ANNUAL REPORT 2007 年度報告

NEE

輸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.

※ This report is published in both Chinese and English. If there are any inconsistencies with the report published previously, the Chinese in this report shall prevail.

※ Unless otherwise stated, Renminbi is the only monetary unit in this report.

BASIC INFORMATION OF THE COMPANY

The Company´s Board of Directors, Supervisory Committee, Directors, Supervisors and senior management hereby confirm that there are no false representations, misleading statements or material omissions contained in this report, and they, severally and jointly, accept full responsibility for the truthfulness, accuracy and completeness of the contents of this report.

1 .	Legal Chinese name	:	東北電氣發展股份有限公司
	Legal English name	:	Northeast Electric Development Company Limited
	Chinese abbreviation	:	東北電氣
	English abbreviation	:	NEE
2.	Legal representative	:	Sun Zhen
3.	Executive directors	:	Sun Zhen ,Wang Shouguan, Zhang Bin, Su Weiguo, Liu Qingmin, Shi Li, Du Kai, Bi Jianzhong
4.	Independent Non-executive Directors	:	Wu Qicheng, Lin Wenbin, Xiang Yongchun, Liang Jie, Liu Hongguang.
5.	Supervisors	:	Dong Liansheng, Fu Xiuheng, Dai Guiqing
6.	Secretary to the Board	:	Shi Li
	Joint Company Secretaries and authorized representative for receipt of summons and notices	:	Mak Yee Chuen
	Representative for securities affairs	:	Zhu Xinguang
7.	Registered address	:	No. 78, Hunnan High and New Technology Development Zone, Shenyang, PRC
	Office address	:	14F, Kingdom Hotel, No. 189 Taiyuan South Street, Heping District, Shenyang, PRC
	Postal Code	:	110001
	Telephone	:	(86)24-23501976 (86)24-23527083
	Fax	:	(86)24-23527081
	Website	:	www.nee.com.cn www.nee.wsfg.hk
	E-mail address	:	nee@nee.com.cn nemm585@sina.com

8. PRC newspapers for information disclosure	:	˝China Securities Journal˝ , ˝Securities Times˝
Hong Kang newspapers for information disclosure	:	˝Sing Tao Daily˝ and ˝The Standard˝
Website containing the annual report	:	www.cninfo.com.cn www.hkex.com.hk www.nee.wsfg.hk
Place for inspection of annual report	:	Office of the Board of Directors

9. Place of listing, stock names and codes :

H Share	-	Hong Kong Stock Exchange
	-	Stock Name: Northeast Electric
	-	Stock Code: 0042
A Shares	-	Shenzhen Stock Exchange
	-	Stock Name:Northeast Electric
	-	Stock Code: 000585

10. Date of Company´ s first registration	:	16 February 1993
Place of registration	:	No. 18 Er Zhong Road, Tie Xi District, Shenyang, PRC
Date of the Company´ s Latest Change of registration	:	29 June 2007
Place of registration	:	No. 78 Hunnan High and New Technology Development Zone, Shenyang, PRC
Registered number of corporate legal person business licence	:	Qi Gu Liao Shen Zong Zi No. 311001001(1-1)
Registered taxation numbe	:	210132243437397

11. Auditing Institutions

Domestic auditors	:	Shenzhen Pengcheng Certified Accountants Co., Ltd.
Office address	:	No. 2006, Office Tower 5, Baofeng Plaza, Dong Men South road, Luohu District, Shenzhen PRC (Postal code518002)
International auditors	:	World Link CPA Limited.
Office address	:	5/F, Far East Consortium Building, 121 Des Voeux Road, Central, Hong Kong.

(I) TOTAL PROFIT AND STRUCTURE FOR THE YEAR PREPARED UNDER THE PRC ACCOUNTING STANDARDS

Unit: RMB

Operating profit	-81,884,210.56
Total profit	-321,790,459.60
Net profit that belongs to shareholders of listed company	-311,875,926.04
Net profit that belongs to shareholders of listed company after non-recurring profit and loss	-88,107,110.77
Net cash flow arising from operating activities	-25,695,727.14

Note: after extraordinary items and the related amount:

Unit: RMB

Extraordinary items	Amount	Reason
Gains from disposal of non-current assets	56,137,433.77	Gain on disposal of shares
Profit and loss from anticipation liabilities unrelated to the Company´ s principal business	-70,256,578.25	anticipation liabilities related to three foreign guarantees
Other non-operating income and expenditure out of the above items	-169,649,670.79	Compensation of transaction consideration and recognition of loss
Others	-40,000,000.00	Calculation of property assets devaluation preparation
Total	-223,768,815.27	

(II) ACCOUNTING DATA AND FINANCIAL INDICATORS OF THE COMPANY FOR THE PAST THREE YEARS PREPARED UNDER PRC ACCOUNTING RULES AND REGULATIONS

1. Principal accounting data

Unit:RMB

	2007	2006		Increase/ decrease of the year over last year(%)	2005	
		Prior to adjustment	After adjustment	After adjustment	Prior to adjustment	After adjustment
Income from operating business	639,700,849.31	560,207,377.16	560,207,377.16	14.19	574,377,391.26	574,377,391.26
Total profit	-321,790,459.60	41,833,876.33	40,880,423.46	-	41,761,817.39	41,557,753.40
Net profit that belongs to shareholders of listed company	-311,875,926.04	29,221,345.19	29,529,236.62	-	23,625,686.63	23,421,622.64
Net profit that belongs to shareholders of listing company after extraordinary items	-88,107,110.77	13,349,878.21	13,548,235.43	-	29,096,096.22	28,892,032.23
Net cash flow arising from operating activities	-25,695,727.14	-13,197,000.88	-13,197,000.88	-94.70	5,643,748.35	5,643,748.35

	As at 31st December 2007	As at 31st December 2006		Increase/ decrease in the year end 2007 over the year end 2006 (%)	As at 31st December 2005	
		Prior to adjustment	After adjustment	After adjustment	Prior to adjustment	After adjustment
Total assets	1,073,974,339.91	1,293,246,201.34	1,282,102,227.11	-16.23	1,266,245,850.57	1,268,984,986.37
Shareholders´ fund	513,191,910.61	829,159,133.77	830,895,472.92	-38.24	797,329,741.70	800,068,877.50

(II) ACCOUNTING DATA AND FINANCIAL INDICATORS OF THE COMPANY FOR THE PAST THREE YEARS PREPARED UNDER PRC ACCOUNTING RULES AND REGULATIONS (CONTINUED)

2. Principal financial indicators

Unit: RMB

	2007	2006		Increase/decrease of the year over last year(%)	2005	
		Prior to adjustment	After adjustment	After adjustment	Prior to adjustment	After adjustment
Basic earnings per share	-0.36	0.0335	0.03	-	0.027	0.027
Diluted earnings per share	-0.36	0.0335	0.03	-	0.027	0.027
basic earnings per share after extraordinary item	-0.10	0.0153	0.02	-	0.033	0.033
Earnings/net assets ratio (fully diluted)	-60.77%	3.52%	3.55%	decrease 64.32 percent	2.96%	2.93%
Earnings/net assets ratio (weighted average)	-46.41%	3.59%	3.63%	decrease 50.04 percent	3.02%	2.98%
Earnings/net assets ratio (fully diluted) after extraordinary item	-17.17%	1.61%	1.63%	decrease 18.80 percent	3.65%	3.61%
Earnings/net assets ratio (weighted average) after extraordinary item	-13.11%	1.64%	1.66%	decrease 14.77 percent	3.72%	3.68%
Net cash flow from operating activities per share	-0.029	-0.015	-0.015	-	0.01	0.01

	As at the end of the year 2007	As at the end of the year 2006		Increase/decrease of the year over last year(%)	As at the end of the year 2005	
		Prior to adjustment	After adjustment	After adjustment	Prior to adjustment	After adjustment
Net assets per share that that belongs to shareholders of listed company	0.59	0.949	0.95	-37.89	0.91	0.92

(II) ACCOUNTING DATA AND FINANCIAL INDICATORS OF THE COMPANY FOR THE PAST THREE YEARS PREPARED UNDER PRC ACCOUNTING RULES AND REGULATIONS (CONTINUED)

3. Assets Devaluation Preparation Sheet

As at 31 December 2007

Unit: RMB

Item	Initial balance	Increase in current period	Decrease in current period			Final balance
			Transfer in from assets value increase	Transfer out from other reasons	Total	
1.Bad debt preparation in total	34,077,973.12	99,852,454.00		35,469,189.12	35,469,189.12	98,461,238.00
Including: Accounts receivable	11,764,064.97	9,676,717.93		7,926,412.94	7,926,412.94	13,514,369.96
Other receivables	22,313,908.15	90,175,736.07		27,542,776.18	27,542,776.18	84,946,868.04
2.Short-term investment devaluation preparation in total						
Including: Investment in share						
Investment in bond						
3.Inventory devaluation preparation in total	966,106.64	1,016,695.00	46,679.70		46,679.70	1,936,121.94
Including: Merchandise inventory	0.00					
Product in production	124,245.33					124,245.33
Raw material	841,861.31	1,016,695.00	46,679.70		46,679.70	1,811,876.61
4.Long-term investment devaluation preparation in total		2,537,020.68				2,537,020.68
Including: Long-term equity investment		2,537,020.68				2,537,020.68
Long-term securities investment						
5.Fixed assets devaluation preparation in total	82,583,587.22	40,000,000.00		120,464,800.00	120,464,800.00	2,118,787.22
Including: Houses, buildings	80,782,444.79	40,000,000.00		120,464,800.00	120,464,800.00	317,644.79
Transportation and others	1,638,888.83					1,638,888.83
Machinery and equipment	162,253.60					162,253.60
6. Intangible assets devaluation preparation in total						
Including: Patent right						
Trade mark right						
7. Total devaluation preparation for construction in progress						
8. Entrust loan devaluation preparation in total						
9. Total	117,627,666.98	143,406,169.68	46,679.70	155,933,989.12	155,980,668.82	105,053,167.84

(III) ACCOUNTS PREPARED UNDER GENERALLY ACCEPTED ACCOUNTING PRINCIPLES OF HONG KONG

Unit: RMB

Indicator	2007	2006	2005	2004	2003
1. Turnover (´ 000)	618,496	465,989	546,135	342,338	622,618
2 .Profit/(loss) before taxation (´ 000)	(264,949)	34,892	44,897	30,437	36,456
3. Profit/(loss) attributable to shareholders (´ 000)	(311,479)	29,540	26,761	20,934	27,799
4. Total assets (´ 000)	1,073,800	1,295,288	1,267,674	1,352,303	989,728
5. Total liabilities (´ 000)	556,467	364,417	368,580	475,315	398,896
6. Shareholders' funds (´ 000)	513,018	829,347	800,380	771,180	563,827
7. Earnings/(loss) per share (RMB)	(0.36)	0.034	0.031	0.024	0.032
8. Net assets per share (RMB)	0.59	0.95	0.92	0.88	0.65
9. Return on net assets (%)	(60.72)	3.56	3.34	2.71	4.93
10.Shareholders' interest ratio (%)	47.78	63.40	63.14	57.03	56.97
11. Gearing ratio (%)	51.82	28.13	29.08	35.15	40.30

(IV) DIFFERENCES BETWEEN OVERSEAS ACCOUNTING STANDARDS AND THE PRC ACCOUNTING STANDARDS IN THE CALCULATION OF THE NET PROFIT DURING THE REPORTING PERIOD

Unit: RMB

Net profit/(loss) calculated under the Hong Kong accounting standards	(318,509)
Negative goodwill	1,140
Government Allowance	(162)
Others	(1,375)
Net profit/(loss) calculated under PRC accounting standards	(318,906)

(I) Table of changes in share capital

Unit: Share

	Beginning of the year	Increase/ (decrease) (+/-)	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.

(II) 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	Percen-tage (%)	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
	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˝.

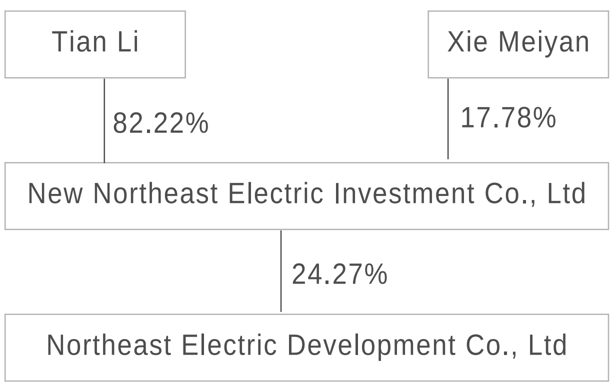
(2) On 12 February 2007, New Northeast Electric Investment Co., Ltd. pledged 33,802,817 non-circulating shares with Shenyang Jindu branch of Huaxia Bank of six months. At present, the pledge has relieved due to its expiration.

(3) Respectively on 15 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.

(III) 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, livestock 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

(IV) Framework of asset rights and controlling relationship between the Company and the actual controller



(I) INFORMATION ABOUT DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT

1. Basic information

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

2. Directors and supervisors holding positions in the shareholders unit

Name	Name of shareholders	Position held	Period of employment
Wang Shouguan	New Northeast Electric Investment Co., Ltd	Vice Chairman	2004/02/14 to present
Dai Guiqing	New Northeast Electric Investment Co., Ltd	Financial Controller	2005/04/18 to present

(I) INFORMATION ABOUT DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT (CONTINUED)

3. Biographical details of directors, supervisors and senior management in the past 5 years

(1) Directors

Mr. Sun Zhen, born in 1975, a university graduate and a postgraduate student, graduated from Shenyang Industrial University majoring in accounting. He is currently the Chairman of the Board of Northeast Electric Development Co., Ltd. He has served as the Director of the Financial Department and Deputy Director of a factory of Shenyang High-voltage Switchgears Co., Ltd and the Director of the Financial Department, Chief Accountant, and Secretary to the Board of Directors of the Company.

Mr. Wang Shouguan, born in 1944, a university graduate, graduated from Beijing Iron and Steel College with major in metallurgical machinery design and manufacturing. He is currently the Vice Chairman of Northeast Electric Development Co., Ltd. He has served as the Vice Mayor of Yingkou City, the Deputy Director of the Department of Foreign Trade and Economic Cooperation of Liaoning Province.

Mr. Zhang Bin, born in 1966, a senior engineer and a postgraduate, graduated from Harbin University of Science and Technology in insulation technology and cable. He is currently the Vice-Chairman and General Manager of Northeast Electric Development Co., Ltd. He has served as the Head of Technology Division, Deputy Head of the Supply Department and Head of the Department of Shenyang Transformers Co., Ltd.

Mr. Su Weiguo, born in 1962, a Senior Economist, graduated from Harbin University of Science and Technology in Heat Treatment and later from Dalian Marine University in International Economics with a bachelor degree in engineering and a master degree in law. He is currently the Deputy General Manager of Northeast Electric Development Co., Ltd. He has served as the Director of the Operations Department of the Company, the Director of the Operations Department and Assistant to the President of Northeast Electrical Transformation and Transformation Equipment Group Co., Ltd.

Mr. Liu Qingmin, born in 1963, a senior engineer with a master degree of engineering, graduated from Liaoning Technology & Engineering University specializing in mechanical manufacturing in mechanical department. He served as technical engineer, Head of the Sales Department, Chief Engineer, and Deputy General Manager of Fuxin Closed Bus bars Company Limited. He is currently the Executive Director of that company.

(I) INFORMATION ABOUT DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT (CONTINUED)

3. Biographical details of directors, supervisors and senior management in the past 5 years (CONTINUED)

(1) Directors(CONTINUED)

Mr. Shi Li, born in 1967, a postgraduate, graduated from Harbin Mechanical and Electrical College in industrial accounting. He is currently the Deputy General Manager and Secretary to the Board of Directors of Northeast Electric Development Co., Ltd. He has served the position of Financial Manager of Shenyang Transformers Company Limited, Manager of Financial Department of Kingdom Hotel and Deputy Manager of Financial Department, Chief of Office of the Company and the Chairman of New Northeast Electric (Shenyang) High-voltage Isolator Co., Ltd.

Mr. Du Kai, born in 1968, is currently the Chairman of New Northeast Electric (Jinzhou) Power Capacitors Co., Ltd. He is an economist who graduated from Northeast University specializing in mechanical manufacturing techniques. He served as Assistant of the General Manager in Shenyang New District Development and Construction Company Limited and the Office Director of the Company.

Mr. Bi Jianzhong, born in 1977, a university graduate, graduated from Shenyang Industrial University majoring in accounting. He is currently the Deputy General Manager and Chief Accountant of the Company. He served as Secretary of President in Northeast Electrical Transformation and Transformation Equipment Group Co., Ltd, Office Director of Kingdom Hotel, Chief Accountant in New Northeast Electric (Shenyang) High-voltage Isolator Co., Ltd.

(2) Independent Directors

Mr. Wu Qicheng, born in 1945, a professor and a senior engineer, graduated from the Department of Motive Power Engineering of Huazhong Institute of Technology in heat energy. He has served as the Vice Head of Bajiazi Zinc Mine of Liaoning Province, the Director of Chaoyang Municipal Economic and Trade Commission of Liaoning Province, the Vice Director of Liaoning Provincial Economic and Trade Commission, the Mayor of Benxi City, the Director General of Liaoning Provincial Land and Resources Administration, and the Vice Director of Liaoning Provincial State-owned Assets Supervision and Administration Commission.

(I) INFORMATION ABOUT DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT (CONTINUED)

3. Biographical details of directors, supervisors and senior management in the past 5 years (CONTINUED)

(2) Independent Directors(CONTINUED)

Mr. Lin Wenbin, born in 1944, is currently the Chairman of Shenyang Taiyu Mechanical Equipment Co., Ltd. He is a senior engineer and postgraduate. He has studied metallurgy in Anshan Iron and Steel College and was postgraduate in economic management of Chinese Academy of Social Science. He has been the Secretary for Metallurgy Bureau, Chairman of Shenyang Economic and Trade Commission, Chairman of Shenyang Public Utilities Development Company Limited and Chairman of Shenyang Heat and Electricity Company Limited.

Mr. Xiang Yongchun, born in 1943, a professor of engineering, graduated from the Department of Mechanic Manufacture of Shenyang Industrial University in Mechanic Manufacture. He has served as the Workshop Director, Vice Factory Director and Factory Director of Shenyang High-voltage Switchgears Co., Ltd, the General Manager of Shenyang Tool Industry Company and the Chairman of the Company.

Ms. Liang Jie, Born in 1961, graduated from a postgraduate course. She is serving at the Management College of Shenyang Industrial University as the Director of Research Institute, the Professor of Accounting and the Tutor of Graduate Students. She is also the Vice Chairperson of Education Guide Committee under the PRC Accounting Association for Higher Science Universities and an Independent Director of Shenyang New District Development and Construction Company Limited.

Mr. Liu Hongguang, born in 1967, currently serves in Guangdong Development Bank, Dalian branch. He is a senior economist, studying doctoral degree in technical economics and management in Dalian Polytechnic University. He has studied architecture and environmental engineering major in Shenyang Agriculture University, and technical and management in Dalian Polytechnic University, and has respectively obtained a bachelor degree in engineering and a master degree in business management. He has served the positions of Deputy Head of Shenyang branch of China Construction Bank. He joined Shenyang branch of Hua Xia Bank and has served the positions of Branch Manager and General Manager of the banking division. He served as Assistant of the Dean of Chinese Academy of Science, Shenyang Branch.

(I) INFORMATION ABOUT DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT (CONTINUED)

3. Biographical details of directors, supervisors and senior management in the past 5 years (CONTINUED)

(3) Supervisors

Mr. Dong Liansheng, born in 1947, a college graduate. He graduated from the Chinese Department of Liaoning University and is currently Deputy General Manager of Shenyang Kingdom Hotel Company Limited and Chairman of the Company´ s Supervisory Committee.

Mr. Fu Xiuheng, born in 1948, a college graduate, and a senior engineer. He has served as Designer and Deputy Chief Engineer of Shenyang High-voltage Switchgear Co., Ltd, and is currently the Chief Engineer of New Northeast Electric (Shenyang) High-voltage Isolators Company Limited and is the supervisor of the Company.

Ms. Dai Guiqing, born in 1969. She graduated from the Mongolian Clan Teachers´ College of Liaoning Province and was a teacher and she has served as staffer in the headquarters of Shenyang Military District of Construction and Installation. She is currently the Financial Controller and Supervisor of New Northeast Electric Investment Co., Ltd.

(4) Senior management

Mr. Zhu Xinguang, born in 1970, a bachelor degree holder, graduated from Shenyang Industrial University majoring in high-voltage electrical apparatus. He is currently the Assistant to General Manager and Director of Comprehensive Management Department of the Company. He has served as a Technician of design department in Shenyang High-voltage Switchgear Co., Ltd, Office Secretary, Deputy Director of Office and Director of Office of the Company.

(5) Positions held in other units

Name	Name of unit	Position	Any allowances and remuneration paid
Lin Wenbin	Shenyang Taiyu Mechanical Equipment Co., Ltd	Chairman	yes
Liang Jie	Economic Management College of the Industrial University of Shenyang	Superintendent	yes
Liu Hongguang	Dalian Branch of Guangdong Development Bank	Manager	yes

(I) INFORMATION ABOUT DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT (CONTINUED)

4. Annual Remuneration

(1) Policy making procedure for remuneration of directors, supervisors and senior management: the remuneration committee under the Board of the Company, in accordance with the duties of directors, supervisors and senior management, the Company´ s performance and remuneration level of relevant positions in the trade, is responsible for establishing and reviewing the Company´ s plans and proposals of remuneration.

(2) Remuneration basis of directors, supervisors and senior management: The Company´ s remuneration committee, in accordance with remuneration management system and annual performance appraisal, has established remuneration standard based on positions and duties. During the reporting period, each director´s remuneration was not over RMB 300,000 averagely; each supervisor´ s not over RMB 80,000; each independent director´ s not over RMB 50,000.

5. The appointment and resign instance of directors, supervisors and senior management during the reporting period

The second extraordinary general meeting of 2007 held on 7 March 2007 voted 8 executive directors namely Mr. Sun Zhen, Mr. Wang Shouguan 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 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 share-holder 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 re-appointed to be the Chairman of the Supervisory Committee.

(I) INFORMATION ABOUT DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT (CONTINUED)

5. The appointment and resign instance of directors, supervisors and senior management during the reporting period(CONTINUED)

   On 7 March 2007, three executive directors namely Mr. Qu Lin, Ms. Tian Li, Mr. Li Hongliang and two independent non-executive directors namely Mr. Gao Chuang, Mr. Kang Jinjiang resigned as their duties for the reasons of term expiration.

   Approved by the board of directors on 27 August 2007, Mr. Liu Tongyan resignd as executive director due to work replacement.

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

6. Interest of directors, supervisors and senior management

   As at 31st December 2007, at no time during the period under review had the Company been notified that any director, supervisor or member of senior management (including their spouses and children under 18 years of age) had any interest in, or had been granted, or exercised, and rights to subscribe for equity or debt securities of the Company and or associated corporations(within the meaning of the SFO), nor did they have any interest or short positions in the shares, underlying shares or debentures of the Company or its associated corporations which were required to be notified to the Company and The Stock Exchange of Hong Kong Limited pursuant to section 341 of the SFO or the Model Code for Securities Transactions by Directors of Listed Issuers .

(II) STAFF OF THE COMPANY AND REMUNERATION POLICY

Occupational structure of the Company's staff		Education level of company's staff	
Salesman	100	Bachelor degree or higher	151
Technical staff	101	College	255
Financial staff	37	Technical certificate	43
Administrative staff	146	Others	668
Production staff	467		
Others	266		
Total	1117	Total	1117

As at the end of the reporting period, the number of employees on the payroll of the Company was 1117 staff. 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.

(1) CORPORATE GOVERNANCE

During the reporting period, the Company, in accordance with relevant provisions as specified in the Notice on Relevant Matters of the Special Activities to Enhance the Governing the Listed Company (Zheng Jian Gong Si Zi [2007] No.28) issued by China Securities Regulatory Commission and the Guideline for the Internal Control of the Listed Company (the ˝Guideline for Internal Control˝) made by Shenzhen Stock Exchange, established and improved its internal control system in an all-round way, and made a successful implementation and effective supervision through self-inspection and reorganizing activities regarding the Special Activities to enhance the Governing of the Listed Company.

The Board of the Company gives top priority to the results of the field examination by China Securities Regulatory Commission Liaoning Branch on the special activities to enhance the governing of the listed company. On 13 July 2007, the Company adopted the Resolution on the Self-inspection Report and Reorganizing Plan Regarding the Special Activities to enhance the Governing of the Listed Company at the 5th meeting of the 5th Board of Directors. It has established relatively completed corporate governance structure so as to standardize its business operation in accordance with the requirements of laws and regulations such as Company Law, Securities Law, Code of Corporate Governance for Listed Companies in China and Share Listing Rules.

The Company, in accordance with requirements of policies and its own business situation, has established such rules and regulations as the Rule of Procedure of General Meeting of Shareholders, the Rule of Procedure of the Board of Directors, the Rule of Procedure of the Supervisory Committee and the General Manager Work Rules, and compiled the Management System Compilation, which covers such areas as the operation of the Company´ s three committees, the organizational structure, administrative management, operational management, financial and planning management, human resources management, equity investment, internal audit and labor union management, thus ensuring rapid and effective operation with clear regulations to abide by. At the same time, on the basis of the Management System Compilation, the Company has further improved and completed its internal control system through timely updating and revision in accordance with the latest relevant provisions, therefore increasing the governing level of the Company.

(2) EXECUTION OF DUTIES BY INDEPENDENT DIRECTORS

During the reporting period, the independent director of the Company, Mr.Wu Qicheng, Mr. Lin Wenbin Mr. Xiang Yongchun, Ms. Liang Jie, and Mr. Liu Hongguang strictly complied with the regulation of related laws and regulations and performed their duties diligently and conscientiously by putting forward independent opinions on the significant events of the Company, considered the connected transactions were fair and reasonable or caused detriments to the benefits of shareholders and all of the directors and safeguarded the interests of the Company and its medium and small investors.

1. Board meetings attendance of independent directors

Name of independent directors	Attendance of board meeting in the year	Attendanc (lines)	Attending by proxies (lines)	Absentness (lines)
Wu Qicheng	9	8	1	0
Lin Wenbin	9	9	0	0
Xiang Yongchun	9	9	0	0
Liang Jie	9	8	1	0
Liu Hongguang	9	7	2	0

2. The dissenting opinions of independent directors to related matters of the Company

   During the reporting period, the independent directors considered various resolutions in the Board meeting seriously and no dissenting opinion to the approved resolutions.

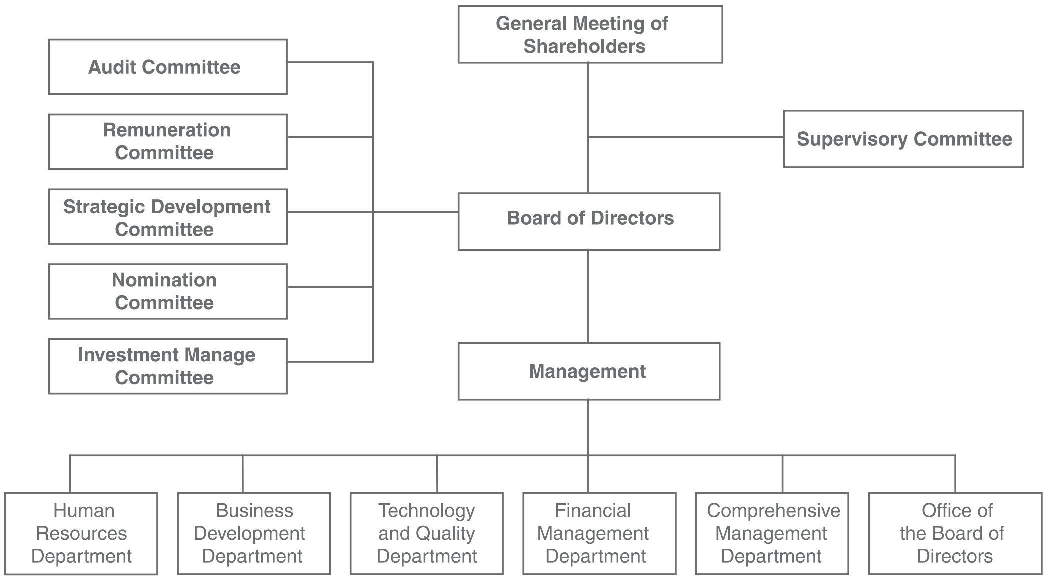
(3) INDEPENDENCE OF BUSINESS, PERSONNEL, ASSETS, ORGANIZATIONAL STRUCTURE, AND FINANCE AMONG THE COMPANY AND ITS CONTROLLING SHAREHOLDERS

The Company operated independently from its controlling shareholders in terms of business, personnel, assets, organizational structure and finance.

(4) ESTABLISHMENT AND IMPROVEMENT OF THE COMPANY'S INTERNAL CONTROL SYSTEM

1. Key Activities of the Company's Internal Control

(1) Organizing Structure of the Company



(2) Internal Control on the Company´ s Connected Transactions

The Board of the Company, in accordance with provisions of relevant documents such as Listing Rules of Stocks on Shenzhen Stock Exchange, Guideline for Internal Control and Articles of Association, has effectively controlled the Company´ s principles of connected transaction, connected parson and connected relation, connected transaction, its decision making procedures and disclosures. During the reporting period, the Company has made a strict, full and effective internal control on its connected transactions without any violation of the Guideline for Internal Control.

(4) ESTABLISHMENT AND IMPROVEMENT OF THE COMPANY'S INTERNAL CONTROL SYSTEM(CONTINUED)

1. Key Activities of the Company's Internal Control(CONTINUED)

(3) Internal Control on the Company´s Foreign Guarantees

The Company has established and improved the Management System of Foreign Guarantee, which clearly specifies the basic principle of foreign guarantee, the examination procedure for the objectives of foreign guarantee, the approval procedure and management procedure for foreign guarantee. During the reporting period, the Company has not provided any foreign guarantees except for ones to its joint stock companies. The Company has strictly complied with corresponding approval and authority procedures to provide its guarantees for its joint stock companies and all guarantees have been approved through the review and discussion of the Board of the Company. The Company has made a strict, full and effective internal control on its foreign guarantee without any violation of the Guideline for Internal Control.

(4) Internal Control on the Company´s Use of Raised Capital

The Company has established and improved the Management System of the Use of Raised Capital, which clearly specifies the management and use of raised capital and its information disclosure. During the reporting period, the Company has not used any raised capital. The Company has made a strict, full and effective internal control on the use of raised capital without any violation of the Guideline for Internal Control.

(5) Internal Control on the Company´s Significant Investments

The Company has established and improved the Management System of Investment, which clearly specifies the basic principle of investment, the approval limit and procedure of investment, and the study and evaluation on the investment. During the reporting period, the Company has made a strict, full and effective internal control on its significant investments without any violation of the Guideline for Internal Control.

(4) ESTABLISHMENT AND IMPROVEMENT OF THE COMPANY'S INTERNAL CONTROL SYSTEM(CONTINUED)

1. Key Activities of the Company's Internal Control(CONTINUED)

(6) Internal Control on the Company´ s Information Disclosures

The Company has established and improved the Management System of Information Disclosure, and made an overall and effective control on its open information disclosure, thus ensuring that its information can be disclosed on a timely, correct, full and fair basis. During the reporting period, the Company has made a strict, full and effective internal control on its information disclosure without any violation of the Guideline for Internal Control.

2. Problems in The Company's Internal Control and the Remedial Plan

(1) In accordance with the Administration Measures on Information Disclosure of Listed Company, No. 40 Document published by China Securities Regulatory Commission on 13 December 2006, the Company should supplement, revise and improve its Information Disclosure Management System; in accordance with the requirements of the notice on the publication of Guideline for Internal Control published by Shenzhen Stock Exchange , the Company should establish the Codes of Conduct for Directors, the Codes of Conduct for Supervisors, the Administrative Measures of Shares Held by Directors, Supervisors and Senior Management, the Internal Report System for Significant Information, and the System of Reception and Promotion, as well as supplement, revise and improve the Management System of Foreign Guarantee and the Management System of Connected Transaction.

Remedial Plan: newly supplement or revise the Information Disclosure Management System, the Internal Report System for Significant Information, the System of Reception and Promotion, the Management System of Foreign Guarantee, the Management System of Connected Transaction, the Codes of Conduct for Directors, the Codes of Conduct for Supervisors, and the Administrative Measures of Shares Held by Directors, Supervisors and Senior Management; strengthen the Company´ s website construction through website safety examination and timely information updating.

(2) Relation between the Company and investors that needs further improvement

Remedial Plan: improve the investor reception system and made a good record.

(4) ESTABLISHMENT AND IMPROVEMENT OF THE COMPANY'S INTERNAL CONTROL SYSTEM(CONTINUED)

2. Problems in The Company's Internal Control and the Remedial Plan(CONTINUED)

(3) The Company´s new director who has no experience in being a director of a listed company is required to participate in relevant trainings so as to increase the professional competency. In addition, a new independent director needs qualification authentication.

Remedial Plan: organize new directors to participate in relevant trainings.

3. The Board of Directors' Overall Appraisal of the Company's Internal Control

(1) Internal control covers each economic business, each department and each position inside the Company. It is required to be implemented in such links as decision-making, execution, supervision and feedback through aiming at the key control points in the course of business operation.

(2) Internal control meets relevant laws and regulations of China and the real situation of the Company, so all staff must abide by it. No departments or individuals are entitled to own their power over the internal control through the restriction of system.

(3) Internal control can guarantee reasonable arrangements of the Company´s structure, positions and their duties, thus ensuring the division of right and liability, as well as mutual restriction and supervision among different departments and positions.

(4) Internal control is established by giving consideration to the relationship between cost and effectiveness, which is, using reasonable control cost to seek the best control effectiveness.

(4) ESTABLISHMENT AND IMPROVEMENT OF THE COMPANY'S INTERNAL CONTROL SYSTEM(CONTINUED)

3. The Board of Directors' Overall Appraisal of the Company's Internal Control (CONTINUED)

Under the basic principles of internal control, the Company, in accordance with its own real condition, has established the internal control system that covers its entire links, thus ensuring its normal business activities, and the safety and integrity of its properties. The following objectives have been made basically in the internal control of the Company:

(1) The legal person governance structure and internal organizational structure that meet the requirements of modern enterprises have been established and improved basically, and scientific decision making system and effective incentive and supervision mechanism have been created, thus ensuring the accomplishment of the Company´ s operational and managed objectives.

(2) An effective risk control system has been established and improved, thus ensuring the safety and integrity of the Company´ s properties as well as the successful operation of all business activities.

(3) The Company´s accounting actions has been standardized, thus ensuring the truth and integrity of accounting information, and increasing the quality of accounting information.

(4) The Company´s information disclosure that is timely, true, correct, full and fair has been ensured.

(5) The Company´ s internal control system that can be implemented effectively has been ensured.

In general, , the Company has made a standardized, strict, full and effective internal control in internal environment, objective setting, matter identification, risk evaluation, risk strategy, control activities, information and communication, as well as examination and supervision, thus meeting the relevant requirements of the Guideline for Internal Control on the whole.

(4) ESTABLISHMENT AND IMPROVEMENT OF THE COMPANY'S INTERNAL CONTROL SYSTEM(CONTINUED)

4. Supervisory Committee's opinion on self-assessment of internal control of the Company

The Company's supervisory committee, in accordance with the relevant provisions as specified in the Guideline for Internal Control and the Notice of concerning Doing a Good Job for the 2007 Annual Report of the Listed Companies published by Shenzhen Stock Exchange, gives the following opinions on self-assessment of internal control of the Company:

(1) In accordance with relevant provisions of China Securities Regulatory Commission and Shenzhen Stock Exchange, the Company, under the basic principle of internal control and its own real situation, has established and improved its internal control system around all links of the Company, thus ensuring its normal business activities and safeguarding the safety and integrity of its assets.

(2) The Company's integrated organizational structure of internal control and complete internal audit departments and personnel ensure full and effective implementation and supervision of the key activities of the Company's internal control.

(3) During the reporting period, the Company had no violation of the Guideline for Internal Control made by Shenzhen Stock Exchange and the Internal Control System of the Company.

To sum up, the supervisory committee deemed that the self-assessment of internal control of the Company is overall, true and correct, which reflects the real situation of the Company's internal control.

5. Independent directors' opinion on self-assessment of internal control of the Company

During the report period, the board of the Company revised, considered and adopted a series of managements like the Internal Control System, which is improved and complete, and in accordance with the provisions of relevant national laws and regulations as well as the requirements of supervision departments. The Company's key internal control activities are conducted under the provisions of all internal control systems. The Company's internal control on subsidiaries, connected transactions, foreign guarantee, use of raised capital, significant investments and information disclosures is strict, full and effective, thus ensuring the normal business management of the Company with rationality, integrity and validity. The self-assessment of internal control of the Company is in accordance with real conditions of the Company's internal control.

(5) ASSESSMENT AND INCENTIVE MECHANISM FOR SENIOR MANAGEMENT

The Company has adopted position-related salary system and floating annual salary system for senior management. The floating annual salary was linked with the Company´s overall results. The senior management was assessed on basis of overall individual performance and the realization of assigned operational target.

(6) CORPORATE GOVERNANCE

The Company has fully complied with the provisions of Code of Corporate Governance Practice as set out in Appendix 14 to the Listing Rules of the Stock Exchange of Hong Kong Limited 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 systems are effective and sufficient and secured the achievement of the targets the Company´ s corporate governance.

1. Independent non-executive directors

The Company has complied with Rules 3.10(1) and 3.10(2) of the Listing Rules in relation to the appointment of a sufficient number of independent non-executive directors, and at least 1 independent non-executive director with appropriate professional qualifications or expertise in accounting or relevant financial management. The Company has appointed 5 independent non-executive directors, one of whom has expertise in financial management. Please refer to Annual Report of 2005 of the Company for detailed profiles of independent non-executive directors.

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 enquiries, that no director or supervisor 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.

The board of directors has formulated a written guideline for transactions of securities of listed companies by ˝directors and related employees˝. The boards of directors have given written notices in advance to directors stating that no transactions of company securities should be carried out within one month prior to results announcement. All directors have confirmed that they did not carry out transactions of company securities during the Year and have complied with the guidelines.

(6) CORPORATE GOVERNANCE(CONTINUED)

3. Board of Directors

The 5th session of the board of directors comprises 13 directors, including 8 executive directors, namely Mr. Sun Zhen, Mr. Wang Shouguan, Mr. Zhang Bin, Mr. Su Weiguo, Mr. Liu Qingmin, Mr. Shi Li and Mr. Bi Jianzhong; and 5 independent directors namely Mr.Wu Qicheng, Mr.Lin Wenbin, Mr.Xiang Yongchun, Ms. Liang Jie and Mr. Liu Hongguang. For biographies about them please refer to section 4(1) of the Annual Report. Terms of office of the members of the current session last until 6 March 2010.

The Company has set up an audit committee, strategic development committee, a remuneration committee, a nomination committee and an investment management committee pursuant to Rules 3.2.1 of the Listing Rules. Work of all committees was carried out orderly in accordance with the rules of work.

All directors of the Board shall regard Shareholders´ interests as their top priority and discharge their duties as directors to the best of their ability pursuant to related legislation and regulations. Duties and main work of the board of directors include: to decide on operating plans and investment plans of the Company, to formulate profits appropriation plans and supplemental compensation plans, to set up capital operation plans and put into force the resolutions made in the general meeting.

Chairman of the board of directors ensures that all directors discharge their duties and engage in timely discussions about relevant matters of importance so as to ensure that the board operates effectively. The Chairman also has talks with independent non-executive directors separately in order to thoroughly understand their views and opinions about the Company´s operation and work of the board of directors.

Secretary Office of the board of directors provides full service to directors. It provides directors with sufficient information allowing them to understand on timely basis the Company´s position. Certain modes are used to maintain effective liaison with shareholders to ensure that shareholders´ views can be conveyed to the board of directors.

The Company has complied with the Listing Rules to appoint 5 sufficient independent non-executive directors as fully required including appointment of independent non-executive directors with appropriate professional qualifications including accounting or related financial management expertise. The 5 independent non-executive directors are totally independent of each other. They come from business management and financial sectors with ample experience in their own professions, providing time and honest professional advice to facilitate stable operation and development of the Company while taking up responsibility for supervision and co-ordination so as to protect interests of the Company and shareholders.

(6) CORPORATE GOVERNANCE(CONTINUED)

3. Board of Directors(CONTINUED)

Pursuant to Rule 3.13 of the Listing Rules, the Company has requested all independent non-executive directors to submit written confirmations about their independency on an annual basis and has carried out, the examination of the independency of independent non-executive directors were carried out.

During 2007, a total of 9 regular board meetings were held, with full attendance by all directors or their proxies on their behalf.

Notices on board meetings were ensured to be sent 14 days prior to each meeting. Resolutions of the board were sent 10 days in advance to directors to give them sufficient time to study all the resolutions. Staffs were sent to each meeting for exclusive recording purposes. All matters passed in the meetings became resolutions, and records were kept pursuant to related legislation and regulations.

Remunerations for directors for 2007 totaled RMB1, 006,800 including basic salary, results-pegged salary, incentive salary and insurance (or bonus paid on discretion). Independent non-executive directors were only paid remuneration without any other salaries or returns. For details about remuneration of each director, please refer to Annual Report section 4(1).

4. 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, an accounting professional, 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.

(6) CORPORATE GOVERNANCE(CONTINUED)

4. Audit Committee(CONTINUED)

The Audit Committee has, together with the management, reviewed the accounting principles, accounting standards and methods adopted by the Company and have 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.

5. Remuneration Committee

Duties and major work of the Committee include formulation of remuneration policies for directors and senior management and approval of terms of directors´ service contracts. In 2007, the committee convened one committee meetings all of which were attended by all members. Chief member of the Committee is Mr. Lin Wenbin while other members include Mr. Sun Zhen, Mr. Zhang Bin, Mr. Su Weiguo, and Mr. Shi Li.

6. Nomination Committee

Duties and major work of the Committee include assessment of performance of directors and senior management, nomination of candidates for executive directors and independent non-executive directors of each new session, to review regularly the framework, membership and work of the board of directors. The chief member of the Committee is Mr. Sun Zhen while other members include Mr. Wang Shouguan, Mr. Zhang Bin, Mr. Su Weiguo and Mr. Shi Li. One committee meeting was held in 2007, all members attended the meeting.

7. Strategic Development Committee

Duties and major work of the Committee include scrutiny and assessment of the Company´s development, financial budget, investment and business operation. The chief member of the Committee is Mr.Sun Zhen, while other members include Mr. Wang Shouguan, Mr. Zhang Bin, Mr. Su Weiguo, Mr. Xiang Yongchun. A total of 2 committee meetings were held in 2007, which were attended by all members of the committee.

(6) CORPORATE GOVERNANCE(CONTINUED)

8. Investment Management Committee

Duties and major work of the Committee include scrutiny and assessment of the Company´ s strategic plans on annual investment return. Chief member of the Committee is Mr.Sun Zhen, while other members include Mr. Wang Shouguan, Mr. Zhang Bin, Mr. Su Weiguo, and Mr. Shi Li. In 2007, a total of 2 committee meetings were held, which were attended by all members of the committee.

9. Supervisory Committee

The supervisory committee comprises 3 members including 1 supervisor, who is elected by staff, to represent company staff. The supervisory committee is responsible for supervising the board of directors and its members and senior management to prevent their abuse of power or infringement upon lawful interests of shareholders, the Company and company staff. In 2007, a total of 9 meetings were held by the supervisory committee, which were attended by all members of the committee, to review the Company´ s financial status, corporate operation pursuant to law and senior management´ s discharge of duties. According to the principle of honesty, the committee members carried out their work proactively.

10. Management of information disclosure

The Company attaches particular importance to truthfulness, timeliness, fairness, impartiality and openness of information disclosure, and complies with stipulations pertaining to disclosure under the Listing Rules. All information disclosed to outsiders (including annual, interim results, the first quarterly results and the third quarterly results) must be reviewed and approved by the board of directors. For related contents of financial statements disclosed, the Chief Accountant must ensure that they are in compliance with the Accounting Principles adopted and related legislation which require that the Company´ s results and financial status are reflected truthfully and fairly.

(6) CORPORATE GOVERNANCE(CONTINUED)

11. Relationship between General Meeting and Investors

The Annual General Meeting of 2006 was held at the Company´s conference room at No. 189, Kingdom Hotel, Taiyuan South Street, Heping District, Shenyang, Liaoning, China on 20 April 2007. The attended shareholders and proxies are 499,534,390 shares, representing 57.2% of the total capital shares of the Company. At the meeting, with 100% agreement, the annual report of the directors, the report of the supervisors committees, the annual profit appropriation, appointment of auditors, and the amendment of Article of Association of the Company were approved.

The Office of the Board undertakes the exclusive responsibility for managing relationship with investors. A set of ˝Methods of Management of Investors˝ was formulated for standard operation.

On 31 December 2007, market value of Company H shares was RMB 1,459,000,000.00. For details about categories of shareholders and their shareholdings, please refer to section 3 (1) of this Annual Report.

12. Remunerations of 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 Shing Wing(HK) C.P.A 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 re-appoint 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 RMB1,500,000.

(I) DURING THE REPORTING PERIOD, THE COMPANY HELD ONE ANNUAL GENERAL MEETING OF SHAREHOLDERS:

The Company issued the notice on 28 February 2007 and convened the 2006 annual general meeting of shareholders on 20 April 2007. (For details, please refer to announcements dated 28 February 2007 and 20 April 2007.)

The Company took a vote by disclosed ballot item by item with the following results:

1. To considerate and approve the report of the annual results for the year ended 31 December 2006;

2. To considerate and approve the net profit appropriation proposal for the year ended 31 December 2006;

3. To considerate the Resolution in Relation to Reappointment of the Company´ s domestic and international Auditors:

   (1) To approve the resolution on the reappointment of Shenzhen Pengcheng Certified Accountants Co., Ltd as the Company´ s domestic auditor under the Resolution on the Reappointment of the Company´ s Domestic and International Auditors;

   (2) To reject the resolution on the reappointment of Wong Lam Leung & Kwok C.P.A Limited as the Company´ s international auditor under the Resolution on the Reappointment of the Company´ s Domestic and International Auditors

4. To considerate and approve the proposal of the Amendments to the Articles of Association.

5. To considerate and approve the Rule of Procedure of the Shareholder´s Meeting, the Rule of Procedure of the Board of Directors, and the Rule of Procedure of the Supervisory Committee.

(2) DURING THE REPORTING PERIOD, THE COMPANY HELD SIX EXTRAORDINARY GENERAL MEETING OF SHAREHOLDERS (THE "EGM")

1. The Company issued the notice on 17 November 2006 and convened the 1st EGM of 2007 on 5 January 2007. (For details, please refer to announcements dated 20 November 2006 and 8 January 2007.)

   The Company took a vote by disclosed ballot item by item with the following results:

   (1) To approve the he Resolution on Appointment of the Company´ s Domestic and International Auditors;

   (2) To approve the Resolution on Foreign Capital Increase and Share Expansion.

2. The Company issued the notice on 19 January 2007 and convened the 2nd EGM of 2007 on 7 March 2007. (For details, please refer to announcements dated 22 January 2007 and 8 March 2007.)

   The Company took a vote by disclosed ballot item by item with the following results:

   (1) To approve the Resolution on Nomination of Candidates for the 5th Board of Directors;

   (2) To approve the Resolution on Nomination of Candidates for the 5th Supervisory Committee;

   (3) To approve the Proposal on Remunerations for the Members of the 5th Board of Directors;

   (4) To approve the Proposal on Remunerations for the Members of the 5th Supervisory Committee;

   (5) To approve the Proposal on Remunerations for the Independent Directors of the 5th Board of Directors;

(2) DURING THE REPORTING PERIOD, THE COMPANY HELD SIX EXTRAORDINARY GENERAL MEETING OF SHAREHOLDERS (THE "EGM")(CONTINUED)

3. The Company issued the notice on 28 February 2007 and convened the 3rd EGM of 2007 on 20 April 2007. (For details, please refer to announcements dated 1 March 2007 and 23 April 2007.)

   The Company took a vote by disclosed ballot item by item with the following results:

   Additionally reviewed and approved the Resolution on Foreign Capital Increase and Share Expansion

4. The Company issued the notice on 20 April 2007 and convened the 4th EGM of 2007 on 6 June 2007. (For details, please refer to announcements dated 23 April 2007 and 7 June 2007.)

   The Company took a vote by disclosed ballot item by item with the following results:

   To approve the Resolution on Changing Appointment of International Auditor.

5. The Company issued the notice on 29 June 2007 and convened the 5th EGM of 2007 on 16 August 2007. (For details, please refer to announcements dated 2 July 2007 and 17 August 2007.)

   The Company took a vote by disclosed ballot item by item with the following results:

   To approve the Resolution on the Swap Agreement.

6. The Company issued the notice on 27 August 2007 and convened the 6th EGM of 2007 on 12 October 2007. (For details, please refer to announcements dated 28 August 2007 and 15 October 2007.)

   The Company took a vote by disclosed ballot item by item with the following results:

   To approve the Resolution on Adding Mr. Bi Jianzhong as Executive Director.

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

During the reporting period, under the leadership of the board of director and the supports of mass shareholders, the Company adhered to the guideline of ˝consolidating the foundation and strengthening the principal business˝ 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 business of RMB 639,700,000, increase by 14.2% compared with the same period of last year; net profit 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 Jinrong 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 isolated switchgears increased to varied extent.

3. During the period, the Company´s net profit was reduced 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.

(2) OPERATION OF THE COMPANY DURING THE REPORTING PERIOD

1. Scope of principal business and its operation

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

(2) Operational results for the year

The Company recorded revenue of RMB639, 700,849.31, total profit of RMB-321, 790,459.60 and the loss of RMB318, 906,062.93.

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

Principal operations by business and product segment

Unit:RMB0´ 000

By Business or Product	Income from principal operations	Costs of principal operations	Profit ratio of principal operations (%)	Increase /decrease (%) in income from principal operations as compared with the preceding year	Increase /decrease (%)in costs of principal operations as compared with the preceding year	Increase /decrease in profit ratio of principal operations as compared with the preceding year
By Business						
Electrical transmission and allocation and control facilities manufacturing	59,675	49,051	17.80	23.70	35.96	decrease 7.39 percent
Hotel	1,874	1,645	12.22	-42.89	-36.57	decrease 3.42 percent
By Product						
High-voltage isolated switchgear 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

(2) OPERATION OF THE COMPANY DURING THE REPORTING PERIOD(CONTINUED)

1. Scope of principal business and its operation(CONTINUED)

(3) Principal operations by region segment

Unit: RMB0´000

Region	Income from principal operations	Increase /decrease(%)in income from principal operations over last year
Northeast China	23,971.9	21.35
Northern China (Shandong inclusive)	15,541.5	49.51
Central	8,413.7	66.91
East China	3,036.5	-14.17
South China	4,234.1	-34.50
Southwest China	1,413.0	-60.88
Others	4,939.1	-0.10
Total	61,549.8	14.41

(2) OPERATION OF THE COMPANY DURING THE REPORTING PERIOD(CONTINUED)

2. Operations 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 busbar	US$2,800,000	100	37,954	4,907	10,594	718
New Northeast Electric (Shenyang) High-voltage Isolated Switchgears Limited	Isolated switchgears	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 and Trading	US$20,000,000	100	43,349	23,233	2,910	1,814
New northeast Electric (Shenyang) High-voltage Switchgears 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 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

3. Major suppliers and customers

Total volume of purchase from the Company´s top 5 suppliers amounted to RMB104, 524, 000, representing 34% of the total volume of purchase. Total volume of sales to the Company´ s top 5 customers amounted to RMB208, 762,000, representing 33% of the total sales volume.

(3) TECHNICAL INNOVATION DURING THE REPORTING PERIOD

Mainly starting its technical innovation from principal business and such professional fields as new energy development, energy saving and emission reduction which have got powerful support from the State and have closer relations with its core technologies, the Company has registered remarkable achievements in self-innovation so as to further consolidate its trade status through constantly improving its innovation mechanism and expanding its R&D investment.

During the reporting period, the Company has accomplished 3 new product development projects with 5 cross-year projects, and 10 scientific research projects with 1 cross-year project, among which it has obtained progress in new product, new technical R&D and application as well as quality improvement, and production value in new product output increase by 113% compared with the same period last year. It has optimized process control by implementing quality improvement with some increase in the primary qualification rate of product test of the subsidiaries. The Company has improved its key competitiveness and development potentiality by conducting overall planning, expanding its investment and management in technical transformation, of which all of its subsidiaries have made a great number of preparation and implementation in specific performance with more handsome progress than that of the last year in variety updating, quality improvement and output increase.

With the implementation of national UHV grid construction, power reform, new energy development, energy saving and emission reduction, the Company will have a change to constantly develop its new technologies and products so as to obtain new market opportunities.

(4) INVESTMENTS DURING THE REPORTING PERIOD

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

2. The investment of non-raised capital, progress and benefits of the main invested projects, and the information of investments and asset acquisitions during the reporting period are detailed in section 10(2) of this Annual Report.

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

1. Table of financial positions and operation results

Unit:RMB

Items	As at 31 December 2007	As at 1 January 2007	Increase/ decrease(%)
1. Total assets	1,073,974,339.91	1,282,102,227.11	-16.23
2. Shareholders´ fund (excluding minority)	513,191,910.61	830,895,472.92	-38.24
	2007	2006	
1. Profits from principal business	-81,884,210.56	40,346,800.93	-
2. Net Profit	-318,906,062.93	39,472,179.47	-
3. Net increase in cash and cash equivalents	24,454,208.56	-71,325,050.47	-

2. Measurement Attribute adopted by the Company's main assets during the reporting period

In accordance with the provisions of New Accounting Standards for Business Enterprises, during the reporting period, the Company has adopted the following measurement attribute to main assets: the inventories have been measured based on the lower one of cost and net realizable value; long-term equity investment, fixed assets and intangible assets based on initial investment cost.

3. Analysis of assets with greater changes

Unit: RMB

Items	As at 31 December 2007	As at 1 January 2007	Change(± %)
Monetary Fund	65,577,809.55	41,123,600.99	59.47
Bills Receivables	4,086,000.00	2,180,800.00	87.36
Advance Payment Accounts	28,599,777.91	56,962,918.82	-49.79
Dividend Receivables	4,117,670.40	2,087,881.75	97.22
Inventories	92,782,582.17	68,520,854.75	35.41
Fixed Assets	109,246,361.88	360,703,851.46	-69.71
Construction in progress	1,000,000.00	552,016.05	81.15
Amortization of Long-term Deferred Expenses	1,744,605.25	4,274,165.25	-59.18
Deferred Income Tax Assets	5,288,849.50	1,261,344.08	319.30

(5) FINANCIAL CONDITIONS AND OPERATIONS RESULTS DURING THE REPORTING PERIOD(CONTINUED)

3. Analysis of assets with greater changes(CONTINUED)

Note:

1) Main reasons for year-on-year gain of monetary fund: withdrawal of payment for goods;
2) Main reasons for year-on-year gain of bills receivable: gain of bank draft received;
3) Main reasons for year-on-year drop of advance payment accounts: drop in balance of advance payment for foreign purchase at the end of the period;
4) Main reasons for year-on-year gain of dividend receivables: recognition of declared dividend receivable from affiliated company ;
5) Main reasons for year-on-year gain of Iinventories: gain of ending inventories;
6) Main reason for year-on-year decrease of fixed assets: disposal of Shenyang Kingdom Hotel Co., Ltd;
7) Main reasons for year-on-year gain of construction in progress: gain of investment in basic projects;
8) Main reasons for year-on-year gain of amortization of long-term deferred expenses: amortization;
9) Main reason for year-on-year gain of deferred income tax assets: calculations of the assets reserve devaluation.

4. Analysis of liabilities with greater changes

Unit: RMB

Items	As at 31 December 2007	As at 1 January 2007	Change(± %)
Bills Payable	4,406,000.00	9,540,800.00	-53.82
Accounts Payable	126,038,398.43	79,608,362.25	58.32
Advances Receivable	91,848,322.95	34,614,796.47	165.34
Taxes and Dues Payable	4,579,843.56	11,447,648.07	-59.99
Other Payables	152,410,523.33	89,216,014.12	70.83
Special Payable	0.00	500,000.00	-100
Anticipation Liabilities	124,967,867.25	54,711,289.00	128.41
Converted Margin of Foreign Currency	-8,307,955.84	281,981.43	-
Minority shareholders´ Interests	4,315,576.53	101,523,441.27	-95.75

Note:

1) Main reasons for year-on-year drop of bills payable: due acceptance bills;
2) Main reasons for year-on-year gain of accounts payable: gain of accounts payable;
3) Main reasons for year-on-year gain of advances receivable: gain of advances receivable;
4) Main reasons for year-on-year drop of taxes and dues payable: drop of ending value added tax unpayable due to gain of ending inventories, and drop of property tax arising from decrease of fixed assets due to disposal of Shenyang Kingdom Hotel Co., Ltd;
5) Main reasons for year-on-year gain of other payables: current accounts increased;
6) Main reasons for year-on-year drop of special payable: appropriated projects transferred because they have been completed all;
7) Main reasons for year-on-year gain of anticipation liabilities: losses anticipated due to current lawsuits and foreign guarantees;
8) Main reasons for year-on-year drop of translation margin of foreign currency: greater changes in exchange rate;
9) Main reasons for year-on-year drop of minority interests: equity acquisition from minority shareholders.

(5) FINANCIAL CONDITIONS AND OPERATIONS RESULTS DURING THE REPORTING PERIOD(CONTINUED)

5. Analysis of profit and loss with greater changes

Unit: RMB

Items	2007	2006	Change (± %)
Sales Tax and Extra Charges	1,049,054.75	2,831,461.61	-62.95
Sales Expenses	52,396,408.30	39,762,437.93	31.77
Financial Expenses	5,614,952.51	10,502,394.08	-46.54
Impairment Loss of Assets	143,359,489.98	2,641,046.77	5328.13
Investment Income	83,932,926.39	37,703,623.27	122.61
Non-operating Expenses	241,347,721.65	949,909.61	25307.44
Income Tax Expenses	-2,884,396.67	1,408,243.99	-

Note:

1) Main reasons for year-on-year drop of sales tax and extra charges: disposal of Shenyang Kingdom Hotel Co., Ltd;
2) Main reasons for year-on-year increase of sales expenses: gain of current sales income;
3) Main reasons for year-on-year drop of financial expenses: drop of current profit and loss on exchange;
4) Main reasons for year-on-year increase of impairment loss of assets: current other accounts receivable from Benxi Iron & Steel (Group) Co., Ltd that have been calculated to bad debt reserves of RMB 76,090,000.00 in total and the buildings of Shenyang Kingdom Hotel Co., Ltd that have been calculated to devaluation of RMB 40,000,000.00;
5) Main reasons for year-on-year gain of investment income: disposal of its shares named Jinhualvjian;
6) Main reasons for year-on-year increase of non-operating expenses: increase of current anticipation liabilities and affirm of lawsuit losses.
7) Main reasons for year-on-year drop of income tax expenses: drop of deferred income tax assets from current calculation of the assets reserve devaluation.

6. Fluctuation of cash flow during the reporting period

Unit: RMB

Items	2007	2006	Change (± %)
Cash flows from operating activities	-25,695,727.14	-13,197,000.88	-94.71
Cash flows from investing activities	59,310,148.99	-41,733,604.75	-
Cash flows from financing activities	-8,955,583.06	-16,394,444.84	45.37

(5) FINANCIAL CONDITIONS AND OPERATIONS RESULTS DURING THE REPORTING PERIOD(CONTINUED)

6. Fluctuation of cash flow during the reporting period (CONTINUED)

Note:

1) Main reasons for year-on-year drop of cash flows from operating activities: there was an increase of cash payment related to operating activities;
2) Main reasons for year-on-year gain of cash flows from investment activities: drop of foreign investment;
3) Main reasons for year-on-year gain of cash flows from financing activities: cash dividend received.

(6) THE BOARD'S EXPLANATION FOR RELEVANT ITEMS

1. Items leading to qualified opinions

The Company´ s domestic auditors, Shenzhen Pengcheng Certified Public Accountants Co., Ltd issues an audit report with qualified opinions and the Company´ s international auditor, World Link C.P.A. Limited issues an audit report with disclaimer of opinion on this item of long-term investment income to the New Northeast Electric (Shenyang) High-voltage Switches Co., Ltd (the ˝New Northeast Electric˝).

On 31 December 2007, the Company made a long-term equity investment of RMB252, 430, 228.40 to the New Northeast Electric, which resulted in return on investment of RMB29, 426,398.58. As it is not the appointed auditors to the New Northeast Electric, Shenzhen Pengcheng Certified Public Accountants Co., Ltd cannot obtain full and appropriate auditing evidence through executing necessary auditing process, therefore, it issues qualified opinions for this account.

2. The Board's explanation for qualified opinions given by the auditors

The board of directors discusses and accepts the audit report with a qualified audit opinion issued by Shenzhen Pengcheng Certified Public Accountants Co., Ltd. In the board of directors´ opinion, the 2007 Financial Statements compiled on the basis of the Accounting System for Enterprises present fairly and correctly, in all material respects, the financial position and operating results of the Company in 2007.

(6) THE BOARD' S EXPLANATION FOR RELEVANT ITEMS (CONTINUED)

2. The Board' s explanation for qualified opinions given by the auditors (CONTINUED)

By the end of 31 December 2007, the Company, directly and indirectly, has held 20.8 % equity of the New Northeast Electric. In accordance with the Company´ s provisions of financial management and auditor´ s advice, the Company suggested the New Northeast Electric to appoint Shenzhen Pengcheng Certified Public Accountants Co., Ltd as the auditor of its 2007 business results, but the financial department of New Northeast Electric was unable to ensure the cooperation with the Company´ s auditor for full and systemic auditing because it was implementing the ERP information management in the first quarter of 2008, and it had entrusted Zhongcai Certified Public Accountants Co., Ltd to offer auditing for the whole year of 2007.

Zhongcai Certified Public Accountants Co., Ltd is a large auditing institution of China with years of experience in providing China´ s large-scaled corporations with professional services including auditing and restructuring, which has provided the New Northeast Electric with auditing services for many years.

In view of the above-mentioned facts, the Board of the Company decides to accept the audit results of the New Northeast Electric on the basis of the check of the working paper of auditing given by the Zhongcai Certified Public Accountants Co., Ltd, thus recording balance of long-term investment of RMB 252,430,228.40 and return on investment of RMB 29,426,398.48 in its annual accounts. This account is appropriate and correct.

3. The Board of Directors' Explanation on Correction of Accounting Errors

The Company found that it made an error in consolidated statement of 2006 in which it calculated RMB 12,880,313.38 more in long-term equity investment in Weida High Voltage Electric Co., Ltd, and RMB 12,880,313.38 more in minority shareholders´ interests during the auditing period of this year. It has corrected this error when preparing 2006-2007 comparable financial statements in 2007.

In auditors´ opinion, the above error is caused by data calculation error during consolidation and offset. It has been corrected in the Company´s 2007 financial statement without any influence on the Company´ s total profits, net profit, and retained income of 2006.

In the board of directors´ opinion, the adjustment on the above-said accounting errors is realistic and in accordance with the real financial position of the Company, and the correction to the significant accounting errors is also in compliance with relevant financial provisions. All this increases the quality of accounting information of the Company and presents fairly the financial position of the Company.

(7) THE POSSIBLE CHANGE OF ACCOUNTING POLICIES AND ESTATES AND ITS INFLUENCE ON THE COMPANY'S FINANCIAL POSITION AND OPERATING RESULTS AFTER THE IMPLEMENTATION OF NEW ACCOUNTING STANDARDS FOR ENTERPRISES

1. Analysis on the differences in shareholder's equity by adopting the current accounting standards and the Accounting Standards for Enterprises on 1 January 2007 when the latter was first executed.

   (1) Long-term Equity Investment Balance

   Under the current accounting standards, the Company´ s long-term equity investment balance made on 31 December 2006 was RMB -474,995.07, of which the balance to Jinzhou Jinrong Electric Co., Ltd was RMB -1,224,383.95, to Fuxin Closed Busbars Co., Ltd RMB 749,388.88. But in accordance with the New Accounting Standards for Enterprises, the above said two investments should be consolidated because the said two companies were under the same control, so there was an increase of RMB 474,995.07 in the retained earnings on 1 January 2007.

   (2) Income Tax

   Under the current accounting standards, the Company established its accounting policies under which the account receivable was translated into bad debt preparation. But in accordance with the New Accounting Standards for Enterprises, the difference between the carrying amount of the assets and its tax base should be recognized as deferred income tax asset, so there was another increase of RMB 1,261, 344.08 in the retained earnings on 1 January 2007.

   (3) Minority shareholders´ interests

   The minority shareholders´ interests of RMB 114,403,754.65 were recorded in the Company´ s consolidated statements prepared under the current accounting standards on 31 December 2006. But in accordance with the New Accounting Standards for Enterprises, the minority shareholders´ interests should be translated into shareholder´ s equity, so there was an increase of RMB 114,403,754.65 in the shareholder´ s equity on 1 January 2007.

(7) THE POSSIBLE CHANGE OF ACCOUNTING POLICIES AND ESTATES AND ITS INFLUENCE ON THE COMPANY' S FINANCIAL POSITION AND OPERATING RESULTS AFTER THE IMPLEMENTATION OF NEW ACCOUNTING STANDARDS FOR ENTERPRISES

2. In accordance with the strategic objective of the Company and its operating plan for the next year, the possible changes of accounting policies and estimates and its influence on the Company' s financial position and operating results after the implementation of the New Accounting Standards for Enterprises are as follows:

   (1) In accordance with the New Accounting Standards for Enterprises No.2 - Long-term Equity Investments, for a long term equity investment on the subsidiary company of a parent company, the parent company shall account it by employing the cost method normally, and shall make an adjustment by employing the equity method when it works out consolidated financial statements. In this way, the parent company´ s financial position and operation results can be embodied well in the financial statements without any influences on the consolidated statements.

   (2) In accordance with the New Accounting Standards for Enterprises No.18 - Income Taxes, for taxable temporary differences or deductible temporary differences between the carrying amount of an asset or liability and its tax base, the deferred income tax assets or the deferred income tax liabilities shall be calculated according to the new standards. The change of this policy will affect the Company´s accounting expenses of income tax during the current period, thus having an influence on the Company´ s profits and shareholder´ s equity.

   The above said matters on differences and influences are likely to be adjusted due to the further explanation of the New Accounting Standards for Enterprises by the Ministry of Finance.

(8) 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 cardinal 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.

(8) OPERATING PLANS OF THE BOARD FOR THE NEW FISCAL YEAR(CONTINUED)

2. Business Objectives and Main Works

(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.

(8) OPERATING PLANS OF THE BOARD FOR THE NEW FISCAL YEAR(CONTINUED)

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 endeavor 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 enlarge 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.

(1) DAILY WORK OF THE BOARD OF DIRECTORS

During the reporting period, the board of directors held 9 meetings as follows:

1. The 20th meeting of the 4th session of the Board of Directors was held on 19 January 2007 to consider and approve the Resolution on Nomination of Candidates for the 5th session of Board of Directors, the Proposal of Remunerations for the Members of the 5th session of Board of Directors, the Resolution on Nomination of Candidates for the 5th session of Supervisory Committee, and the Proposal of Remunerations for the Members of the 5th session of Supervisory Committee.

2. The 21st meeting of the 4th session of the Board of Directors was held on 28 February 2007 to consider and approve: the 2006 Annual Report, the Proposal of Net Profit Distribution; other proposals such as the reappointment of the Company´s domestic and international auditors. All of above resolution and proposals were to be submitted to the 2006 Annual General Meeting at 9:00 am on 20 April 2007 for consideration and approval. The Resolution on Foreign Capital Increase and Share Expansion were to be submitted to the third Extraordinary General Meeting of 2007 at 10:00 am on 20 April 2007 for additional consideration and approval of independent shareholders.

3. The 1st meeting of the 5th session of Board of Directors was held on 7 March 2007 to consider and approve the election of Mr. Sun Zhen as the Chairman, Mr. Wang Shouguan and Mr. Zhang Bin as the Vice Chairmen; the appointment of members of each special committee; and the appointment of senior management.

4. The 2nd meeting of the 5th Board of Directors was held on 20 April 2007 to consider and approve the Resolution on the Appointment of International Auditor. The above resolution was to be submitted to the fourth Extraordinary General Meeting of 2007 at 9:00 am on 6 June 2007 for additional consideration and approval.

5. The 3rd meeting of the 5th session of Board of Directors was held on 24 April 2007 to consider and approve the First Quarterly Report of 2007, the Resolution on the Implementation of the New Accounting Standards and the Resolution on the Appointment of the Board Secretary.

6. The 4th meeting of the 5th session of Board of Directors was held on 14 May 2007 to consider and approve the Resolution on Two Acquisition Transactions of Equity Investment and the Resolution on the Disposal Transaction of 100% Equity Investment of Shenyang Kingdom Hotel Co., Ltd.

(1) DAILY WORK OF THE BOARD OF DIRECTORS (CONTINUED)

7. The 5th meeting of the 5th session of Board of Directors was held on 13 July 2007 to consider and approve the Resolution on the Self-inspection Report and Reorganizing Plan Regarding the Special Activities to enhance the Governing of the Listed Company and the Resolution on the New Addition and Revision of Relevant Management Systems.

8. The 6th meeting of the 5th session of Board of Directors was held on 27 August 2007 to consider and approve the Resolution on Mr. Liu Tongyan´ s resignation as Executive Director due to His Job Change; the Resolution on Adding a Candidate for Executive Director; the Interim Report and the Net Profit Appropriation for the Six Months Ended 30 June 2007. The Resolution on Adding A New Executive Director was to be submitted to the sixth Extraordinary General Meeting of 2007 on 12 October 2007 for consideration and approval.

9. The 7th meeting of the 5th session of Board of Directors was held on 26 October 2007 to consider and approve the Third Quarterly Report of 2007.

(2) EXECUTION OF RESOLUTIONS OF GENERAL MEETING BY THE BOARD OF DIRECTORS

During the reporting period, the Board of Directors attentively executed the resolutions approved by the General Meeting and timely completed the tasks assigned by the General Meeting.

(3) THE PERFORMANCE OF DUTIES OF THE AUDIT COMMITTEE OF THE BOARD OF THE COMPANY

1. The Work of the Audit Committee of the Board of the Company

The audit committee of the Board of the Company comprises 5 independent non-executive directors with Ms. Liang Jie, an accounting professional, as the presiding member.

During the reporting period, the audit committee, in accordance with the relevant provisions of China Securities Regulatory Commission and Shenzhen Stock Exchange and the Implementation Details of the Audit Committee made by the Company, performed the following duties earnestly and diligently:

(1) The audit committee established the audit procedure of the 2007 Annual Report of the Company after reading carefully the Notice concerning Doing a Good Job for the 2007 Annual Report of the Listed Companies, and negotiating with Shenzhen Pengcheng Certified Public Accountants Limited Company and World Link CPA Limited, the Company´ s domestic and international auditor respectively, on the plan, content and schedule of the audit of 2007;

(2) The audit committee had reviewed thoroughly the Company´ s primary financial statement and given its own audit opinions before the auditors entered;

(3) When the auditors entered, the audit committee communicated and exchanged with certified public accountants in charge of the audit of the Company on the problems found in the course of the audit and the time to submit the audit report;

(4) The audit committee reviewed the 2007 financial statements of the Company again and gave written audit opinions after the auditor gave their primary audit opinions;

(5) The audit committee convened meetings to sum up the auditors´ audit and vote for the Company´ s financial statements of 2007 and the proposals in relation to the appointment of accounting firms in the next year and then to adopt a final resolution.

(3) THE PERFORMANCE OF DUTIES OF THE AUDIT COMMITTEE OF THE BOARD OF THE COMPANY(CONTINUED)

2. Audit opinions given by the audit committee on the Company's financial statements before the certified public accountants in charge of the Company's annual audit entered.

To the Board of the Company:

We have reviewed the financial statements submitted by the financial department of the Company on 9 January 2008, including balance sheets, profit statements, cash flow statements, statements of shareholder´s equity and some notes to the financial statements ended 31 December 2007.

Pursuant to the provisions of 38 specific standards as specified in Accounting Standard for Business Enterprises No.38-First time adoption of Accounting Standards for Business Enterprises and Accounting Standard for Business Enterprises No.1-Inventories, we pay more attention to such problems as the accuracy and integrity of the accounting information and whether or not the financial statements are prepared in accordance with the New Accounting Standards.

After communicating with the director of the Company´s financial department, relevant financial personnel and management, examining the related accounting documents of the Company and testing the software that could make the financial data, we conclude that all of the Company´s transactions have been recorded with true transaction matters, complete information, proper adoption of accounting policy, reasonable accounting estimate, and we have found nothing in relation to significant accounting mistakes, fund appropriation of major shareholders and violation in guarantee and connected transactions and so on.

Because there are still a few days between the primary review of this financial statement and the final audit date of the annual report, we advise the financial department to pay more attention to the provisions of new accounting standards and make proper adjustments in accordance with them so as to ensure the accuracy and integrity of the financial statements.

Audit Committee of the Board
9 January 2008

(3) THE PERFORMANCE OF DUTIES OF THE AUDIT COMMITTEE OF THE BOARD OF THE COMPANY(CONTINUED)

3. Audit opinions given by the audit committee on the Company's financial statements after the certificate public accountants in charge of the Company' s audit issued their primary audit opinions.

To the Board of the Company:

We have reviewed the financial statements submitted by the Company´s financial department on 10 March 2008, which has been audited by the certificated public accountants in charge of the Company´ s annual audit. These financial statements include balance sheets, profit statements, cash flow statements, statements of shareholder´ s equity and some notes to the financial statements ended 31 December 2007. At the same time, we have also paid more attention to the adjusted part of the audited financial statements of the Company. After communicating with the certificated public accountants in charge of the Company´ s annual audit, and reviewing the additional information related to accounts and vouchers, we conclude that:

We maintain our previous opinions, and opine that the Company´ s financial statements are prepared in accordance with the provisions of the New Accounting Standards and the relevant financial systems of the Company, which truly and correctly reflect the Company´ financial status and operating results of 2007. The management of the Company has made proper disclosure in the notes to the financial statements regarding such significant matters as income recognition, sustained operation, subsequent events of balance sheet, and connected transactions.

Audit Committee of the Board
10 March 2008

(3) THE PERFORMANCE OF DUTIES OF THE AUDIT COMMITTEE OF THE BOARD OF THE COMPANY(CONTINUED)

4. Summary report given by the audit committee on the audit of the Company’s auditors

To the Board of the Company:

On 09 January 2008, we established the audit procedure of the 2007 Annual Report of the Company after negotiating with the audit group composed of Shenzhen Pengcheng Certified Public Accountants Limited Company and World Link CPA Limited, the Company´s domestic and international auditor respectively, on the plan, content and schedule of the audit of 2007 and reaching an agreement.

On 14 January 2008, upon the schedule of the audit procedure, the auditors entered the Company and started their 20 days´ auditing work. The audit group completed their field audits in all companies involved in consolidate financial statements. In addition, in accordance with the provisions of the Accounting Standard for Business Enterprises No.38-First time adoption of Accounting Standards for Business Enterprises and the Standard Explanation of Information Disclosure of Companies with open securities issuance No.7-Compilation and Disclosure of Comparative Financial Accounting Information During the Transition of New and Old Accounting Standards and the Explanation of Accounting Standards for Business Enterprises No.1, the audit group made proper retroactive adjustments in corresponding accounting years for accounts that need retroactive adjustments and restated the financial statements.

On 10 March 2008, after the certificated public accountants in charge of the Company´s audit gave their primary audit opinions, we fully communicated with the head of auditors on the following significant contents of the Company´s financial statements:

(1) Opinions on the accounting policy, accounting estimate and financial statements disclosure adopted by the Company;

(2) Without Significant mistakes that remain uncorrected;

(3) Establishment of the Company´s internal control mechanism.

We opines that the auditors have done a good job in its audit relying on enough time, reasonable staffing, and practicing competency, and that its audit statement fully reflects the Company´s financial status, operating results and cash flow in 2007 and its audit conclusion meets the real condition of the Company.

Audit Committee of the Board
29 April 2008

(3) THE PERFORMANCE OF DUTIES OF THE AUDIT COMMITTEE OF THE BOARD OF THE COMPANY(CONTINUED)

5. Resolution adopted by the audit committee on the appointment of accounting firms in 2008

The audit committee of the Board of Northeast Electric Development Co., Ltd held a meeting at the conference room of the Company, Floor 14, Kingdom Hotel, at 9.00 am on Wednesday, 29 April 2008. All of five persons attended the meeting. The meeting was presided by Ms. Liang Jie, the director member of the audit committee. All members of the audit committee agree to approve the following resolutions:

(1) The Company´ s 2007 financial accounting report;

(2) Summary report on the annual audit of this year of the Company´ s auditors;

(3) As the Company´ s audit institutions, Shenzhen Pengcheng Certified Public Accountants and World Link C.P.A Limited, the Company´s domestic and international auditor respectively, under the principles of faithfulness and carefulness, completed the audit of the Company´ s financial report so that a good relationship has been established between them. We advise to reappoint them as the Company´s domestic and international auditors in 2008.

The above resolutions shall be adopted after the consideration of the Board of the Company.

Audit Committee of the Board
29 April 2008

(4) THE PERFORMANCE OF DUTIES OF THE REMUNERATION COMMITTEE OF THE BOARD OF THE COMPANY

The remuneration committee of the board of the Company is mainly responsible for studying the appraisal standards for directors and management, conducting the appraisal and putting forward its proposals; responsible for studying and reviewing the remuneration policies and programs for directors and senior management. This remuneration and appraisal committee is composed of five directors with Mr. Lin Wenbin, an independent director, as its chief member.

During the reporting period, the remuneration committee of the board reviewed the remunerations disclosed by the Company´ s directors, supervisors, and senior management.

(4) THE PERFORMANCE OF DUTIES OF THE REMUNERATION COMMITTEE OF THE BOARD OF THE COMPANY(CONTINUED)

The remuneration committee, in accordance with the relevant provisions of China Securities Regulatory Commission and Shenzhen Stock Exchange, the internal system of the Company and the Implementation Details of the Remuneration Committee made by the Company, review the remunerations in 2007 disclosed by the Company´s directors, supervisors, and senior management and give the following opinions:

In 2007, in accordance with their main duties, their business results and their accomplishments of appraisal index in 2007, we made an annual examination of performance appraisal for the Company´ s directors, supervisors and senior management, and determined their compensation standards in 2007. We considered that the compensations of the Company´ s directors, supervisors and senior management disclosed in the 2007 annual report were in conformity with the relevant laws, regulations and the Company´s system of compensation without any circumstances in relation to violation of laws and regulation or nonconformity with the Business Objective Guarantee.

Remuneration Committee of the Board
29 April 2008

(5) FINANCIAL HIGHLIGHTS

The financial highlights are detailed in section 2(1) of this Annual Report.
The material difference between PRC accounting standard and HK GAPP is detailed in section 2(4) of this Annual Report.

(6) RESERVES

Changes of reserves are detailed in Notes to the Financial Statements of this Report.

(7) BANK LOANS AND OTHER LOANS

Bank loans and other loans are detailed in Notes to the Financial Statements of this Report.

(8) FIXED ASSETS

Changes of fixed assets are detailed in Notes to the Financial Statements of this Report.

(9) RETIREMENT WELFARE

During the year, the Company adopted Statements of Standard Accounting Practice (SSAP) No. 34 ″Staff benefits″ which standardized the Company′s policy on staff welfare like retirement welfare plans. Since the Company only participated in the staff retirement insurance system regulated by the state government, the application of SSAP No. 34 did not impose significant impact on the Company′s financial status.

(10) SHARE CAPITAL

Changes of share capital are detailed in section 3(1) of this Annual Report.

(11) PRE-EMPTIVE RIGHT

There are no provisions of pre-emptive right in accordance with the Articles of Association of the Company and PRC laws and regulations.

(12) IMPACT OF MEDICAL INSURANCE SCHEME ON THE RESULTS OF THE COMPANY

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

(13) INCOME TAX: during the reporting period, the applicable income tax of the Company is 33%, and there is no taxable income in Hong Kong. Please see the Notes to the Financial Statements for details.

(14) PURCHASE, SALE AND REDEMPTION OF SHARES

During the reporting period, the Company and its subsidiaries did not purchase, sell and redeem any shares of the Company.

(15) PLAN OF PROFIT APPROPRIATION AND TRANSFER OF CAPITAL RESERVES TO INCREASE THE SHARE CAPITAL FOR THE YEAR

The Board recommended to distribute the profit for the year ended 31 December 2007 as follows:

During the reporting period, the Company recorded loss of RMB 318,906,062.93 and distributable profit of shareholders at the end of the year up to RMB -1,438,523,595.67. Therefore the Board resolved not to make any profit distribution and nor to trans4er any capital reserve into share capital during the reporting period.

(16) 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.

(17) FINANCIAL ANALYSIS OF THE COMPANY UNDER GENERALLY ACCEPTED ACCOUNTING PRINCIPALS OF HONG KONG

During the reporting period, cash liquidity, financial resources, capital structure and assets pledged

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, 370,000, 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 RMB 56,302,000 as security.

Please see the Notes to the Financial Statements about Subsequent Event for details.

(18) SPECIFIC EXPLANATIONS AND INDEPENDENT OPINIONS GIVEN BY THE INDEPENDENT DIRECTORS

As the independent directors of Northeast Electric Development Co., Ltd (the ˝company˝), Mr. Wu Qicheng, Mr. Lin Wenbin, Mr. Xiang Yongchun, Ms. Liang Jie and Mr. Liu Hongguang, in accordance with the relevant requirements set out in ˝Guiding Opinions on the Establishment of Independent Directors System by Listed Companies˝, ˝Notice of Certain Issues in relation to the Regulation on Capital Flow between Listed Companies and its Connected Parties and External Guarantee of Listed Companies ˝(Zheng Jian Fa [2003]No. 56), ˝Notice on Regulation of External Guarantee Acts of Listed Companies˝ (Zheng Jian Fa 2005 No. 120) and based on the relevant information available by the Board to the Company, the Board has reviewed the information provided and issued the following specific explanations and independent opinions in a pragmatic manner on the basis that the information available are true, accurate and complete:

1. Independent opinion of independent directors on appointment of senior management

   (1) We agreed to engage Mr. Sun Zhen as the chairman of the Board, Mr. Wang Shouguan and Mr. Zhang Bin as the vice chairmen, Mr. Zhang Bin as the general manager, Mr. Su Weiguo and Mr. Shi Li as the vice general managers; we agreed to engage Mr. Shi Li as the secretary to the Board, and Mr. Zhu Xinguang as the securities representative. The above approval process is effective and in accordance with the provisions as specified in Articles of Association;

   (2) Through review of the resumes and other documents related to our engaged management, we didn´t find out they had involved in any conditions stipulated in Article 147 of Company Law, or they had been banned from the market by China Securities Regulatory Commission and are still undergoing this ban. Talented with the professional knowledge and capable of decision-making, supervision and coordination, they are satisfied with the requirements of relevant duties as well as employment qualifications for senior management stipulated in Company Law and Articles of Association.

(18) SPECIFIC EXPLANATIONS AND INDEPENDENT OPINIONS GIVEN BY THE INDEPENDENT DIRECTORS (CONTINUED)

2. Independent opinion on nomination of adding a candidate for executive director (CONTINUED)

   We, the independent directors of the company, with seriousness and sense of responsibility, hereby give the following independent opinions for the motion adopted by the board on nomination of

   (1) We, the independent directors of the company, have made enquiries to other directors and the secretary to the board about relevant matters before careful reading of the resume of Mr. Bi Jianzhong provided by the secretary to the board. On the basis of our independent judgment, we consider that his employment qualification has not any conditions as forbidden in Company Law and Articles of Association, and he is satisfied with the requirements of relevant duties. We agree to add Mr. Bi Jianzhong as the candidate for executive director of the fifth board of directors of the Company, and submit it to the general meeting of shareholders for voting.

   (2) The nomination, recommendation, consideration and voting procedure of the board of directors for Mr. Bi Jianzhong are in accordance with the provisions as specified in Company Law and Articles of Association;

3. Independent directors' opinion on self-assessment of internal control of the Company

   During the report period, the board of the Company revised, considered and adopted a series of managements like the Internal Control System, which is improved and complete, and in accordance with the provisions of relevant national laws and regulations as well as the requirements of supervision departments. The Company´s key internal control activities are conducted under the provisions of all internal control systems. The Company´s internal control on subsidiaries, connected transactions, foreign guarantee, use of raised capital, significant investments and information disclosures is strict, full and effective, thus ensuring the normal business management of the Company with rationality, integrity and validity. The self-assessment of internal control of the Company is in accordance with real conditions of the Company´s internal control.

(18) SPECIFIC EXPLANATIONS AND INDEPENDENT OPINIONS GIVEN BY THE INDEPENDENT DIRECTORS (CONTINUED)

4. Special representation and independent opinion on the Company’s foreign guarantees

In 2007, the foreign guarantee amount of the company amounts to RMB 368,850,000.00, and the guarantee amount for its holding subsidiary RMB 37,000,000.00. The total guarantee amount takes up 79.08% of net assets (exclusive minority shareholders interest) in consolidated statement for 2007.

During the reporting period, the Company cautiously treated and handled the foreign guarantee matters and made complete information disclosure in accordance with relevant provisions of supervision departments, thus making full disclosure and effective control of foreign guarantee. It hasn´t made any guarantee for its shareholders, effective controller as well as the parties concerned. From now on, the Company will continue to strictly execute the provisions of the Articles of Association to enhance management on external guarantee and to properly solve the problems of the guarantees provided.

5. Independent opinions on connected transactions

In the opinion of independent directors, connected transactions of the Company are fair and reasonable and no insider dealings between the associates of the Company or connected transactions that damage the interests of some of the shareholders or the Company are found. The Company operated in accordance with laws and no problems with the Company´s financial status, acquisition, and disposal of assets and connected transactions.

6. Independent opinions on asset acquisitions and disposals

In the opinion of independent directors, no insider dealings was found during the course of asset acquisition and disposal, the act was open, fair, reasonable and in the interests of the listed company and shareholders as a whole. There had been no damage to minority interests or caused any loss to the Company´ s assets.

(18) SPECIFIC EXPLANATIONS AND INDEPENDENT OPINIONS GIVEN BY THE INDEPENDENT DIRECTORS (CONTINUED)

7. Independent opinions on issues involved in auditors' opinions

In accordance with circumstances of their knowledge, the independent directors of the Company judged that the explanatory on the audit report with a qualified opinion issued by the Board of Directors conforms to the fact.

The independent directors considered that the auditors conformed to the audit procedure, standard and professional judgment, and their issue of audit report with a qualified opinion was normal and conformed to professional standard. In addition, the explanatory provided by the Boards also conformed to facts and the benefits of the Company and all staff of the Company.

8. Independent opinion on correction of significant accounting errors

The Company found that it made an error in 2006 consolidated statement in which it calculated RMB 12,880,313.38 more in long-term equity investment in Weida High Voltage Electric Co., Ltd, and RMB 12,880,313.38 more in minority interests. It has corrected this error when preparing 2006-2007 comparable financial statements in 2007.

In auditors´ opinion, the above error is caused by data calculation error during consolidation and elimination. It has been corrected in the Company´ s 2007 financial statement without any influence on the Company´ s total profits, net profit, and retained income.

In the independent directors´ opinion, the adjustment on the said significant accounting errors is realistic and in accordance with the real financial position of the Company, and the correction to the significant accounting errors is also in compliance with relevant financial provisions. All this increases the quality of accounting information of the Company and presents fairly the financial position of the Company.

9. Independent opinion on current profit appropriation proposal

During the reporting period, the Company recorded loss of RMB 318,906,062.93 and distributable profit of shareholders at the end of the year up to 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.

In accordance with the provisions of Company Law and Articles of Association on loss remedy, the Company could not make any profit appropriation as its undistributed profit was recorded loss, so we agreed that the Company should not make its profit appropriation in 2007.

(1) MEETING OF THE SUPERVISORY COMMITTEE

During the reporting period, the supervisory committee has convened 9 meetings, details of which are as follows:

1. The 19th meeting of the 4th session of the supervisory committee was held on 19 January 2007 to review and approve the Resolution on Nomination of Candidates for the 5th session of Board of Directors, the Proposal of Remunerations for the Members of the 5th session of Board of Directors, the Resolution on Nomination of Candidates for the 5th session of Supervisory Committee, and the Proposal of Remunerations for the Members of the 5th session of Supervisory Committee.

2. The 20th meeting of the 4th session of the Supervisory Committee was held on 28 February 2007 to review and approve the 2006 Supervisory Committee′ s Work Report, the 2006 Annual Report and its Summary, as well as the Rule of Procedure of Supervisory Committee.

3. The 1st meeting of the 5th session of the Supervisory Committee was held on 7 March 2007 to consider and approve Mr. Dong Liansheng as the chairman of Supervisory Committee.

4. The 2nd meeting of the 5th session of the Supervisory Committee was held on 20 April 2007 to consider and approve the Resolution on the Appointment of International Auditor.

5. The 3rd meeting of the 5th session of the Supervisory Committee was held on 24 April 2007 to consider and approve the First Quarterly Report of 2007, the Resolution on the Implementation of the New Accounting Standards and the Resolution on the Appointment of the Board Secretary.

6. The 4th meeting of the 5th session of the supervisory committee was held on 14 May 2007 to consider and approve the Resolution on Two Acquisition Transactions of Equity Investment and the Resolution on the Disposal Transaction of 100% Equity Investment of Shenyang Kingdom Hotel Co., Ltd.

7. The 5th meeting of the 5th session of the Supervisory Committee was held on 13 July 2007 to consider and approve the Resolution on the Self-inspection Report and Reorganizing Plan Regarding the Special Activities to enhance the Governing of the Listed Company.

8. The 6th meeting of the 5th session of the Supervisory Committee was held on 27 August 2007 to consider and approve the Interim Report and the Net Profit Appropriation for the Six Months Ended 30 June 2007.

9. The 7th meeting of the 5th session of the Supervisory Committee was held on 26 October 2007 to consider and approve the Third Quarterly Report of 2007.

(2) THE SUPERVISORY COMMITTEE PROVIDED INDEPENDENT OPINION ON THE RELATED MATTERS OF THE COMPANY

1. The Company's legal operation

The Supervisory Committee opines that during the reporting period, the Company has established a fairly comprehensive corporate governance framework and internal control system. Decision-making procedure of the Annual General Meeting and each of the board meetings are lawful. Directors, independent directors, managers and other senior management strictly observe the law in performing their duties. They had no acts in breach of discipline, law, Articles of Association nor had damaged interests of the Company.

2. The Company's financial status

The supervisory committee opines that during the reporting period, the financial department of the Company has established a sound internal control and management system to integrate operation and financial management, so as to protect interests of investors. The 2007 financial statements truly reflect the Company´ s financial status and operating results. The auditors report with an opinion qualified issued by the Company´s auditor is true and objective, which truly reflect the Company´ s financial status and operating results in 2007.

3. Asset acquisitions and disposals

The supervisory committee opines that no insider dealings was found during the course of asset acquisition and disposal, the act was open, fair, reasonable and in the interests of the listed company and shareholders as a whole. There had been no damage to minority interests or caused any loss to the Company´ s assets.

4. Connected transactions

The Supervisory Committee opines that the connected transactions of the Company are fair and reasonable and no insider dealings between the associates of the Company and connected transactions that damage the interests of some of the shareholders or the Company are found.

(2) THE SUPERVISORY COMMITTEE PROVIDED INDEPENDENT OPINION ON THE RELATED MATTERS OF THE COMPANY(CONTINUED)

5. Opinions on self-assessment of internal control

   The supervisory committee opines that the self-assessment of internal control of the Company is full, true and correct, which reflects the real situation of the Company´s internal control.

By order of the Supervisory Committee
Dong Liansheng

China, Shenyang
29 April 2008

(I) 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) dated19 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 20 June, 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 12 March, 2007.

(I) MATERIAL LITIGATION AND ARBITRATION(CONTINUED)

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 joint guarantee obligation. 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 joint and 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 joint guarantee obligation 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 obligation. Because the payment was overdue, the Jinzhou ICBC brought a lawsuit to the Jinzhou Intermediate Court in December 2006, requesting Jinzhou Capacitor 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 (2007 Jin Min San Chu Zi No.19) and ruled out that the Company the joint liability of Jinzhou Capacity´ s loan of RMB22, 900,000.

(II) ASSETS ACQUIRED AND DISPOSED BY THE COMPANY DURING THIS REPORTING PERIOD

1. Overseas investment and assets acquisition

(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 control equipment, 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.

(II) ASSETS ACQUIRED AND DISPOSED BY THE COMPANY DURING THIS REPORTING PERIOD (CONTINUED)

1. Overseas investment and assets acquisition (CONTINUED)

(5) With the approval of the board meeting on 14 May 2007 and the fifth extraordinary general meeting on 16 August 2007, Great Talent Technology Limited, a wholly-owned subsidiary of the Company, contributed RMB 180,000,000 to acquire 48% equity of New Northeast Electric (Jinzhou) Power Capacitors Co., Limited and 25.6% equity of New Northeast electric (Shenyang) High-Voltage Isolated Switchgears Co., Limited, which are held by Prosper Power Company Ltd.

2. 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, acquire 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. This transaction formed a connected transaction, 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 to current period.

(III) CONNECTED TRANSACTIONS

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.

(IV) USE OF CAPITAL FOR CONNECTED PARTIES

Controlling shareholders did not use any capital during the reporting period. Please see Relation and Transaction of Connected Parties of Notes to the Financial Statements for details on use of capital for other connected parties.

(V) SIGNIFICANT CONTRACTS AND THEIR EXECUTIONS

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

2. Guarantees

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 Switchgears Co., Limited, a joint stock 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(please refer to the Announcement dated on 27 December 2007 for details). 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 stock company with total guarantees of RMB 300,000,000

(1) Foreign guarantees of the Company

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

(V) SIGNIFICANT CONTRACTS AND THEIR EXECUTIONS(CONTINUED)

2. Guarantees(CONTINUED)

(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 (excluding minority shareholders´ interests) of the Company for 2007, which was translated into liabilities in total.

(4) The Company didn´ t provide any guarantees to shareholders, actual controllers and their associates.

(VI) 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.

(VII) APPOINTMENT AND DISMISSAL OF ACCOUNTANTS

Please refer to section 5(6) 12 of this Annual Report for details.

(VIII) 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 Listing Rules of Hong Kong Exchanges and Clearing Limited. The Company will keep the shareholders of the Company informed of the progress of the appointment of the Qualified Accountant in time.

(IX) THE COMPANY HAS NOT ISSUED ANY EQUITY INCENTIVE PLANS

(X) DURING THE REPORTING PERIOD, THE COMPANY, THE BOARD OF DIRECTORS AND THE DIRECTORS HAD NOT BEEN INVESTIGATED, UNDER ADMINISTRATIVE PENALTY, CRITICIZED BY NOTICE BY THE CHINA SECURITIES REGULATORY COMMISSION AND OPENLY REPRIMANDED BY THE STOCK EXCHANGE. THE COMPANY'S DIRECTORS AND SUPERVISORS WERE NOT SUBJECT TO ANY COMPULSORY PROCEDURES.

(XI) NO SIGNIFICANT EVENTS AS LISTED IN SECTION 67 OF THE SECURITIES LAW AND SECTION 30 OF DETAILS FOR ADMINISTRATION ON INFORMATION DISCLOSURE OF LISTED COMPANIES

(XII) RECEPTION TO THE ACTIVITIES OF FIELD SURVEY, COMMUNICATION AND INTERVIEW DURING THE REPORTING PERIOD

During the reporting period, the Company strictly complied with the related regulations and requirements specified in the Guidelines for Fair Information Disclosure of Listed Companies of Shenzhen Stock Exchange. It has not solely disclosed, revealed, or divulged any significant private information to special objects in selective, private, or advance ways when the investors visited the Company for field survey or the media came to interview, thus ensuring the fairness of information disclosure.

(XIII) ANNOUNCEMENT INDEX ON MAJOR MATTERS IN 2007

During the reporting period, all of the Company´ s announcements were published on China Securities Journal, Securities Times and information disclosure websites. Please visit www.cninfo.com.cn, www.hkex.com.hk [column on the latest information of listed company] and www.nee.wsfg.hk for details. The major information is disclosed as follows:

Publishing Date	Announcement Matters
14 March 2007	Announcement on Progress of Recovery of Material Debt and Litigation
5 April 2007	Announcement on Handling the Listing Procedure of Trading Shares
25 April 2007	Announcement on Foreign Guarantee
15 May 2007	Announcement on Resumption of Trading Announcement on Acquisition and Disposal of Equity Investment
10 September 2007	Suggestive Announcement on Performance Loss Prediction for the Third Quarter of 2007
26 October 2007	Suggestive Announcement on Performance Loss Prediction for the year of 2007
27 December 2007	Announcement on Foreign Guarantee

(XIV) SUBSEQUENT EVENTS

None

Notice is hereby given that the 2007 Annual General Meeting (the ˝AGM˝) of Northeast Electric Development Company Limited (˝the Company˝) will be held in the conference room, Kingdom Hotel, No. 189 Taiyuan Nan Street, Heping District, Shenyang, PRC at 9.00am on Monday, 16 June 2008 for the following purposes:

1. To approve the report of the annual results for the year ended 31 December 2007;
2. To approve the net profit appropriation proposal for the year ended 31 December 2007

   During the reporting period, the Company recorded loss of RMB 318,906,062.93, 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.

3. To approve the Resolution in Relation to Reappointment of the Company´ s domestic Auditors

   It was proposed to reappoint Shenzhen Pengcheng Certified Public Accountants as the domestic auditor of the Company for the year of 2008 for a term of one year, and authorized the Board to determine the remuneration..

4. To approve the Resolution in Relation to Reappointment of the Company´s international Auditors

   It was proposed to reappoint World Link CPA Limited Company as the international auditor of the Company for the year of 2008 for a term of one year, and authorized the Board to determine the remuneration..

5. To approve the proposal of the Amendments to the Articles of Association.

   (1) By amending the existing Article 12 to ˝The scope of the Company´ s operations should be subject to the items approved by the company registration authority, including the manufacture and sale of transmission and transformation equipment and accessories, the sale of its own products and supply of relevant after services, the development, consulting, transfer and testing services in relation to transmission and transformation technology.˝

   (2) By amending the existing Article 18 to ˝After approved by the Company Examination and Approval Department authorized by the State Council, the issuable common stock of the Company has totaled 873,370,000 shares at RMB 1 yuan per share, among which:

   (i) The domestic A shares total 61,542,000, accounting for 70.46 % of the total shares of the Company;

   (ii) The overseas H shares total 257,950,000, accounting for 29.54% of the total shares of the Company.˝

Notes:

(1) Any holder of A shares who has registered on the register of the Company at China Securities Depository and Clearing Company Limited Shenzhen Branch by the close of business on 9 June 2008 is entitled to attend the Meeting.

(2) In order to confirm the list of holders of H shares who is entitled to attend the meeting, the register of shareholders of the Company will be closed from 16 May 2008 to 16 June 2008 (both days inclusive), during which period no transfer of shares will be registered. The shareholders whose names appear on the register by the closes of business on 15 May 2008 are entitled to attend the meeting and vote at the meeting. Holders of H shares who intend to attend the meeting shall deposit the transfers and relevant share certificates at the Company´s H shares registrar, Hong Kong Registrars Limited located at 17/F Hopewell Center, 183 Queen´s Road East, Hong Kong not later than 4:30 pm on 26 May 2008.

(3) Shareholders who intend to attend the meeting shall lodge the reply slips for attending the meeting to the Company before 26 May 2008.

(4) Any shareholder entitled to attend and vote at the meeting is entitled to appoint one or more proxies (whether or not shareholder of the Company) to attend and vote at the meeting on his/her behalf.

(5) In order to be valid, the proxy forms of shareholders and other notarially certified documents (if any) should be deposited at the Company not less than 24 hours before the time for holding the meeting.

(6) The meeting is expected to last for half a day. Shareholders or their proxies attending the meeting shall bear their own travel and accommodation expenses.

By order of the Board
Mak Yee Chuen

Company Secretary
29 April 2008

LIST OF DOCUMENTS AVAILABLE FOR INSPECTION

The following documents are available at the Office of the Board of Directors for inspection:

(1) Accounting Statements bearing signatures and seals of the Chairman, Chief Accountant and Head of Financial Department of the Company;

(2) Originals of auditor´s reports bearing seals of the Accountants and signatures and seals of the Certified Public Accountants;

(3) Originals of all company documents and originals of announcements, which have been disclosed on the newspapers designated by CSRC during the reporting period;

(4) Original of the Company´ s annual report.

The Board of Directors of Northeast Electric Development Co., Ltd
29 April 2008

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 83 to 153, 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 21 to the consolidated financial statements was fairly stated under Hong Kong Financial Reporting Standards.

2. Scope limitation - Goodwill

As disclosed in note 19 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

	Notes	2007 *RMB'000*	2006 *RMB'000*
Continuing operations			
Turnover	8	618,496	465,989
Cost of sales		(510,785)	(347,002)
Gross profit		107,711	118,987
Other income	10	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	21	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	22	(2,537)	-
Gain on disposal of available-for-sale investments	22	54,443	-
Provision for loss on guarantees	31	(70,257)	-
Compensation for share exchange scheme	40	(170,460)	-
Write off of receivables from Bengang Group	23(b)	(74,425)	-
(Loss)/profit before tax		(264,949)	34,892
Income tax	11	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	12	(56,807)	8,142
(Loss)/profit for the year	13	(318,509)	39,483
Attributable to:			
Equity holders of the Company		(311,479)	29,540
Minority interests		(7,030)	9,943
		(318,509)	39,483
(Loss)/earnings per share - basic	16		
From continuing and discontinued operations (RMB per share)		(0.36)	0.034
From continuing operations (RMB per share)		(0.29)	0.025

CONSOLIDATED BALANCE SHEET

As at 31 December 2007(Prepared In Accordance With Accounting Principles Generally Accepted In Hong Kong)

	Notes	2007 RMB'000	(Restated) 2006 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	17	110,247	361,257
Prepaid lease payments	18	14,001	13,329
Goodwill	19	94,644	-
Interests in associates	21	311,827	307,466
Available-for-sale investments	22	10,000	37,345
Long term prepayments		1,745	4,274
Deferred tax assets	35	5,289	-
		547,753	723,671
CURRENT ASSETS			
Inventories	24	92,783	68,521
Trade and other receivables	25	350,569	373,199
Amounts due from associates	26	17,117	88,773
Pledged bank deposits	27	28,943	1,360
Bank balances and cash	28	36,635	39,764
		526,047	571,617
CURRENT LIABILITIES			
Trade and other payables	29	245,941	236,368
Amounts due to associates	26	62,569	4,208
Bank borrowings	30	50,369	68,300
Provision for loss on guarantees	31	124,968	54,711
Tax payable		124	330
		483,971	363,917
NET CURRENT ASSETS		42,076	207,700
TOTAL ASSETS LESS CURRENT LIABILITIES		589,829	931,371

	Notes	2007 *RMB'000*	(Restated) 2006 *RMB'000*
CAPITAL AND RESERVES			
Share capital	32	873,370	873,370
Reserves	33	(360,352)	(44,023)
Equity attributable to equity holders of the Company		513,018	829,347
Minority interests		4,315	101,524
TOTAL EQUITY		517,333	930,871
NON-CURRENT LIABILITIES			
Amount due to an associate	26	72,496	-
Government grant	34	-	500
		589,829	931,371

The consolidated financial statements on pages 83 to 153 were approved and authorised for issue by the board of directors on 29 April 2008 and are signed on its behalf by:

Director:Sun Zhen

Director:Zhang Bin

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2007(Prepared In Accordance With Accounting Principles Generally Accepted In Hong Kong)

	Attributable to equity holders of the Company										
	Share capital *RMB'000*	Capital reserve *RMB'000* (note 33)	Capital contribution *RMB'000* (note 33)	Statutory common reserve *RMB'000* (note 33)	Statutory public welfare reserve *RMB'000* (note 33)	Discretionary common reserve *RMB'000* (note 33)	Translation reserve *RMB'000*	Accumulated losses *RMB'000*	Total *RMB'000*	Minority interests *RMB'000*	Total *RMB'000*
At 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 subsidaries	-	-	(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 orginally 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

	2007 *RMB'000*	2006 *RMB'000*
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)
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
Cash (used in)/generated from operations	(121,859)	5,534
Income tax paid	(1,349)	(1,302)
Interest paid	(3,965)	(3,446)
NET CASH (USED IN)/GENERATED FROM OPERATING ACTIVITIES	(127,173)	786

For the year ended 31 December 2007(Prepared In Accordance With Accounting Principles Generally Accepted In Hong Kong)

	2007 *RMB'000*	2006 *RMB'000*
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)
NET CASH FROM/(USED IN) INVESTING ACTIVITIES	58,453	(51,946)
FINANCING ACTIVITIES		
New bank borrowings rasied	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)	-
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)
CASH AND CASH EQUIVALENTS AT 31 DECEMBER		
Representing bank balances and cash	36,635	39,764

1. GENERAL INFORMATION

Northeast Electric Development Company Limited (˝the Company˝) was established in the People's Republic of China (the˝PRC˝) as a sino-foreign stock limited company and its shares are listed on the Stock Exchange of Hong Kong Limited and Shenzhen Stock Exchange. The addresses of the registered office and principal place of business of the Company are disclosed in the Company profile of the annual report.

The consolidated financial statements are presented in Renminbi, which is the functional currency of the Group. All values are rounded to the nearest thousand except when otherwise indicated.

The Company is an investment holding company. The principal activities of its subsidiaries are described in note 20.

2. GOING CONCERN

As at 31 December 2007, the Group had net current assets of RMB42,076,000 (2006: net current assets of RMB207,700,000) and outstanding bank loans of RMB50,369,000 (2006 : RMB68,300,000). The Group recorded a loss of RMB318,509,000 for the year ended 31 December 2007 (2006 : Profit of RMB39,483,000). These conditions indicate the existence of a material uncertainty which may cast significant doubt about the Group´s ability to continue as a going concern.

The Group will maintain its strong business relationship with its bankers to gain their continuing support and is actively discussing with its bankers for the renewal of short term banking facilities when they fall due in 2008 and for additional banking facilities of about RMB50,000, 000. The directors are confident that the short term banking facilities will be renewed. With the ongoing support from its bankers and major customers, the Group should be able to generate sufficient cashflows from future operations to cover its operating costs and to meet its financing commitments. Therefore the directors are satisfied that the Group will be able to meet its financial obligations as and when they fall due for the twelve months from 31 December 2007. The directors are confident that the Group will continue to obtain the ongoing support from its bankers and accordingly, the directors are of the opinion that it is appropriate to prepare the accounts on a going concern basis. The financial statements do not include any adjustments relating to the carrying amount and reclassification of assets and liabilities that might be necessary should the Group be unable to continue as a going concern.

3. PRIOR PERIOD ADJUSTMENTS

(a) In 2006, an associated company paid dividend amounted to RMB12,880,000 ("the dividend") and the investing company in the Group took up this amount as investment income.

To reflect the fact that the dividend have already been taken up in the share of post-acquisition profit of associated companies, the dividend should be reversed against the investment in the associated company. However, the dividend was adjusted to accumulated losses as at 31 December 2006 instead of investments in associated companies. To reconcile the accumulated losses, an adjustment of RMB12,880,000 was made to minority interest at 31 December 2006.

The overall effect was the overstatement of interest in associated companies and minority interest by RMB12,880,000. There was no effect on the Group's profit for the year ended at 31 December 2006.

To correct the prior period errors, an adjustment of RMB12,880,000 was made to restate the interest in associated companies and the minority interest at 31 December 2006.

(b) In March 2004, revaluations on the property, plant and equipment and prepaid lease payments were made during the transfer of subsidiaries within the Group. The revaluation surplus/(deficit) were taken up in the transferred subsidiaries' accounts respectively. On consolidation level, these revaluation surplus/(deficit) were reversed.

At the year end of 2005 and 2006, an revaluation surplus of RMB45,660,000 which need to be reversed against the prepaid lease payments was reversed against the buildings.

Due to this adjustment error, the balance of prepaid lease payments was overstated and the balance of buildings was understated by RMB45,660,000 at the year end of 2005 and 2006. This adjustment error had no material effect on the profits for the years ended 31 December 2005 and 2006.

To correct the above prior period errors, an adjustment was made at the beginning of year 2006 and 2007 to decrease the balance of prepaid lease payments and increase the balance of buildings by RMB45,660,000 and restated the beginning balances accordingly.

4. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

The Hong Kong Institute of Certified Public Accountants (˝HKICPA˝) has issued a number of new and revised HKFRSs and Interpretations that are first effective or available for early adoption for the current accounting period of the Group and the Company.

There have been no significant changes to the accounting policies applied in these financial statements for the years presented as a result of these development. However, as a result of adoption of HKFRS 7, ˝Financial instruments: Disclosures˝and the amendment to HKAS 1 ˝Presentation of financial statement: Capital disclosures˝, there have been some additional disclosures provides as follow:

As a result of the adoption of HKFRS 7, the financial statements include expanded disclosure about the significance of the financial instruments and the nature and extent of risks arising from those instruments, compared with the information previously required to be disclosed by HKAS 32, ˝Financial instruments: Disclosure and presentation˝. These disclosures are provides throughout these financial statements, in particular in note 7(a)-(e).

The amendment to HKAS 1 introduces additional disclosures requirements to provide information about the level of capital and the Company´s objectives, policies and processes for managing capital. These new disclosures are set out in note 7 (f).

Both HKFRS 7 and the amendment to HKAS 1 do not have any material impact on the classification, recognition and measurement of the amounts recognised in the financial instruments.

The Group has not early applied the following new and revised standards or interpretations that have been issued but are not yet effective.

HKAS 1 (Revised)	Presentation of Financial Statements[1]
HKAS 23 (Revised)	Borrowing Costs[1]
HKFRS 8	Operating Segments[1]
HK(IFRIC) - Int 11	HKFRS 2 : Group and Treasury Share Transactions[2]
HK(IFRIC) - Int 12	Service Concession Arrangements[3]
HK(IFRIC) - Int 13	Customer Loyalty Programmes[4]
HK(IFRIC) - Int 14	HKAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction[3]

4. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (CONTINUED)

1 Effective for annual periods beginning on or after 1 January 2009
2 Effective for annual periods beginning on or after 1 March 2007
3 Effective for annual periods beginning on or after 1 January 2008
4 Effective for annual periods beginning on or after 1 July 2008

The directors of the Company anticipate that the application of these standards or interpretations will have no material impact on the results and the financial position of the Group.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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.

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

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefit from its activities.

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

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

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

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

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Business combinations

The acquisition of business is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under HKFRS 3 Business Combinations are recognised at their fair values at the acquisition date, except for non-current assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 Non-current Assets Held for Sale and Discontinued Operations, which are recognised and measured at fair value less costs to sell.

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

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

Goodwill

Goodwill arising on an acquisition of a business represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of the relevant business at the date of acquisition. Such goodwill is carried at cost less any accumulated impairment losses.

Capitalised goodwill arising on an acquisition of a business is presented separately in the consolidated balance sheet.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Goodwill *(Continued)*

For the purpose of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested form impairment annually, and whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a financial year, the cash-generating unit is tested for impairment before the end of that financial year. When recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in the consolidated income statement. An impairment loss for goodwill is not reversed in subsequent periods.

On subsequent disposal of the relevant cash-generating unit, the attributable amount of goodwill capitalised is included in the determination of the amount of profit or loss on disposal.

Investment in associates

An associate is an entity over which the investor has significant influence, but not control or joint control over its management, including participation in the financial and operating policy decisions.

An investment in an associate is accounted for in the consolidated financial statements using the equity method of accounting and is initially recorded at cost and adjusted thereafter for the post-acquisition change in the Group's share of the associate´ s net asset. The consolidated income statement includes the Group's share of the post-acquisition, post-tax result of the associates for the year. When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss. Where a group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue recognition

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

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

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

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

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable.

Services and guarantee income is recognised over the period the related services or guarantee are provided.

Leasing

Leases are classified as finance lease whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the leasee. All other leases are classified as operating lease.

The Group as lessor
Rental income from operating leases is recognised in the consolidated income statement on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense on a straight-line basis over the lease term.

The Group as leasee
Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Foreign currencies

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

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

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

Goodwill and fair value adjustments on identified assets acquired on an acquisition of a foreign operation are treated as assets and liabilities of that foreign operation and translated at the rate of exchange prevailing at the balance sheet date. Exchange differences arising are recognised in the translation reserve.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Borrowing costs

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

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

Retirement benefit costs

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

Taxation

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

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

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

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

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Taxation *(Continued)*

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

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the balance date. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation and accumulated impairment losses, if any. Historical cost includes expenditures that are directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the consolidated income statement during the period in which they are incurred.

Depreciation is calculated using the straight-line method to write off the cost less accumulated impairment loss of each asset to its residual value over its estimated useful life, as follows:

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

Construction-in-progress represents buildings, plant and machinery under construction or pending installation and is stated at cost. Cost includes the costs of construction of buildings and costs of plant and machinery. No provision for depreciation is made on construction-in-progress until such time as the relevant assets are completed and ready for intended use. When the assets concerned are brought into use, the costs are transferred to property, plant and equipment and depreciated in accordance with the policy as stated above.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property, plant and equipment *(Continued)*

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the consolidated income statement.

Land use rights

Land use rights represent upfront prepayments made for the land use rights and are expensed in the consolidated income statement on a straight-line basis over the period of the land use rights or when there is impairment, the impairment is expensed in the consolidated income statement.

Research and development expenditure

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

An internally-generated intangible asset arising from development expenditure is recognised only if it is anticipated that the development costs incurred on a clearly-defined project will be recovered through future commercial activities. The resultant asset is amortised on a straight-line basis over its useful life, and carried at cost less subsequent accumulated amortisation and any accumulated impairment losses.

The amount initially recognised for internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria. Where no internally-generated intangible asset can be recognised, development expenditure is charged to profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible asset is reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets acquired separately.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of tangible assets

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

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

Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Restructuring provisions comprise lease termination penalties and employee termination payments. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method. The cost of finished goods and work-in-progress comprises design costs, raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities of the consolidated balance sheet.

Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in the consolidated income statement over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to the purchase of property, plant and equipment are included in non-current liabilities as deferred government grants and are credited to the consolidated income statement on a straight-line basis over the expected lives of the related assets.

Financial instruments

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

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments *(Continued)*

Financial assets

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

Loans and receivables

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

Available-for-sale investments

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

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments *(continued)*

Financial liabilities and equity

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

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

Financial liabilities

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

Financial guarantee contract

A financial guarantee contract is a contract that requires the Group to make specified payments to reimburse the holder for a loss it incurs because a specified entity or person fails to make payment when due in accordance with the original or modified terms of an undertaking. Financial guarantee contracts are accounted for as financial instruments under HKAS 39 and are initially recognised at fair value. Subsequently, such contracts are measured at the higher of the amount determined in accordance with HKAS 37 - Provisions, Contingent Liabilities and Contingent Assets and the amount initially recognised less, where appropriate, cumulative amortisation recognised over the life of the guarantee on a straight-line basis.

Equity instruments

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

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments *(Continued)*

Derecognition

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

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

6. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS OF ESTIMATION UNCERTAINTY

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

6. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS OF ESTIMATION UNCERTAINTY (CONTINUED)

Critical accounting estimates and judgments

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The selection of critical accounting policies, the judgements and other uncertainties affecting application of those policies and the sensitivity of reported results to changes in conditions and assumptions are factors to be considered when reviewing the consolidated financial statements. The Group believes the following critical accounting policies involve the most significant judgements and estimates used in the preparation of the consolidated statements.

(a) Useful lives of property, plant and equipment

The Group's management determines the estimated useful lives of its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. Management will adjust the depreciation charge where useful lives vary with previously estimated lives, or they will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold. It is reasonably possible, based on existing knowledge, that outcomes within the next financial year that are different from assumptions could require a material adjustment to the carrying amount of property, plant and equipment.

(b) Fair value of financial instruments

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Group uses its judgment to select a variety of methods and make assumptions that are mainly based on market conditions existing at each balance sheet date.

(c) Current taxation and deferred taxation

The Group is subject to income taxes in various jurisdictions. Judgment is required in determining the provision for income taxes in each of these jurisdictions. There are many transactions and calculations during the ordinary course of business for which the ultimate tax determination is uncertain. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the periods in which such determination are made.

6. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS OF ESTIMATION UNCERTAINTY (CONTINUED)

(c) Current taxation and deferred taxation *(Continued)*

As at 31 December 2007, the Group has unrecognised deferred tax assets of RMB244,520,000 (2006: RMB232,000,000). The realisability of the deferred tax asset mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future. In cases where the circumstances arise that it becomes probable that the deferred tax assets could be utilised against future profits, deferred tax assets will be recognised in future periods.

Deferred tax assets relating to certain temporary differences and tax losses are recognised as management considers it is probable that future taxable profit will be available against which the temporary differences or tax losses can be utilised. Where the expectation is different from the original estimate, such differences will impact the recognition of deferred tax assets and taxation in the periods in which such estimates are changed.

(d) Provision for loss on guarantees

At 31 December 2007, the Group's outstanding litigations are set out in note 31. Based on court ruling and legal advice obtained, an aggregate amount of RMB124,968,000 was accounted for as provisions for loss on guarantees up to 31 December 2007. Certain litigations are still in progress and the final outcome of the appeal, if any, may result in adjustment to the amount of provision for loss on guarantees being accounted for.

(e) Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs to completion and selling expenses. These estimates are based on the current market condition and the historical experience of manufacturing and selling products of similar nature. It could change significantly as a result of changes in customer preferences and competitor actions in response to severe industry cycles. Management reassesses these estimates at each balance sheet date.

(f) Estimated impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31 st December 2007, the carrying amount of goodwill is approximately RMB94,644,000 (2006: Nil). Details of the recoverable amount calculation are disclosed in note 19.

7. FINANCIAL AND CAPITAL RISKS MANAGEMENT

The Group's major financial instruments include trade and other receivables, amount due from/(to) associates, bank balances and cash, trade and other payables. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Details of the significant policies adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial assets and financial liabilities are disclosed in note 5.

(a) Foreign currency risk

Foreign currency risk refers to the risk that movement in foreign currency exchange rate which will affect the Group's financial results and its cash flows. The management considers the Group does not expose to significant foreign currency risk as majority of its transactions are denominated in RMB (the functional currency of the Group's major subsidiaries) and there were only insignificant balances of financial assets and liabilities denominated in foreign currency at the balance sheet dates as disclosed in respective notes. The 2 per cent is the rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the possible change in foreign exchange rates. The management determined that there is insignificant effect to the profit or loss and other equity of the Group. However, the management monitors foreign currency exposure and will consider hedging significant foreign currency exposure should the need arise.

(b) Interest rate risk

The Group´s exposure to changes in interest rates is mainly attributable to its restricted cash, cash and cash equivalents and borrowings. Restricted cash, cash and cash equivalents and borrowings at variable rates expose the Group to cash flow interest-rate risk, and those at fixed rates expose the Group to fair value interest-rate risk. As at 31 December 2007, approximately RMB28,943,000 (2006: RMB1,360,000) of the Group's restricted cash, approximately RMB36,635,000 (2006: RMB39,764,000) of the Group's cash and cash equivalents and approximately RMB50,369,000 (2006: RMB68,300,000) of the Group's borrowings were at fixed rates, respectively. The interest rates and maturities of the Group's restricted cash, cash and cash equivalents and borrowings are disclosed in Notes 27, 28 and 30 respectively.

7. FINANCIAL AND CAPITAL RISKS MANAGEMENT (CONTINUED)

(b) Interest rate risk *(continued)*

To mitigate the impact of interest rate fluctuations, the Group continually assesses and monitors the exposure to interest rate risk. During the year, however, management of the Group did not consider it necessary to use interest rate swaps to hedge their exposure to interest rate risk.

As at 31 December 2007, if the interest rates on borrowings had been 1% higher with all other variables held constant, which were considered reasonably possible by management, loss after income tax for the year would have been RMB40,000 higher (2006: profit after tax would have been RMB35,000 lower), mainly as a result of higher interest expenses on bank borrowings.

(c) Credit risk

The carrying amounts of cash and cash equivalents, restricted cash, trade and other receivables, investments and other current assets except for prepayments, represent the Group's maximum exposure to credit risk in relation to financial assets. Substantially all of the Group's cash and cash equivalents are held in major financial institutions located in the PRC, which management believes are of high credit quality. The Group has policies that limit the amount of credit exposure to any financial institutions. The Group has policies in place to ensure that services are rendered and products are sold to customers with appropriate credit history and the Group performs periodic credit evaluations of its customers. Normally the Group does not require collaterals from trade debtors. The Directors consider the Group does not have a significant concentration of credit risk. No single customer accounted for more than 40% of the Group's total revenues during the year.

(d) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and the availability of funding through an adequate amount of committed credit facilities. The Group aims to maintain flexibility in funding by keeping committed credit lines available.

Due to the capital intensive nature of the Group's business, the Group ensures that it maintains sufficient cash and credit lines to meet its liquidity requirements. The Group finances its working capital requirements through a combination of funds generated from operations and bank and other borrowings.

The maturity analysis of borrowings that shows the remaining contractual maturities is disclosed in note 29. Generally there is no specific credit period granted by the suppliers but the related trade payables are normally expected to be settled within one year after receipt of goods or services.

7. FINANCIAL AND CAPITAL RISKS MANAGEMENT (CONTINUED)

(e) Fair value estimation

The carrying amounts of the Group's financial assets, including cash and cash equivalents, deposits in approved financial institutions, investments, trade and other receivables; and financial liabilities including trade and other payables, short-term borrowings, approximate their fair values due to their short maturities. The face values less any estimated credit adjustments for financial assets and liabilities with a maturity of less than one year are assumed to approximate their fair values.

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at the balance sheet date. Quoted market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques, such as estimated discounted value of future cash flows, are used to determine fair value for the remaining financial instruments.

The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate available to the Group for similar financial instruments.

(f) Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares, or sell assets to reduce debt.

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as the total of borrowings and trade and other payables, as shown in the consolidated balance sheet, less cash and cash equivalents. Total capital is calculated as total equity, as shown in the consolidated balance sheet, plus net debt. The Group aims to maintain the gearing ratio at a reasonable level.

7. FINANCIAL AND CAPITAL RISKS MANAGEMENT (CONTINUED)

(f) Capital risk management *(continued)*

The gearing ratios as at 31 December 2006 and 2007 are as follows:

	2007 *RMB'000*	2006 *RMB'000*
Total borrowings	50,369	68,300
Trade and other payables	300,941	236,368
Less: Cash and cash equivalent	(36,635)	(39,764)
Net debt	314,675	264,904
Total equity	517,333	930,871
Total capital	832,008	1,195,775
Gearing ratio	61%	28%

(g) Price risk

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

8. TURNOVER

An analysis of the Group's revenue for the year, for both continuing and discontinued operations, is as follows:

	2007 *RMB'000*	2006 *RMB'000*
Continuing operations		
Sales of transmission machinery	618,496	465,989
	618,496	465,989
Discontinued operations		
Revenue from provision of storage and logistic services	-	24,044
Revenue from provision of energy and power services	-	16,296
Revenue from provision of hotel, catering and entertainment services	18,741	28,801
	18,741	69,141
Total	637,237	535,130

9. 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.

9. BUSINESS AND GEOGRAPHICAL SEGMENTS (CONTINUED)

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	618,496	18,741	637,237
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	(74,425)	-	(74,425)
Loss before tax	(264,949)	(56,807)	(321,756)
Income tax	3,247	-	3,247
Loss for the year	(261,702)	(56,807)	(318,509)

9. BUSINESS AND GEOGRAPHICAL SEGMENTS (CONTINUED)

2007

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

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

9. BUSINESS AND GEOGRAPHICAL SEGMENTS (CONTINUED)

2006

	Continuing operations	Discontinued operations	
	Manufacture of transmission machinery	Others	Consolidated
	RMB'000	*RMB'000*	*RMB'000*
INCOME STATEMENT			
Turnover	465,989	69,141	535,130
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	-	15,338	15,338
Profit before tax	34,892	8,833	43,725
Income tax	(3,551)	(691)	(4,242)
Profit for the year	31,341	8,142	39,483

9. BUSINESS AND GEOGRAPHICAL SEGMENTS (CONTINUED)

2006

	Continuing operations Manufacture of transmission machinery	Discontinued operations Others	Consolidated
	RMB'000	*RMB'000*	*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			1,295,288
Liabilities			
Segment liabilities	229,976	11,100	241,076
Unallocated corporate liabilities			123,341
Consolidated total liabilities			364,417

	Manufacture of transmission machinery	Others	Consolidated
	RMB'000	*RMB'000*	*RMB'000*
OTHER INFORMATION			
Capital additions			
- others	12,380	1,471	13,851
Depreciation	7,510	11,265	18,775
Allowance for impairment loss	2,414	-	2,414

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.

10. OTHER INCOME

	2007 *RMB'000*	2006 *RMB'000*
Continuing operations		
Dividend from available-for-sale investments	-	1,278
Interest income on bank deposits	1,188	302
Loss on disposal of property, plant and equipment	-	(126)
Subsidy income	-	1,650
Rental income	2,464	2,418
Sales of wastage	489	448
Penalty income	19	58
Others	345	4,893
	4,505	10,921
Discontinued operations		
Interest income on bank deposits	26	77
Gain on disposal of property, plant and equipment	-	407
Rental income	-	8
Others	225	280
	251	772
Total	4,756	11,693

11. 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.

11. INCOME TAX (CONTINUED)

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**	-
	3,247	(3,551)	**-**	(691)	**3,247**	(4,242)

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

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

	2007	2006
	RMB'000	*RMB'000*
(Loss)/profit before tax:		
Continuing operations	**(264,949)**	34,892
Discontinued operations	**(56,807)**	8,833
	(321,756)	43,725
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
Tax (credit)/charge for the year	**(3,247)**	4,242

11. INCOME TAX (CONTINUED)

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.

12. DISCONTINUED OPERATIONS

Disposal of a subsidiary Kingdom Hotel Shenyang Company Limited.

On 14 May 2007, the Company entered into a swap agreement with Prosper Power Company Limited ("Prosper Power") in which the Company would acquire the 48% of the shareholding interests of New Northeast Electric (Jinzhou) Power Capacitors Co., Limited and the 25.6% of the shareholding interests of New Northeast Electric (Shenyang) High-Voltage Isolator Switchgears Co., Limited owned by Prosper Power ("the minority interests").

The acquisition consideration was RMB180,000,000 to be satisfied by way of disposing to Prosper Power the entire shareholding interests in Kingdom Hotel Shenyang Company Limited ("Kingdom Hotel Shenyang"). The transaction was approved by the shareholders on 16 August 2007 and completed on 31 August 2007.

Disposal of subsidiaries 誠泰能源動力有限公司 ("Chengtai Energy") and 瀋陽新泰倉儲物流有限公司 ("Suntime Storage").

On 31 October 2006, the board of directors entered into a sale agreement to dispose of the Group's subsidiaries. The proceeds of sale substantially exceeds the carrying amount of the related net asset and, accordingly, no impairment losses were recognised on the reclassification of their operations as held for sale. The disposal of subsidiaries is consistent with the Group's long-term policy to focus its activities in the electrical equipment manufacturing industry. On 1 November 2006, the shareholdings of subsidiaries passed to the acquirer. Details of the assets and liabilities disposed of are disclosed in note 36.

12. DISCONTINUED OPERATIONS (CONTINUED)

	2007 *RMB'000*	2006 *RMB'000*
(Loss)/profit for the year from discontinued operations		
Kingdom Hotel Shenyang		
Revenue	18,741	28,801
Expenses	(75,548)	(37,431)
Loss before tax	(56,807)	(8,630)
Income tax	-	-
	(56,807)	(8,630)
Loss on disposal of operations	-	-
Loss for the year from discontinued operations*	(56,807)	(8,630)
Cash flows from discontinued operations		
Net cash flows from operating activities	(2,591)	1,405
Net cash flows from investing activities	(19)	(1,168)
Net cash flows from financing activities	(370)	(812)
Net cash outflows	(2,980)	(575)
Chengtai Energy and Suntime Storage		
Revenue	-	40,796
Expenses	-	(38,671)
Profit before tax	-	2,125
Income tax	-	(691)
	-	1,434
Gain on disposal of operations	-	15,338
Profit for the year from discontinued operations*	-	16,772
Cashflow from discontinued operations		
Net cashflows from operating activities	-	188
Net cashflows from investing activities	-	(1,595)
Net cashflows from financing activities	-	-
Net cash outflows	-	(1,407)

* Loss from discontinued operation RMB56,807,000 (2006: profit of RMB8,142,000)

13. (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	2,900	-	2,900

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	110	-	110

14. DIRECTORS' EMOLUMENTS AND SENIOR EXECUTIVES' EMOLUMENTS

(a) Directors´ emoluments

The emoluments paid or payable to each of the 13 (2006: 13) directors were as follows:

	Sun Zhen	Wang Shouguan	Zhang Bin	Liang Jie	Su Weiguo	Liu Hongguang	Liu Qingmin	Shi Li	Du Kai	Bi Jianzhang	Wu Qicheng	Lin Wenbin	Xiang Yongchun	2007 Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Fees	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other emoluments														
Salaries and other benefit	131	72	104	35	77	35	115	77	44	45	35	35	35	840
Bonuses	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Contribution to retirement benefit schemes	14	-	14	-	14	-	-	14	10	11	-	-	-	77
Total emoluments	145	72	118	35	91	35	115	91	54	56	35	35	35	917

	Qu Lin	Wang Shouguan	Zhang Bin	Tian Li	Su Weiguo	Li Hongliang	Liu Qingmin	Niu Wenjun	Gao Chuang	Kang Jinjiang	Liang Jie	Lin Wenbin	Liu Hongguang	2006 Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Fees	-	-	-	-	-	-	-	-	27	27	27	27	27	135
Other emoluments														
Salaries and other benefit	472	472	360	-	248	48	115	31	-	-	-	-	-	1,746
Bonuses	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Contribution to retirement benefit schemes	118	-	88	-	60	12	23	6	-	-	-	-	-	307
Total emoluments	590	472	448	-	308	60	138	37	27	27	27	27	27	2,188

The amount disclosed above include directors´ fees of RMB Nil (2006: RMB135,000) payable to independent non-executive directors.

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

14. DIRECTORS' EMOLUMENTS AND SENIOR EXECUTIVES' EMOLUMENTS (CONTINUED)

(b) Senior executives´ emoluments

The emoluments paid or payable to each of the 3 (2006: 4) senior executives were as follows:

	Dong Lianshen *RMB'000*	Dai Guiqin *RMB'000*	Fu Siuhang *RMB'000*	Total 2007 *RMB'000*
Fees	-	-	-	-
Other emoluments				
Salaries and other benefits	60	-	29	89
Bonuses	-	-	-	-
Contribution to retirement benefit schemes		-	-	-
Total emoluments	60	-	29	89

	Dong Lianshen *RMB'000*	Dai Guiqin *RMB'000*	Fu Siuhang *RMB'000*	Sun Zhen *RMB'000*	Total 2006 *RMB'000*
Fees	-	-	-	-	-
Other emoluments					
Salaries and other benefits	60	-	29	248	337
Bonuses	-	-	-	-	-
Contribution to retirement benefit schemes	12	-	-	60	72
Total emoluments	72	-	29	308	409

(c) Five highest-paid individuals

During the year, the five highest-paid individuals included five (2006: four) directors of the Company and details of their emoluments are set out in (a) above.

	2007 *RMB'000*	2006 *RMB'000*
Salaries and other benefits	504	248
Contributions to retirement benefit schemes	56	60
	560	308

15. 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).

16. (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	2006
	RMB'000	*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	(311,479)	29,540
Number of shares		
Weighted average number of ordinary shares for the purpose of basic (loss)/earnings per share	873,370	873,370

16. (LOSS)/EARNINGS PER SHARE (CONTINUED)

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	(254,672)	21,398

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.

17. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Hotel property	Plant, machinery and equipment	Motor vehicles and others	Construction in progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
COST						
At 1 January 2006						
- as orginally stated	155,347	370,960	117,475	18,542	310	662,634
- prior period adjustment (note 3b)	45,660	-	-	-	-	45,660
- as restated	201,007	370,960	117,475	18,542	310	708,294
Reclassify to prepaid lease payments (note 18)	16,456	251	(14,148)	(339)	-	2,220
Reversal of fair value adjustment	111,027	-	-	-	-	111,027
Additions	1,353	-	2,871	6,556	3,071	13,851
Transferred from construction in progress	1,098	150	1,581	-	(2,829)	-
Asset received upon dissolution of an associate	-	-	(229)	-	-	(229)
Disposal of a subsidiary (note 36)	(229,061)	-	(27,156)	(4,910)	-	(261,127)
Disposals	-	-	(2,715)	(2,452)	-	(5,167)
At 31 December 2006	101,880	371,361	77,679	17,397	552	568,869
Reversal of fair value adjustment	786	-	-	-	-	786
Additions	53		1,521	8,806	2,943	13,323
Transferred from construction in progress	-	-	1,198	-	(1,198)	-
Transferred from government grant	-	-	-	-	(338)	(338)
Disposal of a subsidiary (note 36)	-	(371,361)	(11,009)	(15,998)	-	(398,368)
Disposals	-	-	(108)	(5,263)	(959)	(6,330)
At 31 December 2007	102,719	-	69,281	4,942	1,000	177,942

17. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	Buildings	Hotel property	Plant, machinery and equipment	Motor vehicles and others	Construction in progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
ACCUMULATED DEPRECIATION AND IMPAIRMENT LOSS						
At 1 January 2006	11,358	120,469	57,502	5,585	-	194,914
Reclassify to prepaid lease payments (note 18)	29,546	-	(12,852)	293	-	16,987
Reversal of fair value adjustment	829	-	-	-	-	829
Charge for the year	4,743	7,149	5,187	1,696	-	18,775
Reversal of impairment loss	-	-	(705)	(55)	-	(760)
Disposal of a subsidiary (note 36)	(11,484)	-	(8,141)	(813)	-	(20,438)
Disposals	-	-	(1,814)	(881)	-	(2,695)
At 31 December 2006	34,992	127,618	39,177	5,825	-	207,612
Charge for the year	3,657	4,655	3,229	2,153	-	13,694
Impairment loss	-	40,000	-	-	-	40,000
Disposal of a subsidiary (note 36)		(172,273)	(17,673)	(1,515)	-	(191,461)
Disposals	-	-	(39)	(2,111)	-	(2,150)
At 31 December 2007	38,649	-	24,694	4,352	-	67,695
NET CARRYING VALUES						
At 31 December 2007	64,070	-	44,587	590	1,000	110,247
At 31 December 2006	66,888	243,743	38,502	11,572	552	361,257

The Group has pledged buildings and plant, machinery and equipment having a net carrying value of approximately RMB5,842,000 and RMB16,368,000 respectively (2006: RMB6,075,000 and RMB121,762,000) to secure general banking facilities granted to the Group and an associate respectively.

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

In addition, the Group is in the process of obtaining ownership certificate of certain buildings with net carrying value of RMB24,581,000 (2006: RMB25,851,000).

18. PREPAID LEASE PAYMENTS

The Group's prepaid lease payments represent payments for medium-term land use rights in the PRC.

	2007 *RMB'000*	2006 *RMB'000*
COST		
At 1 January		
- as originally stated	14,986	47,537
- prior period adjustment (note 3b)	-	(45,660)
- as restated	14,986	1,877
Reclassify from property,plant and equipment (note 17)	-	14,767
Amortisation charge	(493)	(1,658)
Net carring amount :		
At 31 December	14,493	14,986

	2007 *RMB'000*	2006 *RMB'000*
Analysed as:		
Current assets (included in other receivables, deposits and prepayments)	492	1,657
Non-current assets	14,001	13,329
	14,493	14,986

Prepaid lease use payments are released to the consolidated income statement on a straight-line basis over the lease terms in the land use right certificates.

The Group has pledged prepaid lease payments with a net carrying value of approximately RMB5,149,000 (2006: RMB5,284,000) to secure banking facilities granted to the Group. Included is also land use rights with net carrying amount of RMB14,540,000 frozen by the court as a result of litigation brought against the Group by Xinda Asset Management Corporation ("Xinda"). The lands use rights were defrozen on 5 July 2007. Details are set out in note 37.

19. GOODWILL

	RMB'000
COST	
At 1 January 2007	-
Acquired on acquisition of minority interests of subsidiaries (note 36)	94,644
At 31 December 2007	94,644

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.

20. SUBSIDIARIES

The details of the subsidiaries at 31 December 2007 are as follows:

Name of subsidiary	Place of establishment/ incorporation and operation	Registered capital	Percentage of registered capital held by the Company		Principal activity
			Directly %	Indirectly %	
Fuxin Enclosed Busbars Co., Limited	PRC (Note c)	US$2,800,000	-	100%	Manufacture of enclosed busbars
Great Talent Technology Limited	British Virgin Islands	US$1	-	100%	Investment holding
Jinzhou Jinrong Electric Appliance Liability Co., Ltd	PRC (Note a)	RMB3,000,000	-	69.75%	Manufacture of electrical equipment
Kingdom Hotel Shenyang Co. Limited ("Kingdom Hotel Shenyang")	PRC (Note c)	US$18,070,000	100%	-	Provision of hotel and catering services (disposed in August 2007)
New Northeast Electric (Jinzhou) Power Capacitors Co., Limited ("New Jinzhou Power")	PRC (Note c)	US$10,000,000	-	100%	Manufacture of power capacitors
Northeast Electric (Hong Kong) Limited	Hong Kong	US$20,000,000	100%	-	Investment holding
New Northeast Electric (Shenyang) High-Voltage Isolator SwitchgearsCo., Ltd	PRC (Note b)	US$21,500,000	-	100%	Manufacture of electrical transmission and transformation equipment
Shenyang Gaodongjia Drier Equipment Company Limited ("Gaodongjia")	PRC (Note b)	US$778,500	70%	-	Manufacture of dryer equipment
Shenyang Jiatai Machinery Equipment Co., Ltd.	PRC (Note a)	RMB5,000,000	-	100%	Manufacture of general machinery equipment

20. SUBSIDIARIES (CONTINUED)

Name of subsidiary	Place of establishment/ incorporation and operation	Registered capital	Percentage of registered capital held by the Company		Principal activity
			Directly %	Indirectly %	
Northeast Electric (Beijing) Co., Ltd.	PRC (Note a)	RMB2,000,000	-	100%	Sales of machinery, equipment, electronic products
Shenyang Kaiyi Electric Co., Ltd.	PRC (Note a)	RMB1,000,000	10%	90%	Manufacture of high-voltage electric equipment

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

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

21. INTEREST IN ASSOCIATES

	2007	2006
	RMB'000	*RMB'000*
Unlisted share, at cost	265,977	269,838
Share of post-acquisition profits and reserves	45,850	37,628
	311,827	307,466
Cost		
At 1 January	269,838	48,182
Additions	2,337	223,520
Exchange adjustment	(6,198)	(1,864)
At 31 December	265,977	269,838
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	45,850	37,628
	311,827	307,466

21. 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 Directly %	Indirectly %	Principal activity
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	(1,970,775)	(1,275,821)
Net assets	1,636,462	1,540,125
Total revenue	1,625,493	1,370,818
Profit for the year	159,878	222,254
Group's share of results of associates for the year	29,077	23,410

22. AVAILABLE-FOR-SALE INVESTMENTS

	2007	2006
	RMB'000	*RMB'000*
Unlisted equity investment		
At cost	12,537	37,345
Less : Impairment loss recognised	(2,537)	-
	10,000	37,345

The available-for-sale financial assets comprised:

	2007	2006
	RMB'000	*RMB'000*
4.35% equity investment in Jinzhou City Commercial Bank	10,000	12,537
3.10% equity investment in 錦化化工集團氯硐股份有限公司 ("錦化氯硐") (note)	-	24,808
	10,000	37,345

Note: The amount represents 12,124,346 non-circulating A shares in 錦化氯硐 in 2005. On 15 February 2006, 錦化氯硐 announced a share reform scheme to convert all non-circulating A shares into circulating A shares by allocating 3.6 non-circulating A shares to holders of circulating A shares for every 10 circulating A shares held. Accordingly, the Group´s shares in 錦化氯硐 was converted into 10,553,031 circulating A shares which represent 3.10% interest in 錦化氯硐 after conversion. The conversion was completed on 13 March 2006. Under the arrangement, these circulating A shares held by the Group cannot be disposed of until 13 March 2007. The shares were disposed of during the year resulting in a gain on disposal of RMB54,443,000.

The above investments are measured at cost less impairment at the balance sheet date. Under an agreement signed with an independent third party, the equity investment in Jinzhou City Commercial Bank should be transferred to the third party to settle an amount of RMB10,000,000 due to that third party. An impairment loss of RMB2,537,000 was made for the year.

23. AMOUNT DUE FROM A NON-BANK FINANCIAL INSTITUTION

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

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

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

(a) The Company obtained 12,124,346 non-circulating shares of 錦化氯碱 which represents approximately 3.57% shareholding in 錦化氯碱 . At 13 March 2006, the Company's shares in 錦化氯碱 was converted into 10,553,031 A shares which represent 3.10% interest in 錦化氯碱 after conversion. 錦化氯碱 is a company listed on the Shenzhen Stock Exchange and is engaged in manufacture of chemical products. The investment in 錦化氯碱 was recorded as available-for-sale investments at a carrying value of RMB24,808,000 at 31 December 2006 and was disposed of during the year (note 22).

23. AMOUNT DUE FROM A NON-BANK FINANCIAL INSTITUTION (CONTINUED)

(b) The Company obtained an aggregate of RMB76,090,000 receivables due from Benxi Iron & Steel (Group) Limited 本溪鋼鐵(集團)有限責任公司 ("Bengang Group"). Subsequently, the Company commenced litigation against Bengang Group for the repayment of the debts of RMB76,090,000. On 16 December 2005, Shenyang Higher People's Court ruled that the Company has legally obtained the right to the debts of RMB15,900,000 and Bengang Group is liable to repay the principal and the accrued interest thereon to the Company. On 10 March 2006, Notice of Execution was issued by Shenyang Higher People's Court and delivered to Bengang Group for the outstanding debts of RMB15, 900,000. On 30 March 2006 Shenyang Intermediate People's Court ruled that the Company has also legally obtained the right to the debts of remaining RMB60,190,000 and Bengang Group is also liable to repay the principal and the accrued interest thereon to the Company. Further on 30 April 2006, Bengang Group filed and appeal to the Liaoning Higher People's Court, the final outcome cannot be determined at this time.

The amount due from Bengang Group was recorded as other receivables at a carrying amount of approximately RMB74,425,000 at 31 December 2006 (note 25).

With regard to the case of RMB15,900,000, Liaoning Higher Court issued the civil judgment ((2007) Liao Li Min Jian Zi No.56) dated 20 June 2007 and judged that another collegial panel will be composed to retry the case, and the execution of original judgment will be suspended during the retrial.

As for the case of RMB60,190,000, Shanyang Intermediate Court made a civil judgment and required Bengang to repay its debts. The case is in the stage of second instance after Liaoning Higher Court accepted the appeal lodged by Bengang.

The Company had made a bad debt provision for the whole amount of RMB74,425,000.

24. INVENTORIES

	2007 *RMB'000*	2006 *RMB'000*
Raw materials and consumables	**29,108**	28,120
Work in progress	**8,741**	18,331
Finished goods	**54,934**	22,070
	92,783	68,521

The cost of inventories recognised as expenses and included in cost of good sold in the consolidated income statement amount to approximately RMB509,589,000 (2006: RMB346,181,000).

The Group has recognised provisions of RMB1,936,000 (2006: RMB966,000) for the inventory impairment. The amount has been included in the consolidated income statement for the year.

25. TRADE AND OTHER RECEIVABLES

	2007 *RMB'000*	2006 *RMB'000*
Trade and bills receivables	**198,909**	165,222
Less: allowance for doubtful debts	**(13,514)**	(11,764)
Trade and bills receivables-net	**185,395**	153,458
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
Total trade and other receivables	**350,569**	373,199

25. TRADE AND OTHER RECEIVABLES (CONTINUED)

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

	2007 *RMB'000*	2006 *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
	198,909	165,222

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.

25. TRADE AND OTHER RECEIVABLES (CONTINUED)

(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	2006
	RMB'000	*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
	98,461	15,299

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

	2007	2006
	RMB'000	*RMB'000*
As of 1 January	11,764	9,075
Impairment loss recognised	7,216	2,689
Uncollectible amounts written off	(5,466)	-
As of 31 December	13,514	11,764

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.

26. AMOUNTS DUE FROM / (TO) ASSOCIATES

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

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.

27. PLEDGED BANK DEPOSITS

	2007	2006
	RMB'000	*RMB'000*
Restricted cash denominated in		
- RMB	500	1,360
- USD	28,443	-
	28,943	1,360

The restricted cash is held in subsidiaries as pledge for bank facilities granted to the Group.

The effective interest rates on restricted cash, with maturities ranging from March 2008 to June 2008, were 4.4% to 6.57% per annum as at 31 December 2007 (2006: 2.78% per annum).

28. BANK BALANCES AND CASH

	2007	2006
	RMB'000	*RMB'000*
Cash at bank and on hand	36,635	39,764
Denominated in:		
- RMB	34,769	39,329
- USD	87	310
- EUR	309	-
- HKD	806	125
- Others	664	-
	36,635	39,764

Cash at bank denominated in RMB are deposited with banks in China. The conversion of these RMB denominated balances into foreign currencies is subject to the rules and regulations of foreign exchange control promulgated by the PRC government.

29. TRADE AND OTHER PAYABLES

	2007	2006
	RMB'000	*RMB'000*
Trade and bills payables	122,875	89,149
Other payables	123,066	147,219
Total trade and other payables	245,941	236,368

29. TRADE AND OTHER PAYABLES (CONTINUED)

Ageing analysis of the Group's trade and bills payables at balance sheet dates are as follows:

	2007	2006
	RMB'000	*RMB'000*
Less than 1 year	106,625	66,865
1 year to 2 years	6,406	11,481
2 years to 3 years	907	8,143
Over 3 years	8,937	2,660
	122,875	89,149

The average credit period on purchase is six months. The Group has financial risk management policies in place to ensure that all payables are paid within the credit timeframe.

Approximately 93% of the Group's trade and other payables are denominated in RMB.

30. BANK BORROWINGS

	2007	2006
	RMB'000	*RMB'000*
RMB bank loans repayable within one year or on demand	50,369	68,300
Analysed as:		
Secured	50,369	33,950
Unsecured	-	34,350
	50,369	68,300

The bank loans are secured by certain property plant and equipment, land use rights and bank deposits as set out in notes 17, 18 and 27 respectively. Also, the bank loans are guaranteed by a director, Mr. Du Kai. All bank loans are with fixed interest rate ranges from 6.57% to 9.585% (2006: 5.04% to 8.78%) per annum.

31. PROVISION FOR LOSS ON GUARANTEES

	2007	2006
	RMB'000	*RMB'000*
Provision for loss on guarantees given to:		
Northeast Electrical Transmission Group Corporation ("NET") (note a)	**30,994**	30,994
Jinzhou Power Capacitors Limited ("Jinzhou Power") (note b,d & f)	**60,722**	14,465
Shuangjia Insulator & Electric Co. Ltd ("Shuangjia") (note c)	**9,252**	9,252
Kingdom Hotel Shenyang Limited ("Kingdom Hotel Shenyang") (note e)	**24,000**	-
	124,968	54,711

	NET	Jinzhou Power	Shuangjia	Kingdom Hotel Shenyang	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2007	30,994	14,465	9,252	-	54,711
Additions					
- Jinzhou City Commercial Bank (note d)	-	19,890	-	-	19,890
- Industrial and Commercial Bank of China Jinzhou Branch (note f)	-	26,367	-	-	26,367
- Industrial and Commercial Bank of China Shenyang Branch (note e)	-	-	-	24,000	24,000
At 31 December 2007	30,994	60,722	9,252	24,000	124,968

31. PROVISION FOR LOSS ON GUARANTEES (CONTINUED)

Notes:

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

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

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

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

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

(d) In April 2004, The Company acted as the guarantor for a bank loan amounting to RMB17,000,000 which was entered into by Jinzhou Power, a subsidiary at that time, and Jinzhou City Commercial Bank. At the loan fall due date, Jinzhou Power did not repay the loan principal and the related interest. The bank commenced litigation against Jinzhou Power and the Company.

In June 2007, the Jinzhou Intermediate People's Court ruled that the Company be jointly held responsible for the repayment of the loan principal RMB17,000,000 and interest accrued up to 20 January 2007 of RMB2,890,000. Accordingly, provision for loss on guarantee given to Jinzhou Power of RMB19,890,000 and accrued interest thereon has been made during the year ended 31 December 2007.

(e) The Company acted as the guarantor for a bank loan amounting to RMB24,000,000 which was entered into by Kingdom, a subsidiary of the Company, and Industrial and Commercial Bank of China Shenyang Branch. As the loan was not yet repaid when due, the bank commenced litigation against Kingdom and the Company for the repayment of the loan principal RMB24,000,000 and interest and the responsibility as the guarantor. The Shenyang Intermediate People´ s Court ruled that the Company be held responsible for the repayment of the loan principal and interest accrued thereon. The Company has based on the Court judgement to make a loss on guarantee of RMB24,000,000. Up to the financial statements approval date, the Company had not repaid this debt.

(f) In December 2003, the Company acted as the guarantor for RMB22,900,000 for a bank loan amounting to RMB42, 900,000 which was entered into by Jinzhou Power, a subsidiary at that time, and Industrial and Commercial Bank of China Jinzhou Branch. At the loan fall due date, Jinzhou Power did not repay the loan principal and the related interest. The bank commenced litigation against Jinzhou Power and the Company and requesting the Company to be responsible for the guarantee amount of RMB22,900,000 and interest accrued of RMB3,467,000. Accordingly, provision for loss on guarantee given to Jinzhou Power of RMB26,367,000 and accrued interest thereon has been made during the year ended 31 December 2007.

The directors consider that the carrying amounts of provision for loss on guarantees approximate to their fair values.

32. SHARE CAPITAL

	2007	2006
	RMB'000	*RMB'000*
Registered, issued and fully paid-up capital:		
615,420,000 ordinary 'Domestic' shares of RMB1 each, of which:		
- Non-listed	**435,920**	435,920
- Listed "A" shares	**179,500**	179,500
	615,420	615,420
257,950,000 Listed "H" shares of RMB1 each	**257,950**	257,950
	873,370	873,370

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

33. RESERVES

Capital reserve

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

Statutory common reserve

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

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

Statutory public welfare reserve

Pursuant to the PRC Company Law, the PRC incorporated companies of the Group shall make allocation from profit after taxation (prepared under the generally accepted accounting principles in the PRC) at the rate 5% to 10% to the statutory public welfare fund. The statutory public welfare fund can only be utilised on the capital items for employees collective welfare. Individual employees only have the right to use these facilities and the titles on which will remain with the Group. The statutory public welfare fund is non-distributable other than in liquidation.

From 1 January 2006, according to the revised PRC Company Law, the PRC companies incorporated the Group are not required to make such transfers. The directors of the Company resolved to transfer the statutory public welfare fund of RMB32,212,000 as at 1 January 2006 to statutory common reserve which is in compliance with the PRC Company Law.

33. RESERVES (CONTINUED)

Discretionary common reserve

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

Capital contribution

Capital contribution represents gain on disposal of a subsidiary to an equity participant of RMB1,140,000.

34. GOVERNMENT GRANTS

	2007	2006
	RMB'000	*RMB'000*
As 1 January	**500**	1,000
Amount transferred to property, plant and equipment	**(338)**	
Amount recognised as other income during this year	**(162)**	(500)
At 31 December	**-**	500

Amounts represent government grants received to be used mainly for technical improvement.

35. DEFERRED TAX

The components of deferred tax assets recognised in the consolidated balance sheet and the movements during the year are as follows:

	Temporary differences in respect of provisions and accruals *RMB'000*
At 31 December 2006 and 1 January 2007	-
Deferred tax credited to the income statement during the year	5,289
Gross deferred tax assets at 31 December 2007	5,289

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

	2007 *RMB'000*	2006 *RMB'000*
Deductible temporary difference available	**-**	1,261
Tax losses	**244,520**	230,739
	244,520	232,000

No deferred tax asset has been recognised due to the unpredictability of future profit streams. Included in unrecognised tax losses are losses of RMB 244,520,000 (2006: RMB 230,739,000) that will expire in 2012 (2006: 2011).

36. DISPOSAL OF SUBSIDIARIES / ACQUISITION OF MINORITY INTERESTS

On 14 May 2007, the Company entered into a swap agreement with Prosper Power Company Limited ("Prosper Power") in which the Company would acquire the 48% of the shareholding interests of New Northeast Electric (Jinzhou) Power Capacitors Company Limited and the 25.6% of the shareholding interests of New Northeast Electric (Shenyang) High-Voltage Isolator Switchgears Company Limited owned by Prosper Power ("the minority interests").

The acquisition consideration was RMB180,000,000 to be satisfied by way of disposing to Prosper Power the entire shareholding interests in Kingdom Hotel Shenyang Company Limited ("Kingdom Hotel Shenyang"). The transaction was approved by the shareholders on 16 August 2007 and completed on 31 August 2007.

On 31 October 2006, the Company entered into a sale and purchase agreement with a third party, 瀋陽德佳經貿有限公司, pursuant to which the Company agreed to sell the 95% equity interest in 瀋陽誠泰能源動力有限公司 and 瀋陽新泰倉儲物流有限公司at a cash consideration of RMB160,000,000. The transaction was approved by the shareholders on 31 October 2006 and completed on 1 November 2006.

Subsequently, in April 2007, 瀋陽新泰倉儲物流有限公司 was acquired by New High-Voltage, an associate of the Company, at consideration of RMB105,040,000.

36. DISPOSAL OF SUBSIDIARIES / ACQUISITION OF MINORITY INTERESTS (CONTINUED)

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

	2007	2006
	RMB'000	*RMB'000*
Non-current assets	209,658	216,049
Current assets	15,547	74,808
Non-current liabilities	(4,800)	-
Current liabilities	(56,317)	(146,195)
	164,088	144,662
Gain on disposal of a subsidiary (note)	15,912	15,338
Total consideration	180,000	160,000

	2007	2006
Satisfied by:	*RMB'000*	*RMB'000*
(i) Cash	-	160,000
(ii) 48% equity shareholdings in New Northeast Electric (Jinzhou) Power Capacitors Company Limited	32,469	-
(iii) 52% equity shareholdings in New Northeast Electric (Shenyang) High-Voltage Isolator Switchgears Company Limited	36,975	-
Goodwill (note)	110,556	-
	180,000	160,000

Net cash (outflow) / inflow arising on disposal:

	2007	2006
Cash consideration	-	160,000
Bank balances and cash disposed of	(2,322)	(2,010)
Net cash (outflow) / inflow arising on disposal	(2,322)	157,990

Note: The disposal of Kingdom Hotel Shenyang and acquisition of the minority interests are transactions under the same swap agreement. Therefore, the gain on disposal of a subsidiary and goodwill arising from the acquisition of the minority interests should be viewed as under the same business transaction. Accordingly, the gain on disposal of a subsidiary of RMB15,912,000 should be netted off against the goodwill RMB110,556,000 arising from the acquisition of the minority interests and giving rise to a goodwill of RMB94,644,000 (note 19).

37. CONTINGENT LIABILITIES

	2007	2006
	RMB'000	*RMB'000*
Guarantees given to banks in respect of banking facilities utilised by other entities:		
Subsidiaries	37,000	-
An associate	300,000	-
Former subsidiary	4,950	52,900
Former associate	-	6,160
	341,950	59,060

At 31 December 2007, the Company gave guarantees to banks in respect of banking facilities utilised by its subsidiaries and the amount utilised was RMB50,369,000 (2006: RMB55,710,000).

In addition, on 12 May 2005, Xinda commenced litigation against the Shenyang High-Voltage, the borrower, and Jinzhou Capacitors, the guarantor, for the repayment of loan principal of RMB28,350,000. The Company, being the former shareholder, was requested to undertake joint liabilities for the discrepancy of Shenyang High-Voltage's investment amount and the outstanding make-up amount of the investment. In addition, certain land use rights of the Group with carrying amount of RMB14,540,000 was frozen accordingly. On 20 March 2006, Liaoning Higher Peoples' Court ruled that the plaintiff's claims against the Company were rejected. Further on 12 October 2006, the Company received a trial from the Beijing Supreme Court that the plaintiff's claims against the Company were rejected. The lands use rights were defrozen on 5 July 2007.

On 19 December 2007, the Company provided a joint responsibility guarantee against a loan of RMB68,570,000 in integrated credit line in Shanghai Pudong Development Bank Shenyang Branch (the "Bank") for New High-Voltage, which is an associate of the Company. The guarantee is a secured guarantee pledged with the Company's own assets and is valid from the due date of debt to two years. The integrated credit line of guarantee against the loan in the Bank totalled RMB220,000,000. Together with guarantees provided to other bank for banking facilities granted to New High-Voltage, the group provided a total integrated banking facilities guarantee of RMB300,000,000 to New High-Voltage.

The directors are in the opinion that the provision of the guarantee will not create any loss to the Company.

38. LEASES

Lease payment receivables

Future minimum lease receivables under non-cancellable operating leases are as follow:

	2007	2006
	RMB'000	*RMB'000*
Not later than one year	**-**	165
Later than one year and not later than five years	**-**	330
	-	495

Operating lease commitments

The Group leases various office premises under non-cancellable operating lease agreements. The leases have varying terms, escalation clauses and renewal rights. The future aggregate minimum lease payments under non-cancellable operating leases are as follows :

	2007	2006
	RMB'000	*RMB'000*
Not later than one year	**2,125**	2,720
Later than one year and not later than five years	**3,483**	10,551
Later than five years	**-**	9,796
	5,608	23,067

39. RELATED PARTY TRANSACTIONS

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

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

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

* New High-Voltage is an associate of the Company
** 瀋陽北富機械製造有限公司 is controlled by New High-Voltage
*** 瀋陽新泰倉儲物流有限公司 is a former subsidiary

40. LITIGATION RELATING TO CHINA DEVELOPMENT BANK

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

Pursuant to the civil written order (民事裁定書) [2004 高民初字第 802 號] issued by the Beijing Higher People's Court (the "Beijing Higher Court") of the PRC on 18 March 2005, the Beijing Higher Court ruled out that there is no legal relationship between the claims brought by the Bank against the Company, the Named Companies and Shenyang High-Voltage and accordingly rejected the claim by the Bank against the Company and the Named Companies. However, on 22 March 2005, the Bank filed an appeal to the Beijing Supreme People's Court (the "Supreme Court").

On 6 June 2006, Supreme Court ruled out that there is legal relationship between the claims brought by the Bank against the Company, the Named Companies and Shenyang High-Voltage and therefore the claims should not be rejected and the two issues should be judged together.

On 19 July 2007, the civil written order ((2004) Gao Min Chu Zi No.802) ("the Order")made by Beijing Higher Court cancelled 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 interest of the Named Companies held by Shenyang High-voltage. Beijing Higher Court ruled out that the Company should return the related equity to Shenyang High-voltage within 10 days of the order, 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; Shanyang High-Voltage should return the creditor's rights of RMB76,660,000 to the Company within 10 days after the Order comes into effect, and if not, Shenyang High-Voltage should compensate for loss to the Company within limit of RMB76,660,000.

40. LITIGATION RELATING TO CHINA DEVELOPMENT BANK(CONTINUED)

According to the Order, the Company was required to compensate Shenyang High-Voltage a net amount of RMB170,460,000 (i.e. RMB247,120,000-RMB76,660,000). The Company suffered a loss of RMB170,460,000 from this litigation and had accounted for in the consolidated income statement.

41. PLEDGE OF ASSETS

The Company provides secured guarantees with Shanghai Pudong Development Bank Shenyang Branch (˝the Bank˝) totaling RMB68,750,000 for loans granted to New High-Voltage Switchgears Limited, which is an associate of the Company, with its own assets and is valid from the due date of debt to two years (note 37). The integrated credit line of guarantees secured with the Bank was RMB220,000,000 in aggregate.

42. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with current year´s presentation.

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

	Net assets	Net loss
	RMB'000	*RMB'000*
Under accounting principles generally accepted in Hong Kong	517,333	(318,509)
Negative goodwill	-	1,140
Government subsidy	-	(162)
Others	174	(1,375)
Under the PRC Accounting Regulations	517,507	(318,906)

Shareholders of Northeast Electric Development Co., Ltd.

We have audited the fiancial reports of Northeast Electric Development Co., Ltd. (hereinafter referred as ˝Northeast Electric˝) and its subsidiaries as of Dec. 31, 2007, including balance sheets and the related profit and loss/profit appropriation, cash flow for the year then ended, with notes ensued。

I. Responsibility of the managerial staff to the reports

It´ s the responsibility of the managerial staff to workout financial reports by the guidelines and rules of <Enterprise Accounting Standards>, which involve (1) to devise, implement and maintain an interior financial control system so that material misinformation will not appear due to fraudulent practices or mistakes; (2) to choose and exercise the appropriate accounting principles; (3) to make reasonable accounting valuation.

II. Responsibility of the Certified Accountants

Our responsibility is to express opinion on these financial reports based on our auditing. We have performed the auditing by the guidelines of Certified Accountants of China, which require us to abide by the criterion of our professional moral, to obtain reasonable assurance to avoid material misinformation by planning and performing auditing

An audit involves implementing the auditing procedures to obtain evidence supporting amounts and disclosures in the financial reports. Auditing procedures are decided by the judgements of our certified accountants, which involve evaluating risks of material misinformations due to fraudulent practices and mistakes. While conducting our risks evaluation, we have devised appropriate auditing procedures by considering interior financial controls relating to the working out of financial reports, which aim not to express any opinion on the effectiveness of interior controls. And appraisal of the aptitude and rationality of the choosing accounting principles by the managerial staff, and of the overall financial statements presentation.

We believe that our audit provides a reasonable basis for our opinion.

III. Items leading to qualified opinions

Long term investment to New Northeast Electric (Shenyang) High-voltage Switches Co., Ltd.by the Company is RMB252,430,228.40, which result in return on investment of RMB29,426,398.58. As we are not the appointed auditors to the New Northeast Electric, therefore appropriate auditing evidence can not be obtained by us through executing necessary auditing process.

IV. Opinion

In our opinion, except for the possible impact of not being able to executing necessary auditing process as afore said, the financial statements give a true and fair view of the financial position of the company as of Dec. 31, 2007, and of the results of its operations and its cash flows for the year then ended in accordance with enterprise accounting standards.

Shenzhen Pengcheng Accountants Ltd. Certified Accountant of P.R.C.:Liu Ren Zhi

Shenzhen, P.R.China Certified Accountant of P.R.C.:Zhao Wei Qing

Apr. 29, 2008

At 31st December, 2007(Prepared in accordance with the P.R.C. Accounting Rules and Regulations)

		Balance at end of period		Balance at beginning of period	
Assets	Notes	Consolidated	Company	Consolidated	Company
Current Assets:					
Cash and deposits	VIII.1	65,577,809.55	4,035,757.56	41,123,600.99	14,066,308.79
Tradable financial assets		-	-	-	-
Bills receivables	VIII.2	4,086,000.00	-	2,180,800.00	-
Accounts receivables	VIII.3; IX.1	181,309,747.33	40,823,844.60	233,856,936.75	17,429,051.60
Prepayment	VIII.4	28,599,777.91	502,460.00	56,962,918.82	3,519,572.76
Interest receivable		-	-	-	-
Dividends receivable	VIII.5	4,117,670.40	-	2,087,881.75	-
Other receivables	VIII.6; IX.2	149,042,934.98	657,401,032.41	150,454,251.93	535,499,773.77
Inventories	VIII. 7	92,782,582.17	4,736,964.10	68,520,854.75	1,879,090.38
Non-current asset due within 1 year		-	-	-	-
other current assets		-	-	-	-
Total current assets		525,516,522.34	707,500,058.67	555,187,244.99	572,393,797.30
Non-current assets					
Saleable financial assets		-	-	-	-
Investment held till due		-	-	-	-
Long term account receivables		-	-	-	-
Long term equity investment	VIII.8; IX.3	321,827,344.66	167,637,418.63	344,810,374.31	452,322,794.58
Investing Real Estate		-	-	-	-
fixed assets	VIII.9	109,246,361.88	1,785,095.22	360,703,851.46	4,304,169.84
Construction in progress		1,000,000.00	-	552,016.05	-
Material of works		-	-	-	-
Intangible assets	VIII.10	14,706,722.48	-	15,313,230.97	-
Expenses of R & D		-	-	-	-
Good will	VIII.11	94,643,933.80	-	-	-
Long term expenses payable	VIII.12	1,744,605.25	-	4,274,165.25	-
Deferred income tax assets	VIII.13	5,288,849.50	-	1,261,344.08	-
Other non-current assets		-	-	-	-
Total Non-current assets		548,457,817.57	169,422,513.85	726,914,982.12	456,626,964.42
Total Assets		1,073,974,339.91	876,922,572.52	1,282,102,227.11	1,029,020,761.72

At 31st December, 2007(Prepared in accordance with the P.R.C. Accounting Rules and Regulations)

Liabilities and shareholders' equity interests	Notes	Balance at end of period Consolidated	Balance at end of period Company	Balance at beginning of period Consolidated	Balance at beginning of period Company
Current Liabilities:					
Short-term borrowings	VIII.16	50,368,876.60	-	68,300,000.00	-
Transactional financial liabilities		-	-	-	-
Bills payable	VIII.17	4,406,000.00	-	9,540,800.00	-
Account payable	VIII.18	126,038,398.43	24,727,967.96	79,608,362.25	9,332,058.00
Advance	VIII.19	91,848,322.95	3,765,536.00	34,614,796.47	2,315,750.00
Salaries and Benefit due employees	VIII.20	1,807,002.79	89,692.26	1,704,385.15	171,739.38
Taxes payable	VIII.21	4,579,843.56	-40,968.82	11,447,648.07	2,910,261.51
Interest payable		-	-	-	-
Dividends payable		40,017.86	-	40,017.86	-
Other payables	VIII.22	152,410,523.33	256,233,985.80	89,216,014.12	104,995,103.59
Non-current liabilities due within 1 year		-	-	-	-
Other current liabilities		-	-	-	-
Total current Liabilities		431,498,985.52	284,776,213.20	294,472,023.92	119,724,912.48
Non-current liabilities					
Long-term borrowings		-	-	-	-
Bonds payable		-	-	-	-
Long-term account payables		-	-	-	-
Special payables		-	-	500,000.00	-
Estimated Liabilities	VIII.23	124,967,867.25	124,967,867.25	54,711,289.00	54,711,289.00
Deferred income tax liabilities		-	-		-
Other non-current liabilities		-	-	-	-
Total non-current liabilities		124,967,867.25	124,967,867.25	55,211,289.00	54,711,289.00
Total Liabilities		556,466,852.77	409,744,080.45	349,683,312.92	174,436,201.48
Shareholders' equity interests					
Paid-up capital	VII.24	873,370,000.00	873,370,000.00	873,370,000.00	873,370,000.00
Capital reserve	VII.25	978,066,337.72	979,214,788.45	975,304,036.72	976,614,788.45
minus: shares in store		-	-	-	-
reserve	VII.26	108,587,124.40	108,587,124.40	108,587,124.40	108,587,124.40
normal risk provision		-	-	-	-
Retained profit	VII.27	-1,438,523,595.67	-1,493,993,420.78	-1,126,647,669.63	-1,103,987,352.61
Difference of exchange of foreign-currency reports		-8,307,955.84	-	281,981.43	-
Total interests due to parent company's shareholders		513,191,910.61	467,178,492.07	830,895,472.92	854,584,560.24
Minority interests		4,315,576.53	-	101,523,441.27	-
Total Shareholders' equity interests		517,507,487.14	467,178,492.07	932,418,914.19	854,584,560.24
Total liabilities and shareholders' equity interests		1,073,974,339.91	876,922,572.52	1,282,102,227.11	1,029,020,761.72

(Notes form an integral part of the Financial Reports)

Profit and Loss (Company and Consolidated)

At 31st December, 2007(Prepared in accordance with the P.R.C. Accounting Rules and Regulations)

Items	Notes	Balance at end of period Consolidated	Balance at end of period Company	Balance at beginning of period Consolidated	Balance at beginning of period Company
I. Total income of sales		639,700,849.31	177,767,444.32	560,207,377.16	127,200,668.75
Inclu.:income of sales	VIII.28；IX.4	639,700,849.31	177,767,444.32	560,207,377.16	127,200,668.75
Income of interests		-	-		-
Insurance premium earned		-	-		-
Income of commission and charges		-	-		-
II. Total cost of sales		805,517,986.26	264,331,876.31	557,564,199.50	138,327,437.58
inclu.:Cost of sales	VIII.28；IX.4	527,157,531.89	163,580,141.04	424,663,964.28	118,535,916.54
Sales tax and surcharges	VIII.29	1,049,054.75	-	2,831,461.61	-
Expenses of sales	VIII.30	52,396,408.30	5,760,342.70	39,762,437.93	1,628,233.82
Administrative expenses	VIII.31	75,940,548.83	17,684,687.44	77,162,894.83	18,318,521.40
Financial expenses	VIII.32	5,614,952.51	-59,368.39	10,502,394.08	-53,460.97
Loss of assets diminution	VIII.33	143,359,489.98	77,366,073.52	2,641,046.77	-101,773.21
plus:income of fair value variance (loss is posed as "-")		-	-	-	-
Return on investments (loss is posed as "-")	VIII.34；IX.5	83,932,926.39	-63,350,444.15	37,703,623.27	21,428,235.12
inclu.:return on investments to associates and related parties		28,177,921.34	-	21,088,106.05	-
Gain/loss of exchange (loss is posed as "-")		-	-		-
III.Operational Profit (Total loss is posed as "-")		-81,884,210.56	-149,914,876.14	40,346,800.93	10,301,466.29
plus:Income of non-operational activities	VIII.35	1,441,472.61	640,842.48	1,483,532.14	-
minus:Expenses of non-operational activities	VIII.36	241,347,721.65	240,732,034.51	949,909.61	5,091.13
inclu.:loss of disposal of non-current assets		320,721.53	5,912.26	519,325.41	-
IV.Total Profit(Total loss is posed as "-")		-321,790,459.60	-390,006,068.17	40,880,423.46	10,296,375.16
minus:Income tax expenses	VIII.37	-2,884,396.67	-	1,408,243.99	-
V.Net Profit		-318,906,062.93	-390,006,068.17	39,472,179.47	10,296,375.16
Net profit belong to parent company's shareholders		-311,875,926.04	-390,006,068.17	29,529,236.62	10,296,375.16
Minority interests		-7,030,136.89	-	9,942,942.85	-
VI.Earnings per share:					
(A)Basic earnings per share		-0.36	-0.45	0.03	0.01
(B)Diluted earnings per share		-0.36	-0.45	0.03	0.01

(Notes form an integral part of the Financial Reports)

Consolidated Change of Shareholders' Equity Interests

At 31st December, 2007(Prepared in accordance with the P.R.C. Accounting Rules and Regulations)

Items	Amount of the period								
	Shareholders's Equity Interests belong to parent company's shareholders							Minority Interests	Total shareholders' equity interests
	Paid-up capital (or stock)	Capital reserve	minus: shares in store	Reserve	Normal risk provision	Retained profit	Others		
I. Balance of last year	873,370,000.00	975,304,036.72	-	110,190,073.98	-	-1,129,986,958.36	281,981.43		829,159,133.77
plus: change of Accounting Policy				-1,602,949.58		3,339,288.73		114,403,754.65	116,140,093.80
Correction of previous mistakes								-12,880,313.38	-12,880,313.38
II. Balance at beginning of this year	873,370,000.00	975,304,036.72	-	108,587,124.40	-	-1,126,647,669.63	281,981.43	101,523,441.27	932,418,914.19
III.Change in amount(decrease is shown as " – ")	-	2,762,301.00	-	-	-	-311,875,926.04	-8,589,937.27	-97,207,864.74	-414,911,427.05
(A)Net profit						-311,875,926.04		-7,030,136.89	-318,906,062.93
(B)Gain/loss directly taken into shareholders' equity intersts	-	2,762,301.00	-	-	-	-	-8,589,937.27	-69,057,727.85	-74,885,364.12
1.Net amount of fair value change of saleable financial assets									-
2.Effect on other shareholders' equity interests of invested company by Method of Equity		162,301.00							162,301.00
3.Effect of income tax related with items taken into shareholders's equity interests									-
4.Others		2,600,000.00					-8,589,937.27	-69,057,727.85	-75,047,665.12
Sub-total of (A)and(B)	-	2,762,301.00	-	-	-	-311,875,926.04	-8,589,937.27	-76,087,864.74	-393,791,427.05
(C)Input of shareholders and decrease in capital	-	-	-	-	-	-	-	-	-
1.Capital paid in by owners									-
2.Amount of shares taken into shareholders' equity interests									-
3.Others									-
(D)Allocation of profit	-	-	-	-	-	-	-	21,120,000.00	21,120,000.00
1.Provision for reserve									-
2.Normal risk provision									-
3.Allocation to owners (or shareholders)								21,120,000.00	21,120,000.00
4.Others									-
(E)Internal carry-over of shareholders' equity interests	-	-	-	-	-	-	-	-	-
1.Capital reserve to increase capital(or stock)									-
2.Reserve to increase capital(or stock)									-
3.Reserve to compensate loss									-
4.Others									-
IV. Balance at end of Year	873,370,000.00	978,066,337.72	-	108,587,124.40	-	-1,438,523,595.67	-8,307,955.84	4,315,576.53	517,507,487.14

(Notes form an integral part of the Financial Reports)

Consolidated Change of Shareholders' Equity Interests *(Continued)*

At 31st December, 2007(Prepared in accordance with the P.R.C. Accounting Rules and Regulations)

Items	Amount of last period								
	Shareholders's Equity Interests belong to parent company's shareholders							Minority Interests	Total shareholders' equity interests
	Paid-up capital (or stock)	Capital reserve	minus: shares in store	Reserve	Normal risk provision	Retained profit	Others		
I. Balance of last year	873,370,000.00	972,123,038.66		108,587,124.40		-1,157,605,354.19	854,932.83		797,329,741.70
plus:change of Accounting Policy						1,428,447.94		98,713,869.59	100,142,317.53
Correction of previous mistakes									-
II. Balance at beginning of this year	873,370,000.00	972,123,038.66	-	108,587,124.40	-	-1,156,176,906.25	854,932.83	98,713,869.59	897,472,059.23
III. Change in amount(decrease is shown as " – ")	-	3,180,998.06	-	-	-	29,529,236.62	-572,951.40	2,809,571.68	34,946,854.96
(A)Net profit						29,529,236.62		9,942,942.85	39,472,179.47
(B)Gain/loss directly taken into shareholders' equity intersts	-	3,180,998.06	-	-	-	-	-572,951.40	-7,133,371.17	-4,525,324.51
1.Net amount of fair value change of saleable financial assets									-
2.Effect on other shareholders' equity interests of invested company by Method of Equity									-
3.Effect of income tax related with items taken into shareholders's equity interests									-
4.Others		3,180,998.06					-572,951.40	-7,133,371.17	-4,525,324.51
Sub-total of (A)and(B)	-	3,180,998.06	-	-	-	29,529,236.62	-572,951.40	2,809,571.68	34,946,854.96
(C)Input of shareholders and decrease in capital	-	-	-	-	-	-	-	-	-
1.Capital paid in by owners									-
2.Amount of shares taken into shareholders' equity interests									-
3.Others									-
(D)Allocation of profit	-	-	-	-	-	-	-	-	-
1.Provision for reserve									-
2.Normal risk provision									-
3.Allocation to owners (or shareholders)									-
4.Others									-
(E)Internal carry-over of shareholders' equity interests	-	-	-	-	-	-	-	-	-
1.Capital reserve to increase capital(or stock)									-
2.Reserve to increase capital(or stock)									-
3.Reserve to compensate loss									-
4.Others									-
V. Balance at end of Year	873,370,000.00	975,304,036.72	-	108,587,124.40	-	-1,126,647,669.63	281,981.43	101,523,441.27	932,418,914.19

(Notes form an integral part of the Financial Reports)

Change of Equity

At 31st December, 2007(Prepared in accordance with the P.R.C. Accounting Rules and Regulations)

Items	Amount of the period								
	Shareholders's Equity Interests belong to parent company's shareholders							Minority Interests	Total shareholders' equity interests
	Paid-up capital (or stock)	Capital reserve	minus: shares in store	Reserve	Normal risk provision	Retained profit	Others		
I. Balance of last year	873,370,000.00	997,976,188.74	-	108,587,124.40	-	-1,143,681,873.74	-	-	836,251,439.40
plus:change of Accounting Policy		-21,361,400.29				39,694,521.13			18,333,120.84
Correction of previous mistakes									-
II. Balance at beginning of this year	873,370,000.00	976,614,788.45	-	108,587,124.40	-	-1,103,987,352.61			854,584,560.24
III.Change in amount(decrease is shown as " – ")	-	2,600,000.00	-	-	-	-390,006,068.17	-	-	-387,406,068.17
(A)Net profit						-390,006,068.17			-390,006,068.17
(B)Gain/loss directly taken into shareholders' equity intersts	-	2,600,000.00	-	-	-	-	-	-	2,600,000.00
1.Net amount of fair value change of saleable financial assets									-
2.Effect on other shareholders' equity interests of invested company by Method of Equity									-
3.Effect of income tax related with items taken into shareholders's equity interests									-
4.Others		2,600,000.00							2,600,000.00
Sub-total of (A)and(B)	-	2,600,000.00	-	-	-	-390,006,068.17	-	-	-387,406,068.17
(C)Input of shareholders and decrease in capital	-	-	-	-	-	-	-	-	-
1.Capital paid in by owners									-
2.Amount of shares taken into shareholders' equity interests									-
3.Others									-
(D)Allocation of profit	-	-	-	-	-	-	-	-	-
1.Provision for reserve									-
2.Normal risk provision									-
3.Allocation to owners (or shareholders)									-
4.Others									-
(E)Internal carry-over of shareholders' equity interests	-	-	-	-	-	-	-	-	-
1.Capital reserve to increase capital(or stock)									-
2.Reserve to increase capital(or stock)									-
3.Reserve to compensate loss									-
4.Others									-
IV.Balance at end of Year	873,370,000.00	979,214,788.45	-	108,587,124.40	-	-1,493,993,420.78	-	-	467,178,492.07

(Notes form an integral part of the Financial Reports)

Items	Amount of last period								
	Shareholders's Equity Interests belong to parent company's shareholders							Minority Interests	Total shareholders' equity interests
	Paid-up capital (or stock)	Capital reserve	minus: shares in store	Reserve	Normal risk provision	Retained profit	Others		
I. Balance of last year	873,370,000.00	994,611,846.68		108,587,124.40		-1,181,124,588.39			795,444,382.69
plus:change of Accounting Policy		-21,343,904.69				66,840,860.62			45,496,955.93
Correction of previous mistakes									-
II. Balance at beginning of this year -	873,370,000.00	973,267,941.99	-	108,587,124.40	-	-1,114,283,727.77	-	-	840,941,338.62
III.Change in amount(decrease is shown as " – ")	-	3,346,846.46	-	-	-	10,296,375.16	-	-	13,643,221.62
(A)Net profit						10,296,375.16			10,296,375.16
(B)Gain/loss directly taken into shareholders' equity intersts	-	3,346,846.46	-	-	-	-	-	-	3,346,846.46
1.Net amount of fair value change of saleable financial assets									-
2.Effect on other shareholders' equity interests of invested company by Method of Equity									-
3.Effect of income tax related with items taken into shareholders's equity interests									-
4.Others		3,346,846.46							3,346,846.46
Sub-total of (A)and(B)	-	3,346,846.46	-	-	-	10,296,375.16	-	-	13,643,221.62
(C)Input of shareholders and decrease in capital	-	-	-	-	-	-	-	-	-
1.Capital paid in by owners									-
2.Amount of shares taken into shareholders' equity interests									-
3.Others									-
(D)Allocation of profit	-	-	-	-	-	-	-	-	-
1.Provision for reserve									-
2.Normal risk provision									-
3.Allocation to owners (or shareholders)									-
4.Others									-
(E)Internal carry-over of shareholders' equity interests	-	-	-	-	-	-	-	-	-
1.Capital reserve to increase capital(or stock)									-
2.Reserve to increase capital(or stock)									-
3.Reserve to compensate loss									-
4.Others									-
IV.Balance at end of Year	873,370,000.00	976,614,788.45	-	108,587,124.40	-	-1,103,987,352.61	-	-	854,584,560.24

(Notes form an integral part of the Financial Reports)

Cash Flow(Company and Consolidated)

At 31st December, 2007(Prepared in accordance with the P.R.C. Accounting Rules and Regulations)

Items	Notes	Amount of period		Amount of lastperiod	
		Consolidated	Company	Consolidated	Company
I. Cash flow generated in Operational activities:					
Cash from sales of goods, services provided		700,448,513.79	160,480,397.50	562,765,190.28	143,789,830.00
Net increase of disposing transactional financial assets		-	-	-	-
Refunds of taxes and expenses		26,793.16	-	112,952.79	-
Other cash from operation-related activities	VIII. 38	356,092,157.17	330,607,169.12	133,540,848.81	16,330,520.00
Sub-total of inflow of cash in operational activities		1,056,567,464.12	491,087,566.62	696,418,991.88	160,120,350.00
Cash paid for goods and services		519,476,978.56	160,691,978.46	409,271,587.22	129,584,200.00
Cash paid to Insurance Policy premium		-	-	-	
Cash paid to and for the employees		47,464,118.63	3,395,037.82	43,047,633.12	5,171,214.00
Taxes and expenses paid		30,159,075.23	2,737,357.19	37,259,294.35	733,500.00
Other cash paid to operation-related activities	VIII.39	485,163,018.84	252,412,554.38	220,037,478.07	238,440,460.00
Sub-total of outflow of cash in operational activities		1,082,263,191.26	419,236,927.85	709,615,992.76	373,929,374.00
Net in/outflow of cash generated in operational activities		-25,695,727.14	71,850,638.77	-13,197,000.88	-213,809,024.00
II. Cash flow generated in investment activities:					
Cash received from return of investments		24,808,223.82	24,808,223.82	160,000,000.00	215,462,836.00
inflows from investments income		52,394,647.98	42,741,776.18	11,716,267.55	-
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		5,983.00	-	4,530,071.04	-
Net amount of cash in disposing subsidiaries and other operating units		-	-	-	-
Other cash received from investment-related activities		-	-	74,287.00	-
Sub-total of inflow of cash in investment activities		77,208,854.80	67,550,000.00	176,320,625.59	215,462,836.00
Cash paid in purchase/construction of fixed assets, intangible assets and other long-term assets		13,239,327.44	89,750.00	12,281,753.34	932,048.60
Cash paid to invest		2,337,204.48	149,341,440.00	205,772,477.00	-
Net increase in pledged loans		-	-	-	-
Net cash received from subsidiaries and other operational units		-	-	-	-
Cash paid to other investment-related activities		2,322,173.89	-		-
Sub-total of outflow of cash in investment activities		17,898,705.81	149,431,190.00	218,054,230.34	932,048.60
Total in/outflow of cash in investment activities		59,310,148.99	-81,881,190.00	-41,733,604.75	214,530,787.40
III.Cash flow generated in financial activities:					
Cash received for new investment		-	-	-	-
includ.:Cash from minority shareholders' investments by subsidiaries		-		-	-
Cash received from borrowing		60,168,876.60	-	13,950,000.00	-
Cash from issuing bonds		-			-
Cash from other financial-related activities		-	-	72,587.37	-
Sub-total of inflow of cash in financial activities		60,168,876.60	-	14,022,587.37	-
Cash paid to repay loans		44,150,000.00	-	27,060,000.00	-
Cash paid to allocate dividends, profit or repay interests		24,922,485.69	-	3,357,032.21	-
Inclu.:Dividends or profit subsidiaries paid to minority shareholders		21,120,000.00	-	-	-
Cash paid to other financial-related activities		51,973.97	-	-	-
Sub-total of outflow of cash in financial activities		69,124,459.66	-	30,417,032.21	-
Net cash generated in financial activities		-8,955,583.06	-	-16,394,444.84	-
IV.Effect of change of foreign-currency rates on cash and cash equivalents		-204,630.23	-	-	-
V. Net increase of cash and equivalents		24,454,208.56	-10,030,551.23	-71,325,050.47	721,763.40
plus:Balance at beginning of period of cash and equivalents		41,123,600.99	14,066,308.79	112,448,651.46	13,344,545.39
VI.Balance of Cash and equivalents by end of period		65,577,809.55	4,035,757.56	41,123,600.99	14,066,308.79

(Notes form an integral part of the Financial Reports)

Supplimentary statement

Items	Industries		Hotel, restaurants and other services		Offsetting		Total:	
	2007	2006	2007	2006	2007	2006	2007	2006
I. Income of sales	620,959,860.42	488,263,787.82	18,740,988.89	74,377,366.72	-	-2,433,777.38	639,700,849.31	560,207,377.16
Inclu.: Income of exterior transaction	620,959,860.42	488,263,787.82	18,740,988.89	71,943,589.34			639,700,849.31	560,207,377.16
Income of inter-division transaction				2,433,777.38		-2,433,777.38	-	-
II. Total cost of sales	729,745,230.06	501,188,985.43	75,772,756.20	56,375,214.07			805,517,986.26	557,564,199.50
III.Operational Profit (Loss)	-24,852,443.25	47,546,734.31	-57,031,767.31	-6,450,544.50			-81,884,210.56	41,096,189.81
IV.Total Assets	1,073,974,339.91	1,011,763,534.48	-	281,482,666.86			1,073,974,339.91	1,293,246,201.34
V.Total Liabilities	124,967,867.25	289,095,392.30	-	60,587,920.62			124,967,867.25	349,683,312.92
VI.Supplimentary information							-	
1. Expenses of depreciation and amortization	9,955,717.80	21,103,603.47	5,546,067.61	8,351,950.71			15,501,785.41	29,455,554.18
2. Capital expenses	10,870,405.30	239,372,470.12	2,368,922.14	1,241,483.22			13,239,327.44	240,613,953.34
3. Non-cash expenses except for depreciation and amortization							-	-

(Notes form an integral part of the Financial Reports)

I. Basic information of the company

1. Location of Registration: No.78 Hun Nan High and New Technology Development Zone, Shenyang, Liaoning Province, P.R.China, with Headquarters situated at: 14/F., Jindu Hotel, 189 South Taiyuan Street, He Ping District, Shenyang, Liaoning Province, P.R. China. Legal Representative: Sun Zhen.

2. Our company engage in producing electricity transmitting and transforming equipments, corollary equipments and relative services. Registered Capital of the company is RMB873,370,000.00.

3. Parent Company of our company is New Northeast Electric Investment Co., Ltd, which is also the ultimate holding company of the Group.

4. History of the Company

   Northeast Electric Development Co., Ltd. (formerly: Northeast Electricity Transmitting & Transformation Machinery Manufacturing Ltd.) (hereinafter referred as ˝the company˝ or ˝company˝) is a share-holding limited company in a directional collection way initiated mainly by the Northeast Electrical Transmission and Transformation Equipment Company Corporation Limited ("NET"), and approved by the Shenyang Corporate System Reformation Committee (approval: Shen Xi Gai Fa(1992)81). The company officially came into being on Feb. 18, 1993, with 824.54 million shares which adjusted to 585.42 million shares. The company issued 257.95 million H-shares in Hong Kong in 1995, and on Jul. 6 was listed on the Hong Kong Exchanges and Clearing Ltd. In that same year the company issued 30 million A-shares which listed on the Shenzhen Stock Exchange on Dec. 13, 1995.

5. The financial reports are approved and presented by the Board of Directors on Mar. 29, 2008.

II. Groundwork for working out of the financial reports

Having long-term development in view, the company has worked out the financial reports by the guidelines and rules of <Enterprise Accounting Standards - Basic Standards> and other relative principals, and based on the actual transactions and events.

III. Declaration of Abiding by the <Enterprise Accounting Standards>

The financial statements of the company has given a true and fair view of the financial position of the company, and of the results of its operations and its cash flows for the year in accordance with <Enterprise Accounting Standards>.

IV. Major accounting policies and methods of evaluation of the company

1. Accounting Principals

By the guidelines of <Enterprise Accounting Standards>.

2. Accounting Period

Each accounting year starts from Jan. 1 and ends on Dec. 31 of a calendar year.

3. Standard money of book-keeping

Ren Min Bi (i.e. RMB) is the standard money of our book-keeping.

4. Basis for computation

The reporting is based on accrual system, assets are recorded at their costs unless otherwise stipulated.

IV. Major accounting policies and methods of evaluation of the company*(continued)*

5. Foreign currency businesses accounting

Foreign currency businesses are changed to standard money at the relative exchange rate on demand, which is the exchange rate at beginning of the month when transactions occur. On each balance sheet date, foreign-currency monetary items and non-monetary items are managed by the following rules:

(1) Foreign-currency monetary items are changed to standard money using exchange rate on demand of the balance sheet date. Exchange differences arising from differences between such exchange rate and that of initial computation, are taken into profit and loss.

(2) Foreign-currency non-monetary items which are calculated by historical cost principal, are changed to standard money using exchange rate on demand of the actual transaction dates, while the relative amount in standard money remain the same.

(3) Foreign-currency non-monetary items computating at fair value, are changed to standard money at exchange rate on demand on the date of fair value recognition, differences of amounts of standard money after exchange are taken into the profit and loss as fair value.

6. Translation of foreign currencies financial reports

Offshore businesses are accounted according to the following rules:

(1) Assets and liabilities in the Balance Sheet are changed to standard money at the exchange rate on demand of the balance sheet date. All items of shareholders equity interests are changed to standard money using exchange rate on demand of their transaction date, except for ˝retained profit˝.

(2) Items of incomes and expenses are changed to standard money at exchange rate on demand of their transaction dates.

Differences arising from exchanges according to the above-mentioned rules of (1), (2), are displayed separately in the balance sheet under item of shareholders´ equity interests.

IV. Major accounting policies and methods of evaluation of the company *(continued)*

7. Cash equivalents recognition

Short-term、highly liquid investments that are readily convertible into known amount of cash and which are subject to insignificant risk of changes in value are reported as cash equivalents.

8. Computation of financial assets

Classification of financial assets

Financial assets are classified into four categories: those that are recognized by fair value and differences are taken into profit and loss of the relative accounting period (including transactional financial assets, and financial assets that are set by fair value and differences are taken into profit and loss of the relative accounting period)、investments held till due、accounts receivables and saleable financial assets.

Computation of financial assets

a. Initial recognition of financial assets are by their fair value. For those that are recognized by fair value and differences are taken into profit and loss of the relative accounting period, relative expenses should be taken into profit and loss; for other financial assets, expenses should be added to initial recognition amount.

b. Followthrough computation of financial assets are by fair value principal, without deducting possible transaction expenses while disposing, but with the following exceptions:

(1) investments to be held till due and accounts receivable are measured at amortized costs using rules of real interest;

(2) Equity investments that are not quoted in active markets while their fair value can not be measured credibly, and financial derivatives that are linked with such investments and must be settled by delivery of those investments, are accounted by their costs.

IV. Major accounting policies and methods of evaluation of the company*(continued)*

8. Computation of financial assets*(continued)*

Recognition of fair value of financial assets

a. Financial assets in active markets, quotation by such markets are taken as fair value;

b. Financial assets without active markets, valuation method are taken to account their fair value. Such result reflect possible transaction price in fair trade on valuation date.

Financial assets diminution

All financial assets except for those that are recognized by fair value and differences are taken into profit and loss of the relative accounting period should be examined on balance sheet date. Diminution provision are set aside when evidence show that such financial assets is depreciating. Evidences includes:

a. Serious financial problems occur for the issuers or the debtors;

b. Breach of contracts by the debtors, such as default in repaying principal or interest;

c. Compromises by the company to debtors in financial problems, out of economic or legal concerns;

d. Possible bankruptcies or other financial reorganizations of the debtors;

e. Such financial asset are not tradable in active markets due to major serious financial problems of the issuers;

f. The company are not able to recover investment cost due to major adverse variances occur in the debtors´ technology, markets, economies and legal environments;

g. Serious or non-temporary declines of the fair value of equity instruments;

h. Other solid evidence showing financial assets are depreciating.

IV. Major accounting policies and methods of evaluation of the company*(continued)*

8. Computation of financial assets*(continued)*

Computation of financial assets depreciation loss

a. No depreciation tests are exercised for financial assets that are recognized by fair value and differences are taken into profit and loss of the relative accounting period;

b. For financial assets that are held till due, diminution provision are set at difference between predition of future cash value and current book value;

c. Account receivables loss: the company set aside bad debts provisions after exerceising diminution tests on account receivables on balance sheet date. Separate test is exercised for receivables of large amounts (i.e. 1 million or over), diminution provision are set at difference between predition of future cash value and current book value if evidences showing depreciation; if not, no diminution loss is recognized, no bad debt provision is set.

For account receivables of non-large amounts, and those of large amounts but no solid evidence showing depreciation after separate test, bad debt provisions are set by the age of account analysis method. Ratios of provision are shown below:

Age of Accounts	Ratio of provision
Within 2 years	Nil
2-3 years	40%
3-4 years	60%
Over 4 year	100%

d. Base of judgments of saleable financial assets: if fair value of such financial asset continues to decline, and such decline is non-temporary, then depreciation of such financial asset is recognized.

IV. Major accounting policies and methods of evaluation of the company*(continued)*

9. Classification of inventories and their computation

Classification of inventories

Inventories are products or merchandise ready to sell held by the company, or goods in the process, or materials consumed in the process of production or service. They include raw material(including auxiliary material)、work in progress、fininshed goods、low value articles.

Inventory valuation

Method of perpetual inventory is adopted for reporting. Purchased and self-produced inventories are carried at real costs, goods-in-delivery are calculated using the weighted average cost formula, inventories of low value articles are amortized at the time of consumption.

Standard for market price decline and method of provision

Inventories are carried using the Lower-of-Cost-or-Realizable Net Worth method by end of report date. Provisions for inventories depreciation are appropriated from the differences of cost over realizable net worth, the estimiated loss of inventories depreciation are recognized as expenses.

IV. Major accounting policies and methods of evaluation of the company*(continued)*

10. Reporting of long-term equity investments

(1) Calculation of long-term investments in equity

A. Long-term equity investments are consolidatedly reported, and their initial investment costs are recognized by the following rules:

a. Considerations are consolidated by the reporting party in ways of cash, non-cash transfer, or assuming liabilities within companies under the same controlling party, initial investment costs are recognized by the book value of shareholder equity interests on the date of consolidation. Differences between initial investment costs and cash, non-cash transferred, or liabilities assumed are adjusted to capital reserve. If the difference should surpass capital reserve, retained profit is accordingly adjusted.

For long-term investment that consideration is taken in way of issuing equity bonds by the consolidating party, their initial investment cost is recognized shares of the consolidated party of the book value of shareholders´ equity interests on the consodliating date. Total face value of issuance are taken as capital. Capital reserve is adjusted by the difference between initial investment costs and total face value of issuance, then retained profit is adjusted accordingly if the difference is over capital reserve.

b. For companies not under the same controlling party, initial investment costs are recognized by the following consolidated costs:

1/ Combination of companies by one time trade-over, their consolidating costs are assets paid to gain control over the consolidated party on the purchase day, or liabilities assumed or occurred, or fair value of equity bonds issued.

2/ Every single transaction cost is added up to be the total costs for consolidation of many transactions.

3/ Each direct expense is taken into consolidation cost by the consolidating party in purchasing.

4/ The consolidating party should take any future events in the consolidation agreements that are possibly affective to the reliable computation of consolidation costs into consolidation costs.

IV. Major accounting policies and methods of evaluation of the company*(continued)*

10. Reporting of long-term equity investments*(continued)*

(1) Calculation of long-term investments in equity*(continued)*

B. Long-term equity investments other than consolidation are measured by the following for their initial investment costs:

a. Those that are taken by cash, actual payment are taken as initial investment cost, which includes direct expenses, taxes and other necessary expenses.

b. Those that are taken by issuing equity bonds, their fair value are taken as initial investment costs.

c. Those that are invested by the investors, value agreed in the investment contracts or agreement are taken as initial investment costs, except for those agreed not by fair value.

d. Those by transactions of non-monetary assets, if such transactions are commercial, then fair value and relative taxes and expenses are taken for initial investment costs; if non-commercial, book value of trade-out assets and relative taxes and expenses are taken as initial investment costs.

e. Those by liabilities reorganization, fair value and relative taxes and expenses payable are set for their initial investment costs.

(2) Recognition method of Income

Long-term investments which the company impose controlling power over the company invested, and investments that impose no significant impact, and there are no quotation in the active markets, their fair value can not be reliably measured are recognized using Cost method; Long-term investments that the company impose significant power over the company invested are calculated by Equity method.

Investment income are recognized when the company invested declare cash dividends for investments using Cost method, which income is limited to the appropriation of accumulated profit after the investment completed. Amount of the investment income that exceeds the above-mentioned declared cash dividends are to write-off initial investment cost on the book. Investments income are recognized by shares of net profit or loss realized by the company invested at end of each accounting period based on the net profit/loss of the company invested after equity acquisition, and long-term investments in equity are adjusted accordingly. Difference between book value of the investment and the real income are recognized as investment income of the period when disposal of investment in equity occur.

IV. Major accounting policies and methods of evaluation of the company*(continued)*

11. Real estate invested

Real estate invested of the company are those held for renting income or increment of capital, or both.Including:

(1) land use rights rented;

(2) land use rights that are to sell after appreciation;

(3) houses and buildings rented.

Real estate invested are calculated by Cost Method.

Costs of real estate invested are taken into profit and loss of the reporting period after deducting diminution and salvage value, and deprecited at Direct Line Method.

One balance sheet date, real estate invested are measured at costs or recoverable amount, whichever is lower. If the latter is lower, diminution provision are set according to the difference between the two.

12. Fixed Assets and Depreciation

Fixed assets refer to buildings of over 1 year service life, construction, machinery, equipment, motor vehicles, and other equipments, utensils and instruments that related to production or operations.

Fixed assets are depreciated by Direct Line Method, ratios of depreciation are set by their types, estimated service life or estimated salvage life (3% of cost):

Types	Service life (year)	Annual depreciation rate%
Buildings	20-40	2.43-4.85
Machinery and equipment	8-20	4.85-12.13
Motor vehicles and others	6-17	5.71-16.17

IV. Major accounting policies and methods of evaluation of the company*(continued)*

13. Reporting of Construction in Progress

Construction in Progress referred to plants, equipments and other fixed assets that are being constructed, which are recognized at real costs, including direct construction and installation costs, borrowings interests and gains or loss of foreign exchange during such period. Fixed assets are recognized when construction in progress come into use, and relative interests capitalization are closed.

14. Intangible assets

Intangible assets are calculated at real costs of acquisitions. Their service life are analyzed at acquisition. Those with limited life are amortized within their life. Details as follows:

Types	Years of amortizing
Land use rights	Service life
Patents	10 years
softwares	Service life

15. Other assets

Other assets are calculated at real costs. Long term expenses payable are amortized within period of benefit.

16. Diminution provisions of long term equity investment, fixed assets, work in progress, intangible assets

(1) By end of reporting period, book value of long term equity investment, fixed assets, work in progress and intangible assets are inspected by the company. If any sign of diminution, recoverable amounts are estimated by fair value of relative assets minus disposing expenses and estimated future cash flow whichever is higher. If recoverable amount is lower than book value, then book value is reduced to recoverable amount. Reduction amount is recognized as loss and is taken into profit and loss. Loss will not be recovered in the future accounting periods once it´s recognized.

IV. Major accounting policies and methods of evaluation of the company*(continued)*

16. Diminution provisions of long term equity investment, fixed assets, work in progress, intangible assets*(continued)*

(2) The company normally estimate recoverable amount based on a single asset if any sign shows diminution of it. Then the asset group the diminuting asset belongs is used as base to estimate recoverable amount if estimation can not be carried out based on the asset itself. Whether the principal cash flow generated by the assets group is separate from other cash flow by other assets or assets group is the foundation of recognizing an asset group, with ways of operating of the company and the continuous usage of assets or ways of disposal in view. But in any way any asset group should not exceed those that are set as reporting division.

17. Borrowing Expenses

(1) Bollowing interests, discounts or amortization of premium or difference of exchange occurred when purchasing a fixed asset are calculated as such asset′ s cost, within its period of capitalization and under conditions of capitalization amount; other bollowing interests, discounts or amortization of premium or difference of exchange are recognized as expenses during transactions period. Auxiliary expenses due to special bollowing are capitalized when transaction if before the relative fixed asset comes into usage. Auxiliary expenses are recognized as expenses when transaction if amounts are small; other auxiliary expenses are recognized as expenses during period of transaction.

(2) Period of capitalization of bollowing expenses

1/ Initial capitalization: bollowing expenses are capitalized for interests, amortization and exchange differences due to special borrowings if under the following circumstances at the same time:

a. capital expenses have occurred;

b. borrowing expenses have occurred;

c. Purchases or Construction to render assets usable have started.

IV. Major accounting policies and methods of evaluation of the company*(continued)*

17. Borrowing Expenses

(2) Period of capitalization of bollowing expenses

2/ Suspension of capitalization: Borrowing expenses capitalization are halted when activities of purchase or construction of fixed assets are stopped under abnormal conditions, and stoppage has lasted for over three months. Under such circumstances expenses are recognized until the purchase or construction of fixed assets restarted

3/ Capitalization Cut-off: Borrowing expenses capitalization are cutoff when fixed assets purchased or constructed reach to the condition of usefulness. Borrowing expenses occur later on are recognized as expenses of the period.

(3) Recognition of capitalization amounts

Capitalization amount are recognized by deducing interest income of the bollowing principal not yet used, or return of temporary investment from the bollowing interest expenses in each capitalization accounting period.

Amounts of interest capitalization equals to accumulated average weighted expenses times capitalization rates , when normal bollowing are taken up for use of purchasing or producing assets in accordance of capitalization.

18. Principals of income recognition

Sales of goods

Sales of goods are recognized when major risks and return of ownership are transferred to the buyers, the company no longer holds rights of administration or control, the relative income can be rewarded, costs concerning such goods can be measured in amount certainly.

Use of rights of alienated assets

Use of rights of alienated assets are recognized as income when relative return belong possibly to the company, and amount of income can be reliably counted.

IV. Major accounting policies and methods of evaluation of the company*(continued)*

19. Subsidy by the Government

Subsidy by the Government includes fiscal allocation, fiscal discount, return of taxes and allocation ofnon-monetary asset with no consideration. Subsidy by the Government received by the company are recognized as deferred income, and is averaged into profit and loss with its life beginning from the relative coming to use. Deferred income will be taken into profit and loss of accounting period of disposal when relative asset are sold, transferred, discarded or ruined. Subsidy related to income that are used to redeem later expenses or losses, are recognized as deferred income, and are taken into profit and loss of the period; those that are used to redeem expenses and losses already occur, are taken into profit and loss directly.

20. Accounting of income taxes

Income taxes are calculated using method of Liability of Balance Sheet.

(1) Recognition of deferred tax asset

1/ The company recognized deferred tax asset arise from offsettable temporary difference, limited which amount by taxable income possibly used to offset offsettable temporary difference. With exception of those with the following characteristics at the same time:

a. Such transactions are not due to corporate consolidation;

b. Neither profit nor taxable income (or offsettable loss) will not be affected when transactions occur.

2/ Offsettable temporary difference related to investments of the company to subsidiary companies, related companies are recognized as deferred tax assets are recognized if the following conditions are satisfied at the same time:

a. Temporary difference can be reversed in the predictable future;

b. Taxable income possibly used to offset offsettable temporary difference.

3/ Deferred tax assets are recognized for offsettable losses and tax offset reduction, limited to the amount of future taxable income possibly used to offset future losses or taxes.

IV. Major accounting policies and methods of evaluation of the company*(continued)*

20. Accounting of income taxes*(continued)*

(2) Recognization of deferred income tax liability

All deferred income tax liability arise from taxable temporary difference are recognized except for the following situations:

1/ Initial recognition of goodwill;

2/ Initial recognition of assets or liabilities satisfying both the below conditions:

a. Such transactions are not due to corporate consolidation;

b. Neither profit nor taxable income (or offsettable loss) will not be affected when transactions occur.

3/ Offsettable temporary difference related to investments of the company to subsidiary companies, related companies are recognized if the following conditions are satisfied at the same time:

a. the investing company can control time of reverse of temporary difference;

b. such temporary difference are probably not to be reversed in the predictable future.

(3) Calculation of income tax expenses

The company take income taxes and deferred taxes as income tax expenses or income into profit and loss, excepting below:

a. Corporate consolidation;

b. Transactions or events directly recognized in shareholders´ equity interests.

IV. Major accounting policies and methods of evaluation of the company *(continued)*

21. Planning of Consolidated Financial Report

Principles of Consolidated Financial Reporting

The scope of consolidation are based on control.

Method of Planning

Reports of parent company and its subsidiaries within the consolidation scope are basis of the consolidated financial report. Important investments, intra-group transactions, purchases and sales of inventories, and profit-to-realize are consolidated after write-off, and minority interests are calculated. Parent company are responsible for consolidated reports.

V. Impact of Accounting Policy, Change of Accounting Valuation, Correction of Accounting Errors and Change of Scope of Consolidated Report

(I)、 Change in Accounting Policy

By the New Rules of Accounting, there´s an increase on shareholders´ equity interests of RMB 116,140,093.80, details see Note XVI.6.

(II)、 Change in Accounting Valuation

There is no change in the accounting valuation of the company.

(III)、 Correction of Major Errors and relative Impact

Corrections has been made to the figures of Year 2006 in this year´s financial statements, by discovering mistakes in over-calculating balance of long-term investment - Wei Da High Voltage Electric Co., Ltd, which was added up to the Minority Interests of the same year accordingly. This mistake does not affect items such as Total Profit, Net Profit and Retained Profit of that year.

V. Impact of Accounting Policy, Change of Accounting Valuation, Correction of Accounting Errors and Change of Scope of Consolidated Report*(continued)*

(IV)、Impact of Change in Scope of the Consolidated Report

1. Shenyang Jindu Hotel Co. Ltd (referred as Jindu Hotel) is not included in the company´ s consolidation scope in the period

   On May 14, 2007, Gao Cai Technology Co., Ltd. (referred to as Gao Cai Tec), a wholly-owned subsidiary of the company has signed a stock-swap agreement with HK Zhong Xing Power Co., Ltd.(later referred as Zhong Xing Power), the latter agreeing to swapped 100% shares of Jindu Hotel own by Gao Cai Tec with 48% shares of New Northeast Electric (Jinzhou) Power Capacitor Co., Ltd. (abbr. as New Jin Cap), and 25.6% shares of New Northeast Electric (Shenyang) High Voltage Insulate Switch Co., Ltd.(later referred as New Shen Switch) owned by Zhong Xing Power. Relative registration has been completed on Aug. 22, 2007 with the Industrial and Commercial Bureau. Shares swapping date is set on Aug. 31, 2007. Results of Jindu Hotel´ s operation from January to August are included in the scope of consolidation.

   Major data of profit and loss of Shenyang Jindu Hotel in the period of January through August , 2007 areas follows:

	Jan.-Aug.2007
Total profit	-56,806,727.31
Net profit	-56,806,727.31

   Book value of shares of Jindu Hotel by the Company has been exchanged for 48% shares of New Jin Capacitor and 25.6% shares of New Shen Switches. Difference between such cost and the pro rata interests in the net assets of these two companies has been recognized as good will in the consolidated financial reports.

V. Impact of Accounting Policy, Change of Accounting Valuation, Correction of Accounting Errors and Change of Scope of Consolidated Report*(continued)*

(IV)、Impact of Change in Scope of the Consolidated Report*(continued)*

2. In the year of 2007, three companies are added to the scope of consolidation. They are: Shenyang Kaiyi Electric Co., Ltd.(referred as Kaiyi Electric), Shenyang Jiatai Machinery Co., Ltd. (referred to as Jiatai Machinery), and Northeast Electric (Beijing) Co., Ltd. (referred to as Beijing Co.).

   These three companies are wholly owned by the company or the company´s subsidiary.

   Kaiyi Electric was set up on Apr. 2, 2007, with Fuxin Closed Mother Cable Company Limited shared 90% (RMB0.9 million), and Northeast Electric Development Co., Ltd. shared 10%(RMB0.1 million).

   Jiatai Machinery was set up on Jul. 2, 2007, a Kaiyi Electric wholly owned subsidiary, with registered capital of RMB5 million.

   Beijing Co. was established on May 15, 2007, Kaiyi Electric contributed RMB2 million for its whole registered capital.

VI. Taxes

Taxes	Tax base	Taxable rate(%)
Value-added tax	Sales tax less deductible purchase sales	17
Sales tax	Income subject to tax	5-20
Maintainence &Construction of the city tax	Amount subject to Value-added tax and Sales tax	7
Income tax	Amount subject to income tax	Note.1

VI. Taxes*(continued)*

Note 1. Corporate Income Tax Rate for the company and subsidiaries such as Shenyang Jindu Hotel Co., Ltd. (abbr. as Jundu Hotel), Jinzhou Jinrong Electric Appliance Co., Ltd., Shenyang Kaiyi Electric Co., Ltd. (referred as Kaiyi Electric) and Northeast Electric (Beijing) Co., Ltd. as 33%.

The company´s subsidiary - New Northeast (Shenyang) High-voltage Insulate Switchegears Co., Ltd. (Formerly Shenyang Suntime High-voltage Electric Co., Ltd.) is a foreign-owned enterprise situated in Liaodong Peninsular Economic Zone, and income rate of 27% is applicable according to 《Ministry of Finance on temporary regulations of encouraging foreign investments by reducing/exempting taxes of enterprises along the inshore area》(No.Caishui[1988]91), for which local tax of 3% is included. According to the regulations under 《Income Tax Law of Foreign-owned Company and Foreign Company People´ s Republic of China》, and approved by National Tax Bureau of Liaoning Province, "Insulate Switches" has obtained a favorable tax policy of ˝exempt 2 (years) and reduce 3(years)˝ starting from the year it has profit, thus income taxes are exempted from 2004 to 2005, and are reduced in half from 2006 to 2008. Moreover "Insulate Switches" are exempted from local income tax from 2004 to 2008, and reduced to half from 2009 to 2011.

The company´ s subsidiary - New Northeast (Jinzhou) Electric Capacity Co., Ltd. (referred to as New Jin Cap) is a foreign-owned enterprise situated in Liaodong Peninsular Economic Zone, and income rate of 27% is applicable according to 《Ministry of Finance on temporary regulations of encouraging foreign investments by reducing/exempting taxes of enterprises along the inshore area》(No.Caishui[1988]91). According to the regulations under 《Income Tax Law of Foreign-owned Company and Foreign Company People´s Republic of China》, New Jin Cap has obtained a favorable tax policy of ˝exempt 2 (years) and reduce 3(years)˝ starting from the year it has profit, thus income taxes are exempted from 2005 to 2006, and are reduced in half from 2007 to 2009.

The company´ s subsidiary -Shenyang Gaodongjia Desiccation Company Limited (referred to as Gao Dongjia) is a foreign-owned enterprise situated in Liaodong Peninsular Economic Zone, and income rate of 25.5% is applicable according to 《Ministry of Finance on temporary regulations of encouraging foreign investments by reducing/exempting taxes of enterprises along the inshore area》(No.Caishui[1988]91).

The company´ s subsidiary -Fuxin Closed Mother Cable Company Limited(referred to as Fu Closed) was changed to a foreign-owned enterprise in Nov. 2005, with registered capital of USD2.8 million, and foreign capital was all paid in by Jan. 2006. Its income tax rate is 27% by 《Ministry of Finance on temporary regulations of encouraging foreign investments by reducing/exempting taxes of enterprises along the inshore area》(No.Caishui[1988]91). According to the regulations under 《Income Tax Law of Foreign-owned Company and Foreign Company People´ s Republic of China》, Fu Closed enjoy a favorable tax policy of ˝exempt 2 (years) and reduce 3(years)˝ by the reply of National Tax Bureau Liaoning Fuxin (No. Fu Guo Shui Han (2007) 58) , thus income taxes are exempted from 2006 to 2007, and are reduced in half from 2008 to 2010. During this period, local income tax rate is 3%.

Northeast Electric (HK) Co., Ltd. is a wholly owned subsidiary of the company registered in HKSAR of P. R. China, its income rate is 17.5%.

Gaocai Technology Co., Ltd.(referred to as Gaocai Tec) is a company wholly owned by the company´ s subsidiary - Northeast Electric (HK) Co., Ltd., and was registered in the British Virgin Islands. No income tax is imposed on it.

VII. Scope of consolidation of the company and recognition of the scope

Base of consolidation

The company consolidated results of the invested companies with the company owning voting shares over 50%, or maintain controlling power though not owning shares over 50%.

Scope of Consolidation

Name of company	Registration place	Registered capital	Shares owned directly	Shares owned indirectly	Amount invested	Principal Operation	Y/N Cons.
Northeast Electric (HK) Co., Ltd	HK	USD20 m	100%	-	USD20 m	investment	Y
Gaocai Technology Co., Ltd.	B.V.I.	USD1	-	100%	USD1	investment	Y
Fuxin Closed Mother Cable Company Limited	Fuxin	USD2.8 m	-	100%	USD2.8 m	IPB production	Y
Jinzhou Jinrong Electric Applicance Co., Ltd.	Jinzhou	RMB3 m	-	100%	RMB3 m	Dry high-voltage Capacitors	Y
New Northeast Electric (Shenyang) High-voltage Insulate Switch Co., Ltd.	Shenyang	USD2.15 m	-	100%	USD2.15 m	Switches, short-circuit platesand insulate switche	Y
Shenyang Gaodongjia Desiccation Co., Ltd.	Shenyang	USD0.7785 m	70%	-	USD0.54495	Metal box and desiccation equipment	Y
New Northeast (Jinzhou) Electric Capacitor Co., Ltd.	Jinzhou	USD10 m	-	100%	USD10 m	Capacitor, CVC	Y
Shenyang Kaiyi Electric Co., Ltd.	Shenyang	RMB1 m	10%	90%	RMB1 m	Production of High-voltage electric equipment, switches, electric capacitors	Y
Shenyang Jiatai Machinery Co.,,Ltd.	Shenyang	RMB5 m	-	100%	RMB5 m	Manufacturing of machineries	Y
Northeast Electric (Beijing) Co.,Ltd.	Beijing	RMB2 m	-	100%	RMB2 m	Sales of machineries, electric equipment	Y

The above mentioned subsidiaries are consolidated into the consolidated report by method of Equity. There is no leftout in consolidation.

Associates:

Name of company	Register place	Legal person representative	Registered capital	Paid-up investment	Proportion of ownership	Major operation
New Northeast Electric (Shenyang) High-voltage Switchears Lt.d	Shenyang	Sheng Dongsheng	USD168Million	USD34.944Million	20.8%	Production of equipmentsof switch control
Wei Da High-voltage Electric Co.,Ltd.	Hong Kong	Lo Yuet	USD12626	USD2029.664	20.8%	Share-holdingt

VIII. Notes to Major items in Consolidated financial reports

1. Cash and deposits

items	currency	2007-12-31 Currency of transaction	2007-12-31 Translation into RMB	2007-1-1 Currency of transaction	2007-1-1 Translation into RMB
cash	RMB		29,684.38		490,774.56
	USD	1,162.34	8,490.43	1,162.34	9,076.36
Sub-total		-	38,174.81	-	499,850.92
Bank deposits			34,738,912.31		38,838,329.74
	EUR	31,387.84	308,604.89		-
	YEN	8,298,890.00	505,109.46		-
	CHF	26,101.33	158,864.96		-
	HKD	861,269.30	806,475.71	124,771.72	125,261.23
	USD	3,905,064.21	28,521,667.41	38,336.78	300,159.10
Sub-total		-	65,039,634.74	-	39,263,750.07
Other cash equivalents	RMB	-	500,000.00	-	1,360,000.00
Sub-total			500,000.00		1,360,000.00
Total			65,577,809.55		41,123,600.99

Note:Balance at end of period is increased 59% of RMB24,454,208.56, which was contributed by sales of goods. RMB28,943,000.00 of bank deposits has been pledged.

2. Bills receivable

Types	2007-12-31	2007-1-1
Bank accepted bills of exchange	4,086,000.00	2,180,800.00

Note 1: Balance of this item at end of reporting period is increased 87% of RMB1,905,200.00, by bills received.

Note 2: RMB1,906,000.00 has been impawned to Industrial Bank Co., Ltd. Shenyang Branch, for same amount of Bank Bills of Exchange.

VIII. Notes to Major items in Consolidated financial reports *(continued)*

3. Account Receivables

(1) Risk Analysis of Account Receivables:

Types	2007-12-31			
	Amount	proportion	Provisions for bad debts	Net amount
Single large amount account receivable	131,139,190.53	67.31%	2,181,540.71	128,957,649.82
Other receivables with higher risks after risk reorganization though with small amount	8,479,750.76	4.35%	8,479,750.76	-
Other insignificant amount account receivables	55,205,175.99	28.34%	2,853,078.48	52,352,097.51
Total	194,824,117.28	100.00%	13,514,369.95	181,309,747.33

Types	2007-12-31			
	Amount	proportion	Provisions for bad debts	Net amount
Single large amount account receivable	174,294,772.10	70.96%	2,423,550.32	171,871,221.78
Other receivables with higher risks after risk reorganization though with small amount	10,987,423.26	4.47%	7,847,399.49	3,140,023.77
Other insignificant amount account receivables	60,338,806.36	24.57%	1,493,115.16	58,845,691.20
Total	245,621,001.72	100.00%	11,764,064.97	233,856,936.75

Note 1: The company has set the criteria for single large amount account receivable as RMB1 million,according to the scale of operation, character of the operation and state of customers´ settlement.

Note 2: Foundation of judgment of any single accocunt receivables with higher risks after risk reorganization though with insignificant amount, is there´re unrecoverable signs showing, or age exceed 4 years.

VIII. Notes to Major items in Consolidated financial reports *(continued)*

3. Account Receivables *(continued)*

(2) Age Analysis of Account Receivables

Types	2007-12-31			
	Amount	proportion	Provisions for bad debts	Net amount
Within 1 year	148,519,370.03	76.23%	-	148,519,370.03
1-2 years	28,276,963.65	14.51%	-	28,276,963.65
2-3 years	7,648,474.91	3.93%	3,417,089.96	4,231,384.95
3-4 years	1,559,321.76	0.80%	1,277,293.06	282,028.70
Over 4 years	8,819,986.93	4.53%	8,819,986.93	-
Total	194,824,117.28	100.00%	13,514,369.95	181,309,747.33

Types	2007-12-31			
	Amount	proportion	Provisions for bad debts	Net amount
Within 1 year	202,573,254.06	82.47%	-	202,573,254.06
1-2 years	25,017,309.74	10.19%	596,100.00	24,421,209.74
2-3 years	8,544,118.25	3.48%	3,769,809.62	4,774,308.63
3-4 years	3,526,112.34	1.44%	1,437,948.02	2,088,164.32
Over 4 years	5,960,207.33	2.43%	5,960,207.33	-
Total	245,621,001.72	100.00%	11,764,064.97	233,856,936.75

(3) Account receivables with bad debt provisions set aside by end of Dec. 31, 2007 are displayed as follows:

debtors	amount	Ratio of provision	Accumulated amount of bad debt provision	age	Reason for provision
Shenyang High-voltage Switch Factory Institute sub-branch	1,611,286.17	100%	1,611,286.17	2-4 years	Mal-operation
Others	8,819,986.93	100%	8,819,986.93	Over 4 years	Long age

VIII. Notes to Major items in Consolidated financial reports *(continued)*

3. Account Receivables *(continued)*

(4) Top 5 Account Receivables companies by end of Dec. 31, 2007 are as follows:

Name of company	Amount owed	Time owed	Contents of receivables
Angang Steel Co., Ltd.	31,423,900.00	2007	payment of goods payments
Logistics Centre of Tianjin Power Co., Ltd., North China Power Group Tianjin Power Co., Ltd.	30,705,556.00	2007	payment of goods payments
Shanxi Power Co.	19,728,970.00	2007	payment of goods payments
Chongqing Power Co.	16,226,280.00	2007	payment of goods payments
Extra high-tension electrity transmitting and transforming Co. of China Southern Power Grid	8,320,000.00	2007	payment of goods payments
Total	106,404,706.00		

Note 1: Top 5 customers take up 55% of total account receivables balance by end of period.

Note 2: There´s no receivables from company holding 5% or over voting shares of the company.

4. Prepayment

	2007-12-31		2007-1-1	
Types	Amount	Proportion Rate	Amount	Proportion Rate
Within 1 year	27,957,511.50	97.75%	56,349,321.64	98.89%
1-2 years	642,266.41	2.25%	613,597.18	1.11%
Total	28,599,777.91	100.00%	56,962,918.82	100.00%

Note 1: Balance has decreased RMB28,363,140.91 by 50%, mainly due to goods delivered.

Note 2: Top 5 customers by end of period totaled RMB24,181,396.52, which takes up 85% of prepayment balance.

Note 3: There´ s no prepayment from company holding 5% or over shares of the company.

VIII. Notes to Major items in Consolidated financial reports *(continued)*

5. Dividends receivable

Name of company	2007-12-31	2007-1-1
New Northeast Electric (Shenyang) High Voltage Switch Co., Ltd.	2,170,000.00	
Wei Da High-voltage Electric Co.,Ltd.	1,947,670.40	2,087,881.75
Total	4,117,670.40	2,087,881.75

Note 1: Balance at end of period has increased RMB2,029,788.65 by 97%, mainly due to dividends received by the company.

6. Other Receivables

(1) Risk Analysis of other account receivables:

Types	2007-12-31			
	Amount	proportion	Provisions for bad debts	Net amount
Single large amount other receivables	187,773,431.49	80.25%	82,751,074.05	105,022,357.44
Other receivables with higher risks after risk reorganization though with small amount	1,980,008.79	0.85%	1,770,764.01	209,244.78
Other insignificant amount other receivables	44,236,362.74	18.91%	425,029.98	43,811,332.76
Total	233,989,803.02	100.00%	84,946,868.04	149,042,934.98

VIII. Notes to Major items in Consolidated financial reports *(continued)*

6. Other Receivables *(continued)*

(1) Risk Analysis of other account receivables: (continued)

Types	2007-1-1			
	Amount	proportion	Provisions for bad debts	Net amount
Single large amount other receivables	138,862,541.04	80.38%	9,327,095.76	129,535,445.28
Other receivables with higher risks after risk reorganization though with small amount	5,218,883.78	3.02%	5,218,883.78	-
Other insignificant amount other receivables	28,686,735.26	16.60%	7,767,928.61	20,918,806.65
Total	172,768,160.08	100.00%	22,313,908.15	150,454,251.93

Note 1: The company has set the criteria for single large amount other receivable as RMB1 million, according to the scale of operation, character of the operation and state of customers´ settlement.

Note 2: Foundation of judgment of any single other receivables with higher risks after risk reorganization though with insignificant amount, is there´re unrecoverable signs showing, or age exceed 4 years.

Note 3: By end of year, principal owed from Benxi Steel (Group) Co., Ltd.(referred as Ben Steel) of RMB76, 090,000.00 is included in other receivables, which receivables occurred in May and September 2005, by Liaoning Trust & Investment Co. (hereinafter referred to as Liao Trust) repaying principals of RMB74,424,671.45 deposited with them by the company with their receivables from Ben Steel of RMB76,090,000.00 by the approval related goverments in Liaoning Province. The company has taken receivables from Ben Steel into other receivables, surplus to the original deposit has been taken into bad debt provision. On Dec. 16, 2005, High Court of Liaoning Province has made ultimate ruling (No.(2005) Liao Min Er Zhong Zi Di 220), that Ben Steel had owed the company RMB15,900,000.00 and relative interest. The company had applied for Enforcement. As a result Intermediate Court of Shenyang has established the case and delivered Enforcement Notice to Ben Steel on Mar. 10, 2006. On Mar. 30, 2006, The Intermediate Court of Shenyang has made first ruling concerning the remaining principals by Rulings Nos. of (2005) Shen Zhong Min Si He Chu Zi Di 21, 22 and 23, that Ben Steel should repay the company principal of RMB60,190,000.00 and relative interests. On Apr. 30, 2006, Ben Steel has appealed to High Court of Liaoning Province.

By Ruling No.(2007)Liao Li Min Jian Zi Di 56 of High Court of High Court of Liaoning Province on Jun. 20, 2007, that retrial should take place by collegiate body of judges grouped by the High Court concerning the above-mentioned ruling No. of 220(on principal of RMB15,900,000.00 and relative interest), previous ruling has been discontinued. Up till the report date, High Court of Liaoning Province has not yet made any ruling. Besides, there are 3 cases totaling amount of RMB60.19 million sued over Ben Steel by the company, with favoring ruling for the company in the first trial, 2nd trial is in progress by the High Court of Liaoning Province. The company has set aside bad debt provisions for full amount of such receivables for their ages exceed 4 years.

VIII. Notes to Major items in Consolidated financial reports *(continued)*

6. Other Receivables *(continued)*

(2) Age analysis of other receivables:

Age	2007-12-31			
	Amount	proportion	Provisions for bad debts	Net amount
Within 1 year	115,515,915.64	49.37%	6,560,583.35	108,955,332.29
1-2 years	39,710,069.85	16.97%	11,920.00	39,698,149.85
2-3 years	905,473.85	0.39%	519,248.99	386,224.86
3-4 years	815,944.86	0.35%	812,716.88	3,227.98
Over 4 years	77,042,398.82	32.93%	77,042,398.82	-
Total	233,989,803.02	100.00%	84,946,868.04	149,042,934.98

Age	2007-1-1			
	Amount	proportion	Provisions for bad debts	Net amount
Within 1 year	15,929,019.87	9.22%	-	15,929,019.87
1-2 years	40,482,119.80	23.43%	286,300.99	40,195,818.81
2-3 years	6,720,195.09	3.89%	3,561,845.16	3,158,349.93
3-4 years	17,960,035.43	10.40%	10,781,819.87	7,178,215.56
Over 4 years	91,676,789.89	53.06%	7,683,942.13	83,992,847.76
Total	172,768,160.08	100.00%	22,313,908.15	150,454,251.93

(3) Other receivables that special bad debt provisions have been set aside are laid out as below:

debtors	amount	Ratio of provision	Accumulated amount of bad debt provision	age	Reason for provision
Benxi Steel (Group) Co., Ltd.	76,090,000.00	100%	76,090,000.00	Over 4 years	See 6.3 Note 1
Shenyang High Voltage Switch Co., Ltd.	6,560,583.35	100%	6,560,583.35	Within 1 year	Mal-operation

VIII. Notes to Major items in Consolidated financial reports *(continued)*

6. Other Receivables *(continued)*

(4) Top 5 customers of other receivables by end of Dec. 31, 2007 are:

Name of company	Amount owed	Year of transaction	Contents of receivables
Benxi Steel (Group) Co., Ltd.	76,090,000.00	2003	intercompany account
Shenyang Beifu Machinery Manufacturing Co, Ltd.	30,791,444.91	2006	Intercompany account
Shenyang Jindu Hotel Co., Ltd.	15,144,857.42	2006	Intercompany account
New Northeast Electric (Shenyang) High Voltage Switches Co., Ltd.	13,000,000.00	2007	Intercompany account
China Xin Tai Group Co., Ltd.	8,820,699.60	2007	Intercompany account
	143,847,001.93		

Note 1: Top 5 customers has taken up 61% of total other receivables.

Note 2: There´ s no other receivables from company holding 5% or over voting shares of the company.

7. Inventories and Provisions for Depreciation of Inventories

(1) Changes of inventoris

items	2007-1-1	Increase during the period	Decrease during the period	2007-12-31
Raw material	28,961,687.12	310,855,317.19	308,897,494.62	30,919,509.69
Work in progress	18,455,183.80	320,259,740.56	329,849,969.34	8,864,955.02
Goods in store	22,070,090.47	518,473,592.92	485,609,443.99	54,934,239.40
Total	69,486,961.39	1,149,588,650.67	1,124,356,907.95	94,718,704.11
Minus: inventory decline provision	966,106.64			1,936,121.94
Net worth of inventories	68,520,854.75			92,782,582.17

Note 1: Balance of inventories has increased RMB24,261,727.42 by end of period, owing to increase of goods in store.

VIII. Notes to Major items in Consolidated financial reports *(continued)*

8. Long term equity investment

Long term equity investment of the company are as follows:

items	2007-1-1	Increase during the period	Decrease during the period	2007-12-31
By Cost Method	37,345,245.82	-	24,808,225.14	12,537,020.68
By Equity Method	307,465,128.49	4,362,216.17	-	311,827,344.66
Total	344,810,374.31	4,362,216.17	24,808,225.14	324,364,365.34
Minus: diminution provision (note)		2,537,020.68	-	2,537,020.68
Net worth of Long Term Equity Investment	344,810,374.31	-	-	321,827,344.66

Long term equity investment:

Company invested	Proportion of shares	Initial amount of investment	2007-1-1	Adjustment of profit and loss in the period	Increase/ decrease in the period	2007-12-31
New Northeast Electric (Shenyang) High Voltage Switch Co., Ltd.(note 1)	20.80%	228,131,039.38	245,664,331.46	4,428,692.46	2,337,204.48	252,430,228.40
Wei Da High-voltage Electric Co.,Ltd.	20.80%	67,322,731.52	61,800,797.35	-820,304.24	-1,583,376.85	59,397,116.26
Jinzhou City Commercial Bank Co., Ltd.(note 2)	3.55%	11,787,000.00	12,537,020.68		-2,537,020.68	10,000,000.00
Jin Hua Chemicals Chlorine Alkali GroupCo., Ltd.(note 3)		24,808,224.82	24,808,224.82		-24,808,224.82	
Total			344,810,374.31	3,608,388.22	-26,591,417.87	321,827,344.66

Note: 1. Investment to New Shen Switches has been increased by RMB2,337,204.48; Equity interests of the period has been adjusted by RMB4,428,692.46, due to: return on investment of RMB28,998,171.58 by Methods of Equity; Decrease of investment cost by RMB19,258,973.10 owing to distribution of past years´ dividends of New Shen Switches; and decrease of investment cost by RMB5,310,506.02 due to fluctuation of exchange rates.

2. The Company, New Northeast Electric (Shenyang) High Voltage Switches Co., Ltd. - a subsidiary of the Company, and Xin Feng Electricity Investment Co., Ltd. has reached an agreement, agreeing for the Company to repaying New Northeast Electric´s debt to Xin Feng Electricity of RMB10million by shares of Jinzhou City Commercial Bank, Ltd., which initial investment is RMB10 million. As procedures including registration of change in the Bureau of Industry and Commerce are still to be completed by Dec. 31, 2007, provisions of RMB2,537,020.68 of assets diminution are set aside on difference between account balance of Long-term investment - Jinzhou City Comm. Bank, and amount of debt.

3. Decrease in shares of Jin Hua Chemicals Group Cholride Alkali Co., Ltd is due to the Company sell out shares of such company.

VIII. Notes to Major items in Consolidated financial reports *(continued)*

9. Fixed Assets and Accumulated Depreciation

Types	2007-1-1	Increase during the period	Decrease during the period	2007-12-31
Fixed Assets - Cost				
Buildings	473,241,235.33	53,211.90	374,273,546.10	99,020,901.13
Motor Vehicles	58,362,380.83	2,685,557.97	9,164,258.52	51,883,680.28
Machinery	36,712,556.14	8,872,096.25	21,293,004.82	24,291,647.57
Total	568,316,172.30	11,610,866.12	404,730,809.44	175,196,228.98
Accumulated depreciation:				
Buildings	81,916,601.72	6,958,506.20	53,272,540.80	35,602,567.12
Motor Vehicles	23,992,078.87	2,856,613.93	4,837,153.15	22,011,539.65
Machinery	19,120,053.03	2,498,996.79	15,402,076.71	6,216,973.11
Total	125,028,733.62	12,314,116.92	73,511,770.66	63,831,079.88
Net amount	443,287,438.68			111,365,149.10
Diminution provision of fixed assets	82,583,587.22			2,118,787.22
Net worth of fixed assets	360,703,851.46			109,246,361.88

Note 1: Fixed assets balance has decreased 69% of RMB251,457,489.58, owing to sale of Shenyang Jindu Hotel Co.,Ltd.

10. Intangible Assets

items	Initial amount	Way of acquisition	Accumulated amortization amount	2007-1-1	Increase during the period	Decrease during the period	2007-12-31	Amortizing period left
patent	450,000.00	Self-developed	315,000.12	179,999.92	-	45,000.04	134,999.88	3 years
Land use rights - Fu Closed	6,774,501.05	transfer	1,625,880.88	5,284,110.25	-	135,490.08	5,148,620.17	37 years
Land use rights - NewShen Switch	13,895,721.34	transfer	4,193,017.19	9,702,704.15	-	357,018.37	9,345,685.78	36 years
softwares		purchase		146,416.65	-	69,000.00	77,416.65	2 years
Total	21,120,222.39			15,313,230.97	-	606,508.49	14,706,722.48	

VIII. Notes to Major items in Consolidated financial reports *(continued)*

11. Goodwill

Way of being	2007-1-1	Increase during the period	Decrease during the period	2007-12-31
Shares swap	-	94,643,933.80	-	94,643,933.80

Note : Balance has increased RMB94,643,933.80, details see Notes V.(IV)2.

12. Long term expenses payable

items	Initial amount	Accumulated amortized amount	2006-12-31	Increase during the period	Decrease during the period	2007-12-31	Amortizing period left (month)
Buildings renting expenses - Jia Tai	51,600.00	25,800.00	-	51,600.00	25,800.00	25,800.00	6
Buildings renting expenses -New Jin Cap	1,688,692.00	1,290,720.00	1,043,332.00	-	645,360.00	397,972.00	12
Renting expenses of Machinery	4,710,000.00	3,600,000.00	2,910,000.00	-	1,800,000.00	1,110,000.00	12
Renting expenses of lands	430,833.25	220,000.00	320,833.25	-	110,000.00	210,833.25	12
Total	6,881,125.25	5,136,520.00	4,274,165.25	51,600.00	2,581,160.00	1,744,605.25	

Note : Balance at end of period decrease RMB2,529,560.00, which is 59% decline, owing to amortization.

13. Deferred income tax asset

Items	2007-12-31	2007-1-1
Offsettable temporary difference arising from bad debt provisions	4,103,709.27	1,261,344.08
Offsettable temporary difference arising from accumulated depreciation	84,373.92	-
Offsettable temporary difference arising from amortization of intangible assets	22,677.09	-
Offsettable temporary difference arising from expenses payable	105,737.50	-
Offsettable temporary difference arising from diminution provision of inventories	484,030.48	-
Offsettable temporary difference arising from diminution provision of fixed assets	488,321.24	-
Total	5,288,849.50	1,261,344.08

Note: Balance has increased from beginning of period of RMB4,027,505.42 by 319%, contributing by diminution provisions for assets.

VIII. Notes to Major items in Consolidated financial reports *(continued)*

14. Diminution provisions of assets

Items	2007-1-1	Depreciation amount during the period	Reverse amount during the period	Offset amount during the period	2007-12-31
I. Bad debt provision	34,077,973.12	99,852,454.00	35,469,189.12	-	98,461,238.00
II. Diminution provision for inventories	966,106.64	1,016,695.00	46,679.70	-	1,936,121.94
III. Diminution of long-term equity investment		2,537,020.68			2,537,020.68
IV. Diminution provision for fixed assets	82,583,587.22	40,000,000.00		120,464,800.00	2,118,787.22
Total	117,627,666.98	143,406,169.68	46,679.70	155,933,989.12	105,053,167.84

Note: Decrease of RMB155,933,989.12 during the period is mainly due to change in scope of consolidation after swapping Jindu Hotel´ s shares.

15. Assets with limited ownership

(1) Assets with limited ownership by end of Dec. 31, 2007 are as below:

Types of assets with limited ownership	2007-1-1	Increase during the period	Decrease during the period	2007-12-31
Pledged assets under bank loans				
Lands and Buildings - Fu Closed	16,238,922.64	-	-	16,238,922.64
Main Building(1-7/F.) - Jindu Hotel	141,419,250.00		141,419,250.00	-
Machinery - New Jin Cap	-	20,145,617.90	-	20,145,617.90
Others:	-	-	-	-
Bills Receivable - New Shen Switch	-	1,906,000.00	-	1,906,000.00
Bank Deposits -Northeast Electric (HK)	-	28,943,000.00	-	28,943,000.00

VIII. Notes to Major items in Consolidated financial reports *(continued)*

15. Assets with limited ownership *(continued)*

(2) Pledged Assets of the company and its subsidiaries by end of Dec. 31, 2007 are disclosed as below:

Name of co.	Type of assets	Initial Book value	Net book value	Period pledged	Initial bank loan amount
Fu Closed	Lands and Buildings	16,238,922.64	10,990,280.80	1 year	5,000,000.00
New Jin Cap	Machineries	20,145,617.90	16,367,770.43	1 year	22,000,000.00

16. Short term bank loans

Type of loans	2007-12-31	2007-1-1
Bank loans	50,368,876.60	68,300,000.00
Inclu.: Secured	15,368,876.60	62,300,000.00
Pledged and secured	22,000,000.00	-
Pledged	5,000,000.00	6,000,000.00
Impawned	8,000,000.00	-
Total	50,368,876.60	68,300,000.00

Note: Balance at end of period decrease RMB17,931,123.40, due to change in the scope of consolidation.

17. Bills payable

Items	2007-12-31	2007-1-1
Bank accepted bills of exchange	4,406,000.00	9,540,800.00

Note : Decrease of RMB5,134,800.00 occur by end of period, by acceptance of due bills.

VIII. Notes to Major items in Consolidated financial reports *(continued)*

18. Accounts payable

	2007-12-31		2007-1-1	
Age	Amount	Percentage	Amount	Percentage
Within 1 year	109,789,392.92	87.11%	63,653,336.28	79.96%
1-2 years	6,406,090.96	5.08%	6,839,402.34	8.59%
2-3 years	906,663.03	0.72%	8,118,726.98	10.20%
Over 3 years	8,936,251.52	7.09%	996,896.65	1.25%
Total	126,038,398.43	100.00%	79,608,362.25	100.00%

Note 1: Balance increase 58% of RMB46,430,036.18, for increase of account payables.

Note2: There´s no account payables from shareholders that owned 5% or over voting shares of the company.

19. Advances

	2007-12-31		2007-1-1	
Age	Amount	Percentage	Amount	Percentage
Within 1 year	88,724,781.96	96.60%	26,600,559.62	76.85%
1-2 years	1,874,984.14	2.04%	6,776,914.00	19.58%
2-3 years	11,234.00	0.01%	8,600.00	0.02%
Over 3 years	1,237,322.85	1.35%	1,228,722.85	3.55%
Total	91,848,322.95	100.00%	34,614,796.47	100.00%

Note 1: Balance increase 165% of RMB57,233,526.48, by increase of payments in advance.

Note2: There´s no account payables from shareholders that owned 5% or over voting shares of the company.

VIII. Notes to Major items in Consolidated financial reports *(continued)*

20. Salaries and benefits payable to employees

items		2007-1-1	Increase during the period	Payment during the period	2007-12-31
I	Salaries, allowances and subsidies	-	36,546,485.13	36,546,485.13	-
II	Benefits	218,661.34	1,578,393.56	1,734,418.79	62,636.11
III	Social Securities	580,331.22	8,432,091.64	8,277,876.87	734,545.99
	Inclu.: 1.Medicare	200,522.48	1,848,979.91	1,750,529.97	298,972.42
	2.basic endowment insurance	331,791.43	5,668,201.11	5,626,515.05	373,477.49
	3.Industrial injury insurance	9,416.06	287,651.65	283,691.58	13,376.13
	4.birth insurance	2,505.90	59,766.27	54,083.81	8,188.36
	5.unemployment insurance	36,095.35	567,492.70	563,056.46	40,531.59
IV	Housing provident funds	809,371.53	2,218,639.53	2,181,676.53	846,334.53
V	Funds for labor union and education of employees	96,021.06	671,307.32	603,842.22	163,486.16
	Total	1,704,385.15	49,446,917.18	49,344,299.54	1,807,002.79

21. Tax payable

Type of taxes	2007-12-31	2007-1-1
Sales tax	-	140,492.78
Value-added tax	3,945,731.33	6,673,085.74
Tax of maintanence and construction of the city	22,609.98	16,402.36
Income tax -enterprise	123,906.75	330,001.32
Income tax - person	173,883.08	236,567.74
Tax on land use rights	107,580.00	-
Tax on buildings´ ownership	52,154.19	4,069,071.70
Tax on added-valueof lands	84,485.50	-
Education	12,666.21	12,142.96
Others	56,826.52	-30,116.53
Total	4,579,843.56	11,447,648.07

Note: Owing to decrease of unpaid value-added tax for increase of inventories, and decrease of tax on buildings´ ownership by sale of Shenyang Jindu Hotel Co., Ltd., balance decrease 60% of RMB6,867,804.51.

VIII. Notes to Major items in Consolidated financial reports *(continued)*

22. Other payables

	2007-12-31		2007-1-1	
Age	amount	percentage	Amount	percentage
Within 1 year	129,767,865.26	35.50%	45,689,155.09	51.21%
1-2 years	21,025,467.11	43.57%	40,624,132.87	45.53%
2-3 years	1,617,190.96	1.56%	2,902,726.16	3.25%
Total	152,410,523.33	100.00%	89,216,014.12	100.00%

Note 1: Intercompany account has increased during the period, leading to balance of other payables´ increase of RMB63,194,509.21, a rise of 71%.

Note 2: There´ s no payables from shareholders owned 5% or over voting shares of the company.

23. Estimated Liabilities

Items	2007-12-31	2007-1-1
Guarantees for loans	118,611,289.00	54,711,289.00

Note 1: Increase of balance is RMB70,256,578.25, a rise of 128%, the reason are shown in the following notes5, 6 and 7.

Note 2: The company has provided guarantee for the loan agreement between Northeast Electrical Transmission and Transformation Equipment Company Corporation Limited ("NET") (former share-holder of the company) and China Ever Bright Bank Co., Ltd., principal of which loan is RMB 30, 000,000.00, and the company therefore undertake obligation of joint guarantee. In 2001 China Ever Bright Bank Co., Ltd has filed a lawsuit against "NET" to the 1st District Court of Beijing City, and requesting the debtor to repay principal of RMB26,402,000.00 and overdue interests of RMB4,591, 929.00, and for the company to undertake joint obligation to repay. The Court has ruled on Apr. 19, 2002 that the company should undertake joint obligation of repayment of the above-mentioned principal and overdue interest. The company has appealed to the Higher People´ s Court of Beijing City on Aug. 15, 2002. On May 13, 2003, the Higher People´ s Court of Beijing City has made final judgement the 1st sentence should be carried on. The company has estimated liabilities of RMB30,993,929.00. Up to the report approval date, China Ever Bright Bank Co., Ltd. has not yet ask the company for repayment.

Note 3: The company has provided guarantee for the bank loan of RMB 13,000,000.00 between Bank of China Jinzhou Branch and the company´s subsidiary -"Jinrong", and thus undertake obligation of joint guarantee. Bank of China Jinzhou Branch has filed a lawsuit in Feb. 2005 to the District Court of Jinzhou City Liaoning Province, asking for "Jinrong"´s repayment of RMB13,000,000.00 and the relative interests, along with request that the company undertake joint obligation of repayment. The subject District Court has ruled in May 2005 that the company should undertake the joint obligation of repayment of the captioned loan principal and interests. The company has not filed for appeal, and has accordingly estimated liabilities of RMb14,464,500.00. Up to the date of report approval, Bank of China Jinzhou Branch has not yet request the company to repay.

VIII. Notes to Major items in Consolidated financial reports *(continued)*

23. Estimated Liabilities *(continued)*

Note 4: The formerly subsidiary of the company -"Shenyang High-voltage" has disputes over goods payment with its supplier Xi´ an Shuangjia High-voltage Insulators Electric Co., Ltd. (referred to as "Xi´ an Shuangjia"), later in 2004 "Xi´ an Shuangjia" sued "Shenyang High-voltage" to the District Court of Xi´an City Shaanxi Province, asking for "Shenyang High-voltage" to repay RMB14, 280,007.35, and along with request that the company as the former shareholder of "Shenyang High-voltage" to undertake joint obligation of repayment using 8 units of houses bought from the "Shenyang High-voltage". The District Court of Xi´an City Shaan´xi Province has ruled on May 30, 2005, that the company should use the subject houses to undertake joint obligation of repayment for the above-mentioned debts. The Company has filed appeal on Jun. 15, 2005 to the Higher People´ s Court of Shaan´ xi Province. On Oct. 18, 2005, the Higher Court has made its final judgement that the previous sentence should be carried on. The company has estimated liabilities of RMB92,25,860.00 according to the value of the subject houses.

Note 5: The company has provided guarantee for loans of RMB17,000,000.00 between Jinzhou Power Capacitor Co., Ltd. (later referred as Jin Cap) and Jinzhou City Commercial Bank. The bank has launched lawsuit to the Intermediate Court of Jinzhou City against Jin Cap for repayment of principal of RMB17,000,000.00 and relative interests, and asking for the company to assume repayment. The court has sentenced the company to assume joint liability for repaying RMB17, 000,000.00 and relative interests by Ruling no. (2007)Jin Min San Chu Zi Di 00049 in Jun. 2007, which has come into effectiveness for the company has not appealed. The company therefore estimate liability of RMB17,000,000.00. Up till the reporting date, the company has not paid the above mentioned liability.

Note 6: The company has provided guarantee for Jindu Hotel for loans of RMB24,000,000.00 from ICBC Shenyang City Sub-branch, assuming joint liability. As the loan is overdue, the bank has sued Jundu Hotel to the Intermediate Court of Shenyang City for repayment of loan principal of RMB24, 000,000.00 and relative interests, and for the company to assume joint obligation to repay. Ruling No.(2003)Shen Zhong Min(3)Chu Zi Di 94 by the Court has ruled the company to take up joint obligation of repaying RMB24,000,000.00 and relative interests. The Higher Court of Shenyang City Liaoning Province has maintained the above first ruling by its Ruling No.(2003)Liao Min Er He Zhong Zi Di 160. As Jindu Hotel is not included in the scope of consolidation this year, the company has estimated liability of RMB24,000,000.00 according to the Rulings. Up to the reporting date, the company has not paid up the mentioned liability.

Note 7: The company provide guarantee and assume joint liability for loans of RMB22,900,000.00 from ICBC Jinzhou City Sub-branch to Jin Power Cap., which loan agreement amount is RMB42,900, 000.00. ICBC Jinzhou City Sub-branch has sued against Jin Cap in Dec. 2006 to the Intermetiate Court of Jinzhou City, for the borrower to repay loan principal of RMB22,900,000.00 and relative interest, and for the company to assume joint repayment. The Court has sentenced by Ruling No. (2007) Jin Min San Chu Zi 00019 that the company should take up joint obligation to repay within the limit of RMB22,900,000.00. Therefore the company has estimated liability of RMB22,900,000. 00. The company has not paid the above mentioned debt by end of reporting date.

VIII. Notes to Major items in Consolidated financial reports *(continued)*

24. Capital

items	2007-1-1	Changes during the period(+、-)					2007-12-31
		Rights offering	Complimentary shares	Capitalization on reserve	others	Sub-total	
I. shares with limited selling conditions							
1. state shares	4,591,841	-	-	-	-4,591,841	-4,591,841	
2. legal person shares	431,328,159	-	-	-	-207,357,931	-207,357,931	223,970,228
Inclu.:legal person shares-domestic	431,328,159	-	-	-	-207,357,931	-207,357,931	223,970,228
Total:	435,920,000	-	-	-	-211,949,772	-211,949,772	223,970,228
II. shares with unlimited selling conditions							
1. common RMB shares (A share)	179,500,000	-	-	-	211,949,772	211,949,772	391,449,772
2. foreign shares listed abroad(H share)	257,950,000	-	-	-			257,950,000
Total:	437,450,000	-	-	-	211,949,772	211,949,772	649,399,772
III. Total shares	873,370,000	-	-	-	-	-	873,370,000

25. Capital Reserve

items	2007-1-1	Increase during the period	Decrease during the period	2007-12-31
Share premium	115,431,040.00	-	-	115,431,040.00
Others	859,872,996.72	2,762,301.00	-	862,635,297.72
Total	975,304,036.72	2,762,301.00	-	978,066,337.72

26. Reserve

items	2007-1-1	Increase during the period	Decrease during the period	2007-12-31
Legal reserve	80,028,220.48	-	-	80,028,220.48
Co reserve	28,558,903.92	-	-	28,558,903.92
Total	108,587,124.40	-	-	108,587,124.40

VIII. Notes to Major items in Consolidated financial reports *(continued)*

27. Retained profit

items	2007-12-31	2007-1-1
Balance at beginning of period of retained profit of parent company	-1,126,647,669.63	-1,156,176,906.25
Plus: net profit to parent company´ s shareholders	-311,875,926.04	29,529,236.62
Minus:amount of legal reserve	-	-
Dividends payable under common shares	-	-
Profit changed to capital	-	-
Balance at end of period of retained profit of parent company	-1,438,523,595.67	-1,126,647,669.63

28. Income and costs of sales

items	Year of 2007	Year of 2006
Income of sales	639,700,849.31	560,207,377.16
Inclu.:income of sales of major operation	615,497,870.42	537,960,970.52
income of sales of other operations	24,202,978.89	22,246,406.64
Cost of sales	527,157,531.89	424,663,964.28
Inclu.: Costs of sales of major operation	506,955,832.19	400,942,827.29
Costs of sales of other operations	20,201,699.70	23,721,136.99
Gross operating profit	112,543,317.42	135,543,412.88

Details of income and costs of major operation:

	Income of major operation		Cost of major operation		Gross operating profit	
Types	Year of 2007	Year of 2006	Year of 2007	Year of 2006	Year of 2007	Year of 2006
Products of electric industry	596,756,881.53	505,145,129.77	490,509,754.00	375,007,638.97	106,247,127.53	130,137,490.80
Restaurants and hotels	18,740,988.89	32,815,840.75	16,446,078.19	25,935,188.32	2,294,910.70	6,880,652.43
Total	615,497,870.42	537,960,970.52	506,955,832.19	400,942,827.29	108,542,038.23	137,018,143.23

Top 5 customers totaling:	Percentage of overall income of sales(%)
208,762,934.02	34%

VIII. Notes to Major items in Consolidated financial reports *(continued)*

29. Sales tax and surtax

Types	2007	2006
Sales tax	964,945.01	2,600,404.38
Tax on City maintainence and construction	57,497.92	147,036.41
Education surtax	26,611.82	84,020.82
Total	1,049,054.75	2,831,461.61

Note: Balance drop 63% of RMB1,782,406.86 than last year owing to the sale of Jindu Hotel.

30. Operating expenses

Types	2007	2006
Operating expenses	52,396,408.30	39,762,437.93

Note : Increase in balance of RMB12,633,970.37(up 32%) is due to increase of sales.

31. Administrative expenses

types	2007	2006
Administrative expenses	75,940,548.83	77,162,894.83

32. Financial expenses

Types	2007	2006
Interest expenses	3,964,931.86	3,464,633.41
Minus: income of interest	1,214,438.00	379,361.70
Gain/loss of exchange	1,781,139.64	7,178,475.85
Commission of financial institutes	1,083,319.01	238,646.52
Total	5,614,952.51	10,502,394.08

Note : Exchange loss decrease in the period, so that balance financial expenses decrease 47% of RMB4,887,441.57.

VIII. Notes to Major items in Consolidated financial reports *(continued)*

33. Loss from diminution of assets

Types	2007	2006
I. Bad debt loss	99,852,454.00	2,689,011.46
II. Inventory decline loss	970,015.30	-47,964.69
III. Loss on long-term equity diminution	2,537,020.68	
VI. Diminution of fixed assetsloss	40,000,000.00	-
Total	143,359,489.98	2,641,046.77

Note: Mainly owing to bad debt provision for other receivables of Ben Steel of RMB76,090,000.00,and bad debt provision of RMB40,000,000.00 for fixed asset of Jindu Hotel(details see Note VIII.6.3), balance of loss increase RMB140,718,443.21, up 5328% from last period.

34. Return on investments

items	2007	2006
Co. Profit allocated using Method of Cost		1,277,672.55
Net Increase/Decrease of shareholders equity of co. using Method of Equity	28,177,921.34	21,088,106.05
Return on disposing equity investment	1,311,893.69	15,337,844.67
Income of sales of stocks	54,443,111.36	-
Total	83,932,926.39	37,703,623.27

Note: Selling of stocks of Jin Hua Chlorine Alkali has contributed to the increase of return on investments in this period, of RMB46,229,303.12, a rise of 123%.

35. Non-operating revenue

Items	2007	2006
Income of disposal of fixed assets	703,150.25	628,859.40
Income of fines	23,680.60	58,150.00
Others	714,641.76	796,522.74
Total	1,441,472.61	1,483,532.14

VIII. Notes to Major items in Consolidated financial reports *(continued)*

36. Non-operating expenses

Items	2007	2006
Net loss of disposal of fixed assets	320,721.53	519,325.41
Expenses of fines	300,421.87	258,222.44
Donations	10,000.00	12,900.00
Estimated compensation under lawsuit	70,256,578.25	-
Compensation	170,460,000.00	-
Others	-	159,461.76
Total	241,347,721.65	949,909.61

Note: Non-operating expenses increase RMB 240,397,812.04, up 25307% from last year, with estimated compensation of lawsuit of RMB70,256,578.25, details see Note VIII.23, And Compensation of RMB170,460,000.00, details see Note XIV.

37. Income tax

Items	2007	2006
Total profit	-308,931,205.41	41,629,812.34
Income tax payable	1,143,108.75	2,669,588.07
Effect imposed by deferred income tax	-4,027,505.42	-1,261,344.08
Income tax expenses	-2,884,396.67	1,408,243.99

Note 1: Income tax expenses decrease RMB4,292,640.66, because increase of provisions for assets diminution during the period.

Note 2: Unrecognized deferred income tax is RMB56,197,820.01, because loss of the parent company is estimated uncoverable.

38. Cash received from operation-related activities

contents	2007	2006
Intercompany accounts	356,092,157.17	133,540,848.81

Note: As a result of increase of intercompany accounts, cash received in this period has increased 167% from last year of RMB 222,551,308.36.

VIII. Notes to Major items in Consolidated financial reports *(continued)*

39. Cash paid to other operation-related activities

Contents	2007	2006
Intercompany accounts	248,234,888.52	181,947,855.52
Compensation under lawsuit	170,460,000.00	-
Transportation	6,797,535.48	6,013,414.67
Tender bond	5,463,671.50	5,690,214.00
Entertainment	12,794,900.15	4,427,108.14
Fuel	1,828,985.15	2,345,850.76
Electricity	719,500.53	2,933,347.29
Travelling	6,871,991.50	2,531,530.29
Warming	1,246,719.58	1,890,135.46
Sales	814,000.00	1,813,278.65
Fixing of equipments	1,339,265.81	1,429,316.93
Office expenses	6,596,711.19	1,334,850.44
Intermediary agents fees like auditing charges	1,581,921.59	1,283,742.41
Insurance	2,052,352.90	964,387.07
Consultance	4,324,300.00	805,643.02
Biddings	3,897,612.63	807,522.00
Meetings	424,983.12	806,716.87
Expenses of Board of Directors	2,254,490.74	630,463.26
After-sale services	638,701.98	223,609.38
Renting	2,847,669.70	181,364.98
Others	3,972,816.77	1,977,126.93
Total	485,163,018.84	220,037,478.07

Note: As Note XIV indicates, lawsuit compensation has increased in the period, letting expenses paid to other operation-related activities increase 120% of RMB 265,125,540.77.

IX. Notes to major items in parent company's financial reports

1. Account Receivables

(1) Risk Analysis of account receivables:

Age	2007-12-31			
	Amount	proportion	Provisions for bad debts	Net amount
Single large amount account receivables	38,597,833.00	92.18%	-	38,597,833.00
Account receivables with higher risks after risk reorganization though with small amount	-	-	-	-
Other insignificant amount account receivables	2,434,007.60	7.82%	207,996.00	2,226,011.60
Total	41,031,840.60	100.00%	207,996.00	40,823,844.60

Age	2007-1-1			
	Amount	proportion	Provisions for bad debts	Net amount
Single large amount account receivables	14,985,974.00	85.84%	-	14,985,974.00
account receivables with higher risks after risk reorganization though with small amount	-	-	-	-
Other insignificant amount other receivables	2,471,381.60	14.16%	28,304.00	2,443,077.60
Total	17,457,355.60	100.00%	28,304.00	17,429,051.60

Note 1: Balance at end of period increase 134% of RMB23,394,793.00, mainly because sales of goods receivables increase in the period.

Note 2: The company has set the criteria for single large amount account receivable as RMB1 million,according to the scale of operation, character of the operation and state of customers´ settlement.

Note3: Foundation of judgment of any single accocunt receivables with higher risks after risk reorganization though with insignificant amount, is there´re unrecoverable signs showing, or age exceed 4 years.

IX. Notes to major items in parent company’ s financial reports *(continued)*

1. Account Receivables *(continued)*

(2) Age analysis of Account Receivable:

Age	2007-12-31			
	Amount	percentage	Bad debt provision	Net amount
Within 1 year	33,626,333.00	81.95%	-	33,626,333.00
1-2 years	5,898,447.60	14.38%	-	5,898,447.60
3-4 years	1,507,060.00	3.67%	207,996.00	1,299,064.00
Total	41,031,840.60	100.00%	207,996.00	40,823,844.00

Age	2007-1-1			
	Amount	percentage	Bad debt provision	Net amount
Within 1 year	15,927,195.60	91.23%	-	15,927,195.60
2-3 years	1,530,160.00	8.77%	28,304.00	1,501,856.00
Total	17,457,355.60	100.00%	28,304.00	17,429,051.60

(3) There´ s no special bad debt provision for account receivables by end of 2007.

(4) Top 5 customers of account receivables by end of 2007 are as follows:

Name of company	Amount	Year of transaction	contents
Shanxi Province Power Company	19,728,970.00	2007	Sales of goods
Extra-high voltage electricity transmitting sub branch of Hebei Power Company	5,900,000.00	2007	Sales of goods
Shanghai Far-east Complete Plant Co., Ltd.	3,356,500.00	2006	Sales of goods
Beijing Extra High-voltage Co., of North Power Grid Co., Ltd.	2,891,933.00	2007	Sales of goods
North China Power Grid Co. Ltd.	2,203,600.00	2006	Sales of goods
Total	34,081,003.00		

Note: Top 5 customers take up 83% of overall account receivables balance.

IX. Notes to major items in parent company’s financial reports *(continued)*

2. Other receivables

(1) Risk Analysis of other receivables:

Age	2007-12-31			
	Amount	percentage	Bad debt provision	Net amount
Single large amount other receivables	729,496,853.11	99.36%	76,090,000.00	653,406,853.11
Other receivables with higher risks after risk reorganization though with small amount	195,969.53	0.03%	195,969.53	-
Other insignificant amount other receivables	4,482,397.93	0.61%	488,218.63	3,994,179.30
Total	734,175,220.57	100.00%	76,774,188.16	657,401,032.41

Age	2007-1-1			
	Amount	percentage	Bad debt provision	Net amount
Single large amount other receivables	533,384,482.47	99.21%	1,665,328.52	531,719,153.95
Other receivables with higher risks after risk reorganization though with small amount	195,969.53	0.04%	195,969.53	-
Other insignificant amount other receivables	4,044,149.05	0.75%	263,529.23	3,780,619.82
Total	537,624,601.05	100.00%	2,124,827.28	535,499,773.77

Note 1: The company has set the criteria for single large amount other receivable as RMB1 million, according to the scale of operation, character of the operation and state of customers´ settlement.

Note 2: Foundation of judgment of any single other receivables with higher risks after risk reorganization though with insignificant amount, is there´re unrecoverable signs showing, or age exceed 4 years.

IX. Notes to major items in parent company's financial reports *(continued)*

2. Other receivables *(continued)*

(2) Age analysis of other receivables:

Age	2007-12-31			
	Amount	percentage	Bad debt provision	Net amount
Within 1 year	624,325,013.50	85.04%	-	624,325,013.50
1-2 years	32,722,796.91	4.46%	11,920.00	32,710,876.91
2-3 years	646,228.88	0.09%	281,086.88	365,142.00
3-4 years	195,211.75	0.02%	195,211.75	-
Over 4 years	76,285,969.53	10.39%	76,285,969.53	-
Total	734,175,220.57	100.00%	76,774,188.16	657,401,032.41

Age	2007-1-1			
	Amount	percentage	Bad debt provision	Net amount
Within 1 year	440,031,645.33	81.85%	-	440,031,645.33
1-2 years	11,726,778.87	2.18%	256,310.63	11,470,468.24
2-3 years	-	-	-	-
3-4 years	76,102,031.00	0.01%	7,218.60	76,094,812.40
Over 4 years	9,764,145.85	15.96%	1,861,298.05	7,902,847.80
Total	537,624,601.05	100.00%	2,124,827.28	535,499,773.77

(3) Details of special bad debt provision for other receivables by end of 2007

debtors	amount	Ratio of provision	Accumulated bad debt provision amount	age	Reason of provision
Benxi Steel (Group) Co.Ltd.	76,090,000.00	100%	76,090,000.00	Over 4 years	See VIII.6.1 note 3
Others	195,969.53	100%	195,969.53	Over 4 years	Long age

IX. Notes to major items in parent company's financial reports *(continued)*

2. Other receivables *(continued)*

(4) Top 5 customers of other receivables by Dec. 31, 2007 are:

Name of company	Amount	Year of transaction	contents
Fuxin Closed Mother Cable Company Limited	278,570,421.94	2007	Intercompany account
Northeast Electric (HK) Co. Ltd.	183,758,222.53	2007	Intercompany account
New Northeast Electric (Jinzhou) Electric Capacitor Co., Ltd.	79,232,023.83	2007	See VIII.6.1 note 3
Benxi Steel (Group) Co.,Ltd	76,090,000.00	2003	Intercompany account
Shenyang Kaiyi Electric Co., Ltd	74,862,888.90	2007	Intercompany account
Total	692,513,557.20		

Note: Top 5 customers take up 94% of total other receivablesbalance by end of period.

3. Long term equity investment

(1) Long term equity investment are disclosed as follows:

items	2007-1-1	Increase during the period	Decrease during the period	2007-12-31
By Method of Costs	452,322,794.58	149,341,440.00	431,489,795.27	170,174,439.31
Minus:diminution provision	-	2,537,020.68	-	2,537,020.68
Net worth of long term equity investment	452,322,794.58	146,804,419.32	431,489,795.27	167,637,418.63

IX. Notes to major items in parent company’s financial reports *(continued)*

3. Long term equity investment *(continued)*

(2) Details of long term equity investment:

Company invested	Percentage of investment	Initial investment amount	2007-1-1	Adjustment in the period	Increase/ Decrease during the period	2007-12-31
Shenyang Jindu Hotel Co., Ltd.		332,358,700.00	332,358,700.00	-	-332,358,700.00	-
New Northeast Electric (Shenyang) High Voltage Insulate Switch Co., Ltd.		94,531,095.27	94,531,095.27	-	-94,531,095.27	-
Northeast Electric (HK) Co., Ltd.	100%	156,699,451.63	7,458,011.63	-	149,241,440.00	156,699,451.63
Jinzhou Jinrong Electric Appliance Co., Ltd.		4,600,000.00	4,600,000.00	-	-4,600,000.00	-
Shenyang Gaodongjia Desiccation Co., Ltd.	70%	837,967.00-	837,967.00	-		837,967.00
Shenyang Kaiyi Electric Co., Ltd.	10%	100,000.00		-	100,000.00	100,000.00
Jinzhou City Commercial Bank,Ltd. (note 2)	3.55%	11,787,000.00	12,537,020.68	-	-2,537,020.68	10,000,000.00
Total			452,322,794.58	-	-284,685,375.95	167,637,418.63

Note 1: Decrease in the period mainly is due to swapping out shares of Shenyang Jindu Hotel Co., Ltd..

Note 2: Details see Note VIII.8.

4. Income and costs of sales

(1) Income and costs of sales are as follows:

items	2007	2006
Income of sales	177,767,444.32	127,200,668.75
Inclu.:income of sales from major operations	177,767,444.32	127,200,668.75
Costs of sales	163,580,141.04	118,535,916.54
Inclu.: costs of sales from major operations	163,580,141.04	118,535,916.54
Gross operating profit	14,187,303.28	8,664,752.21

IX. Notes to major items in parent company's financial reports *(continued)*

4. Income and costs of sales*(continued)*

(2) Details of income and costs of major operations

types	income of major operations		costs of major operations		Gross profit from major operations	
	2007	2006	2007	2006	2007	2006
High voltage insulate switch	177,767,444.32	127,200,668.75	163,580,141.04	118,535,916.54	14,187,303.28	8,664,752.21

Note: Top 5 customers of income of sales form 91.32% of overall sales, totaling RMB 162,334,869.15.

5. Return on investments

Items	2007	2006
Profit allocated by the Method of Costs		750,021.00
Return on equity sales	-117,793,555.51	20,678,214.12
Return on shares sales	54,443,111.36	-
Total	-63,350,444.15	21,428,235.12

Note: The item of ´Return on equity sales´ mainly indicate the loss on Shenyang Jindu Hotel Co., Ltd. selling its shares to subsidiary of The Company - Gao Cai Technology Co., Ltd after computation by the Method of Costs; and the item of ´Return on shares sales´ reflect selling of shares of Jin Hua Chlorine Alkali.

X. Purchase / Sales of Subsidiary company

Details see Note VI.4.1.

XI. Relationship and transaction between related parties

(I) Introduction of related parties

(1) shareholders of the company with controlling relationship

Name of company	Location of registration	Registered capital	Percentage of the company's shares	Voting percentage	Major operation	Relationhip with the company	Type of enterprise	Legal representative	Code of Incorporation
New Northeast Electric Investment Co., Ltd.	Shenyang	RMB135 M	24.27%	24.27%	investment	Parent co.	Limited Co	Tian Li	73465110

(2) Changes in shares of the controlling shareholders

Name of company	2007-1-1	percentage	Change in the period	2007-12-31	percentage
New Northeast Electric Investment Co., Ltd.	209,513,138.00	23.99%	2,478,272.00	211,991,410.00	24.27%

(3) Non-controlling related parties

Name of company	Relationship with the company
New Northeast Electric (Shenyang) High Voltage Switch Co., Ltd.	associate
Wei Da High Voltage Electric Co., Ltd.	associate
Shenyang Chengda High Voltage Electric Equipment Co.,Ltd.	associate
Shenyang Beifu Machinery Manufacturing Co., Ltd.	associate
Shenyang Xin Tai Warehouse Logistics Co., Ltd.	associate

XI. Relationship and transaction between related parties *(continued)*

(II) Events of related party transactions *(continued)*

1. Expenses of purchase of goods and other

Expenses of purchase of goods and agents fees of the company in this period and the last are disclosed as follows:

	2007		2006	
Name of related parties	amount	Percentage in overall purchase of goods	Amount	Percentage in overall purchase of goods
New Northeast Electric (Shenyang) High Voltage Switch Co., Ltd.	149,573,007.97	13.01%	112,576,244.86	27.92%

Price of above transaction are set by markets.

2. Sales of goods

Sales of goods to related parties in this period and the last are:

	2007		2006	
Name of related partie	amount	Percentage in overall sales	Amount	Percentage in overall sales
New Northeast Electric (Shenyang) High Voltage Switch Co., Ltd.	118,760,834.87	1.27%	70,173,384.62	12.99%

Transactions price are stipulated in the relative contracts/agreements, and actual price don´t exceed 120% of book value of relative goods in the above mentioned related party transactions.

XI. Relationship and transaction between related parties *(continued)*

(II) Events of related party transactions *(continued)*

3. Major related transactions occur in the above related parties in the period

	2007	2006
Renting income of buildings:		
New Northeast Electric (Shenyang) High Voltage Switch Co., Ltd.	2,464,064.26	2,488,153.16
Service income of warehouse, transportation:		
New Northeast Electric (Shenyang) High Voltage Switch Co., Ltd.	513,549.72	22,027,373.30
Service income of wind, water, electricity and gas:		
New Northeast Electric (Shenyang) High Voltage Switch Co., Ltd.	4,062,049.87	19,999,173.39
Income of installation and processing:		
New Northeast Electric (Shenyang) High Voltage Switch Co., Ltd.	101,384.14	2,312,074.63
Expenses of electroplate:		
New Northeast Electric (Shenyang) High Voltage Switch Co., Ltd.	1,198,945.8	1,248,560.05
Expenses of transportation		
Shenyang Xin Tai Warehouse Logistics Co.,Ltd.	4,375,464.24	-
Purchase of equipments:		
Shenyang Beifu Machinery Manufacturing Co., Ltd.	182,706.45	-
New Northeast Electric (Shenyang) High Voltage Switch Co., Ltd.	180,000.00	-
Expenses of sales agents:		
New Northeast Electric (Shenyang) High Voltage Switch Co., Ltd.	5,400,000.00	2,496,991.80

The company provide service at price fixed at relative contracts/agreements, and no major difference exist with price with other non-related parties.

4. Events of Guarantee

Up to Dec. 31, 2007, events of guarantee provided by the company for loans of related parties are as follows:

Name of related party	Amount	tenure	Way of guarantee
New Northeast Electric (Shenyang) High Voltage Switch Co., Ltd.	300,000,000.00	1 year	guarantee

XI. Relationship and transaction between related parties *(continued)*

(III) Balance of Acount Receivables, Account Payable by related parties

Name of related party	2007-12-31		2007-1-1	
	Amount	percentage	Amount	percentage
Bills Receivable:				
New Northeast Electric (Shenyang) High Voltage Switch Co., Ltd.	1,906,000.00	47%	2,180,800.00	100%
Dividends receivable:				
New Northeast Electric (Shenyang). High Voltage Switch Co., Ltd	2,170,000.00	53%	-	-
Wei Da High Voltage Electric Co.,, Ltd.	1,947,670.40	47%	2,087,881.75	100%
Account receivable:				
New Northeast Electric (Shenyang) High Voltage Switch Co., Ltd.	-	-	82,440,187.93	34%
Prepayment:				
New Northeast Electric (Shenyang) High Voltage Switch Co., Ltd.			2,085,512.76	6%
Other receivable:				
New Northeast Electric (Shenyang) High Voltage Switch Co., Ltd.	13,000,000.00	8%		
Shenyang Xin Tai Warehou Logistics Co., Ltd.	181,950.00	-	-	-
Shenyang Beifu Machinery Manufacturing Co., Ltd.	30,791,444.91	21%	-	-
Shenyang Chengda High Voltage Electric Equipment Co., Ltd.	8,197,957.81	6%	-	-
Account payable:				
New Northeast Electric (Shenyang) High Voltage Switch Co., Ltd.	7,569,882.96	6%	633,228.00	0.8%
Shenyang Beifu Machinery Manufacturing Co., Ltd.	182,706.45		-	-
Advances:				
New Northeast Electric (Shenyang) High Voltage Switch Co., Ltd.	55,000,000.00	60%	-	-
Other payable:				
New Northeast Electric (Shenyang) High Voltage Switch Co., Ltd.	72,496,205.67	5%	3,404,590.00	4%
Shenyang Xin Tai Warehou Logistics Co., Ltd.	1,515,034.03	1%	-	-

XII. Events of Undertakings

There´ s no events of undertakings to be disclosed in the period.

XIII. Events of contingency

Up to Dec. 31, 2007, The company has provided guarantee for New Northeast Electric (Shenyang) High voltage Switches Co., Ltd.´s bank loan of RMB300 million and for Shenyang Jindu Hotel Co., Ltd.´ s bank loan of RMB4.95 million.

Details see Note VIII.23.

XIV. Other major events

Shenyang High Voltage Switch Co., Ltd.´ s lawsuit with China Development Bank has caused the company significant loss.

Shenyang High-voltage Switchgears Company Limited (hereinafter referred as "Shenyang High-voltage") has borrowed from China Development Bank (hereinafter referred as De-Bank) in 1998, countersigning the relative Loan Agreement.﹐and under which loan guarantee was signed by the legal person guarantors. Later "Shenyang High-voltage" started up New Northeast Electric (Shenyang) High-Voltage Switchgears Limited (hereinafter referred as "New Shenyang High-voltage") 、New Northeast Electric (Shenyang) Insulate Switches Co., Ltd. (hereinafter referred as Insulate Switches)、Shenyang Suntime Storage and Logistics Company Limited (hereinafter referred as "Suntime Storage") and Shenyang Chengtai Energy Power Company Limited (hereinafter referred as "Chengtai Energy")- all share-holding co. with other parties, contributing its own assets and rights to the use of land for shares in those companies. The Company has obtained shares of "Insulate Switches"、"Suntime Storage" and "Chengtai Energy" from "Shenyang High-voltage" in 2004. De-Bank has filed a lawsuit against "Shenyang High-voltage" to Beijing Higher People's Court (hereinafter referred as "Beijing High Court") in May 31, 2004, demanding the plaintiff to repay overdue loan principal of RMB150 million and the interest entailed, and at the same time for the Company、"New Shenyang High-voltage"、"Insulate Switches"、"Suntime Storage" and "Chengtai Energy " (hereinafter referred collectively as "the co. and associates") to undertake joint liability to the aforesaid debts; asking the Court to declare the shares-transferring contracts concerning "Insulate Switches"、"Suntime Storage" and "Chengtai Energy" between the Company and "Shenyang High-voltage" void and null. "Beijing High Court" overruled De-Bank´ s requests in Mar. 18, 2005 (civil judgement no.(2004)HCP802). De-Bank then appealed to the People´ s Supreme Court of China (hereinafter referred as "Supreme Court") on Mar. 22, 2005. The Supreme Court has ruled that "Beijing High Court" should unify hearing of the cases of De-Bank vs. "Shenyang High-voltage" & Shenyang Transformers Co. Ltd. (hereinafter referred as "Shenyang Transfomers") & Northeast Construction & Installation Corporation ("Northeast Construction"), and of De-Bank vs. "Shenyang High-voltage" & "Insulate Switches" & "Suntime Storage" & "Chengtai Energy" & the Company.

XIV. Other major events *(continued)*

Higher Court of Beijing City has ruled on Oct. 19, 2007 under Ruling No.(2004)Gao Min Chu ZiDi 802, with contents concerning the company as: Equity Swap contract of the company swapping RMB76,660,000.00 credit right and interest to 95% of shares of Shenyang Beifu Machinery Manufacturing Co., Ltd, 95% of shares of Shenyang Dongli Logistics Co., Ltd. held by Shenyang High-voltage, is dismissed. The company should return the above-mentioned equity shares to Shenyang High-voltage within 10 days since effectiveness of the Ruling. If not, the company should recompsenate Shenyang High-voltage´ s loss limited to the amount of RMB247,116,500.00; Shenyang High-voltage should repay RMB76,660,000.00 and relative interests to the company within 10 days since effectivenetss of the Ruling, or else Shenyang High-voltage should recompensate the company with amount limited to RMB76,660,000.00; According the above-mentioned Ruling, net compensation by the company to Shenyang High-voltage is RMB170,456,500.00(i.e. RMB247,116,500.00-76,660,000.00)，which the company has already paid up. Loss due to this lawsuit of RMB170,456,500.00 in 2007 has been taken as expenses of non-operating businesses.

XV. Post - Balance Sheet date events

There´ s no post-balance sheet date event to be disclosed in the period.

XVI. Supplimentary information

1. Supplimentary information to the Cash Flow

Supplementary information to the consolidated Cash Flow:

items	2007	2006
1. Net profit adjusted as in/out flows of cash in operating activities:		
Net profit	-318,906,062.93	39,472,179.47
Plus:Provisions for assets diminution	143,359,489.98	2,641,046.77
Depreciation of fixed assets, depreciation of oil and gas assets, depreciation of production bio-assets	12,314,116.92	27,877,900.39
Amortization of intangible assets	606,508.49	238,156.80
Amortization of long term expenses payable	2,581,160.00	2,555,360.00
Loss on disposal of fixed assets, intangible assets and other long term assets (gain is shown as "-")	-419,480.88	519,325.41
Loss on discarding fixed assets(gain is shown as "-")	37,052.16	549,885.64
Fair value variance loss (gain is shown as "-")	-	-
Financial expenses(gain is shown as "-")	3,964,931.86	10,502,394.08
Loss on investments(gain is shown as "-")	-83,932,926.39	-38,453,012.15
Decrease of deferred income tax assets(increase is shown as "-")	-4,027,505.42	-1,773,299.28
Increase of deferred income tax liabilities(decrease is shown as "-")	-	-
Decrease of inventories(increase is shown as "-")	-25,231,742.72	16,992,879.09
Decrease of operational account receivables(increase is shown as "-")	-82,951,972.21	-69,121,804.79
Increase of operational account payables(decrease is shown as "-")	326,910,704.00	-5,198,012.31
Others		
Net in/out flows generated from operational activities	-25,695,727.14	-13,197,000.88
2. Major investment and financing activities not affecting cash:		
Debts changed as capital	-	-
Tradeable company bonds due within 1 year	-	-
Lease financing fixed assets	-	-
3. Changes of cash and equivalents:	-	
Cash at end of period	65,577,809.55	41,123,600.99
Minus: cash at beginning of period	41,123,600.99	112,448,651.46
Plus: cash equivalents at end of period	-	-
Minus: cash equivalents at beginning of period	-	-
Net increase of cash and equivalents	24,454,208.56	-71,325,050.47

XVI. Supplimentary information *(continued)*

1. Supplimentary information to the Cash Flow *(continued)*

Supplimentary information to the Cash Flow of parent company:

items	2007	2006
1. Net profit adjusted as in/out flows of cash in operating activities:		
Net profit	-390,006,068.17	10,296,375.16
Plus:Provisions for assets diminution	77,366,073.52	-101,773.21
Depreciation of fixed assets, depreciation of oil and gas assets, depreciation of production bio-assets	524,465.94	819,568.00
Amortization of intangible assets	-	
Amortization of long term expenses payable	-	-
Loss on disposal of fixed assets, intangible assets and other long term assets (gain is shown as "-")	-640,842.48	-
Loss on discarding fixed assets(gain is shown as "-")	5,912.26	-
Fair value variance loss (gain is shown as "-")	-	-
Financial expenses(gain is shown as "-")		-53,460.97
Loss on investments(gain is shown as "-")	63,350,444.15	-21,428,235.12
Decrease of deferred income tax assets(increase is shown as "-")	-	-
Increase of deferred income tax liabilities(decrease is shown as "-")	-	-
Decrease of inventories(increase is shown as "-")	-2,857,873.72	11,160,225.86
Decrease of operational account receivables(increase is shown as "-")	88,800,648.30	-213,913,797.68
Increase of operational account payables(decrease is shown as "-")	235,307,878.97	-587,926.04
Others		-
Net in/out flows generated from operational activities	71,850,638.77	-213,809,024.00
2. Major investment and financing activities not affecting cash:		
Debts changed as capital	-	-
Tradeable company bonds due within 1 year	-	-
Lease financing fixed assets	-	-
3. Changes of cash and equivalents:		
Cash at end of period	4,035,757.56	14,066,308.79
Minus: cash at beginning of period	14,066,308.79	13,344,545.39
Plus: cash equivalents at end of period	-	-
Minus: cash equivalents at beginning of period	-	-
Net increase of cash and equivalents	-10,030,551.23	721,763.40

XVI. Supplimentary information *(continued)*

2. Details of non-current profit and loss items

items	2007	2006
1.gain/loss of disposal of non-current assets	56,137,433.77	15,447,378.66
2.return , deduction or exemption of tax with approval exceeding authority or without official approval	-	-
3.Government subsidy taken into profit and loss of the period	-	-
4.Pre-empting funds expenses taken into profit and loss	-	-
5.Gain/loss due to consolidated costs are less than those of fair value of recognizable net asset of the company consolidated	-	-
6.gain/loss of non-monetary assets trades	-	-
7.gain/loss of investments in trust	-	-
8.asset diminution provision due to force majeure, such as natural disasters	-	-
9.gain/loss of debts reorganization	-	-
10.expenses of corporate reorganization	-	-
11.gain/loss of transactions exceeding fair value	-	-
12.Net gain/loss of subsidiaries under the same controlling party from beginning of period till end	-	-
13.Estimated gain/loss unrelated with major operations of the company	-70,256,578.25	
14.Net amount of gain/loss of non-operation besides the above mentioned items	-169,649,670.79	533,622.53
15.others	-40,000,000.00	-
Total	-223,768,815.27	15,981,001.19
Minus :income tax of non-recurrent gain/loss		
minus: proportion due minority shareholders		
Net profit under effect of gain/loss of non-recurrent	-223,768,815.27	15,981,001.19
Reporting net profit	-318,906,062.93	39,472,179.47
Minus: gain/loss of minority interests	-7,030,136.89	9,942,942.85
Net profit belong to parent company´ s shareholders	-311,875,926.04	29,529,236.62
Non-recurrent gain/loss to net profit belong to parent company´ s shareholders	71.75%	54.12%
Net profit belong to parent company´ s shareholders after deduction of non-recurrent gain/loss	-88,107,110.77	13,548,235.43

XVI. Supplimentary information *(continued)*

3. Net rate of ROA and revenue per share

period	Financial index	Net rate of ROA		Earnings per share(RMB/share)	
		Complete dilution	Weighted average	Revenue per share	Diluted revenue per share
Year of 2007	Net profit belong to common shareholders of the company	-60.77%	-46.41%	-0.36	-0.36
	Net profit belong to common shareholders of the company after deduction of non-recurrent gain/loss	-17.17%	-13.11%	-0.10	-0.10
Year of 2006	Net profit belong to common shareholders of the company	3.55%	3.63%	0.03	0.03
	Net profit belong to common shareholders of the company after deduction of non-recurrent gain/loss	1.63%	1.66%	0.02	0.02

XVI. Supplimentary information *(continued)*

4. Adjusted items of profit and loss

(Year of 2006)

items	Before adjustment	After adjustment
I. Total income of sales	560,207,377.16	560,207,377.16
Inclu.: income of sales	560,207,377.16	560,207,377.16
II. Total cost of sales	557,564,199.50	557,564,199.50
Inclu.: costs of sales	424,663,964.28	424,663,964.28
Sales tax and surcharges	2,831,461.61	2,831,461.61
Expenses of sales	39,762,437.93	39,762,437.93
Administrative expenses	79,803,941.60	77,162,894.83
Financial expenses	10,502,394.08	10,502,394.08
Loss of asset diminution		2,641,046.77
Return on investments(loss is shown as "-")	38,657,076.14	37,703,623.27
Gain/loss of exchange(loss is shown as "-")		-
III. Operating profit(total loss is shown as "-")	41,300,253.80	40,346,800.93
Plus: income of non-operating businesses	1,483,532.14	1,483,532.14
Minus: costs of non-operating businesses	949,909.61	949,909.61
IV. Total Profit(total loss is shown as "-")	41,833,876.33	40,880,423.46
Minus: income tax expenses	2,669,588.07	1,408,243.99
Minority interests	9,942,942.85	9,942,942.85
V. Net profit	29,221,345.19	29,529,236.62

Note: There´s a difference of RMB307,891.43 in net profit after adjustment, because difference in credit balance of equity investment amortized under the old Accounting Standards are not to be amortized under the new Standards, thus decreasing net profit; also by the new Standards provisions should be set aside for deferred income tax asset, thus increasing net profit.

XVI. Supplimentary information *(continued)*

5. Profit and Loss under full implementation of new Accounting Rules

Items	2007	2006
I. Overall income of sales	639,700,849.31	560,207,377.16
Inclu.:income of sales	639,700,849.31	560,207,377.16
II. Overall costs of sales	805,517,986.26	557,564,199.50
Inclu.: cost of sales	527,157,531.89	424,663,964.28
Tax of sales and surcharges	1,049,054.75	2,831,461.61
Expenses of sales	52,396,408.30	39,762,437.93
Administrative expenses	75,940,548.83	77,162,894.83
Financial expenses	5,614,952.51	10,502,394.08
Loss of asset diminution	143,359,489.98	2,641,046.77
Return on investment	83,932,926.39	37,703,623.27
Gain/loss of exchange		
III. Operating profit	-81,884,210.56	40,346,800.93
Plus:income of non-operating businesses	1,441,472.61	1,483,532.14
Minus:expenses of non-operating businesses	241,347,721.65	949,909.61
Inclu.:loss of disposal of non-current assets	320,721.53	519,325.41
IV. Total Profit	-321,790,459.60	40,880,423.46
Minus: Income tax expenses	-2,884,396.67	1,408,243.99
V. Net Profit	-318,906,062.93	39,472,179.47

XVI. Supplimentary information *(continued)*

6. Items before and after implementation of new Accounting Standards

(1) Adjustment chart of shareholders equity interest changes after retroactive adjustment events:

items	Disclosure in 2007 annual report	Disclosure in 2006 annual report	difference	reason
Consolidated shareholder equity interest computated by the old Accounting Rules and Systems	829,159,133.77	829,159,133.77	-	-
I.effect on parent company´ s shareholders equity interests after retroactive adjustment events	-	-	-	-
Difference in long term equity investment	-	-	-	-
Inclu.:Difference of long term equity investment by consolidation under the same controlling party	474,995.07	474,995.07	-	-
Income tax	1,261,344.08	1,261,344.08	-	-
Minority interests	114,403,754.65	114,403,754.65		
Sub-total of retroactive events	116,140,093.80	116,140,093.80	-	-
Consolidated shareholders equity interests after retroactive events by guidelines of new Accounting Standards	945,299,227.57	945,299,227.57	-	-

Note 1. Difference in Long term equity investment

According to the old Accounting Standards, the company has reported difference in long-term investment by RMB-474,995.07 by end of 2006, including RMB-1,224,383.95 to Jinzhou Jinrong Electric Appliance Co., Ltd., and RMB749,388.88 to Fuxin Closed Mother Cable Co., Ltd. While according the new Accounting Standards, those are difference in long-term investment under the same controlling company, then retained profit was adjusted to increase by RMB474,995.07 on January 1, 2007.

Note 2. Income tax

The company has set up accounting policies by the regulations of the then ruling accounting standards, and accordingly set aside bad debt provisions for account receivables. According to the new Accounting Standards, difference between the book value of assets and tax base of assets if such assets are less than the latter in book value, should be taken as deferred income tax asset, thus increasing retained profit by RMB1,261,344.08 on Jan. 1, 2007.

Note 3. Minority Interests

At end of 2006, the company reported Minority Interests of RMB114,403,754.65 in the Consolidated Reports by the then ruling Accounting Standards. By the guidelines of the new Accounting Standards, such Minority Interests should be taken into shareholders´ equity interests, thus increasing the balance of such item on Jan 1, 2007 by RMB114,403,754.65.

XVI. Supplimentary information *(continued)*

6. Items before and after implementation of new Accounting Standards *(continued)*

(2) Adjustment chart of net profit difference after the New Accounting Standards

Items	Amount
Net Profit of 2006(old Accounting Standards)	29,221,345.41
Total amount of retroactive adjustments	307,891.21
Return on investments	-953,452.87
	1,261,344.08
Net profit of 2006 after retroactive adjustments (new Accounting Standards)	29,529,236.62
Memorandum susposing full implementation of new Accounting StandardsOther items	
Simulated net profit of 2006 with full implementation of new Accounting Standards	29,529,236.62

Legal Representative:Sun Zhen   Chief Financial Officer:Bi Jianzhong   Chief Accounting Officer:Wang Hongling

Date:29 April 2008   Date:29 April 2008   Date:29 April 2008

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

地址：中國瀋陽市和平區太原南街189號金都飯店14樓
網址：www.nee.com.cn
電郵：nee@nee.com.cn
電話：(024) 2350 1976 2352 7083
傳真：(024) 2352 7081
郵編：110001

Address: 14F, Kingdom Hotel 189 Taiyuan South Street, Heping District, Shenyang China
Website: www.nee.com.cn
E-mail : nee@nee.com.cn
Tel : (024) 2350 1976 2352 7083
Fax : (024) 2352 7081
Zip : 110001