd, which are held by Prosper Power Company Ltd. on 14 May 2007, which was approved at the fifth extraordinary general meeting on 16 August 2007.

6.8 Change of the auditors

The first Extraordinary General Meeting held on 5 January 2007 approved the resignation tendered by the existing domestic auditors Shing Wing Certified Public Accountants and the international auditors ShingWing (HK) CPA Limited and the appointment of Wong Lam Leung & Kwok C.P.A Limited as international auditors and Shenzhen Pengcheng Certified Public Accountants as domestic auditors for a term of one year. On 20 April 2007, the 2006 Annual General Meeting approved to reappoint Shenzhen Pengcheng Certified Public Accountants as the Company's domestic auditor, while rejected the reappointment of Wong Lam Liang& Kwok CPA Limited as the Company's international auditor. On 6 June 2007, the fourth EGM approved to appoint World Link CPA Limited as the Company's international auditor for a term of one year, and the total auditing remuneration paid by the Company amounted to RMB1,600,000.

6.9 Impact of medical insurance scheme on the results of the Company

The scheme did not have any impact on the company's results.

6.10 Purchase, sale and redemption of shares

The Company and its subsidiaries did not purchase, sell and redeem any shares of the Company during the year.

6.11 Report of corporate governance

As disclosed in the annual report for 2006 of the company, the Company has fully complied with the provisions of Code of Corporation Governance Practice as set out in Appendix 14 to the Listing Rules of Hong Kong Stock Exchange and certain proposed code of best practice. The board of directors has also thoroughly reviewed the internal control system during the year and is of the opinion that the system is effective and sufficient and secured the achievement of the targets of the Company's operation and regulations.

Details of the "Code of Corporate Governance" Practice adopted by the Company are set out in the Report for 2007, which will be dispatched to the shareholders soon.

6.11.1 Audit Committee

Duties and main work of the Committee include scrutiny of the Company's financial reports, appointment of independent auditors, approval of auditing and audit-related services and monitoring of internal financial reporting procedure and management policies. The committee comprises 5 independent non-executive directors of the Company with Ms. Liang Jie as the presiding member.

The Committee convenes no less than 2 audit committee meetings each year to collectively scrutinize the accounting principles adopted by the Company, internal control system and related financial matters so as to ensure the integrity, fairness and accuracy of the Company's financial statements and other related information. During 2007, a total of 4 meetings were held by the audit committee to respectively scrutinize the Company's annual and interim reports, the first quarterly results and the third quarterly results. All 5 independent directors attended the meetings to hear reports on internal controls while issuing related auditing reports and putting forward their views.

The Audit Committee has, together with the management, reviewed the accounting principles, accounting standards and methods adopted by the Company and has studied matters relating to auditing, internal controls and financial reporting. The Audit Committee has given its consent to the financial accounting principles, standards and methods adopted by the Company for the audited annual accounts for the year ended 31 December 2007.

6.11.2 Model Code for Securities Transactions by Directors of Listed Companies (the “Model Code”)

During the reporting period, the Company has adopted a code of behavior on terms no less exacting than the required standard set out in the “Model Code” in connection with rules governing securities transactions of directors and supervisors. It was confirmed, upon specific enquires, that no director or superior of the Company has breached the standards as required by the “Model Code” as stated in Appendix 10 to the Listing Rules in relation to securities transactions by directors.

6.12 Taxation: The Company is subject to income tax at the statutory rate of 33%, and the Company had no taxable profit in Hong kong during the reporting period.

6.13 Employees: as at 31 December 2007, the number of employees on the payroll of the Company was 1117(1014 employees in 2006). The remuneration of the employees of the Company includes their salaries, bonuses and other fringe benefits. The Company has different rates of remuneration for different employees, which are determined based on their performance, experience, position, and other factors in compliance with the relevant PRC laws and regulations.

By the end of the year 31 December 2006 after publishing the Annual Report, there have been no significant changes in the Group’s policies of enrollment, training and development.

6.14 Qualified Accountant ALIFIED ACCOUNTANT

The Company has not been able to employ a Qualified Accountant in accordance with the specified qualifications set out in Rule 3.24 of the Hong Kong Stock Exchange Listing Rules. The Company will keep the shareholders of the Company informed of the progress of the appointment of the Qualified Accountant in time.

6.15 Subsequent events

None.

7. REPORT OF THE SUPERVISORY COMMITTEE

The Supervisory Committee is in the view that the Company is operated legally. The Company did not have any problem in its financial position, acquisition, assets disposal transactions and connected transactions.

8. FINANCIAL STATEMENTS

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS 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 consolidated financial statements of Northeast Electric Development Company Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 4 to 68, which comprise the consolidated balance sheet as at 31 December 2007, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, and for no other purposes. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Except for the limitation in the scope of our work as explained below, we conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free from material misstatement.

However, because of the matters described in the basis for disclaimer of opinion paragraph, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

BASIS FOR DISCLAIMER OF OPINION

1. Scope limitation-interests in an associate

As at 31 December 2007, the Group's interests in associates included share of net assets of New Northeast Electric (Shenyang) High-Voltage Switchgear Company Limited ("New High-Voltage") of RMB252,430,000 and the Group's loss for the year was arrived at after share of New High-Voltage's profit of RMB29,426,000 for the year then ended. These amounts were derived from the audited financial statements of New High-Voltage for the year ended 31 December 2007, which were prepared under accounting principles generally accepted in the People's Republic of China ("PRC").

The financial statements of New High-Voltage referred to above were audited by an audit firm in PRC which is unrelated to us. This firm issued an unqualified report dated 25 February 2008 on these financial statements. However, we have not received sufficient information and explanations from this firm as we consider necessary in order to enable us to form a conclusion as to the adequacy of their work for our purpose. Hence, we have been unable to satisfy ourselves as to whether :

- a. the Group's interests in New High-Voltage as at 31 December 2007 and the Group's share of profit for the year then ended was fairly stated under Hong Kong Financial Reporting Standards; and
- b. the summary financial information of New High-Voltage as disclosed in note to the consolidated financial statements was fairly stated under Hong Kong Financial Reporting Standards.

2. Scope limitation - Goodwill

As disclosed in note to the consolidated financial statements, included in the consolidated balance sheet as at 31 December 2007, is goodwill arising from the acquisition of the minority interests of two subsidiaries which is recorded as having a carrying value RMB94,644,000. We are unable to obtain sufficient reliable evidence to satisfy ourselves as to whether any impairment on the goodwill is necessary and whether the goodwill is fairly stated in the consolidated financial statements as at 31 December 2007.

We were unable to carry out alternative audit procedures to satisfy ourselves as to the matters set out in points (1) to (2) above.

Any adjustment that might have been found to be necessary in respect of the matters set out in points (1) to (2) above may have a consequential and significant effect on the financial positions of the Group as at 31 December 2007, the Group's loss and cash flows for the year then ended and the related disclosures in the consolidated financial statements.

DISCLAIMER OF OPINION: DISCLAIMER ON VIEW GIVEN BY CONSOLIDATED FINANCIAL STATEMENTS

Because of the significance of the matters described in the basis for disclaimer of opinion paragraph, we do not express an opinion on the consolidated financial statements as to whether they give a true and fair view of the state of the Group's affairs as at 31 December 2007 and of the Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards. In all other respects, in our opinion the consolidated financial statements have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

**For and on behalf of
World Link CPA Limited**

**Fung Tze Wa
Certified Public Accountant (Practising), Hong Kong
Practising Certificate Number: P01138**

Hong Kong, 29 April 2008

**CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2007**

	Notes	2007 RMB'000	(Restated) 2006 RMB'000
Continuing operations			
Turnover		618,496	465,989
Cost of sales		(510,785)	(347,002)
Gross profit		107,711	118,987
Other income		4,505	10,921
Distribution costs		(52,396)	(40,968)
Administrative expenses		(84,250)	(60,232)
Other expenses		(894)	(9,443)
Operating (loss)/profit		(25,324)	19,265
Interest on bank borrowings wholly repayable within five years		(3,685)	(3,034)
Share of results of associates	(十二)	29,077	23,410
Exchange loss		(1,781)	(7,178)
Reversal of allowance for impairment loss		2,429	
Impairment loss on available-for-sale investments		(2,537)	-
Gain on disposal of available-for-sale investments		54,443	-
Provision for loss on guarantees		(70,257)	-
Compensation for share exchange scheme		(170,460)	-
Write off of receivables from Bengang Group		(74,425)	-
(Loss)/profit before tax		(264,949)	34,892
Income tax	(五)	3,247	(3,551)
(Loss)/profit for the year from continuing operations		(261,702)	31,341
Discontinued operations			
(Loss)/profit for the year from discontinued operations		(56,807)	8,142
(Loss)/profit for the year	(四)	<u>(318,509)</u>	<u>39,483</u>
Attributable to:			
Equity holders of the Company		(311,479)	29,540
Minority interests		(7,030)	9,943
		<u>(318,509)</u>	<u>39,483</u>
(Loss)/earnings per share - basic	(七)		
From continuing and discontinued operations (RMB per share)		(0.36)	0.034
From continuing operations (RMB per share)		<u>(0.29)</u>	<u>0.025</u>

CONSOLIDATED BALANCE SHEET
AT 31 DECEMBER 2007

	Notes	2007 RMB'000	(Restated) 2006 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment		110,247	361,257
Prepaid lease payments		14,001	13,329
Goodwill	(十一)	94,644	-
Interests in associates	(十二)	311,827	307,466
Available-for-sale investments		10,000	37,345
Long term prepayments		1,745	4,274
Deferred tax assets		5,289	-
		<u>547,753</u>	<u>723,671</u>
CURRENT ASSETS			
Inventories		92,783	68,521
Trade and other receivables	(八)	350,569	373,199
Amounts due from associates	(九)	17,117	88,773
Pledged bank deposits		28,943	1,360
Bank balances and cash		36,635	39,764
		<u>526,047</u>	<u>571,617</u>
CURRENT LIABILITIES			
Trade and other payables		245,941	236,368
Amounts due to associates	(九)	62,569	4,208
Bank borrowings		50,369	68,300
Provision for loss on guarantees		124,968	54,711
Tax payable		124	330
		<u>483,971</u>	<u>363,917</u>
NET CURRENT ASSETS		<u>42,076</u>	<u>207,700</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u><u>589,829</u></u>	<u><u>931,371</u></u>

CONSOLIDATED BALANCE SHEET(CONTINUED)
AT 31 DECEMBER 2007
(CONTINUED)

	Notes	2007 <i>RMB'000</i>	(Restated) 2006 <i>RMB'000</i>
CAPITAL AND RESERVES			
Share capital		873,370	873,370
Reserves		(360,352)	(44,023)
		<hr/>	<hr/>
Equity attributable to equity holders of the Company		513,018	829,347
Minority interests		4,315	101,524
		<hr/>	<hr/>
TOTAL EQUITY		<u>517,333</u>	<u>930,871</u>
NON-CURRENT LIABILITIES			
Amount due to an associate	(九)	72,496	-
Government grant		-	500
		<hr/>	<hr/>
		<u>589,829</u>	<u>931,371</u>

The consolidated financial statements were approved and authorised for issue by the board of directors on 29 April 2008 and are signed on its behalf by:

Bi Jianzhong
Director

Shi Li
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2007

	Attributable to equity holders of the Company										
	Share capital	Capital reserve	Capital contribution	Statutory common reserve	Statutory public welfare reserve	Discretionary common reserve	Translation reserve	Accumulated losses	Minority Total	interests	Total
	<i>RMB'000</i>	<i>RMB'000</i> (note 32)	<i>RMB'000</i> (note 32)	<i>RMB'000</i> (note 32)	<i>RMB'000</i> (note 32)	<i>RMB'000</i> (note 32)	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
At 1 January 2006	873,370	603,394	186,419	48,091	32,212	32,424	806	(976,336)	800,380	98,714	899,094
Capital contribution rising from disposal of subsidiaries	-	-	(136,028)	-	-	-	-	136,028	-	317	317
Reversal of fair value adjustment	-	-	-	-	-	-	-	-	-	5,430	5,430
Transfer	-	-	-	33,540	(32,212)	275	-	(1,603)	-	-	-
Exchange differences arising on translation of foreign operations and income recognised directly in equity	-	-	-	-	-	-	(573)	-	(573)	-	(573)
Profit for the year	-	-	-	-	-	-	-	29,540	29,540	9,943	39,483
At 31 December 2006 and 1 January 2007											
- as originally stated	873,370	603,394	50,391	81,631	-	32,699	233	(812,371)	829,347	114,404	943,751
- prior year adjustment (note 3a)	-	-	-	-	-	-	-	-	-	(12,880)	(12,880)
At restated	873,370	603,394	50,391	81,631	-	32,699	233	(812,371)	829,347	101,524	930,871
Capital contribution arising from disposal of subsidiaries	-	-	1,140	-	-	-	-	-	1,140	-	1,140
Acquisition of additional interest in subsidiaries	-	-	-	-	-	-	-	-	-	(69,059)	(69,059)
Forefiture of value added tax	-	-	2,600	-	-	-	-	-	2,600	-	2,600
Dividend paid to minority shareholders	-	-	-	-	-	-	-	-	-	(21,120)	(21,120)
Exchange differences arising on translation of foreign operations and income recognised directly in equity	-	-	-	-	-	-	(8,590)	-	(8,590)	-	(8,590)
Loss for the year	-	-	-	-	-	-	-	(311,479)	(311,479)	(7,030)	(318,509)
At 31 December 2007	873,370	603,394	54,131	81,631	-	32,699	(8,357)	(1,123,850)	513,018	4,315	517,333

**CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2007**

	2007	(Restated)
	<i>RMB'000</i>	<i>RMB'000</i>
OPERATING ACTIVITIES		
(Loss)/ profit for the year	(318,509)	39,483
Adjustments for:		
Amortisation of land use rights	493	1,658
Depreciation of property, plant and equipment	13,694	18,775
Dividend income	-	(1,278)
Gain on disposal of a subsidiary	-	(15,338)
Allowance of impairment loss	-	2,414
Income tax	(3,247)	4,242
Interest expense	3,965	3,446
Interest income	(1,214)	(379)
Loss/(gain) on disposal of property, plant and equipment	583	(281)
Impairment loss on property, plant and equipment	40,000	-
Impairment loss on available-for-sale investments	2,537	-
Reversal of allowance for inventories	-	(48)
Reversal of allowance for impairment loss	-	(2,429)
Share of results of associates	(29,077)	(23,410)
Gain on disposal of available-for-sale investments	(54,443)	-
Provision for loss on guarantees	70,257	-
Government grant	(162)	-
Long term prepayments	2,529	-
Profit of Chengtai Energy and Suntime Storage for the period from 1 January 2006 to 31 October 2006	-	(2,125)
	<hr/>	<hr/>
Operating (loss)/profit before changes in working capital	(272,594)	24,730
(Increase)/decrease in inventories	(25,607)	16,993
Decrease in trade and others receivables	9,585	38,112
Decrease/(increase) in amounts due from associates	71,656	(86,608)
Increase in trade and other payables	36,740	7,207
Increase in amounts due to associates	58,361	4,208
Increase in amounts due to related companies	-	892
	<hr/>	<hr/>
Cash (used in)/generated from operations	(121,859)	5,534
Income tax paid	(1,349)	(1,302)
Interest paid	(3,965)	(3,446)
	<hr/>	<hr/>
NET CASH (USED IN)/GENERATED FROM OPERATING ACTIVITIES	<u>(127,173)</u>	<u>786</u>

**CONSOLIDATED CASH FLOW STATEMENT(CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2007
(CONTINUED)**

	2007	(Restated)
	<i>RMB'000</i>	<i>RMB'000</i>
INVESTING ACTIVITIES		
Net cash (outflow)/inflow from disposal of subsidiaries	(2,322)	157,990
Dividend income received from an associate	19,956	11,188
Dividend income received from available-for-sale investments	-	528
Proceeds from disposal of property, plant and equipment	3,597	1,305
Interest received	1,214	379
Purchase of intangible assets	-	(102)
Purchase of property, plant and equipment	(13,323)	(11,079)
Addition of construction in progress	-	(2,772)
Capital injection to an associate	(2,337)	(208,023)
Proceeds from disposal of available-for-sale investments	79,251	-
Increase in pledged bank deposits	(27,583)	(1,360)
	<hr/>	<hr/>
NET CASH FROM/(USED IN) INVESTING ACTIVITIES	58,453	(51,946)
FINANCING ACTIVITIES		
New bank borrowings raised	60,169	34,000
Repayments of bank borrowings	(44,150)	(50,510)
Repayments of other borrowings	-	(500)
Increase in amount due to an associate	72,496	-
Dividend paid to minority shareholders	(21,120)	-
	<hr/>	<hr/>
NET CASH FROM/(USED IN) FINANCING ACTIVITIES	67,395	(17,010)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(1,325)	(68,170)
CASH AND CASH EQUIVALENTS AT 1 JANUARY	39,764	108,219
Effect of changes in foreign exchange rate	(1,804)	(285)
	<hr/>	<hr/>
CASH AND CASH EQUIVALENTS AT 31 DECEMBER		
Representing bank balances and cash	36,635	39,764
	<hr/> <hr/>	<hr/> <hr/>

Notes to the Consolidated Financial Statements

At 31st December, 2007

(一) BASES OF PREPARATION

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the 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, by the Hong Kong Companies Ordinance.

(二) PRINCIPAL ACCOUNTING POLICIES

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.

The accounting policies adopted in preparing financial statements for the year ended 31 December 2007 are consistent with those followed in preparing the financial statements for the year ended 31 December 2006.

(三) BUSINESS AND GEOGRAPHICAL SEGMENTS

Business segments

For management purposes, the Group is currently engaged in only one major operation - manufacture of transmission machinery. This operation is the basis on which the Group reports its primary segment information.

Notes to the Consolidated Financial Statements

At 31st December, 2007

(一) BASES OF PREPARATION

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the 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, by the Hong Kong Companies Ordinance.

(二) PRINCIPAL ACCOUNTING POLICIES

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.

The accounting policies adopted in preparing financial statements for the year ended 31 December 2007 are consistent with those followed in preparing the financial statements for the year ended 31 December 2006.

(三) BUSINESS AND GEOGRAPHICAL SEGMENTS

Business segments

For management purposes, the Group is currently engaged in only one major operation - manufacture of transmission machinery. This operation is the basis on which the Group reports its primary segment information.

Notes to the Consolidated Financial Statements(Continued)

At 31st December, 2007

Segment information about these businesses is presented below:

2007	Continuing operations Manufacture of transmission machinery RMB'000	Discontinued operations Others RMB'000	Consolidated RMB'000
INCOME STATEMENT			
Turnover	<u>618,496</u>	<u>18,741</u>	<u>637,237</u>
RESULT			
Segment result	(25,324)	(16,527)	(41,851)
Finance costs	(3,685)	(280)	(3,965)
Exchange loss	(1,781)	-	(1,781)
Share of results of associates	29,077	-	29,077
Impairment loss on property, plant and equipment	-	(40,000)	(40,000)
Impairment loss on available-for-sale investments	(2,537)	-	(2,537)
Gain on disposal of available-for-sale investments	54,443	-	54,443
Provision for loss on guarantees	(70,257)	-	(70,257)
Compensation for share exchange scheme	(170,460)	-	(170,460)
Write off of receivables from Bengang group	<u>(74,425)</u>	<u>-</u>	<u>(74,425)</u>
Loss before tax	(264,949)	(56,807)	(321,756)
Income tax	<u>3,247</u>	<u>-</u>	<u>3,247</u>
Loss for the year	<u>(261,702)</u>	<u>(56,807)</u>	<u>(318,509)</u>

Notes to the Consolidated Financial Statements(Continued)

At 31st December, 2007

2007	Manufacture of transmission machinery RMB'000	Consolidated RMB'000
BALANCE SHEET		
Assets		
Segment assets	601,751	601,751
Interest in associates	311,827	311,827
Unallocated corporate assets		<u>160,222</u>
Consolidated total assets		<u><u>1,073,800</u></u>
Liabilities		
Segment liabilities	381,006	381,006
Unallocated corporate liabilities		<u>175,461</u>
Consolidated total liabilities		<u><u>556,467</u></u>

	Continuing operations Manufacture of transmission machinery RMB'000	Discontinued operations Others RMB'000	Consolidated RMB'000
OTHER INFORMATION			
Capital additions			
- others	13,323	-	13,323
Depreciation	8,345	5,349	13,694
Allowance for impairment loss	<u>-</u>	<u>40,000</u>	<u>40,000</u>

Notes to the Consolidated Financial Statements(Continued)

At 31st December, 2007

2006	Continuing operations	Discontinued operations	Consolidated
	Manufacture of transmission machinery RMB'000	Others RMB'000	
INCOME STATEMENT			
Turnover	<u>465,989</u>	<u>69,141</u>	<u>535,130</u>
RESULT			
Segment result	19,265	(6,070)	13,195
Finance costs	(3,034)	(435)	(3,469)
Exchange loss	(7,178)	-	(7,178)
Share of results of associates	23,410	-	23,410
Reversal of allowance for impairment loss	2,429	-	2,429
Profit from discontinued operations	<u>-</u>	<u>15,338</u>	<u>15,338</u>
Profit before tax	34,892	8,833	43,725
Income tax	<u>(3,551)</u>	<u>(691)</u>	<u>(4,242)</u>
Profit for the year	<u>31,341</u>	<u>8,142</u>	<u>39,483</u>

Notes to the Consolidated Financial Statements(Continued)

At 31st December, 2007

2006	Continuing operations Manufacture of transmission machinery RMB'000	Discontinued operations Others RMB'000	Consolidated RMB'000
BALANCE SHEET			
Assets			
Segment assets	672,414	274,284	946,698
Interests in associates	307,466	-	307,466
Unallocated corporate assets			41,124
Consolidated total assets			<u>1,295,288</u>
Liabilities			
Segment liabilities	229,976	11,100	241,076
Unallocated corporate liabilities			123,341
Consolidated total liabilities			<u>364,417</u>
	Manufacture of transmission machinery RMB'000	Others RMB'000	Consolidated RMB'000
OTHER INFORMATION			
Capital additions			
- others	12,380	1,471	13,851
Depreciation	7,510	11,265	18,775
Allowance for impairment loss	<u>2,414</u>	<u>-</u>	<u>2,414</u>

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.

(四) (LOSS)/PROFIT FOR THE YEAR

(Loss)/profit for the year has been arrived at after charging and crediting:

2007	Continuing operation RMB'000	Discontinued operations RMB'000	Consolidated RMB'000
Depreciation	8,345	5,349	13,694
Land use rights charge for the year (included in administrative expenses)	493	-	493
Loss on disposal of property, plant and equipment	583	-	583
Research and development costs	311	-	311
Impairment loss on property, plant and equipment	-	40,000	40,000
Auditors' remuneration	2,893	6	2,899
Staff costs, including directors' emoluments	25,889	3,755	29,644
Operating lease	<u>2,900</u>	<u>-</u>	<u>2,900</u>
2006	Continuing operation RMB'000	Discontinued operations RMB'000	Consolidated RMB'000
Depreciation	7,510	11,265	18,775
Land use rights charge for the year (included in administrative expenses)	1,658	-	1,658
Loss/(gain) on disposal of property, plant and equipment	126	(407)	(281)
Research and development costs	212	-	212
Impairment loss	2,414	-	2,414
Auditors' remuneration	1,284	-	1,284
Staff costs, including directors' emoluments	34,673	6,088	40,761
Operating lease	2,412	-	2,412
Rental expense of land use right	<u>110</u>	<u>-</u>	<u>110</u>

Notes to the Consolidated Financial Statements(Continued)

At 31st December, 2007

(五) INCOME TAX

The Group has no operations in Hong Kong and is therefore not subject to Hong Kong profits tax.

Certain of the companies now comprising the Group are subject to PRC corporate income tax, which has been provided for based on the statutory income tax rates of 27% to 33% on the assessable income as determined in accordance with the relevant PRC income tax rules and regulations except that certain subsidiaries which were entitled to tax exemption or 50% tax reduction.

Taxation of other companies within the Group has been calculated on the estimated assessable profit at the rates of taxation prevailing in the countries or jurisdictions in which these companies operate.

The major components of income tax for the years ended 31 December 2007 and 2006 are :

	Continuing Operations		Discontinued Operations		Consolidated	
	2007	2006	2007	2006	2007	2006
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
The credit/(charge) comprises:						
Income tax for certain PRC subsidiaries						
- Current year	(2,042)	(3,551)	-	(691)	(2,042)	(4,242)
Deferred tax (note 35)	5,289	-	-	-	5,289	-
	<u>3,247</u>	<u>(3,551)</u>	<u>-</u>	<u>(691)</u>	<u>3,247</u>	<u>(4,242)</u>

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

Notes to the Consolidated Financial Statements(Continued)

At 31st December, 2007

The tax (credit)/charge for the year can be reconciled to the (loss)/profit before taxation per the income statement as follows:

	2007 RMB'000	2006 RMB'000
(Loss)/profit before tax:		
Continuing operations	(264,949)	34,892
Discontinued operations	(56,807)	8,833
	<u>(321,756)</u>	<u>43,725</u>
Tax at the statutory income tax rate of 33% (2006: 33%)	(106,191)	14,428
Effect of different tax rates of subsidiary operating under different tax exemption scheme	(6,304)	324
Income not subject to tax	(17,018)	(712)
Expenses not deductible for tax	102,013	3
Tax losses not recognised	27,111	(9,809)
Tax effect of deductible temporary differences not recognised	-	4,073
Income tax on concessionary rate	(3,757)	(6,461)
Tax effect of share of results of associates	899	1,573
Underprovision in previous years	-	823
	<u>(3,247)</u>	<u>4,242</u>

On 16 March 2007, the People's Republic of China promulgated the Law of the People's Republic of China on Enterprise Income Tax (the "New Law") by Order No. 63 of the President of the People's Republic of China. On 6 December 2007, the State Council issued Implementation Regulations of the New Law. The New Law and Implementation Regulations will change the tax rate from 30% to 25% for certain subsidiaries from 1 January 2008. The deferred tax balance has been adjusted to reflect the tax rates that are expected to apply to the respective periods when the asset is realised or the liability is settled.

Share of associates income tax expense for the year amounted to RMB899,000 (2006: RMB1,573,000), were included in the consolidated income statement as share of profits of associates.

Notes to the Consolidated Financial Statements(Continued)

At 31st December, 2007

(六) DIVIDEND

No dividend was paid or proposed during the year (2006 : Nil), nor has any dividend been proposed since the balance sheet date (2006 : Nil).

(七) (LOSS)/EARNINGS PER SHARE

From continuing and discontinued operations

Diluted (loss)/earnings per share are not presented as there were no detective potential ordinary shares outstanding for both years.

The calculation of the basic (loss)/earnings per share attributable to the ordinary equity holders of the Company is based on the following data:

	2007 RMB'000	2006 RMB'000
(Loss)/earnings		
(Loss)/earnings for the purpose of basic (loss)/earnings per share:		
(Loss)/profit for the year attributable to equity holders of the Company	<u>(311,479)</u>	<u>29,540</u>
Number of shares		
Weighted average number of ordinary shares for the purpose of basic (loss)/earnings per share	<u>873,370</u>	<u>873,370</u>

From continuing operations

The calculation of the basic (loss)/earnings per share from continuing operations attributable to the ordinary equity holders of the Company is based on the following data:

	2007 RMB'000	2006 RMB'000
(Loss)/profit for the year attributable to equity holders of the Company	(311,479)	29,540
Less:		
(Loss)/profit for the year from discontinued operations	(56,807)	8,142
(Loss)/earnings for the purpose of calculating basic (loss)/earnings per share from continuing operation	<u>(254,672)</u>	<u>21,398</u>

The denominators used for calculating the (loss)/earnings per share from continuing operation are the same as those detailed above for basic (loss)/earnings per share.

Basic loss per share for the continued operations is RMB0.29 per share (2006: Earnings of RMB0.025 per share) based on the loss for the year from the continued operations of RMB254,672,000 (2006: Earnings of RMB21,398,000) and the denominators detailed above for basic (loss)/earnings per share.

From discontinued operations

Basic loss per share for the discontinued operations is RMB0.065 per share (2006: Earnings of RMB0.009 per share) based on the loss for the year from the discontinued operations of RMB56,807,000 (2006: Earnings of RMB8,142,000) and the denominators detailed above for basic (loss)/earning per share.

The denominators used for calculating the (loss)/earnings per share from discontinued operations are the same as those detailed above for basis (loss)/earnings per share.

Notes to the Consolidated Financial Statements(Continued)

At 31st December, 2007

(八) TRADE AND OTHER RECEIVABLES

	2007	2006
	RMB'000	RMB'000
Trade and bills receivables	198,909	165,222
Less: allowance for doubtful debts	(13,514)	(11,764)
	<u>185,395</u>	<u>153,458</u>
Trade and bills receivables-net		
Receivable from Bengang Group (note 23(b))	-	74,425
Purchase deposits to suppliers	852	55,706
Prepayments	28,240	1,482
Other receivables	136,082	88,128
	<u>350,569</u>	<u>373,199</u>
Total trade and other receivables		

(a) Ageing analysis of the Group's trade and bill receivables are as follows:

	2007	2006
	RMB'000	RMB'000
Less than 1 year	152,605	123,693
1 year to 2 years	28,277	25,023
2 years to 3 years	7,648	8,317
Over 3 years	10,379	8,189
	<u>198,909</u>	<u>165,222</u>

The credit quality of receivables that are neither past due nor impaired can be assessed by reference to the counterparty's default history. There is no history of default of these customers.

- (b) The carrying amount of the trade and other receivables, except receivables from Bengang Group, approximates their fair value.
- (c) All of the Group's trade and bills receivables are denominated in RMB.

Notes to the Consolidated Financial Statements(Continued)

At 31st December, 2007

- (d) Trade and other receivables of RMB98,461,000 (2006: RMB15,299,000) were impaired and provided for. The factors considered by management in determining the impairment are described in note 7. The individually impaired receivables mainly related to customers, which are in unexpectedly difficult economic situations. It was assessed that a small portion of the receivables is expected to be recovered. The ageing of these receivable is as follows.

	2007 RMB'000	2006 RMB'000
Less than 1 year	6,561	-
1 year to 2 years	12	692
2 years to 3 years	3,936	4,586
Over 3 years	87,952	10,021
	<u>98,461</u>	<u>15,299</u>

- (e) Movement in the allowance for doubtful receivables are as follows:

	2007 RMB'000	2006 RMB'000
As of 1 January	11,764	9,075
Impairment loss recognised	7,216	2,689
Uncollectible amounts written off	(5,466)	-
	<u>13,514</u>	<u>11,764</u>

The creation and release of provision for impaired receivables have been included in administrative expenses in the consolidated income statement. Amounts charged to the allowance account are generally written off when there is no expectation of recovering additional cash.

Notes to the Consolidated Financial Statements(Continued)

At 31st December, 2007

(九) AMOUNTS DUE FROM / (TO) ASSOCIATES

	2007 RMB'000	2006 RMB'000
Amount due from:		
New High-Voltage	15,169	86,685
Great Power Technology Limited	1,948	2,088
	<u>17,117</u>	<u>88,773</u>
Amount due to:		
New High-Voltage	135,065	3,405
Great Power Technology Limited	-	803
	<u>135,065</u>	<u>4,208</u>
Less: amount due within one year shown under current liabilities	<u>(62,569)</u>	<u>(4,208)</u>
Amount due after one year shown under non-current liabilities	<u>72,496</u>	<u>-</u>

The amounts are unsecured, interest free and repayable on demand. The directors consider that the carrying amounts of amounts due from / (to) associates approximate to their fair values.

(十) RELATED PARTY TRANSACTIONS

During the year, the Group had entered into the following transactions with the related parties as follows :

	2007 RMB'000	2006 RMB'000
Sales to:		
New High-Voltage *	<u>118,761</u>	<u>70,173</u>
Purchase from:		
New High-Voltage *	<u>149,573</u>	<u>112,576</u>
Equipments purchased from		
New High-Voltage *	180	-
沈陽北富機械制造有限公司 **	183	-
	<u>363</u>	<u>-</u>
Rental income received from:		
New High-Voltage *	<u>2,464</u>	<u>2,488</u>
Service fee income received from:		
New High-Voltage *	<u>4,677</u>	<u>44,339</u>
Service fee paid to:		
New High-Voltage *	<u>6,599</u>	<u>3,746</u>
Income received on behalf by:		
New High-Voltage *	<u>-</u>	<u>4,703</u>
Transportation fee paid to:		
沈陽新泰倉儲物流有限公司 ***	<u>4,375</u>	<u>-</u>
Guarantee given to:		
New High-Voltage *	<u>300,000</u>	<u>-</u>

The above transactions were entered into at terms mutually agreed by both parties.

* New High-Voltage is an associate of the Company

** 沈陽北富機械制造有限公司 is controlled by New High-Voltage

*** 沈陽新泰倉儲物流有限公司 is a former subsidiary

Notes to the Consolidated Financial Statements(Continued)

At 31st December, 2007

(十一) GOODWILL

RMB'000

COST

At 1 January 2007	-
Acquired on acquisition of minority interests of subsidiaries (note 36)	94,644
	<hr/>
At 31 December 2007	94,644
	<hr/> <hr/>

Impairment tests for goodwill

Goodwill relates to the Group's only segment: manufacturing and sales of transmission machinery.

The recoverable amount of goodwill is determined based on value-in-use calculations. These calculation use pre-tax cash flow projections based on financial budgets prepared by management covering a ten-year period. Cash flows beyond the 5-year period are extrapolated using the estimated growth rates stated below. The growth rate does not exceed the long-term average growth rate for the Group.

The key assumptions used for value-in-use calculations are as follows:

Production capacity	Remains constant
Growth rate	8%-20%
Discount rate	6%

Management determined budgeted sales based on past performance and its expectations for the market development. The discount rates used are pre-tax and reflect specific risks relating to the relevant operation.

No impairment is recognised during the year.

(十二) INTEREST IN ASSOCIATES

	2007 RMB'000	2006 RMB'000
Unlisted share, at cost	265,977	269,838
Share of post-acquisition profits and reserves	45,850	37,628
	<u>311,827</u>	<u>307,466</u>
Cost		
At 1 January	269,838	48,182
Additions	2,337	223,520
Exchange adjustment	(6,198)	(1,864)
At 31 December	<u>265,977</u>	<u>269,838</u>
Share of post-acquisition profits		
At 1 January		
- as originally stated	50,508	28,671
- prior year adjustment (note 3a)	(12,880)	-
As restated	37,628	28,671
Additions	28,178	21,837
Dividend received	(19,956)	(12,880)
At 31 December	<u>45,850</u>	<u>37,628</u>
	<u>311,827</u>	<u>307,466</u>

Notes to the Consolidated Financial Statements(Continued)

At 31st December, 2007

(十二) INTEREST IN ASSOCIATES (CONTINUED)

The following list contains details of the associates at 31 December 2007, all of which are unlisted corporate entities:

Name of associate	Place of establishment/ incorporation and operation	Particulars of issued and paid up capital / re- gistered capital	Proportion of registered capital held by the Group		Principal activity
			Directly %	Indirectly %	
Great Power Technology Limited	British Virgin Islands	US\$12,626	20.80%	-	Investment holding
Smart Power Technology Limited	British Virgin Islands	US\$1	-	20.80%	Investment holding
New Northeast Electric (Shenyang) High-Voltage Switchgear Company Ltd ("New High-Voltage")	The People's Republic of China	US\$168,000,000	-	20.80%	Manufacture of electrical equipment and machineries

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

	2007 RMB'000	2006 RMB'000
Total assets	3,607,237	2,815,946
Total liabilities	<u>(1,970,775)</u>	<u>(1,275,821)</u>
Net assets	<u>1,636,462</u>	<u>1,540,125</u>
Total revenue	<u>1,625,493</u>	<u>1,370,818</u>
Profit for the year	<u>159,878</u>	<u>222,254</u>
Group's share of results of associates for the year	<u>29,077</u>	<u>23,410</u>