



**NEE**

ANNUAL REPORT 2009 年報

输送光明和动力的桥梁



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

# CONTENTS

---

<b>1. BASIC INFORMATION OF THE COMPANY</b> .....	02
<b>2. SUMMARY OF ACCOUNTING DATA AND FINANCIAL INDICATORS</b> .....	04
<b>3. CHANGES IN SHARE CAPITAL AND INFORMATION OF SHAREHOLDERS</b> .....	09
<b>4. PROFILE OF DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND STAFF</b> .....	14
<b>5. CORPORATE GOVERNANCE STRUCTURE</b> .....	21
<b>6. PARTICULARS OF SHAREHOLDERS' GENERAL MEETING</b> .....	39
<b>7. CHAIRMAN'S STATEMENT</b> .....	40
<b>8. REPORT OF THE BOARD OF DIRECTORS</b> .....	51
<b>9. REPORT OF THE SUPERVISORY COMMITTEE</b> .....	57
<b>10. SIGNIFICANT EVENTS</b> .....	60
<b>11. NOTICE OF ANNUAL GENERAL MEETING</b> .....	69
<b>12. LIST OF DOCUMENTS AVAILABLE FOR INSPECTION</b> .....	71
<b>13. FINANCIAL REPORTS</b> .....	72

※ This report is published in both Chinese and English. If there are any inconsistencies in content, other than the consolidated financial statements prepared in accordance with Hong Kong Financial Reporting Standards set out on pages 72 to 138 where the English version shall prevail, the Chinese version shall prevail in all other aspects.

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



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  | : | Su Weiguo  |
| 3. Current Executive Directors   | : | Su Weiguo , Wang Shouguan, Bi Jianzhong , Du Kai, Liu Qingmin              |
| 4. Current Independent Non-executive Director  | : | Wu Qicheng, Xiang Yongchun, Wang Yunxiao                                   |
| 5. Current Supervisors   | : | Dong Liansheng, Liu Xuehou, Bai Lihai                                      |
| 6. Secretary to the Board  | : | Su Weiguo (Acting)   |
| 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, the PRC |
| Office address   | : | No. 38, Jingxing North Street, Tiexi District, Shenyang, the PRC           |
| Postal Code  | : | 110025   |
| Telephone  | : | (86)24-23501976 23527080   |
| Fax  | : | (86)24-23527081  |
| Website  | : | www.nee.com.cn www.nee.hk  |
| E-mail address   | : | nee@nee.com.cn nemm585@sina.com  |

## BASIC INFORMATION OF THE COMPANY (Continued)

---

8. PRC newspapers for information disclosure : “China Securities Journal”, “Securities Times”  
Website containing the annual report : www.cninfo.com.cn www.hkexnews.hk www.nee.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 : \*ST Northeast Electric  
Stock Code : 000585
10. Date of Company’s first registration : 16 February 1993  
Place of registration : No. 18, North Er Zhong Road, Tie Xi District,  
Shenyang, Liaoning Province, the PRC  
Date of the Company’s Latest Change of registration : 14 July 2008  
Place of registration : No. 78 , Hunnan High and New Technology Development  
Zone, Shenyang, Liaoning Province, the PRC  
Registered number of corporate legal person business licence : 210100402002708  
Registered taxation number : 210132243437397
11. Auditing Institutions  
Domestic auditors : Shenzhen Pengcheng Certified Accountants Co., Ltd.  
Office address : No. 5022, 7F/A, Union Square, Binhe Road,  
Futian District, Shenzhen, the PRC (Postal code:518026)  
International auditors : TING HO KWAN & CHAN Certified Public  
Accountants (Practising)  
Office address : 9th Floor, Tung Ning Building, 249-253 Des Voeux  
Road Central, Hong Kong

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

	<i>Unit: RMB</i>
Operating profit	6,839,846.88
Total profit	6,846,067.72
Net profit that belongs to shareholders of listed company	7,670,166.70
Net profit that belongs to shareholders of listed company after non-recurring profit and loss	7,670,434.76
Net cash flow arising from operating activities	22,238,854.70

Note: After extraordinary items and the related amount:

	<i>Unit: RMB</i>	
<b>Extraordinary items</b>	<b>Amount</b>	<b>Cause</b>
Profits and losses on disposal of non-current assets	-132,760.09	Loss from disposal of fixed assets
Government subsidy translated into current profits and losses (except for the subsidy related to the enterprise's business and enjoyed according to the quota of unified national standard )	112,553.03	Special subsidies by the Economic and Information Commission of Liaoning Province and the Department of Finance of Liaoning Province
Other non-operating income and expense	26,497.90	
Effect on income tax	-6,558.90	
<b>Total</b>	<b>-268.06</b>	

**SUMMARY OF ACCOUNTING DATA AND FINANCIAL INDICATORS (Continued)**

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

**1. Principle accounting data**

*Unit: RMB*

	2009	2008	Increase/ decrease of the year over last year (%)	2007
Operating income	423,742,945.28	517,717,563.70	-18.16	639,700,849.31
Total profit	6,846,067.72	-69,549,292.62	-	-350,788,631.18
Net profit that belongs to shareholders of listed company	7,670,166.70	-69,112,495.33	-	-340,874,097.62
Net profit that belongs to shareholders of listed company after extraordinary items	7,670,434.76	3,244,738.80	136.40	-117,105,282.35
Net cash flow arising from operating activities	22,238,854.70	15,241,679.50	45.91	-25,695,727.14

	As at the end of 2009	As at the end of 2008	Increase/decrease in the year end 2009 over the year end 2008 (%)	As at the end of 2007
Total assets	836,557,537.85	847,016,256.07	-1.24	1,044,977,793.85
Shareholders' fund that belongs to shareholders of listed company	318,542,326.44	311,137,033.20	2.38	484,195,364.55
Share capital	873,370,000.00	873,370,000.00	0	873,370,000.00

**2. Principal financial indicators**
*Unit: RMB*

	2009	2008	Increase/decrease of the year over last year (%)	2007
Basic earnings per share(RMB/Share)	0.01	-0.08	-	-0.39
Diluted earnings per share(RMB/Share)	0.01	-0.08	-	-0.39
Earnings per share calculated by new share capital (RMB/Share)	0.01	-0.08	-	-0.39
Basic earnings per share after extraordinary items (RMB/Share)	0.01	0.004	150	-0.13
Earnings/net assets ratio (weighted average)(%)	2.44	-17.38	-	-51.84
Earnings/net assets ratio after extraordinary item (weighted average)(%)	2.44	0.82	Increase 1.62	-17.81
Net cash flow from operating activities per share(RMB/Share)	0.0255	0.0175	45.71	-0.029

	As at the end of 2009	As at the end of 2008	Increase/decrease in the year end 2009 over the year end 2008 (%)	As at the end of 2007
Net assets per share that belongs to shareholders of listed company (RMB/Share)	0.36	0.36	0	0.55

**SUMMARY OF ACCOUNTING DATA AND FINANCIAL INDICATORS (Continued)**

**3. Assets Devaluation Preparation Sheet**

As at 31 December 2009

*Unit: RMB*

Item	Initial balance	Increase in current period	Decrease in current period		Total	Final balance
			Transfer in from assets value increase	Transfer out from other reasons		
1. Bad debt preparation in total	95,997,666.70	27,097,476.60	1,647,969.58		1,647,969.58	121,447,173.72
Including: Accounts receivable	15,204,822.07	3,905,948.42	1,647,969.58		1,647,969.58	17,462,800.91
Other receivables	80,792,844.63	23,191,528.18				103,984,372.81
2. Short-term investment devaluation preparation in total						
Including: Investment in equity						
Investment in bond						
3. Inventory devaluation preparation in total	1,434,969.85			6,922.28	6,922.28	1,428,047.57
Including: Merchandise inventory	1,310,641.17					1,310,641.17
Product in production						
Raw material	124,328.68			6,922.28	6,922.28	117,406.40
4. Long-term investment devaluation preparation in total						
Including: Long-term investment in equity						
Long-term investment in bond						
5. Fixed assets devaluation preparation in total	2,111,698.00			90,373.60		2,021,324.40
Including: Houses, buildings	317,644.79					317,644.79
Transportation and others	162,253.60			90,373.60		71,880.00
Machinery and equipment	1,631,799.61					1,631,799.61
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	99,544,334.55	27,097,476.60	1,647,969.58	97,295.88		124,896,545.69

**(III) PREPARED UNDER HONG KONG FINANCIAL REPORTING STANDARDS**
*Unit: RMB*

Items	2009	2008	2007	2006	2005
1. Turnover ('000)	423,743	517,717	618,496	465,989	546,135
2. Profit/(loss)before taxation ('000)	6,903	-69,438	-292,246	34,892	44,897
3. Profit/(loss)attributable to shareholders ('000)	7,320	-70,458	-344,907	29,540	26,761
4. Total assets ('000)	836,551	856,704	937,160	1,295,288	1,267,674
5. Total liabilities ('000)	515,563	542,771	543,467	364,417	368,580
6. Shareholders' fund ('000)	320,988	313,933	393,693	829,347	800,380
7. Basic earnings/(loss)per share (RMB)	0.01	-0.08	-0.39	0.034	0.031
8. Net assets per share (RMB)	0.37	0.36	0.45	0.95	0.92
9. Return on net assets (%)	2.43	-22.44	-87.61	3.56	3.34
10. Shareholders' interest ratio (%)	38.37	36.64	42.01	63.40	63.14
11. Current ratio (%)	101.25	101.75	109.20	157.07	174.16
12. Gearing ratio (%)	61.63	63.36	57.99	28.13	29.08

**(IV) DIFFERENCES BETWEEN HONG KONG FINANCIAL REPORTING STANDARDS AND THE PRC ACCOUNTING RULES IN THE CALCULATION OF THE NET PROFIT**
*Unit: RMB'000*

Net profit calculated under Hong Kong Financial Reporting Standards (attributable to the equity holders of the Company)	7,727
Others-Amortisation of intangible assets	-57
Net profit calculated under the PRC Accounting Rules (attributable to the owner of the parent company)	7,670

## CHANGES IN SHARE CAPITAL AND INFORMATION OF SHAREHOLDERS

### (1) TABLE OF CHANGES IN SHARE CAPITAL

*Unit: share*

	<b>Beginning of the year</b>	<b>Increase/ (decrease) (+/-)</b>	<b>End of the year</b>
1. Shares subject to trading moratorium	218,394,237	-138,587	218,255,650
State-owned legal person shares	0	0	0
Public legal person shares	218,394,237	-138,587	218,255,650
2. Shares not subject to trading moratorium	654,975,763	138,587	655,114,350
Domestic listed A Shares	397,025,763	138,587	397,164,350
Overseas listed H Shares	257,950,000	0	257,950,000
3. Total shares	873,370,000	0	873,370,000

**Notes:**

*On 11 August 2009, the Company relieved 138,587 shares with trading restrictions, which increase shares without trading restrictions to 655,114,350 shares.*

**(II) TABLE OF SHAREHOLDING OF TOP TEN SHAREHOLDERS**

Total number of shareholders at the end of the reporting period was 96,919, including 96,847 shareholders of A shares and 72 shareholders of H shares.

**Shareholdings of the top ten shareholders**

*Unit: share*

Name of shareholders (full name)	Nature of shareholders	Percentage (%)	Number of shares held at the end of the year	Number of untradeable shares	Number of shares pledged or frozen		Nature of shareholders
					frozen	shares pledged or frozen	
HKSCC Nominees Limited	Overseas natural person	28.35	247,617,998	0		0	
New Northeast Electric Investments Co., Ltd.	Domestic non-state-owned legal person	24.28	212,025,650	212,025,650		208,000,000	
Qian Yisheng	Domestic natural person	0.51	4,437,299	0		0	
Hu Li	Domestic natural person	0.46	3,975,660	0		0	
Shenzhen Zhongda Software Development Co., Ltd	Domestic non-state-owned legal person	0.41	3,550,000	3,550,000		0	
Meng Lingcui	Domestic natural person	0.27	2,349,999	0		0	
Shanghai Bao Yu Real Estate Investment Consultation Co., Ltd.	Domestic non-state-owned legal person	0.24	2,090,900	0		0	
Baotou Shidai Investment Industry Co., Ltd	Domestic non-state-owned legal person	0.21	1,812,900	0		0	
Shanxi Qinjian Science and Technology Investment Co., Ltd	Domestic non-state-owned legal person	0.16	1,420,000	1,420,000		0	
Nanjing Jinfang Real Estate Industry Co., Ltd	Domestic non-state-owned legal person	0.15	1,330,000	0		0	

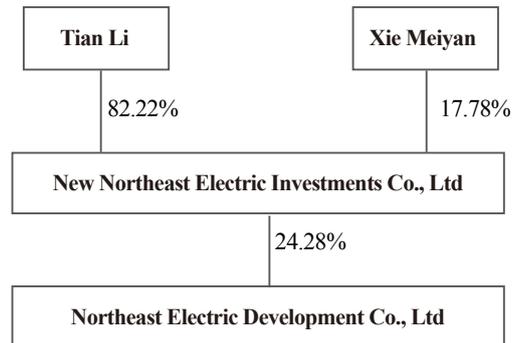
**Notes:**

- (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 29 December 2008, New Northeast Electric Investments Co., Ltd. carried out the registration of the pledge of stocks with China CITIC Bank Corporation Limited Shenyang Branch, so 118,000,000 A shares subject to trading moratorium have been frozen since 29 December 2008.*
- (3) *On 8 July 2009, New Northeast Electric Investments Co., Ltd. carried out renewal of registration of the pledge of stocks with Bank of Communications Shenyang Branch, so 90,000,000 A shares subject to trading moratorium have been frozen since 9 July 2009.*
- (4) *Save as disclosed above, Directors were not aware of any person ( not being a Director, supervisor or chief executive of the Company) had any interests or short positions in the shares or underlying shares of the Company which were required to be notified to the Company under the provisions of Divisions 2 and 3 of Part XV of the Securities and Futures Ordinance ("SFO") or which were required to be recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.*
- (5) *Purchase, sale or redemption of the Company's listed securities*  
  
*During the reporting period, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's shares.*
- (6) *Pre-emptive rights*  
  
*There is no provision for pre-emptive rights under the laws of the PRC and the Articles of Association of the Company.*
- (7) *Convertibles, options, warrants or other similar rights*  
  
*As of 31 December 2009, the Company did not issue any convertible securities, options, warrants or any other similar right.*

**(III) INFORMATION ON THE CONTROLLING SHAREHOLDERS AND THE ACTUAL CONTROLLER**

Name of the controlling shareholder	:	New Northeast Electric Investments Co., Ltd.
Legal representative	:	Dai Bing
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 82.22% of the registered capital; and Ms. Xie Meiyuan, the natural person, contributed RMB24 million, representing 17.78% of the registered capital.

**(IV) FRAMEWORK OF ASSET RIGHTS AND CONTROLLING RELATIONSHIP BETWEEN THE COMPANY AND THE ACTUAL CONTROLLER**



**(V) INTRODUCTION TO OTHER CORPORATE SHAREHOLDERS HOLDING OVER 10% OF THE COMPANY'S SHARES**

During the reporting period, there have been no corporate shareholders holding over 10% of the Company's shares in the Company.

**(I) PROFILE OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT**
**1. Basic information**

Name	Sex	Age	Position	Terms of office	Number of	Number of	Remuneration (RMB0'000)
					Shares held at the beginning of the year	Shares held at the end of the year	
Su Weiguo	M	48	Chairman	2010/3/8-2013/3/7	0	0	12.0
Wang Shouguan	M	66	Vice Chairman	2010/3/8-2013/3/7	0	0	7.9
Bi Jianzhong	M	33	Director/General manager	2010/3/8-2013/3/7	0	0	10.9
Du Kai	M	42	Director	2010/3/8-2013/3/7	0	0	6.2
Liu Qingmin	M	47	Director	2010/3/8-2013/3/7	0	0	6.2
Wu Qicheng	M	65	Independent Director	2010/3/8-2013/3/7	0	0	4.0
Xiang Yongchun	M	67	Independent Director	2010/3/8-2013/3/7	0	0	4.0
Wang Yunxiao	M	64	Independent Director	2010/3/8-2013/3/7	0	0	0
Dong Liansheng	M	63	Chairman of the Board of Supervisory Committee	2010/3/8-2013/3/7	0	0	0
Liu Xuehou	M	54	Supervisor	2010/3/8-2013/3/7	0	0	0
Bai Lihai	M	33	Supervisor	2010/3/8-2013/3/7	0	0	0
Zhang Zhaozhong	M	31	Resigned Director	2008/8/20-2009/3/30	0	0	2.6
Lin Wenbin	M	66	Resigned Independent Director	2007/3/7-2010/3/7	0	0	4.0
Liang Jie	F	49	Resigned Independent Director	2007/3/7-2010/3/7	0	0	4.0
Liu Hongguang	M	43	Resigned Independent Director	2007/3/7-2010/3/7	0	0	4.0
Fu Xiuheng	M	62	Resigned Supervisor	2007/3/7-2010/3/7	0	0	5.0
Dai Guiqing	F	41	Resigned Supervisor	2007/3/7-2010/3/7	0	0	0

**Notes:**

- (1) *The remuneration of these staff includes all kinds of insurance and accumulation fund paid in accordance with the state and local policies.*
- (2) *None of directors, supervisors and senior management had been granted equity interest as an incentive by the Company during the reporting period.*
- (3) *As at the balance sheet date or at any time during the year, none of the directors and supervisors of the Company was directly or indirectly interested in any material contract of the Company other than the service contracts of directors and supervisors.*
- (4) *Save as disclosed above, none of the directors, supervisors and senior management or any of their associates, as at 31 December 2009, had any interest in the shares of the Company or its associated corporations (as defined in the SFO. None of the directors and supervisors or their spouse or children under the age of 18 was granted any right to acquire securities of the Company or had exercised any such right.*
- (5) *Save as disclosed above, none of the directors, supervisors and senior management of the Company, as at 31 December 2009, had any interest or short positions in the shares, underlying share and debentures of the Company or its associated corporations (within the meaning of the SFO) which would have to be notified to the Company and the HKSE pursuant to Divisions 7 and 8 of Part XV of the SFO, or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein ,or otherwise, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.*
- (6) *Save as disclosed above, none of any other directors, supervisors and senior management of the Company or their respective associates was granted by the Company or its subsidiaries any right to acquire shares or debentures of the Company or had exercised any such right as at 31 December 2009.*
- (7) *Save as those set out in the register required to be maintained by directors and supervisors under section 352 of the SFO of Hong Kong, during the year, the Company did not engage in any arrangement which would enable the directors or supervisors of the Company or any other corporation to acquire any interest in any shares or debt securities of the Company, nor did the directors or supervisors had any interest which was required to be recorded in the register under the SFO.*

**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

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

**Mr. Su Weiguo**, male, 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 has served as the director of the Operations Management Department and vice general manager of the Company, the director of the Operations Department and assistant to the president and vice general manager of Northeast Electrical Transmission and Transformation Equipment Group Co., Ltd, general manager of Tieling Copper Company Limited, and board chairman of the Sino-Joint Venture Shenyang Furukawa Cable Corp., LTD. Now, he is the chairman of the Company.

**Mr. Wang Shouguan**, male, born in 1944, university graduate, graduated from Beijing Iron and Steel College with major in Metallurgical Machinery Design and Manufacturing. 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. Now he is vice chairman of the Company and vice chairman of the New Northeast Electric Investments Co., Ltd, the controlling shareholder of the Company.

**Mr. Bi Jianzhong**, male, born in 1977, university graduate, graduated from Shenyang Industrial University majoring in Accounting. He has served as secretary of president in Northeast Electrical Transmission and Transformation Equipment Group Co., Ltd, office director of Shenyang Kingdom Hotel, chief accountant in New Northeast Electric (Shenyang) High-voltage Isolator Co., Ltd and vice general manager and chief accountant of the Company. Now he is general manager of the Company.

**Mr. Du Kai**, male, born in 1968, economist, graduated from Northeast University specializing in Mechanical Manufacturing Techniques. He has served as assistant of the general manager in Shenyang New District Development and Construction Company Limited and the office director of the Company. Now, he is the chairman of New Northeast Electric (Jinzhou) Power Capacitors Limited.

**Mr. Liu Qingmin**, male, born in 1963, professor senior engineer with a master degree of engineering, graduated from Liaoning Technology & Engineering University specializing in Mechanical Manufacturing in Mechanical Department. He has served as engineer of Technical Section, head of the Sales Department, chief engineer, deputy general manager and general manager of Fuxin Enclosed Busbars Company Limited. Now he is an executive director and general manager of that company.

**(2) Independent Directors**

**Mr. Wu Qicheng**, male, born in 1945, professor and senior engineer, graduated from the Department of Motive Power Engineering of Huazhong Institute of Technology majoring in Heat Energy. He has served as vice head of Bajiazi Zinc Mine of Liaoning Province, director of Chaoyang Municipal Economic and Trade Commission of Liaoning Province, vice director of Liaoning Provincial Economic and Trade Commission, mayor of Benxi City, the director general of Liaoning Provincial Land and Resources Administration, and vice director of Liaoning Provincial State-owned Assets Supervision and Administration Commission.

**Mr. Xiang Yongchun**, male, born in 1943, professor of engineering, graduated from the Department of Mechanic Manufacture of Shenyang Industrial University majoring in Mechanic Manufacture. He has served as the workshop director, vice factory director and factory director of Shenyang High-voltage Switchgears Co., Ltd, general manager of Shenyang Tool Industry Company and the chairman of the Company.

**Mr. Wang Yunxiao**, male, born in 1946, senior accountant, graduated from Northeast University of Finance and Economics majoring in Accounting. He has served as assistant to the general manager and vice general manager of Liaoning Provincial Trust and Investment Company and general manager of Dalian Seaside Garden Company.

**(3) Supervisors**

**Mr. Dong Liansheng**, male, born in 1947, college graduate, graduated from the Chinese Department of Liaoning University majoring in Chinese. Now he is deputy general manager of Shenyang Kingdom Hotel Company Limited and chairman of the Company's Supervisory Committee.

**Mr. Liu Xuehou**, male, born in 1956, postgraduate, graduated from Dalian University of Technology in Computer. He has served as vice director of power branch, director of equipment division, director and party branch secretary of metalizing branch of Jinzhou Power Capacitors Factory; vice general manager, director of power branch of Jinzhou Power Capacitor Company Limited. Now, he is vice general manager, vice secretary of party committee, and chairman of trade union of New Northeast Electric (Jinzhou) Power Capacitors Company Limited.

**Mr. Bai Lihai**, male, born in 1977, postgraduate, graduated from Northeast University of Finance and Economics in Accounting. He has served as director of both Auditing Department and Financial Department of Northeast Electrical Transmission and Transformation Equipment Group Co., Ltd, financial executive of Shenyang Municipal Engineering Maintenance Administration, and chief financial officer of Shanghai Defeng Network Technology Co., Ltd. Now he is the director of Internal Auditing Department of the Company.

**(4) Senior management**

**Mr. Bi Jianzhong**, male, born in 1977, university graduate, graduated from Shenyang Industrial University majoring in Accounting. He has served as secretary of president in Northeast Electrical Transmission and Transformation Equipment Group Co., Ltd, office director of Shenyang Kingdom Hotel, chief accountant in New Northeast Electric (Shenyang) High-voltage Isolator Co., Ltd, vice general manager and chief accountant of the Company. Now he is general manager of the Company.

**(5) No independent directors held any position in other units.**

**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 RMB300,000 averagely; each supervisor's not over RMB80,000; each independent director's not over RMB50,000.
- (3) Save as the service contracts of directors and supervisors, none of the directors or supervisors has a service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

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

Approved by the board of directors on 30 March 2009, Mr. Zhang Zhaozhong resigned as an executive Director, vice general manager and the secretary to the Board due to the work adjustment (please refer to the announcement dated 30 March 2009 for details).

**6. Interest of directors, supervisors and senior management**

As at 31st December 2009, 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 more than 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**

<b>Occupational structure of the Company's staff</b>		<b>Education level of company's staff</b>	
Salesman	: 53	Bachelor degree or higher	: 146
Technical staff	: 82	College	: 178
Financial staff	: 19	Technical certificate	: 28
Administrative staff	: 139	Others	: 371
Production staff	: 337		:
Others	: 93		:
Total	: 723	Total	: 723

As at the end of the reporting period, the number of employees on the payroll of the Company was 723 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.

During the reporting period, none of the Company's retired employees have needed expenses paid by the Company.

**(I) CORPORATE GOVERNANCE**

During the reporting period, the Company has strictly complied with provisions of Company Law and Securities Law and other laws, regulations and regulatory documents to further improve its corporate governance structure and normalize its daily operation for better corporate standardization. By the end of the reporting period, the Company's actual corporate governance has met the requirements of regulatory documents on corporate governance of listed companies issued by China Securities Regulatory Commission.

**1. Shareholders and shareholders' meeting**

The Company has strictly complied with the provision and requirement of Rule of Procedure of Shareholders' Meeting to convene shareholders' meeting, normalize its voting procedure, and ensure its legality by employing lawyers to witness the meeting. The Company can ensure fair treatment toward all shareholders, especially minority shareholders and the full exercise of their own rights. Professional lawyers have been employed to serve as a witness at the meeting and issue their legal opinion.

**2. Relationship between controlling shareholders and the listed company**

The Company's controlling shareholders have strictly complied with Articles of Association to normalize their behaviors, exercise their rights according to law, as well as assume their corresponding obligations. During the reporting period, they had no behaviors to directly or indirectly interfere with the company's decisions or business activities by circumventing the shareholders' meeting. The Company's board of directors, board of supervisors and relevant departments can work normally and independently.

**3. Directors and the Board of Directors**

The Company's directors have complied with Rule of Procedure of Board Meeting to work, seriously attend relevant meetings, actively participate in trainings, and have a deep understanding of relevant laws and regulations. The Company has strictly complied with the election procedure as specified in Articles of Association to complete the election at expiration of office terms. At present, the Company has 8 directors, of which there are 3 independent directors. Each of the elected directors has participated in relevant trainings organized by securities regulators. The composition of the board of directors has met requirements of relevant laws, regulations and Articles of Association. The independent directors have, in accordance with the provisions of systems including Detailed Working Rules of Independent Directors, fulfilled their duties independently, attended the Company's board meetings and GMS, and expressed their independent opinions on the Company's significant matters so as to ensure the Company's normal operation.

**4. Supervisors and the Board of Supervisors**

The Company's board of supervisors has worked in light of relevant provisions of Company Law, Articles of Association, and Rule of Procedure of Meeting of the Board of Supervisors, and its supervisors have been recommended, voted and elected in accordance with relevant laws and regulations. The supervisors have seriously fulfilled their duties, and supervised the Company's financial situation and the legality and compliance of significant matters, thus safeguarding the legal rights and interests of the Company and its shareholders.

**5. Information disclosure and transparency**

Pursuant to Administrative Measures for the Matters Regarding Information Disclosure and Investor Relations Management System, the Company has seriously fulfilled its information disclosure obligation. Securities Times, China Securities Journal and www.cninfo.com.cn have been designated as the newspapers and website to disclose the Company's information, thus ensuring truthful, accurate, complete and timely information disclosure, as well as enabling all of the Company's shareholders to have equal chances for information.

**6. Stakeholders**

The Company can fully respect and safeguard the legal rights and interests of the stakeholders, and realized the coordination and balance of interests among shareholders, staff and society so as to jointly push the Company's stable and sound growth.

**7. Performance assessments and incentive and disciplinary systems**

The Company has established a series of performance assessments and incentive and disciplinary systems. Its appointment of senior management is open and transparent, meeting the requirements of relevant laws and regulations.

**8. Establishment and execution of internal audit system**

The Company's board of directors has set up the audit committee, whose executive office is internal audit department. The internal audit department exercises its rights of audit supervision within the authorized scope of the audit committee. Pursuant to Internal Control Supervision and Checking System, the department has checked the Company's accounting books and related assets, and analyzed and evaluated its capital operation, assets employment and other financial operation, therefore making its assets real and full. The execution of internal audit has enabled the Company to avoid operation risks and enhance its economic benefit.

**(II) EXECUTION OF DUTIES BY INDEPENDENT DIRECTORS DURING THE REPORTING PERIOD****1. Execution of duties by independent directors**

During the reporting period, the Company's independent directors, in accordance with related provisions of Work System of Independent Directors, earnestly implemented relevant duties, positively understood the Company's situation in production and operation, paid closer attention to changes in operating strategies of the Company, and actively asked responsible persons for information when in doubt.

Each independent directors paid active attention to participating in board meetings and general meetings of shareholders during the reporting period. At these meetings, each of them made objective and fair judgments of such matters as investment strategies, assets acquisition, appointment of management, foreign guarantee from financial, legal and operating aspects, and presented their professional advice, issued independent opinions, thus playing an active role in the Board's scientific decision-making and the Company's sound development.

As independent directors, they have effectively protected the lawful rights and interests of the Company and medium and small investors.

**2. Board meetings attendance of independent directors**

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

**3. 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.

**(III) 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.

**1. Independence of business**

The Company' business has been absolutely independent from that of its controlling shareholders. The Company has been responsible for its own management decisions, profits and losses, independent of any shareholder or any other related party. It has been complete and independent in business structure.

**2. Independence of personnel**

The Company has an independent and complete human resources management system. Pursuant to the provision of relevant policies issued by the state, the Company has established a perfect personnel management system, and implemented the labor contract system to all the staff so as to systemize and normalize the personnel management. Independent management has been carried out in staff's social security and remuneration. Such senior management as the chairman, the general manager, the secretary to the board of directors, and the financial director are all full-time employees, earning their remuneration from the Company. They have held any position neither in a shareholding company holding over 5% of the Company's equity or its subsidiaries, nor in other enterprises same or similar to the Company's business.

**3. Independence of assets**

The Company's assets have been complete, and have been absolutely independent from those of its controlling shareholders. None of the Company's capital, assets or other resources has been utilized without payment by any controlling shareholder, actual controller or any other enterprise under its control.

**4. Independence of organization Structure**

The Company's organization structure has been sound, and absolutely independent from that of its controlling shareholders. The board of directors, the board of supervisors and general manager have operated independently, having no affiliation with the function department of any controlling shareholder. The Company has established and improved its decision system and internal control system to realize effective operation.

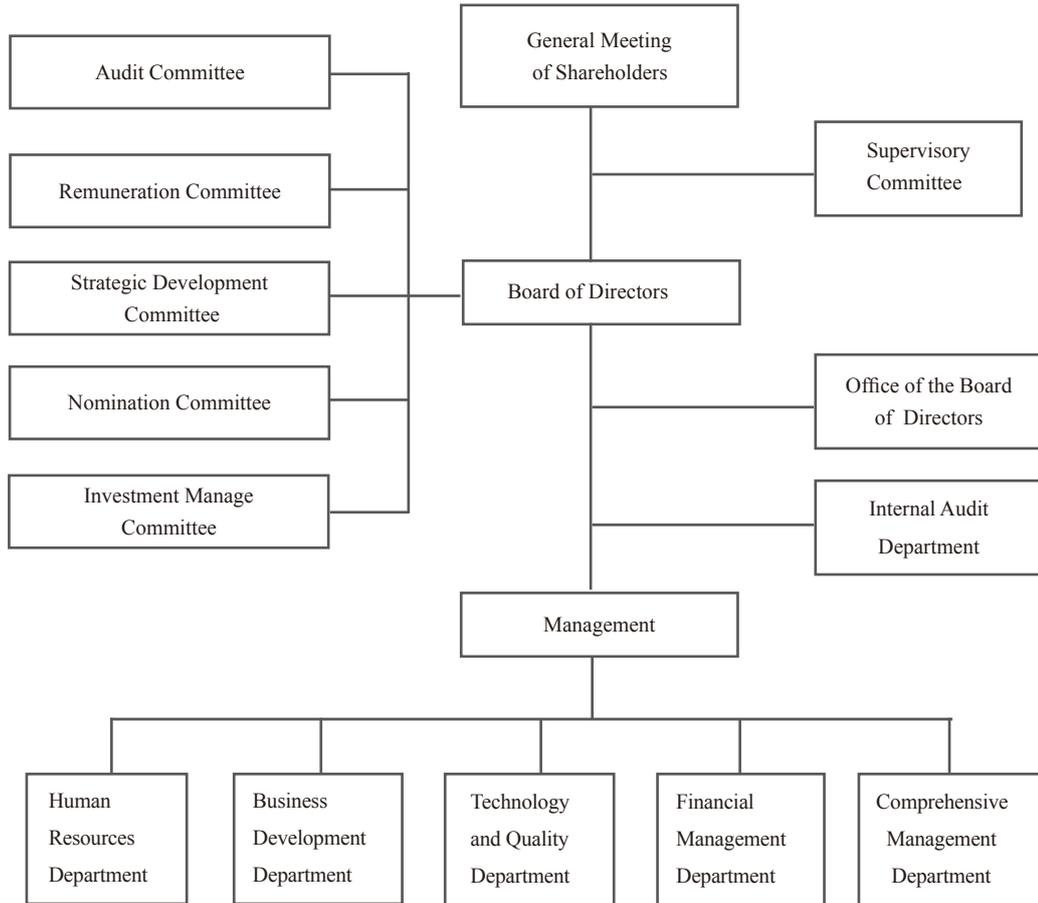
**5. Independence of Financial Affairs**

The Company has set up an independent financial department, and established an independent financial accounting and management system. It has opened accounts in the bank and paid taxes according to law independently.

(IV) 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) Establishment and Improvement of the Company's Internal Control System

Pursuant to the latest requirements of relevant laws and regulations made by the Securities Regulatory Commission and stock exchanges, the Company has established and improved such internal control systems as Basic Internal Control System, Risk Control Management System, Management System for Subsidiaries, Management System for Significant Investment, Management Method for Foreign Guarantee, Management System for Related Transaction, Management for Raised Capital, Information Processing and Significant Information Reporting System and Management System of Information Disclosure.

Under the Board of Directors, The Company's internal audit department is responsible for supervision and examination of internal control and independent execution of audit supervision power. The personnel involved in internal audit must have professional knowledge of accounting so as to ensure the effective operation of the Company's internal audit. Under the supervision and guidance of the board of directors, the Company's internal audit and supervision are brought about by adopting regular and irregular examinations to audit and check the financial affairs, significant matters and productive and operating activities of the Company and its subsidiaries, as well as supervise the implementation of the Company's internal management system and its subsidiaries' internal control systems.

During the reporting period, both the Company's internal control activities and its improved internal control systems have complied with relevant laws and regulations of China and the requirements of regulators, thus ensuring the Company's normal operating management with rationality, integrity and validity.

(3) The Company's work for the establishment and improvement of internal control in 2009 and its effects

Please refer to Corporate Governance of this Annual Report.

**2. Key Control Activities**
**(1) Internal Control on the Company's holding Companies**
**① Control Structure and Shareholding Ratio of Main Holding Companies**

No.	Name of Holding Companies	Direct or Indirect Holding Ratio
1	New Northeast Electric (Jinzhou) Power Capacitors Co., Ltd	100%
2	Fuxin Enclosed Busbars Company Limited	100%
3	Northeast Electric (Hong Kong) Limited	100%
4	Northeast Electric (Beijing) Company Limited	100%
5	Shenyang Kaiyi Electric Company Limited	100%
6	Shenyang Zhaolida Machinery Equipment Co., Ltd	100%
7	Great Talent Technology Limited	100%
8	Jinzhou Jingrong Electric Co., Ltd	69.75%
9	Shenyang Gaodongjia Desiccation Equipment Company Limited ( In liquidation)	70%

**② Internal Control on the Company's Holding Companies**

Under the requirements of the Management System of Holding Companies, the Company's holding companies relied on their own operation situations and referred to the Basic System of Internal Control to prepare special management systems. The Company, in accordance with the overall operation objective, carried out unified management to its holding companies in organization, capital allocation, staffing, employee recruitment, training, assignment as well as appointment and removal. During the reporting period, the Company, considering the provisions of regulators, has made a strict, full and effective internal control on its holding companies without any breach of the System of Internal Control.

(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 and Hong Kong Stock Exchange, Guideline for Internal Control and Articles of Association, has effectively controlled the Company's principles of connected transaction, connected person 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 breach of the Guideline for Internal Control.

(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 breach 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 breach 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 breach of the Guideline for Internal Control.

(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 breach of the Guideline for Internal Control.

**3. Problems in the Company's internal control and their rectification**

In terms of the construction of internal control systems, the Company has established relatively perfect systems, but the construction of its internal management systems still needs to be further improved. At the same time, in-depth understanding and grasp have yet to be conducted on the laws and regulations related to the operation of listed companies made by China Securities Regulatory Commission and Shenzhen Stock Exchange. In addition, some departments should make more efforts to promote the execution of internal management and control systems.

To ensure the effective execution of its internal control system, the Company will make timely arrangements for its directors, supervisors, senior management and other persons from relevant departments for further study of laws and regulations in relation to listed companies. Besides, the Company will timely revise and perfect various internal control systems in accordance with relevant requirements, and give full play to the supervision function of the audit committee and the internal audit department so as to further improve its level of standard management.

**4. Overall Assessment of Internal Control**

The Company has established a complete internal control system according to its actual condition, thus ensuring normal business activities. In operating management, by establishing and perfecting the corporate governance structure and internal organization structure complying with modern management requirements, the Company has set up scientific decision mechanism, execution mechanism and supervision mechanism so as to ensure the realization of its management objectives; in financial management, it has normalized the accounting behaviors and established a financial control system covering each part of the Company to ensure actual and complete accounting information and enhance the quality of accounting information; in information disclosure, it has normalized all procedures of information disclosure, improved the quality of information disclosure, strengthened the transparency of the Company. The Company's internal control system has complied with relevant requirements of China Securities Regulatory Commission and Shenzhen Stock Exchange.

**(V) 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.

**(VI) 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 reporting period 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 and Confirmation of Independence**

The Company has complied with Rules 3.10(1) and 3.10(2) of the Listing Rules relating to appointment of a sufficient number of independent non-executive directors and at least an independent non-executive director with appropriate professional qualifications, or accounting or related financial management expertise. During the reporting period, the Company has appointed five independent non-executive directors including one with financial management expertise. The Company's independent non-executive directors have been comprised of Mr. Wu Qicheng, Mr. Xiang Yongchun and Mr. Wang Yunxiao since the member appointment of the sixth session of the board of directors became effective on 8 March 2010.

Pursuant to Rule 3.13 of the Listing Rules to the Stock Exchange, the Company has received from each of these independent non-executive directors the confirmation of independence. The Company considers Mr. Wu Qicheng, Mr. Xiang Yongchun and Mr. Wang Yunxiao to be independent from the Company.

**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.

### 3. Board of Directors

The 5th session of the board of directors comprises 10 directors, including 5 executive directors, namely Mr. Su Weiguo, Mr. Wang Shouguan, Mr. Bi Jianzhong, Mr. Du Kai and Mr. Liu Qingmin, and 5 independent directors namely Mr. Wu Qicheng, Mr. Lin Wenbin, Mr. Xiang Yongchun, Ms. Liang Jie and Mr. Liu Hongguang.

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 major 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.

Office of the Board of Directors provides full service to directors. It provides directors with sufficient information allowing them to understand on timely basis to 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 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 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.

The Company has, in accordance with the provision of Rule 3.13 of the Listing Rules, required each of the independent non-executive directors to submit their annual confirmation of independence, and considered the independence of independent non-executive director.

During 2009, a total of 5 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 7 days prior to each meeting. Proposals of the Board were sent in advance to directors to give them sufficient time to study all the proposals. 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 of 2009 totaled RMB658,000 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 the Report section 4(1).

The current board of directors expired on 7 March 2010. The members appointments of the sixth session of the Board of Directors became effective on 8 March 2010. The six session of the Board of Directors detailed in section 10(15) of this Annual Report.

#### 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. During the reporting period, the committee comprises 5 independent non-executive directors of the Company with Mr. Lin Wenbin, Mr. Wu Qicheng, Mr. Xiang Yongchun, Ms. Liang Jie, and Mr. Liu Hongguang, and accounting professional Ms. Liang Jie serves as chief 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 2009, a total of 4 meetings were held by the audit committee to respectively scrutinize the Company's annual and interim reports, the first quarterly results and the third quarterly results. All 5 independent directors attended the meetings to hear reports on internal controls while issuing related auditing reports and putting forward their views.

The audit committee, in accordance with the relevant provisions of listing rules and the Implementation Details of the Audit Committee made by the Company, has performed the following duties earnestly and diligently:

- (1) The audit committee established the audit procedure of the 2009 Annual Report of the Company, and negotiating with Shenzhen Pengcheng Certified Public Accountants Limited Company and Ting Ho Kwan & Chan Certified Public Accountants (Practicing), the Company's domestic and international auditor respectively, on the plan, content and schedule of the audit of 2009;
- (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 2009 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 2009 and the proposals in relation to the appointment of accounting firms in the next year and then to adopt a final resolution.

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 2009.

Board meeting held on 22 March 2010, the audit committee reviewed and approved annual financial accounts and results announcement of 2009.

The current board of directors expired on 7 March 2010. The audit committee is comprised of three independent non-executive directors, namely Mr. Wang Yunxiao, Mr. Wu Qicheng and Mr. Xiang Yongchun, of which Mr. Wang Yunxiao, a professional accountant, is appointed as the chief member after the appointment of the sixth session of the board became effective on 8 March 2010.

## 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 2009, 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. Xiang Yongchun, Ms. Liang Jie, Mr. Su Weiguo and Mr. Wang Shouguan.

The remuneration committee of the board has reviewed the remunerations disclosed by the Company's directors, supervisors, and senior management.

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 Implementation Details of the Remuneration Committee made by the Company, has reviewed the remunerations in 2009 disclosed by the Company's directors, supervisors, and senior management and given the following opinions:

In 2009, in accordance with their main duties, their business results and their accomplishments of appraisal index in 2009, the remuneration committee have made an annual examination of performance appraisal for the Company's directors, supervisors and senior management, and determined their compensation standards in 2009. The remuneration committee consider that the compensations of the Company's directors, supervisors and senior management disclosed in the 2009 annual report are 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.

The current board of directors expired on 7 March 2010. The remuneration and assessment committee is comprised of three directors, namely Mr. Xiang Yongchun, Mr. Wang Shouguan, and Mr. Wang Yunxiao, of which Mr. Xiang Yongchun, an independent director, is appointed as the chief member after the appointment of the sixth session of the board became effective on 8 March 2010.

#### **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 directors of each new session, to review regularly the framework, membership and work of the board of directors. During the reporting period, the chief member of the Committee is Mr. Su Weiguo while other members include Mr. Wang Shouguan, Mr. Lin Wenbin, Mr. Wu Qicheng and Mr. Xiang Yongchun. One committee meeting was held in 2009, which were attended by all members of the committee.

The current board of directors expired on 7 March 2010. The nomination committee is comprised of three directors, namely Mr. Su Weiguo, Mr. Wang Shouguan, and Mr. Wu Qicheng, of which Mr. Su Weiguo is appointed as the chief member after the appointment of the sixth session of the board became effective on 8 March 2010.

#### 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 operations. During the reporting period, chief member of the Committee is Mr. Su Weiguo, while other members include Mr. Wang Shouguan, Mr. Bi Jianzhong, Mr. Xiang Yongchun and Mr. Liu Qingmin. In 2009, a total of 2 committee meetings were held, which were attended by all members of the committee.

The current board of directors expired on 7 March 2010. The strategic development committee is comprised of five directors, namely Mr. Su Weiguo, Mr. Wang Shouguan, Mr. Xiang Yongchun, Mr. Bi Jianzhong and Mr. Liu Qingmin, of which Mr. Su Weiguo is appointed as the chief member after the appointment of the sixth session of the board became effective on 8 March 2010.

#### 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. During the reporting period, chief member of the Committee is Mr. Su Weiguo, while other members include Mr. Wang Shouguan, Mr. Bi Jianzhong, Mr. Liu Hongguang and Mr. Du Kai. In 2009, a total of 2 committee meetings were held, which were attended by all members of the committee.

The current board of directors expired on 7 March 2010. The investment management committee is comprised of five directors, namely Mr. Su Weiguo, Mr. Wang Shouguan, Mr. Xiang Yongchun, Mr. Bi Jianzhong and Mr. Du Kai, of which Mr. Su Weiguo is appointed as the chief member after the appointment of the sixth session of the board became effective on 8 March 2010.

#### 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 2009, a total of 5 meetings were held by the supervisory committee, attending in Board meeting, 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.

**11. Relationship between general meeting and investors**

The profile of general meeting held in this reporting period, for details please refer to "6.PARTICULARS OF SHAREHOLDERS' GENERAL MEETING".

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 2009, market value of Company H shares was HKD1,502,000,000. For details about categories of shareholders and their shareholdings, please refer to section 3 (1) of this Annual Report.

**12. Remunerations of Auditors**

The 2008 Shareholder's General Meeting held on 15 May 2009 approved the re-appointment of Shenzhen Pengcheng Certified Public Accountants Co. Ltd as domestic auditor and the appointment of TING HO KWAN & CHAN Certified Public Accountants (Practicing) as international auditor with a term of one year and the total remuneration paid to the domestic and international auditors of the Company was RMB1, 650,000.

**13. The appointment of professional advisor**

Pursuant to the Rule 3A.20 in the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Ltd (the "Listing Rules"), the Company appointed Tanrich Capital Limited as its compliance advisor to provide guidance and advice to the Company in relation to the compliance with the Listing Rules with a term of two years from 31 December 2008. At the same time, the Company also appointed Tanrich Capital Limited as its financial advisor with effect from 31 December 2008.

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

The Company issued the notice on 30 March 2009 and convened the 2008 annual general meeting of shareholders on 15 May 2009 (please refer to the Announcements dated 30 March 2009 and 15 May 2009 for details).

The following resolutions were voted item by item at the meeting, and the voting results are as follows:

1. To consider and approve the Report of the Annual Results for the year ended 31 December 2008;
2. To consider and approve the Net Profit Appropriation Proposal for the year ended 31 December 2008;
3. To consider and approve the Resolution on the Reappointment of the Company's Domestic Auditors;
4. To consider and approve the Resolution on the Reappointment of the Company's International Auditors.

**(II) DURING THE REPORTING PERIOD, THE COMPANY HELD TWO EXTRAORDINARY GENERAL MEETING OF SHAREHOLDERS ("EGM")**

1. The Company issued the notice on 12 December 2008 and convened the 1st EGM of 2009 on 3 February 2009. (For details, please refer to announcements dated 12 December 2008 and 3 February 2009).

The following resolutions were voted item by item at the meeting, and the voting results are as follows:

- (1) To consider and approve the Resolution on Appointing International Auditors of the Company;
  - (2) To consider and approve the Resolution on Appointing Domestic Auditors of the Company;
  - (3) To consider and approve the Resolution on Providing Foreign Guarantees;
  - (4) To consider and approve Amendment of Articles of Association.
2. The Company issued the notice on 23 September 2009 and convened the 2nd EGM of 2009 on 6 November 2009. (For details, please refer to announcements dated 23 September 2009 and 6 November 2009).

The following resolutions were voted item by item at the meeting, and the voting results are as follows:

- (1) To consider and approve the Resolution on Providing Foreign Guarantees;
- (2) To consider and approve the Resolution in related to relocation of the legal registered address of the Company;
- (3) To consider and approve Amendment of Articles of Association.

**(I) DISCUSSION AND ANALYSIS OF THE SENIOR MANAGEMENT****1. Discussion and analysis of overall operations for the reporting period**

In 2009, China's economy underwent violent changes duo to the combined effects of the global slowdown. Benefited from the implementation of a series of policies of expanding domestic demand and stimulating the economy as well as various plans designed to revitalize industries made by the state and local government, the domestic economic situation was stabilized and rebounded in the second half of the year. The company's trade experienced both a severe challenge of international financial crisis and a rare development opportunity.

During the reporting period, with the serious overall situation, hard challenge and rare opportunity, the staff of the Company actively responded to the challenge and seized the opportunity by keeping the development in mind and focusing on the overall work arrangement and productive operating objectives made at the beginning of the year on the basis of stable operation. The Company has realized the turnaround through reducing the influence of various factors to a minimum, laying a solid foundation for its stable and rapid development in the future.

During the reporting period, the Company realized operating income of RMB423, 740,000, operating profit of RMB6, 840,000, and net profit attributable to owners of the parent company of RMB7, 670,000. As there were significant changes in the Company's consolidated range during the reporting period, the operating income and net profit in this period is not comparable with those in the same period last year.

The features of the production and operation in 2009 are as follows:

(1) Use advantages of technological transformation to increase the quality of products

During the reporting period, the Company continued to expand its production scale, and gave full play to the effectiveness of technological transformation. Many major contracts signed with State Grid, China Southern Power Grid and American companies were completed successfully. Of the products in these contracts, power capacitor had a year-on-year increase of 23.3% in output, hitting a new high and ranking first in the trade.

(2) Strengthen development on the basis of the market pulse

Facing the complex and changeable market situation, the company keenly seized the market opportunity arising from the implementation of economic stimulus policies of expanding investment scale and increasing domestic demand, and took active prospective sales strategies to enhance market development and widen sales channels. Its full efforts to get orders have enabled it to beat the competition, thus ensuring stable growth in overall sales scale.

(3) Accelerate technological innovation for high yield and quality

During the reporting period, the Company made further efforts to research and develops new products with diversified types. The capacitor with high field intensity researched by New Northeast Electric (Jinzhou) Power Capacitors Limited ("NNE(Jinzhou)") has been put into mass production. At the same time, the adoption of internal fuse has improved the structure of capacitor, making it simpler for users to install. This improvement not only increased the yield of capacitor unit production, but also reduced about 8% of productive cost, thus strengthening the market competitiveness.

During the reporting period, the company successfully developed two types of new transformers ordered by foreign consumers. The products have met the users' standard with good overseas sales performance, thus greatly increasing the Company's reputation in the whole trade.

During the reporting period, the company paid more attention to technical reform. The redesign and optimization of the production routing and process of power capacitor has made the routing more reasonable and the environment cleaner, therefore enhancing productive efficiency and product quality. At the same time, the investment in the purchase of production and processing equipment has made the production more automated.

**2. The impacts of the credit policy adjustment on the Company's financial position and operating results of the current year and in the future.**

Credit policy adjustment: In 2009, the implementation of moderate monetary policy reduced the Company's tension in working capital. It is expected that in 2010 China will continue to implement the proactive fiscal policy and moderate monetary policy.

Changes in interest or exchange rates: It is expected that in 2010 China will raise interest rates at the right time, which will give rise to the increase of the Company's financial costs.

Changes in the price of cost element: In 2009, a sharp drop in some main raw material prices led to an increase in the level of the company's gross margin. But since the fourth quarter of 2009, the raw material prices were on the rise because of the implementation of the proactive fiscal policy. It is expected that the rising trend will be continued in 2010, thus enhancing the Company's production cost.

**(II) 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 power capacitors and enclosed busbars.
- (2) Operational results for the year

The Company recorded revenue of RMB423,742,945.28, total profit of RMB6,846,067.72 and the net profit of RMB7,263,664.63.

Operating results in principal operations:

Principal operations by business and product segment

Unit: RMB0'000

By Business or Product	Income from operations	Costs of operations	Gross profit ratio (%)	Increase / decrease in income from operations as compared with the last year(%)	Increase / decrease in costs of operations as compared with the last year(%)	Increase /decrease in gross profit ratio as compared with the last year(%)
<b>1. By Business</b>						
Electrical transmission and allocation and control facilities manufacturing	42,262.33	29,996.62	29.02	-17.74	-25.16	Increase 7.04 percent
<b>2. By Product</b>						
Isolated switch	11,737.27	10,913.84	7.02	-50.02	-46.61	Decrease 6.03 percent
Power capacitor	23,473.71	14,146.34	39.74	29.90	16.35	Increase 7.33 percent
Enclosed busbars	7,051.34	4,936.43	29.99	-19.68	-26.40	Increase 6.39 percent
Total	42,262.33	29,996.62	29.02	-17.74	-25.16	Increase 7.04 percent

(3) Principal operations by region segment

Unit: RMB0'000

Region	Income from principal operations	Increase /decrease (%) in income from principal operations over last year
China Northeast	4,909	-74.58
China Northern	23,560	15.53
China Central	2,621	-13.6
China Eastern	7,589	292.29
China Southern	1,928	-50.65
China Southwest	1,122	3.76
China Northwest	533	-62.85
Export	0	-100
Total	42,262	-17.74

**Note:**

Compared with the same period last year, the decline of income from principal operations by region segment in the reporting period is caused by the changes in current period consolidated range.



## 2. Operations and results of major controlling companies and investee companies

Unit: RMB 0,000

Name	Principal Business	Registered capital	Percentage of share	Total assets	Net assets	Income from	
						principal operations	Net profit
Fuxin Enclosed Busbars Company Limited	Enclosed busbars	US\$2,800,000	100	24,638	6,172	7,057	509
New Northeast Electric (Jinzhou) Power Capacitors Co., Ltd	Lightning arrester, power capacitor	US\$15,450,000	100	28,622	13,250	23,600	1,558
Jinzhou Jinrong Electric Company Limited	High-voltage capacitor	300	69.75	683	404	69	-84
Shenyang Gaodongjia Desiccation Equipment Company Limited	Desiccation equipment	US\$778,500	70	431	410	3	-51
Northeast Electric (Beijing) Co., Ltd	Sales of machinery equipment	200	100	11,990	-188	11,382	-381
Northeast Electric (Hong Kong) Limited	Investment holding and general trading	US\$20,000,000	100	34,748	17,102	208	-748
Great Talent Technology Limited	Investment holding and general trading	US\$1	100	9,245	-5	0	-0.7
Shenyang Kaiyi Electric Co., Ltd	High-voltage equipment	100	100	11,784	41	0	-60
Shenyang Zhaolida Machinery Equipment Co., Ltd	Machinery Equipment	10	100	10	10	0	-0.1
New Northeast Electric Ultra High-Voltage Equipment Co., Ltd.	Manufacture of switches controlling equipment	US\$168,000,000	17.09	443,724	147,642	326,258	3,470
New Northeast Electric (Shenyang) High-Voltage Isolators Switchgears Co., Limited	Manufacture of isolator switchgears	US\$21,500,000	25.6	23,073	17,850	8,988	219
Great Power Technology Limited	Investment holding and general trading	US\$12,626	20.8	27,249	27,245	0	-1,076

**2. Major suppliers and customers***Unit: RMB'000*

Total amount of purchase from the Company's top five suppliers	RMB140,025	Percentage to the Company's total amount of purchase	51.00%
Total amount of sales to the top five customers	RMB 261,983	Percentage to the Company's total amount of sales	61.99%

**(III) INVESTMENTS DURING THE REPORTING PERIOD**

- During the reporting period, the Company had neither raised capital nor situation under which the usage of raised capital prior to the reporting period needed to extend to the reporting period.**
- The investment of non-raised capital, progress and benefits of the main invested projects.**

The information of investments and asset acquisitions during the reporting period are detailed in section 10(2) of this Annual Report.

**(IV) FINANCIAL CONDITIONS AND OPERATING RESULTS DURING THE REPORTING PERIOD****1. Table of financial situation and operating results***Unit: RMB*

Items	2009	2008	Increase/decrease (%)
1.Total assets	836,557,537.85	847,016,256.07	-1.24
2.Shareholders' equity (excluding minority equity)	318,542,326.44	311,137,033.20	2.38
3.Operating profit	6,839,846.88	-69,760,685.96	-
4.Net Profit	7,263,664.63	-70,569,433.41	-
5.Net increase in cash and cash equivalents	11,444,003.84	-34,840,869.85	-

**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; and real estate investment based on cost mode.

**3. Analysis of assets with greater change**
*Unit: RMB*

Items	As at 31 December 2009	As at 31 December 2008	Change(±%)
Monetary Fund	65,253,681.04	49,928,339.70	30.69
Bills Receivables	730,000.00	4,384,150.00	-83.35
Accounts Receivables	257,446,709.33	173,660,074.88	48.25
Advance Payment Accounts	2,625,985.65	29,177,979.98	-91.00
Other Receivables	13,170,240.00	98,780,319.84	-86.67
Construction in progress	0.00	700,574.53	-100.00
Amortization of Long-term Deferred Expenses	10,754,099.06	1,788,472.19	501.30
Deferred Income Tax Assets	11,910,752.23	5,119,501.89	132.65

**Note:**

- 1) *The ending balance of monetary fund has risen by RMB15,325,341.34, an increase of 30.69% compared with the beginning balance. The main reason is that the ending bank deposit has been increased;*
- 2) *The ending balance of bills receivables has reduced by RMB3,654,150, a drop of 83.35% compared with the beginning balance. The main reason is that the bills have been due;*
- 3) *The ending balance of accounts receivables has risen by RMB83,786,634.45, an increase of 48.25% compared with the beginning balance. The main reason is that the payment for goods unreceived has been increased;*
- 4) *The ending balance of advance payment accounts has reduced by RMB26,551,994.33, a drop of 91% compared with the beginning balance. The main reason is that the advance payment accounts to Jinzhou Power Capacitor Co., Ltd has been transferred to other receivables;*
- 5) *The ending balance of other receivables has reduced by RMB85,610,079.84, a drop of 86.67% compared with the beginning balance. The main reason is that the money owed from Liaoning Suntime Electric Equipment Distribution Co., Ltd and Shenyang Beifu Machinery Manufacturing Company has been recovered;*
- 6) *The ending balance of construction in progress has reduced by RMB700,574.53, a drop of 100% compared with the beginning balance. The main reason is that construction in progress has been completed and translated into fixed assets;*
- 7) *The ending balance of amortization of long-term deferred expenses has risen by RMB8,965,626.87, an increase of 501.30% compared with the beginning balance. The main reason is that the rent of houses, land and equipment has been paid;*
- 8) *The ending balance of deferred income tax assets has risen by RMB6,791,250.34, an increase of 132.65% compared with the beginning balance. The main reason is that impairment of assets has been increased.*

## 4. Analysis of liabilities with greater changes

Unit: RMB

Items	As at 31 December 2009	As at 31 December 2008	Change(±%)
Bills Payable	0	6,000,000.00	-100.00
Accounts Payable	153,375,840.11	78,484,781.19	95.42
Advances Receivable	18,963,505.02	60,610,993.70	-68.71
Taxes Payable	13,848,713.11	2,044,217.23	577.46
Other Payables	84,164,434.70	236,970,590.90	-64.48
Other current liabilities	587,446.97	0.00	-
Other non-current liabilities	92,920,097.04	0.00	-

**Note:**

- 1) The ending balance of bill payable has reduced by RMB6,000,000, a drop of 100% compared with the beginning balance. The main reason is that the due bill has been paid;
- 2) The ending balance of accounts payable has risen by RMB74,891,058.92, an increase of 95.42% compared with the beginning balance. The main reason is that the non-payment of purchase has been increased;
- 3) The ending balance of advances receivable has reduced by RMB41,647,488.68, a drop of 68.71% compared with the beginning balance. The main reason is that the advances receivable has been translated into income;
- 4) The ending balance of taxes and dues payable has risen by RMB11,804,495.88, an increase of 577.46% compared with the beginning balance. The main reason is that the non-payment of value added tax and enterprise income tax has increased;
- 5) The ending balance of other payables has reduced by RMB152,806,156.20, a drop of 64.48% compared with the beginning balance. The main reason is that the current accounts not to be recovered within one year according to the creditors' promise have been transferred to other non-current liabilities;
- 6) The ending balance of other current liabilities has risen by RMB587,446.97. The main reason is that the current government grants have been received;
- 7) The ending balance of other non-current liabilities has risen by RMB92,920,097.04. The main reason is that the creditors have promised not to recover the current accounts within one year.

**5. Analysis of profit and loss with greater changes**
*Unit: RMB*

<b>Items</b>	<b>2009</b>	<b>2008</b>	<b>Change(±%)</b>
Business tax and surcharges	98,501.08	177,497.32	-44.51
Impairment Loss of Assets	25,449,507.02	6,283,470.53	305.02
Investment Income	-1,677,139.94	-65,621,029.62	-97.44
Non-operating income	265,694.97	753,117.21	-64.72
Non-operating Expenses	259,474.13	541,723.87	-52.10
income tax expense	-417,596.91	1,020,140.79	-

**Note:**

- 1) *The current balance of impairment loss of assets has risen by RMB19,166,036.49, an increase of 305.02% compared with the balance brought forward. The main reason is that all of the accounts receivables from Jinzhou Power Capacitor Co., Ltd have been translated into Bad debt reserves;*
- 2) *The current balance of investment income has reduced by RMB63,943,889.68, a drop of 97.44% compared with the balance brought forward. The main reason is that the investment losses in the previous period had been disposed, but in the current period, they have not been disposed;*
- 3) *The current balance of non-operating expenses has reduced by RMB282,249.74, a drop of 52.10% compared with the balance brought forward. The main reason is that the fixed assets losses in the previous period had been disposed more largely;*
- 4) *The current balance of other payables has reduced by RMB1,437,737.70. The main reason is that the deferred income tax income has increased.*

**(V) OPERATING PLANS FOR THE NEW FISCAL YEAR****1. Rear Opportunity**

The stable recovery of China's economy has been inevitable and will be continued. The economic stimulus policies such as more government investment in power construction are playing more and more roles. At the same time, with the fast development of UHV AC/DC transmission projects, there is an increasing market demand for the trade the Company belongs to, which is providing a rare opportunity to the Company.

**2. Great Challenge**

The risk of global financial crisis still exists. Some raw material prices are fluctuating largely. The trade competition is increasing, and the profit space is reducing. The Company will expand technical innovation and continue to cultivate new products and new market for stable growth.

**3. Operating plan for the new fiscal year**

In 2010, global economy will enter into a post-financial crisis era, when the challenge of resurgent economic growth will come. China will maintain the continuity and stability of its macroeconomic policy, and continue to implement the proactive fiscal policy and moderate monetary policy. It is expected that there is a stable increase in domestic economy. In 2010, the construction of state grid will maintain momentum of smooth and rapid growth with investment in power grid expected to RMB270 billion.

Therefore, under the operating principles of Seizing Opportunity, Developing Market, Improving Management, and Emphasizing Development, the board of directors of the Company will actively respond to the opportunity and challenge in its operation and development by considering the situation, working hard, upholding scientific development, seizing new chances, determining new ideas, putting forward new goals and blazing new trails to realize sustained and fast growth in operational performance and lay a solid foundation for further operation and leapfrog development.

The main ideas in 2010 are:

- (1) To advance the construction of corporate governance, further standardize and improve internal control, continue to conduct strict, sustained and effective supervision management of internal control so as to improve the Company's management level and risk prevention ability.
- (2) To continue to improve production capacity, strengthen market development, utilize high-quality products to expand market share.

- (3) To deepen lean production, tap internal potential, reduce cost, and improve product profitability.
- (4) To promote lean management, perfect budget management, and enhance risk management.
- (5) To further strengthen product research and development, optimize product structure, promote product performance so as to improve the core competitiveness.

#### 4. Risk factors that the Company may be faced with and their countermeasures

Macro-policy risk: The equipment manufacturing that the Company belongs to is an important pillar industry of national economy, vulnerable to state policies, energy strategies, industrial structure adjustment, and industrial development and so on.

The risk of fierce market competition: In the past two years, main producers in our trade have basically completed their technical innovation and production capacity expansion, thus making the market competition fiercer. The real sales prices of the Company's products in 2008 and 2009 were on a declining curve. The "price war" in the market of 2010 is imperative so that the Company's main product prices will be uncertain.

The risk of raw material price fluctuation: Since the second half year of 2009, the Company's main raw material prices were on the rise. It is expected that this rising trend will be continued in 2010. However, it is difficult for the Company' to raise its product prices in the same pace so that the Company will face the risk of rising cost and falling profit.

Financial risk: The Company will suffer some risks in production and operation as it will have a handsome increase of current capital for production with the expansion of production capacity.

Main measures: 1. The Company will focus on the state energy strategy and investment direction to reduce energy consumption and ensure its long-term sustainable development; 2. The Company will improve the marketing system, strengthen the market development, and actively explore new market and customers; 3. The Company will further increase its ability of independent innovation and improve the technology and quality of products so as to enhance the overall profitability; 4. The Company will pay more attention to internal management and the control of cost and expense; 5. The Company will make full efforts to improve the level of financial management so as to raise the efficiency of capital turnover and utilization.

By order of the Board

**Su Weiguo**

*Chairman*

22 March 2010

**(I) DAILY WORK OF THE BOARD OF DIRECTORS**

During the reporting period, the board of directors has convened 5 meetings, details of which are as follows:

1. The 17th meeting of the 5th session of the Board of Directors was held on 30 March 2009 to consider and approve the Audited Annual Report Ended 31 December 2008, the Proposal of 2008 Net Profit Distribution, Explanation of the Board of Directors on the Correction of Significant Accounting Errors, the Reappointment of the Company's Domestic Auditor, The Reappointment of the Company's International Auditor, Report on Self-assessment of Internal Control, Member Arrangement of Each Committee of the Board of Directors, the Office Relocation, and Personnel Movement.
2. The 18th meeting of the 5th session of the Board of Directors was held on 29 April 2009 to consider and approve the First Quarterly Report of 2009 and Internal Control System.
3. The 19th meeting of the 5th session of the Board of Directors was held on 17 August 2009 to consider and approve the Interim Report for the Period of Six Months Ended 30 June 2009, the Net Profit Distribution Plan for the Period of Six Months Ended 30 June 2009, the Proposal on the Liquidation of Shenyang Gaodongjia Desiccation Equipment Co., Ltd., and the Proposal on the Supplement and Revision of Internal Control Management System.
4. The 20th meeting of the 5th session of the Board of Directors was held on 23 September 2009 to consider and approve the Resolution on Provision of Foreign Guarantee, the Resolution on Relocation of Registered Address, and Amendments to the Articles of Association of the Company.
5. The 21st meeting of the 5th session of the Board of Directors was held on 26 October 2009 to consider and approve the Resolution on the Third Quarterly Report of 2009, and the Resolution on the Exercising of the Functions of Secretary to the Board by the Chairman of the Board.

**(II) 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.

**(III) THE PERFORMANCE OF DUTIES OF THE SPECIAL COMMITTEES OF THE BOARD OF THE COMPANY**

The performance of duties of the special committees of the Board of Directors of the Company is detailed in section 5 (6) of this Annual Report.

**(IV) FINANCIAL SUMMARIES**

The financial summaries are detailed in section 2(1) of this Annual Report.

The material difference between PRC Accounting Rules and Regulations and Hong Kong Financial Reporting Standards is detailed in section 2(4) of this Annual Report.

**(V) RESERVES**

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

**(VI) BANK LOANS AND OTHER LOANS**

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

**(VII) FIXED ASSETS**

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

**(VIII) RETIREMENT WELFARE**

During the year, the Company adopted Hong Kong Accounting Standard No. 19 “Employee 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 HKAS No.19 did not impose significant impact on the Company’s financial status.

**(IX) SHARE CAPITAL**

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

**(X) 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.

**(XI) IMPACT OF MEDICAL INSURANCE SCHEME ON THE RESULTS OF THE COMPANY**

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

**(XII) INCOME TAX: During the reporting period, the applicable income tax of the Company is 25%, and there is no assessable profits in Hong Kong. Please refer to the Notes to the Financial Statements for details.**

**(XIII) 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.

**(XIV) 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 2009 as follows:

During the reporting period, the Company recorded net profit that belong to shareholders of listed company of RMB7,670,166.70, all of which has been used to make up the lost in the previous year, and the accrued profit distributable to shareholders at the end of the year up to RMB-1,528,964,095.88. Therefore the Board resolved not to make any profit distribution and not to transfer any capital reserve into share capital during the reporting period.

The Company had no cash dividends in the past three years.

The Company's cash dividends in the past three years

Unit: RMB

Year	Amount (tax included)	Net profit attributable to shareholders of listed companies in consolidated financial statements	Ratio of the cash dividends to the Net profit attributable to shareholders of listed companies in consolidated financial statements (%)	Annual distribution of profit
2008	0.00	-69,112,495.33	0	-69,112,495.33
2007	0.00	-340,874,097.62	0	-340,874,097.62
2006	0.00	29,529,236.62	0	29,529,236.62
Ratio of the accumulated cash dividends in the past three years to the average annual net profit recently(%)				0.00%

#### (XV) 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.

#### (XVI) FINANCIAL ANALYSIS OF THE COMPANY UNDER HONG KONG FINANCIAL REPORTING STANDARDS

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

As at end of the year, the balance of cash and equivalents was RMB42, 181,000.

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 2009 the Company had bank loans amounting to RMB25, 350,000, representing 3.03% of the total assets. These bank loans bear floating interests' rate.

The debt equity ration of the Company was 7.96% (debt equity ration= total bank loan/total share capital reserve \* 100%)

As at the end of the year 2009, the Company had fixed asset and land with net book value of RMB25,298,000 as security.

Please refer to Notes of Consolidated Financial Statements for contingencies.

**(XVII) 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. Xiang Yongchun and Mr. Wang Yunxiao, 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 Foreign guarantees of Listed Companies" (Zheng Jian Fa [2003]No.56), "Notice on Regulation of Foreign guarantees 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 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 guarantees, and 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.

**2. Special representation and independent opinion on the Company's foreign guarantees**

In 2009, the foreign guarantees amount of the Company amounts to RMB399,050,000.00, and the guarantee amount for its holding subsidiary RMB15,000,000.00. The total guarantee amounts to RMB414,050,000, taking up 129.98% of net assets (exclusive minority shareholders interest) in consolidated statement for 2009.

During the reporting period, the Company cautiously treated and handled the foreign guarantees matters and made complete information disclosure in accordance with relevant provisions of supervision departments, thus making full disclosure and effective control of foreign guarantees. 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 foreign guarantees and to properly solve the problems of the guarantees provided.

### 3. Independent Opinions on Reappointment of International and Domestic Auditors

Shenzhen Pengcheng Certified Public Accountants Co., Ltd and TING HO KWAN & CHAN Certified Public Accountants (Practicing) were appointed as the auditors for the Company's 2009 financial statements. According to their behaviors in auditing the Company's 2009 financial statements, we believe that both of them have fulfilled their service duties with qualified performance, and timely communicated with us the problems arising from the auditing. We agree to reappoint them as the audits for the Company's 2010 financial statement.

### 4. 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.

### 5. 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. The Company is operated in accordance with law, and there is no problem in its financial situation, asset acquisitions and disposals as well as connected transactions.

### 6. Independent opinion on current profit appropriation proposal

During the reporting period, the Company recorded net profit distributable to shareholders of listed companies of RMB7,670,166.70, all of which has been used to make up the lost in the previous year, and the accrued profits distributable to shareholders at the end of the year up to RMB-1,528,964,095.88. Therefore, the board resolved not to make any profit distribution and not to transfer any capital reserve into share capital during the reporting period.

The decision made by the Company's Board that there would be no profit distribution in 2009 is reasonable, and the nonperformance of cash dividend meets the current actual situation of the Company. We have accepted the board's opinion, which will be submitted to the Company's shareholders' meeting for consideration.

### (1) MEETING OF THE SUPERVISORY COMMITTEE

During the reporting period, the supervisory committee has convened 5 meetings, details of which are as follows:

1. The 15th meeting of the 5th session of the supervisory committee was held on 30 March 2009, to consider and approved the annual report ended 31 December 2008 and the work report of the supervisory committee, the proposal of 2008 net profit distribution, the explanation of the board of directors on the correction of significant accounting errors. The self-assessment of internal control and others related were also reviewed and discussed.
2. The 16th meeting of the 5th session of the supervisory committee was held on 29 April 2009 to consider and approve the first quarterly report of 2009.
3. The 17th meeting of the 5th session of the supervisory committee was held on 17 August 2009 to consider and approve the 2009 interim report.
4. The 18th meeting of the 5th session of the supervisory committee was held on 23 September 2009, to consider and approve the resolution on provision of foreign guarantee, the resolution on relocation of registered address and the amendments to the articles of association of the company.
5. The 19th meeting of the 5th session of the supervisory committee was held on 26 October 2009, to consider and approve the resolution on the third quarterly report of 2009 and the resolution on the exercising of the functions of secretary to the Board by the chairman of the board.

**(II) 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 by attentively performing related accounting system and codes of the State to integrate operation and financial management, so as to protect interests of investors. The 2009 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 2009.

**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 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.

**5. Opinions on the self-assessment of the Company's internal control**

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 2009 Annual Report of the Listed Companies published by Shenzhen Stock Exchange, gives the following opinions on self-assessment of the Company's internal control:

- (1) In accordance with relevant provisions of China Securities Regulatory Commission and Shenzhen Stock Exchanges, the Company, under the basic principles of internal control, has established and improved the internal control systems covering all of links of the Company based on its own real situation, ensuring its normal business activities and protecting the security and integrity of its assets.
- (2) The Company has a whole internal control organization with an internal audit department and complete staff, ensuring full and effective implementation and supervision of key internal control activities.
- (3) During the reporting period, the Company had no breach of the Guideline for Internal Control of Shenzhen Stock Exchanges and the System of Internal Control of the Company.

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**

*chairman of the supervisory committee*

22 March 2010

**(I) MATERIAL LITIGATION AND ARBITRATION****1. Litigation lodged by China Development Bank (CDB) for the debt of RMB 150 million**

According to the announcements dated 9 January 2008, 30 April 2008, 26 September 2008, 9 January 2009, and 30 March 2009, CDB 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 19 July 2007, Beijing Higher People's Court (“Beijing Higher Court”) made a civil written order ((2004) Gao Min Chu Zi No.802). 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 RMB 247,120,000; Shenyang High-voltage should return the creditor’s rights of RMB 76,660,000 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, CDB filed an appeal to the Supreme People's Court (“the Supreme Court”). On 5 September 2008, the Supreme Court made a civil written order ((2008) Min Er Zhong Zi No.23). On the basis of upholding the civil written order ((2004) Gao Min Chu Zi No.802) issued by Beijing Higher Court, the Supreme Court ruled to cancel the agreement in relation to swapping the 98.5% share equity interests in Shenyang Tiansheng Communication Equipment Limited held by the Company for the 74.4% share equity interests in New Northeast Electric (Shenyang) High-voltage Isolators Switchgears Ltd. held by Shenyang High-voltage.

The Company accepted the final judgment made by the Supreme Court, and agreed to return to the Shenyang High-voltage the 74.4% equity in New Northeast Electric (Shenyang) High-voltage Isolators Switchgears Ltd (former Shenyang Suntime High-voltage Electric Co., Ltd). At the same time, the Company agreed to accept from the Shenyang High-voltage the 98.5% equity in Shenyang Taisheng Industry and Trading Co., Ltd (Shenyang Tiansheng Communication Equipment Limited).

According to the order ((2009) Gao Zhi Zi No.3)) made by Beijing Higher Court on 20 March 2009, the execution applicant of the CDB, in compliance with the legally effective civil written order ((2008) Min Er Zhong Zi No.23)) made by the Supreme Court, requested Beijing Higher Court to order the related persons subjected to execution including the Company to perform their obligations as stated in the effective legal document. The Company has performed its related obligations as stated in the effective legal document in accordance with the final judgement of the court.

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

According to the announcements dated 13 December 2007, 12 August 2008, 16 February 2009, 6 July 2009, and 7 August 2009:

With regard to the case of RMB15,900,000 on 10 April 2008, the Higher People’s Court of Liaoning Province (“Liaoning Higher Court”) made a civil judgment ((2008) Liao Shen Min Zhong Zai No.2). According the judgment, the liquidation team of Liaoning Trust should be a third party to the litigation, so the court quashed the civil judgment ((2005) Liao Min Er Zhong Zi No.220) and the civil judgment ((2005) Shen Zhong Min Si He Chu Zi No.13), and remanded the case to Shenyang Intermediate Court for retrial. On 16 February 2009, the Company received from its lawyer a civil judgment ((2008) Shen Zhong Shen Min Chu Zai Zi No.2) made by Shenyang Intermediate Court. According to the judgment, the Company’s claim was rejected. On 23 February 2009, the Company filed an appeal to Liaoning Higher Court. On 20 July 2009, Liaoning Higher Court made a civil judgment ((2009) Liao Shen Min Zai Zi No.40), and sustained the original judgment. Now, the Company is in process of re-appeal.

As for the case of RMB60,190,000, on 14 May 2008, Liaoning Higher Court made a civil judgment ((2006) Liao Min Er Zhong Zi No.214, 215 and 216). According the judgment, the liquidation team of Liaoning Trust should be a third party to the litigation, so the court quashed the civil judgment ((2005) Shen Zhong Min Si He Chu Zi No.21,22 and 23), and remanded the case to Shenyang Intermediate Court for retrial. On 6 July 2009, the Company received civil judgments ((2008) Shen Zhong Min Chu Zi No.143, 144 and 145) made by Shenyang Intermediate Court. According to these judgments, the Company’s claim was rejected. The Company brought a lawsuit to Liaoning Higher Court. On 29 October 2009, the court made civil judgments (2009) Liao Min Er Zhong Zi No. 182, 183 and 184. According to these judgments, the original judgment was sustained.

**3. Litigation lodged by Paradise Field Holding Limited (Paradise) for the debt of RMB74.8 million**

According to the announcements dated 6 February 2009 and 7 August 2009, on 4 February 2009, the Company received from its lawyer a notification calling for response to the (2009) Liao Min San Chu Zi No.1 civil suit made by the Higher People’s Court of Liaoning Province (“the Higher Court”). The Paradise brought a lawsuit to the Higher Court on 24 November 2008 against the Company for repayment of the accounts payable of RMB74,806,911 including principal and interest. The Higher Court made a civil judgment (2009) Liao Min San Chu Zi No.1 on 6 August, 2009. According to the judgment, the Paradise was granted to withdraw the case.

**4. Loan Contract Dispute Litigation of China Great Wall Asset Management Corp. Shenyang Office (“Great Wall”) for the debt of RMB351.75 million**

On 24 February 2009, China Great Wall Asset Management Corp. Shenyang Office (“Great Wall”) brought a lawsuit to Liaoning Higher People’s Court (“Liaoning Higher Court”) against Shenyang High-voltage Switchgear Limited (“Shenyang High-voltage”) for the overdue liabilities of Great Wall, requesting the court to order Shenyang High-voltage to repay the liabilities including the principal of RMB 351,750,000 and its interest. On 11 August 2009, the Company received from Liaoning Higher Court an indictment and additional defendant application. According to the indictment and additional defendant application, on 18 May 2009, Great Wall brought an additional lawsuit to Liaoning Higher Court against the Company, claiming the Company to bear the joint liability. The Liaoning Higher Court has made no judgment since the court session of the first instances.

To the best knowledge of the directors, the Company had no any material pending or threatened litigations and claims except the litigations above.

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

**1. Capital increase of US\$5,450,000 in New Northeast Electric (Jinzhou) Power Capacitors Co., Ltd**

Approved by the board meeting held on 2 January 2009, the Company, in accordance with the need of strategic business development, agreed that New Northeast Electric (Jinzhou) Power Capacitors Co., Ltd, a wholly-owned subsidiary of the Company, increased its total investment and registered capital from US\$10,000,000 to US\$15,450,000. At the same time, the Company also agreed that Shenyang Kaiyi Electronic Co., Ltd, a wholly-owned subsidiary of the Company, invested RMB 37,600,000 (approximately US\$5,450,000) in cash in subscribing all of the new share capital. On 9 March 2009, the industrial and commercial change registration was done.

**2. The application for deregistration of Northeast Electric Development Co., Ltd Beijing Branch was approved by Beijing Administration for Industry and Commerce on 23 March 2009.**

**(III) DURING THE REPORTING PERIOD, THE COMPANY HAS NO INVESTMENT IN SECURITIES.**

**(IV) DURING THE REPORTING PERIOD, THE COMPANY HAS NOT HELD ANY SHARES OF OTHER LISTING COMPANIES OR ANY EQUITIES OF SUCH FINANCIAL ENTERPRISES AS COMMERCIAL BANKS, SECURITIES COMPANIES, INSURANCE COMPANIES, TRUST COMPANIES AND FUTURES COMPANIES. IN ADDITION, THE COMPANY HAD NOT SHARED IN ANY PROPOSED LISTING COMPANIES.**

**(V) 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.

**(VI) 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.

**(VII) SIGNIFICANT CONTRACTS AND THEIR EXECUTIONS**

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

**2. Guarantees****(1) Foreign guarantees of the Company**

By the end of 2009, the foreign guarantee of the Company totaled RMB414,050,000, including RMB335,000,000 for New Northeast Electric (Shenyang) High-Voltage Switchgear Co., Ltd (Renamed as New Northeast Electric Ultra High-Voltage Equipment Co., Ltd. on 18 December 2009); RMB39,900,000 for Jinzhou Power Capacitors Co., Ltd; RMB24,150,000 for Shenyang Kingdom Hotel Co., Ltd.

**(2) Guarantees for the subsidiary of the Company**

The Company offered guarantees of RMB15,000,000 for its subsidiary New Northeast (Jinzhou) Power Capacitors Co., Ltd.

**(3) Guarantee of the Company for the guaranteed company with debt to assets ratio over 70%**

As of the end of the reporting period, the guarantee of the Company for Jinzhou Power Capacitors Co., Ltd with debt to assets ratio over 70% was RMB39,900,000, accounting for 12.52% of the audited net assets of the Company for 2009, which was translated into liabilities in total in 2007.

**(4) The Company does not have any other guarantees for its shareholder, effective controller and other parties concerned.**

**(VIII) EXECUTION OF COMMITMENTS OF THE COMPANY, SHAREHOLDER AND EFFECTIVE CONTROLLER**

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 per share.

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

In addition, the Company has held 17.09 % equity of New Northeast Electric Group Ultra-high Voltage Equipment Company, (originally named New Northeast Electric (Shenyang) High-Voltage Switchgears Co., Limited), and promised not to recover the Company's debt of RMB92,920,097.04 within one year.

**(IX) EMPLOYMENT AND DISMISSAL OF CERTIFIED PUBLIC ACCOUNTANT**

Please refer to Annual Report section V (VI) 12.

**(X) THE COMPANY HAS NOT ISSUED ANY EQUITY INCENTIVE PLANS****(XI) 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****(XII) 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**

**(XIII) 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.

**(XIV) ANNOUNCEMENT INDEX ON MAJOR MATTERS IN 2009**

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](http://www.cninfo.com.cn), <http://www.hkexnews.hk> [column on the latest information of listed company] and [www.nee.hk](http://www.nee.hk) (the Company's website) for details. The major information is disclosed as follows:

<b>Publishing Date</b>	<b>Announcement Matters</b>
4 February 2009	Announcement on Resolutions of the First EGM for 2009
17 February 2009	Announcement on Progress of Recovery of Material Debt and Litigation
31 March 2009	Annual Report for 2008
31 March 2009	Announcement on Implementation of treatment of Delisting Risk Warning on A shares
7 July 2009	Announcement on Progress of Litigation
18 August 2009	Interim Results for 2009
24 September 2009	Announcement on Foreign Guarantee
27 October 2009	Third Quarterly Report for 2009
7 November 2009	Announcement on Resolutions of the Second EGM for 2009

**(XV) SUBSEQUENT EVENTS**

**1. The 2010 First Extraordinary General Meeting was held on 8 March 2010 (please refer to the Announcement dated 8 March 2010). The following resolutions were voted by item at the meeting, and the voting results are as follows:**

- I. Discussion and Approval of Amendments to the Articles of Association of the Company;
- II. Discussion and Approval of Resolution on Nominating Candidates for the members of the Sixth Session of the Board of Directors;
- III. Discussion and Approval of Resolution on Nominating Candidates for the members of the Sixth Session of the Board of Supervisors;
- IV. Discussion and Approval of Proposal on the annual remuneration of the members of the Sixth Session of the Board of directors;
- V. Discussion and Approval of Proposal on the annual remuneration of the members of the Sixth Session of the Board of supervisors.

**2. The first meeting of the sixth session of the Board was held on 8 March 2010 (please refer to the Announcement dated 8 March 2010). The following resolutions were considered and voted by item at the meeting:**

- I. Discussion and acceptance of the Resolution on Election of Chairman and Vice Chairman;
- II. Discussion and acceptance of the Resolution on Establishment of Special Committees of the Board;
  1. Audit Committee  
Chairman: Mr. Wang Yunxiao  
Members: Mr. Wu Qicheng and Mr. Xiang Yongchun
  2. Remuneration Committee  
Chairman: Mr. Xiang Yongchun

Members: Mr. Wang Shouguan and Mr. Wang Yunxiao

3. Nomination Committee

Chairman: Mr. Su Weiguo

Members: Mr. Wang Shouguan and Mr. Wu Qicheng

4. Strategic Development Committee

Chairman: Mr. Su Weiguo

Members: Mr. Wang Shouguan, Mr. Xiang Yongchun, Mr. Bi Jianzhong and Mr. Liu Qingmin

5. Investment Management Committee

Chairman: Mr. Su Weiguo

Members: Mr. Wang Shouguan, Mr. Xiang Yongchun, Mr. Bi Jianzhong and Mr. Du Kai

III. Discussion and acceptance of the Resolution on Appointment of General Manager;

IV. Discussion and acceptance of the Resolution on Appointment of Assistant to General Manager;

V. Discussion and acceptance of the Resolution on the Mr. Su Weiguo Exercising of the Functions of Secretary to the Board by the Chairman of the Board;

IV. Discussion and acceptance of the Resolution on Appointment of Securities Affairs Representative.

3. **The first meeting of the sixth session of the supervisory committee was held on 8 March 2010 (please refer to the Announcement dated 8 March 2010). The Resolution on Election of Mr. Dong Liansheng as the Chairman of the supervisory committee was considered and approved by a unanimous vote at the meeting.**
  
4. **Personnel Changes**
  - I. The Sixth Session of the Board of Directors of the Company was elected at the first EGM of 2010 on 8 March 2010, comprising of five executive Directors, namely Mr. Su Weiguo, Mr. Wang Shouguan, Mr. Bi Jianzhong, Mr. Du Kai and Mr. Liu Qingmin; and three independent non-executive Directors, namely Mr. Wu Qicheng, Mr. Xiang Yongchun and Mr. Wang Yunxiao. Mr. Su Weiguo was elected as the chairman, and Mr. Bi Jianzhong was appointed as general manager.
  
  - II. The Sixth Session of the Board of supervisors of the Company was elected at the first EGM of 2010 on 8 March 2010, comprising of two supervisors of shareholders elected at the EGM, namely Mr. Dong Liansheng and Mr. Bai Lihai, as well as one supervisor of employees, Mr. Liu Xuehou, elected at the previous representative assembly of workers. Mr. Dong Liansheng was elected as the Chairman of the Board of Supervisors
  
  - III. On 8 March 2010, three independent non-executive directors, namely Mr. Lin Wenbin, Ms. Liang Jie and Mr. Liu Hongguang, and two supervisors, namely Mr. Fu Xiuheng and Ms. Dai Guiqing, resigned due to expiration of the term of office.
  
5. **The deregistration of Shenyang Zhaolida Machinery and Equipment Co. Ltd which was the wholly-owned subsidiary of Northeast Electric Development Co., Ltd was approved by Shenyang Zhangshi Economic and Development Zone Administration for Industry and Commerce on 21 January 2010.**

Notice is hereby given that the Annual General Meeting of Shareholders for 2009 (the “AGM”) of Northeast Electric Development Company Limited (“the Company”) will be held in the conference room of the Company, No.38 Jingxing North Street, Tiexi District, Shenyang, the PRC at 9:00 am on 7 May 2010 for the following purposes:

**1. To approve the 2009 Annual Report;**

**2. To approve the Proposal of 2009 Net Profit Distribution:**

During the reporting period, the Company recorded net profit distributable to shareholders of listed company of RMB7,670,166.70, all of which has been used to make up the lost in the previous year, and the accrued profits distributable to shareholders at the end of the year up to RMB-1,528,964,095.88. 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 Auditor for the year 2010:**

It was proposed to reappoint Shenzhen Pengcheng Certified Public Accountants Co. Ltd. as the domestic auditor of the Company for the year of 2010 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 Auditor for the year 2010:**

It was proposed to reappoint Ting Ho Kwan & Chan, Certified Public Accountants (Practicing) as the international auditor of the Company for the year of 2010 for a term of one year, and authorized the Board to determine the remuneration.

**5. To approve the Work Report of the Board of Directors for the year of 2009;**

**6. To approve the Work Report of the Board of Supervisors for the year of 2009.**



**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 30 April 2010 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 8 April 2010 to 7 May 2010 (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 7 April 2010 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 7 April 2010.*
- (3) *Shareholders who intend to attend the meeting shall lodge the reply slips for attending the meeting to the Company before 17 April 2010.*
- (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 later 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

**Su Weiguo**

**Chairman**

22 March 2010

## LIST OF DOCUMENTS AVAILABLE FOR INSPECTION

---

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

- (I) Accounting Statements bearing signatures and seals of the Chairman, Chief Accountant and Head of Financial Department of the Company;
- (II) Originals of auditor's reports bearing seals of the Accountants and signatures and seals of the Certified Public Accountants;
- (III) Originals of all the Company's documents and originals of announcements, which have been disclosed on the newspapers designated by China Securities Regulatory Commission( CSRC) during the reporting period;
- (IV) Original of the Company's annual 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 74 to 138, which comprise the consolidated balance sheet as at 31 December 2009, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows 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.

### AUDITOR'S 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, in accordance with the agreed terms of the engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. 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 requirement and plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **OPINION**

In our opinion, the consolidated financial statements give a true and fair view of the state of the Group's affairs as at 31 December 2009 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

**TING HO KWAN & CHAN**

**Certified Public Accountants (Practising)**

Hong Kong, 22 March 2010

## CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2009 (Prepared in accordance with Hong Kong Financial Reporting Standards)

	<i>Notes</i>	<b>2009</b> <i>Rmb'000</i>	<b>2008</b> <i>Rmb'000</i>
<b>Turnover</b>	5	423,743	517,717
Cost of sales		(300,958)	(404,605)
Gross profit		<u>122,785</u>	<u>113,112</u>
Other income	7	2,033	9,633
Distribution costs		(42,639)	(48,123)
Administrative expenses		(72,091)	(67,675)
<b>Operating profit</b>		<u>10,088</u>	<u>6,947</u>
Finance costs	10	(1,509)	(3,443)
Share of results of associates		(1,676)	(376)
Loss on disposal of a subsidiary	34	-	(720)
Losses on share exchange scheme	34	-	(71,846)
<b>Profit/(loss) before taxation</b>	9	<u>6,903</u>	<u>(69,438)</u>
Taxation	8	417	(1,020)
<b>Profit/(loss) for the year</b>		<u><u>7,320</u></u>	<u><u>(70,458)</u></u>
<b>Attributable to:</b>			
Equity holders of the Company		7,727	(69,001)
Minority interests		(407)	(1,457)
		<u><u>7,320</u></u>	<u><u>(70,458)</u></u>
<b>Basic earnings/(loss) per share (in RMB: Yuan)</b>	13	<u><u>0.01</u></u>	<u><u>(0.08)</u></u>

The notes on pages 81 to 138 are an integral part of these consolidated financial statements.

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2009 (Prepared in accordance with Hong Kong Financial Reporting Standards)

	<b>2009</b>	<b>2008</b>
	<i>Rmb'000</i>	<i>Rmb'000</i>
<b>Profit/(loss) for the year</b>	7,320	(70,458)
Other comprehensive income:		
Exchange differences arising from translation of foreign operations	<u>(265)</u>	<u>(9,302)</u>
<b>Total comprehensive income for the year</b>	<u><u>7,055</u></u>	<u><u>(79,760)</u></u>
<b>Attributable to:</b>		
Equity holders of the Company	7,462	(78,303)
Minority interests	<u>(407)</u>	<u>(1,457)</u>
	<u><u>7,055</u></u>	<u><u>(79,760)</u></u>

The notes on pages 81 to 138 are an integral part of these consolidated financial statements.

## CONSOLIDATED BALANCE SHEET

As at 31 December 2009 (Prepared in accordance with Hong Kong Financial Reporting Standards)

	<i>Notes</i>	<b>2009</b> <i>Rmb'000</i>	<b>2008</b> <i>Rmb'000</i>
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	14	81,126	84,331
Lease prepayments	15	4,878	5,013
Interests in associates	17	87,936	89,753
Available-for-sale investment	18	215,942	216,055
Trade and other receivables	21	6,831	844
Deferred tax assets	33	11,911	5,120
		<u>408,624</u>	<u>401,116</u>
<b>CURRENT ASSETS</b>			
Inventories	20	68,983	67,539
Trade and other receivables	21	293,690	336,821
Non-current assets held for sale	24	-	1,300
Pledged bank deposits	25	23,073	19,712
Cash and cash equivalents	26	42,181	30,216
		<u>427,927</u>	<u>455,588</u>
<b>CURRENT LIABILITIES</b>			
Amounts due to associates	22	9,594	8,094
Amount due to an investee company	23	9,252	2,252
Trade and other payables	27	249,490	289,103
Bank borrowings	28	25,350	22,450
Provision for loss on guarantee obligations	29	124,968	124,968
Government grants	32	587	-
Tax payable		3,402	901
		<u>422,643</u>	<u>447,768</u>

**CONSOLIDATED BALANCE SHEET (Continued)**

As at 31 December 2009 (Prepared in accordance with Hong Kong Financial Reporting Standards)

	<i>Notes</i>	<b>2009</b>	<b>2008</b>
		<i>Rmb '000</i>	<i>Rmb '000</i>
<b>NET CURRENT ASSETS</b>		<u>5,284</u>	<u>7,820</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<u>413,908</u>	<u>408,936</u>
<b>NON-CURRENT LIABILITIES</b>			
Amount due to an associate	22	-	32,176
Amount due to an investee company	23	<u>92,920</u>	<u>62,827</u>
		<u>92,920</u>	<u>95,003</u>
<b>NET ASSETS</b>		<u><u>320,988</u></u>	<u><u>313,933</u></u>
<b>CAPITAL AND RESERVES</b>			
Share capital	30	873,370	873,370
Reserves	31	<u>(554,833)</u>	<u>(562,295)</u>
<b>Equity attributable to equity holders of the Company</b>		<u>318,537</u>	<u>311,075</u>
<b>Minority interests</b>		<u>2,451</u>	<u>2,858</u>
<b>TOTAL EQUITY</b>		<u><u>320,988</u></u>	<u><u>313,933</u></u>

The consolidated financial statements were approved and authorised for issue by the Board of Directors on 22 March 2010 and are signed on its behalf by:

**Chairman: Su Weiguo**

**Director: Bi Jianzhong**

The notes on pages 81 to 138 are an integral part of these consolidated financial statements.

## CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2009 (Prepared in accordance with Hong Kong Financial Reporting Standards)

	<i>Notes</i>	<b>2009</b>	<b>2008</b>
		<i>Rmb'000</i>	<i>Rmb'000</i>
<b>OPERATING ACTIVITIES</b>			
Profit/(loss) before taxation		6,903	(69,438)
Adjustments for:			
Dividend income	7	-	(7,321)
Interest income	7	(156)	(639)
Reversal of allowance for impairment of trade and other receivables	7	(1,648)	-
Depreciation of property, plant and equipment	9	7,140	7,899
Amortisation of lease prepayments	9	135	135
Loss on disposal of property, plant and equipment	9	35	288
Property, plant and equipment written off	9	25	-
Allowance for impairment of trade and other receivables	9	27,097	4,973
Interest expense	10	1,509	3,443
Share of results of associates	17	1,677	376
Loss on disposal of a subsidiary	34	-	720
Losses on share exchange scheme	34	-	71,846
<b>Operating profit before changes in working capital</b>		<b>42,717</b>	<b>12,282</b>
(Increase)/decrease in inventories		(1,444)	3,568
Decrease/(increase) in trade and other receivables		11,695	(61,345)
Decrease in non-current assets held-for-sale		1,300	-
(Decrease)/increase in trade and other payables		(38,353)	93,314
Increase in government grants		587	-
Increase in amounts due to associates		1,500	8,094
Increase/(decrease) in amount due to an investee company		7,000	(39,748)
Cash generated from operations		25,002	16,165
Income tax paid		(3,873)	(1,340)
Interest paid		(1,509)	(3,443)
<b>NET CASH GENERATED FROM OPERATING ACTIVITIES</b>		<b>19,620</b>	<b>11,382</b>

**CONSOLIDATED STATEMENT OF CASH FLOWS (Continued)**

For the year ended 31 December 2009 (Prepared in accordance with Hong Kong Financial Reporting Standards)

	<i>Notes</i>	<b>2009</b>	<b>2008</b>
		<i>Rmb '000</i>	<i>Rmb '000</i>
<b>INVESTING ACTIVITIES</b>			
Net cash inflow from disposal of subsidiaries	34	-	3,918
Purchase of property, plant and equipment		(5,346)	(32,035)
Proceeds from disposal of property, plant and equipment		100	43
(Increase)/decrease in pledged bank deposits		(3,361)	9,231
Interest received		156	639
<b>NET CASH USED IN INVESTING ACTIVITIES</b>		<u>(8,451)</u>	<u>(18,204)</u>
<b>FINANCING ACTIVITIES</b>			
New bank borrowings raised		40,350	35,450
Repayments of bank borrowings		(37,450)	(63,369)
(Decrease)/increase in amount due to an associate		(32,176)	32,176
Increase/(decrease) in amount due to an investee company		30,093	(2,100)
<b>NET CASH GENERATED FROM FINANCING ACTIVITIES</b>		<u>817</u>	<u>2,157</u>
<b>NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>		11,986	(4,665)
<b>CASH AND CASH EQUIVALENTS AT 1 JANUARY</b>		30,216	36,635
Effect of changes in foreign exchange rate		(21)	(1,754)
<b>CASH AND CASH EQUIVALENTS AT 31 DECEMBER</b>	26	<u><u>42,181</u></u>	<u><u>30,216</u></u>

The notes on pages 81 to 138 are an integral part of these consolidated financial statements.

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2009 (Prepared in accordance with Hong Kong Financial Reporting Standards)

## Attributable to equity holders of the Company

	Share capital <i>Rmb '000</i> <i>(Note 30)</i>	Capital reserve <i>Rmb '000</i> <i>(Note 31)</i>	Capital contribution <i>Rmb '000</i> <i>(Note 31)</i>	Statutory		Discretionary		Translation reserve <i>Rmb '000</i> <i>(Note 31)</i>	Accumulated losses <i>Rmb '000</i>	Total <i>Rmb '000</i>	Minority interests <i>Rmb '000</i>	Total equity <i>Rmb '000</i>
				surplus reserve <i>Rmb '000</i> <i>(Note 31)</i>	surplus reserve <i>Rmb '000</i> <i>(Note 31)</i>							
At 1 January 2008	873,370	511,060	186,419	81,631	32,699	(8,355)	(1,287,446)	389,378	4,315	393,693		
Loss for the year	-	-	-	-	-	-	(69,001)	(69,001)	(1,457)	(70,458)		
Other comprehensive income for the year	-	-	-	-	-	(9,302)	-	(9,302)	-	(9,302)		
At 31 December 2008	873,370	511,060	186,419	81,631	32,699	(17,657)	(1,356,447)	311,075	2,858	313,933		
Profit for the year	-	-	-	-	-	-	7,727	7,727	(407)	7,320		
Other comprehensive income for the year	-	-	-	-	-	(265)	-	(265)	-	(265)		
At 31 December 2009	873,370	511,060	186,419	81,631	32,699	(17,922)	(1,348,720)	318,537	2,451	320,988		

The notes on pages 81 to 138 are an integral part of these consolidated financial statements.

**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 basic information of the Company of the annual report.

The principal activity of the Company is investment holding. The principal activities of its subsidiaries are described in note 16. The Company and its subsidiaries are herein collectively referred to as the "Group".

**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES****(a) Statement of compliance**

These consolidated financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (HKFRSs), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (HKASs) and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (HKICPA), accounting principles generally accepted in Hong Kong and the disclosure requirements of Hong Kong Companies Ordinance. These consolidated financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited. A summary of the significant accounting policies adopted by the Group is set out below.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group. Note 3 provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these consolidated financial statements.

**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**(b) Basis of preparation of the consolidated financial statements**

The consolidated financial statements for the year ended 31st December, 2009 comprise the Company and its subsidiaries and the Group's interests in associates.

The measurement basis used in the preparation of the consolidated financial statements is the historical cost.

The preparation of consolidated financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the applicable of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of HKFRSs that have significant effect on the consolidated financial statements and major sources of estimation uncertainty are discussed in note 4.

**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*Continued*)****(c) Subsidiaries and minority interests**

Subsidiaries are entities controlled by the Company. Control exist when the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits form its activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances and transactions and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Minority interests represent the portion of the net assets of subsidiaries attributable to interests that are not owned by the Company, whether directly or indirectly through subsidiaries, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. Minority interests are presented in the consolidated balance sheet within equity, separately from equity attributable to the equity shareholders of the Company. Minority interests in the results of the Group are presented on the face of the consolidated income statement and the consolidated statement of comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between minority interests and the equity shareholders of the Company.

Where losses applicable to the minority exceed the minority interests in the equity of a subsidiary, the excess, and any further losses applicable to the minority, are charged against the Group's interest except to the extent that the minority has a binding obligation to, and is able to, make additional investment to cover the losses. If the subsidiary subsequently reports profits, the Group's interest is allocated all such profits until the minority's share of losses previously absorbed by the Group has been recovered.

**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**(d) Associates**

An associate is an entity in which the Group 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 under the equity method. Under the equity method, the investment is initially recorded at cost and adjusted thereafter for the post acquisition change in the Group's share of the associates' net assets and any impairment loss relating to the investment (see note 2 (i)). The Group's share of the post-acquisition, post-tax results of the associates and any impairment losses for the year are recognised in the consolidated income statement, whereas the Group's share of the post-acquisition post-tax items of the associates' other comprehensive income is recognised in the consolidated statement of comprehensive income.

When the Group's share of losses exceeds its interest in the associate, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the investee. For this purpose, the Group's interest is the carrying amount of the investment under the equity method together with the Group's long-term interests that in substance form part of the Group's net investment in the associate.

Unrealised profits and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's interests in the associates, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)****(e) Property, plant and equipment**

Property, plant and equipment are stated in the consolidated balance sheet at cost less accumulated depreciation and any impairment losses (see note 2(i)).

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

Depreciation of property, plant and equipment is calculated using the straight-line method to allocate cost or revalued amounts to their residual values (if any) over their estimated useful lives, as follows:

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

Both the useful life of an asset and its residual value, if any, are reviewed annually.

Construction in progress represents buildings, structures, plant and machinery and other fixed assets under construction or installation and is stated at cost less any accumulated impairment losses, and is not depreciated. Cost comprises direct costs of construction, installation and testing as well as capitalised borrowing costs on related borrowed funds during the period of construction or installation. Construction in progress is reclassified to the appropriate category of fixed assets or investment properties when completed and ready for use.

**(f) Lease prepayments**

Lease prepayments represent cost of land use rights paid to the PRC's governmental authorities. Land use rights are carried at cost less accumulated amortisation and any impairment losses (see note 2 (i)). Amortisation is charged to profit or loss on the straight-line basis over the respective periods of the rights.

**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)****(g) Operating lease charges**

Where the Group has the use of assets under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

**(h) Financial assets**

The Group classifies its financial assets in the following two categories: loans and receivables and available-for-sale investments. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investment at initial recognition.

**(i) Loans and receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Trade and other receivables and cash and cash equivalents in the consolidated balance sheet are classified as loans and receivables.

**(ii) Available-for-sale investment**

Available-for-sale investments are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the financial assets within 12 months of the balance sheet date.

Regular purchases and sales of investments are recognised on the trade-date - the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Investment carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the income statement. Investments are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale investments are subsequently carried at fair value. Loans and receivables are carried at amortised cost using the effective interest method.

Dividends on available-for-sale equity instruments are recognised in the consolidated income statement as part of other income when the Group's right to receive payments is established.

**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*Continued*)****(i) Impairment of assets****(i) *Impairment of investments in equity securities and other receivables***

Investments in equity securities (other than investments in subsidiaries and associates) and other current and non-current receivables that are stated at cost or amortised cost or are classified as available-for-sale investments are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

- significant financial difficulty of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it becoming probable that the debtor will enter bankruptcy or other financial reorganisation;
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and
- a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

If any such evidence exists, any impairment loss is determined and recognised as follows:

- For investments in associates recognised using the equity method (see note 2(d)), the impairment loss is measured by comparing the recoverable amount of the investment as a whole with its carrying amount in accordance with note 2(i)(ii). The impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount in accordance with note 2 (i)(ii).
- For unquoted equity securities carried at cost, the impairment loss is measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material. Impairment losses for equity securities are not reversed.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*Continued*)

(i) Impairment of assets (*Continued*)

(i) *Impairment of investments in equity securities and other receivables (Continued)*

- For trade and other current receivables and other financial assets carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where financial assets carried at amortised cost share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

- For available-for-sale investments, the cumulative loss that has been recognised in the fair value reserve is reclassified to profit or loss. The amount of the cumulative loss that is recognised in profit or loss is the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that asset previously recognised in profit or loss.

Impairment losses recognised in profit or loss in respect of available-for-sale investments are not reversed through profit or loss. Any subsequent increase in the fair value of such assets is recognised directly in other comprehensive income.

Impairment losses in respect of available-for-sale debt securities are reversed if the subsequent increase in fair value can be objectively related to an event occurring after the impairment loss was recognised. Reversals of impairment losses in such circumstance are recognised in profit or loss.

**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*Continued*)****(i) Impairment of assets (*Continued*)****(i) *Impairment of investments in equity securities and other receivables (Continued)***

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade debtors and bills receivable included within trade and other receivables, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade debtors and bills receivable directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

**(ii) *Impairment of other assets***

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased:

- property, plant and equipment (other than properties carried at revalued amounts);
- lease prepayments on land use rights classified as being held under an operating lease;
- investments in subsidiaries and associates (except for those classified as held for sale or included in a disposal group that is classified as held for sale); and
- goodwill.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, the recoverable amount is estimated annually whether or not there is any indication of impairment.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*Continued*)

(i) Impairment of assets (*Continued*)

(ii) *Impairment of other assets (Continued)*

- Calculation of recoverable amount

The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

- Recognition of impairment losses

An impairment loss is recognised in profit or loss whenever the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

- Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)****(j) Inventories**

Inventories are carried at the lower of cost and net realisable value.

Cost is calculated using the weighted average formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

**(k) Trade and other receivables**

Trade and other receivables are initially recognised at fair value and, after initial recognition, at amortised cost less any allowance for impairment of bad and doubtful debts (see note 2(i)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment of doubtful debts (see note 2(i)).

**(l) Cash and cash equivalents**

Cash and cash equivalents comprise cash at banks and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated statement of cash flows.

**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)****(m) Trade and other payables**

Trade and other payables are initially recognised at fair value. Except for financial guarantee liabilities measured in accordance with note 2(q)(i), trade and other payables are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

**(n) Interest-bearing borrowings**

Interest-bearing borrowings, comprising mainly bank loans, are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method. Interest-bearing borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liabilities for at least 12 months after balance sheet date.

**(o) Retirement benefit costs****Short Term Employee Benefits and Contributions to Defined Contribution Retirement Plans**

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

Contributions to appropriate local defined contribution retirement schemes pursuant to the relevant labour rules and regulations in the PRC are recognised as an expense in profit or loss as incurred, except to the extent that they are included in the cost of inventories not yet recognised as an expense.

**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*Continued*)****(p) Income tax**

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relates to items recognised in other comprehensive income or directly in equity, in which case they are recognised in other comprehensive income or directly in equity respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates (and laws) enacted or substantively enacted as at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, if the deferred tax arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not accounted for. The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities using the tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. Deferred tax assets also arise from unused tax losses and unused tax credits.

At each balance sheet date, the Group reviews and assesses the recognised and unrecognised deferred tax assets and the future taxable profit to determine whether any recognised deferred tax assets should be derecognised and any unrecognised deferred tax assets should be recognised.

Deferred tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*Continued*)

(q) Financial guarantees issued, provisions and contingent liabilities

(i) *Financial guarantees issued*

Financial guarantees are contracts that require the issuer (i.e. the guarantor) to make specified payments to reimburse the beneficiary of the guarantee (the “holder”) for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Where the Group issues a financial guarantee, the fair value of the guarantee (being the transaction price, unless the fair value can otherwise be reliably estimated) is initially recognised as deferred income within trade and other payables. Where consideration is received or receivable for the issuance of the guarantee, the consideration is recognised in accordance with the Group's policies applicable to that category of asset. Where no such consideration is received or receivable, an immediate expense is recognised in profit or loss on initial recognition of any deferred income.

The amount of the guarantee initially recognised as deferred income is amortised in profit or loss over the term of the guarantee as income from financial guarantees issued. In addition, provisions are recognised in accordance with this note (iii) below if and when (i) it becomes probable that the holder of the guarantee will call upon the Group under the guarantee, and (ii) the amount of that claim on the Group is expected to exceed the amount currently carried in trade and other payables in respect of that guarantee i.e. the amount initially recognised, less accumulated amortisation.

**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*Continued*)****(q) Financial guarantees issued, provisions and contingent liabilities (*Continued*)****(ii) *Contingent liabilities acquired in business combinations***

Contingent liabilities acquired as part of a business combination are initially recognised at fair value, provided the fair value can be reliably measured. After their initial recognition at fair value, such contingent liabilities are recognised at the higher of the amount initially recognised, less accumulated amortisation where appropriate, and the amount that would be determined in accordance with this note (iii) below. Contingent liabilities acquired in a business combination that cannot be reliably fair valued are disclosed in accordance with this note (iii) below.

**(iii) *Other provisions and contingent liabilities***

Provisions are recognised for other liabilities of uncertain timing or amount when the Group or the Company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*Continued*)**

**(r) Revenue recognition**

Revenue is measured at fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

**(i) Sale of goods**

Revenue from the sales of good is recognised when the Group has delivered the goods to the customers and the customer has accepted the goods together with the risks and rewards of ownership of the goods. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts and goods returns.

**(ii) Interest income**

Interest income is recognised as it accrues using the effective interest method.

**(iii) Government grants**

Government grants are recognised in the balance sheet initially when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognised as revenue in profit or loss on a systematic basis in the same periods in which the expenses are incurred.

**(s) Foreign currency translation**

**(i) Functional and presentation currency**

Items included in the financial statements of each of the Group's entities are measured using the currency that best reflects the economic substance of the underlying events and circumstances relevant to that entity ("the functional currency"). The consolidated financial statements are presented in Renminbi ("Rmb"), which is the Group's functional and presentation currency.

**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*Continued*)****(s) Foreign currency translation (*Continued*)****(ii) Transactions and balances**

Foreign currency transactions during the year are translated at the foreign exchange rate ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling as at the balance sheet date. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates.

The results of operations outside the PRC are translated into Renminbi at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Consolidated balance sheet's items are translated into Renminbi at the closing foreign exchange rates as at the balance sheet date. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve.

On disposal of a foreign operation, the cumulative amount of the exchange difference relating to that foreign operation is recognised from equity to profit or loss when the profit or loss on disposal is recognised.

**(t) Borrowing costs**

Borrowing costs are expensed in profit or loss in the period in which they are incurred.

**(u) Research and development expenditure**

Expenditure on research activities is recognised as an expense in the period in which it is incurred. Expenditure on development activities is capitalised if the product or process is technically and commercially feasible and the Group has sufficient resources and the intention to complete development. The expenditure capitalised includes the cost of materials, direct labour, and an appropriate proportion of overheads and borrowing costs, where applicable. Other development expenditure is recognised as an expense in the period in which it is incurred.

**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)****(v) Non-current assets held for sale**

A non-current asset (or disposal group) is classified as held for sale if it is highly probable that its carrying amount will be recovered through a sale transaction rather than through continuing use and the asset (or disposal group) is available for sale in its present condition. A disposal group is a group of assets to be disposed of together as a group in a single transaction, and liabilities directly associated with those assets that will be transferred in the transaction.

Immediately before classification as held for sale, the measurement of the non-current assets (and all individual assets and liabilities in a disposal group) is brought up-to-date in accordance with the accounting policies before the classification. Then, on initial classification as held for sale and until disposal, the non-current assets (except for certain assets as explained below), or disposal groups, are recognised at the lower of their carrying amount and fair value less costs to sell. The principal exceptions to this measurement policy so far as the consolidated financial statements of the Group are concerned are deferred tax assets, assets arising from employee benefits and financial assets (other than investments in subsidiaries and associates). These assets, even if held for sale, would continue to be measured in accordance with the policies set out elsewhere in note 2.

Impairment losses on initial classification as held for sale, and on subsequent remeasurement while held for sale, are recognised in profit or loss. As long as a non-current asset is classified as held for sale, or is included in a disposal group that is classified as held for sale, the non-current asset is not depreciated or amortised.

**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*Continued*)**

**(w) Related parties**

For the purposes of these consolidated financial statements, a party is considered to be related to the Group if:

- (i) the party has the ability, directly or indirectly through one or more intermediaries, to control the Group or exercise significant influence over the Group in making financial and operating policy decisions, or has joint control over the Group;
- (ii) the Group and the party are subject to common control;
- (iii) the party is an associate of the Group;
- (iv) the party is a member of key management personnel of the Group or the Group's parent, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals;
- (v) the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals; or
- (vi) the party is a post-employment benefit plan which is for the benefit of employees of the Group or of any entity that is a related party of the Group.

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**(x) Segment reporting**

Operating segments, and the amounts of each segment item reported in the consolidated financial statements, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

### 3 CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued one new HKFRS, a number of amendments to HKFRSs and new Interpretations that are first effective for the current accounting period of the Group. Of these, the following developments are relevant to the Group's consolidated financial statements:

- HKFRS 8, Operating segments
- HKAS 1 (revised 2007), Presentation of financial statements
- Amendments to HKFRS 7, Financial instruments: Disclosures - improving disclosures about financial instruments
- Improvements to HKFRSs (2008)
- Amendments to HKAS 27, Consolidated and separate financial statements - cost of an investment in a subsidiary, jointly controlled entity or associate
- HKAS 23 (revised 2007), Borrowing costs

The amendments to HKAS 23 has had no material impact on the Group's consolidated financial statements as the amendments and interpretations were consistent with policies already adopted by the Group. The impact of the remainder of these developments is as follows:

- HKFRS 8 requires segment disclosure to be based on the way that the Group's chief operating decision maker regards and manages the Group, with the amounts reported for each reportable segment being the measures reported to the Group's chief operating decision maker for the purposes of assessing segment performance and making decisions about operating matters. This contrasts with the presentation of segment information in prior years which was based on a disaggregation of the Group's consolidated financial statements into segments based on related products and services and on geographical area. The adoption of HKFRS 8 has resulted in the presentation of segment information in a manner that is more consistent with internal reporting provided to the Group's most senior executive management, and has resulted in additional reportable segments being identified and presented (see note 6). Corresponding amounts have been provided on a basis consistent with the revised segment information.
- As a result of the adoption of HKAS 1 (revised 2007), details of changes in equity during the period arising from transactions with equity shareholders in their capacity as such have been presented separately from all other income and expenses in a revised consolidated statement of changes in equity. All other items of income and expense are presented in the consolidated income statement, if they are recognised as part of profit or loss for the period, or otherwise in a new primary statement, the consolidated statement of comprehensive income. Corresponding amounts have been restated to conform to the new presentation. This change in presentation has no effect on reported profit or loss, total income and expense or net assets for any period presented.

**3 CHANGES IN ACCOUNTING POLICIES (Continued)**

- As a result of the adoption of the amendments to HKFRS 7, the consolidated financial statements include expanded disclosures in note 40(C) about the fair value measurement of the Group's financial instruments, categorising these fair value measurements into a three-level fair value hierarchy according to the extent to which they are based on observable market data. The Group has taken advantage of the transitional provisions set out in the amendments to HKFRS 7, under which comparative information for the newly required disclosures about the fair value measurements of financial instruments has not been provided.
- The "Improvements to HKFRSs (2008)" comprise a number of minor and non-urgent amendments to a range of HKFRSs which the HKICPA has issued as an omnibus batch of amendments. Of these, the following two amendments have resulted in changes to the Group's accounting policies:
  - As a result of amendments to HKAS 28, Investments in associates, impairment losses recognised in respect of the associates carried under the equity method are no longer allocated to the goodwill inherent in that carrying value. As a result, when there has been a favourable change in the estimates used to determine the recoverable amount, the impairment loss will be reversed. Previously, the Group allocated impairment losses to goodwill and, in accordance with the accounting policy for goodwill, did not consider the loss to be reversible. In accordance with the transitional provisions in the amendment, this new policy will be applied prospectively to any impairment losses that arise in the current or future periods and previous periods have not been restated.
  - The amendments to HKAS 27 have removed the requirement that dividends out of pre-acquisition profits should be recognised as a reduction in the carrying amount of the investment in the investee, rather than as income. As a result, as from 1 January 2009, all dividends receivables from subsidiaries and associates, whether out of pre- or post-acquisition profits, will be recognised in the Company's profit or loss and the carrying amount of the investment in the investee will not be reduced unless that carrying amount is assessed to be impaired as a result of the investee declaring the dividend. In such cases, in addition to recognising dividend income in profit or loss, the Company would recognise an impairment loss. In accordance with the transitional provisions in the amendment, this new policy will be applied prospectively to any dividends receivable in the current or future periods and previous periods have not been restated.

The Group has not early applied any new standard, amendment or interpretation that has been issued but is not yet effective for the current accounting period (see note 41).

#### 4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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.

Estimates and judgements 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 financial statements.

##### (a) 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 judgement to select a variety of methods and make assumptions that are mainly based on market conditions existing at each balance sheet date.

##### (b) Impairments

The management determines the impairment loss if circumstances indicate that the carrying value of an asset may not be recoverable. The carrying amounts of assets are reviewed periodically in order to assess whether the recoverable amounts have declined below the carrying amounts. These assets are tested for impairment whenever events or changes in circumstances indicate that their recorded carrying amounts may not be recoverable. When such a decline has occurred, the carrying amount is reduced to its recoverable amount.

The recoverable amount is the greater of the fair value less costs to sell and the value in use. In determining the value in use, expected cash flows generated by the asset are discounted to their present value, which requires significant judgement relating to level of sales volume, sales revenue and amount of operating costs. The Group uses all readily available information in determining an amount that is a reasonable approximation of recoverable amount, including estimates based on reasonable and supportable assumptions and projections of sales volume, sales revenue and amount of operating costs.

**4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)****(c) 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.

**(d) Current taxation and deferred taxation**

Determining income tax provisions involves judgement on the future tax treatment of certain transactions. The management evaluates tax implications of transactions and tax provisions are set up accordingly. The tax treatment of such transactions is reconsidered periodically to take into account all changes in tax legislation. Deferred tax assets are recognised for tax losses not yet used and temporary deductible differences. As those deferred tax assets can only be recognised to the extent that it is probable that future taxable profits will be available against which the unused tax credits can be utilised, management's judgement is required to assess the probability of future taxable profits. Management's assessment is constantly reviewed and additional deferred tax assets are recognised if it becomes probable that future taxable profits will allow the deferred tax asset to be recovered.

**(e) Provision for loss on guarantee obligations**

At 31 December 2009, the Group's outstanding litigations are set out in note 29. Based on court ruling and legal advice obtained, an aggregate amount of Rmb124,968,000 was accounted for as provision for loss on guarantee obligations up to 31 December 2009. 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 guarantee obligations being accounted for.

**4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)**

**(f) Going concern**

As at 31 December 2009, the Group had net current assets of Rmb5,284,000 (2008: Rmb7,820,000) and outstanding bank borrowings of Rmb25,350,000 (2008: Rmb22,450,000). The Group recorded a profit of Rmb7,320,000 for the year ended 31 December 2009 (2008: Loss of Rmb70,458,000). These conditions indicate the existence of the Group's ability to continue as a going concern.

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 2009. The directors are also 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 consolidated financial statements on a going concern basis. The consolidated financial statements do not include any adjustments relating to the carrying amounts and reclassification of assets and liabilities that might be necessary should the Group be unable to continue as a going concern.

**5 TURNOVER**

Turnover represents the sales value of goods sold less returns, discounts, rebates, value added taxes and other sales taxes, which may be analysed as follows:

	<b>2009</b>	<b>2008</b>
	<i>Rmb '000</i>	<i>Rmb '000</i>
Sales of transmission machinery	<u>423,743</u>	<u>517,717</u>

**6 SEGMENTS REPORT**

The Group operates, through its subsidiaries and associates, mainly in the PRC. In accordance with the Group's internal organisation and reporting structure, no segment information is presented in respect of the Group's business segment as the Group is principally engaged in one segment which is the production and sales of transmission machinery in the PRC. Substantially all of the Group's assets and liabilities were located in the PRC.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2009 (Prepared in accordance with Hong Kong Financial Reporting Standards)

### 7 OTHER INCOME

	2009	2008
	<i>Rmb '000</i>	<i>Rmb '000</i>
Dividend from available-for-sale investment	-	7,321
Interest income on bank deposits	156	639
Exchange gain	-	1,174
Government grant income (Note 32)	113	-
Sales of wastage	60	93
Reversal of allowance for impairment of trade and other receivables	1,648	-
Others	56	406
	<u>2,033</u>	<u>9,633</u>

### 8 TAXATION

The provision for the PRC income tax is calculated at 25% (2008: 25%) of the estimated assessable profits in accordance with the relevant income tax rules and regulations of the PRC. Two subsidiaries located in the PRC are entitled to exemption from PRC Enterprise Income Tax for two years commencing from their first profit-making year of operation and thereafter, they are entitled to a 50% relief from PRC Enterprise Income Tax for the following three years. The first profit-making year of the subsidiaries in the PRC commenced in 2005 and 2006 respectively.

No provision for Hong Kong profits tax is made in the consolidated financial statements as the Group has sustained a loss for the year in respect of its operation in Hong Kong (2008: Nil).

	2009	2008
	<i>Rmb '000</i>	<i>Rmb '000</i>
The tax (credit)/charge comprises:		
Income tax provision for the year	6,374	2,832
Deferred tax (Note 33)	(6,791)	(1,812)
	<u>(417)</u>	<u>1,020</u>

Details of recognised and unrecognised deferred tax assets are set out in note 33.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

For the year ended 31 December 2009 (Prepared in accordance with Hong Kong Financial Reporting Standards)

**8 TAXATION (Continued)**

Reconciliation between tax (credit) /expense and accounting profit/(loss) at applicable tax rate:

	<b>2009</b>	<b>2008</b>
	<i>Rmb '000</i>	<i>Rmb '000</i>
Profit/(loss) before taxation	<u>6,903</u>	<u>(69,438)</u>
Tax at the statutory income tax rate of 25% (2008: 25%)	1,725	(17,359)
Effect of different tax rates of subsidiaries operating under different tax jurisdictions	-	713
Effect of changes in income tax rate	-	1,282
Tax effect of non-taxable income	(2)	(10,854)
Tax effect of non-deductible expenses	2,272	28,442
Tax losses utilised	-	(755)
Tax losses not recognised	1,914	1,460
Income tax on concessionary rate	<u>(6,326)</u>	<u>(1,909)</u>
Tax (credit)/charge	<u>(417)</u>	<u>1,020</u>

**9 PROFIT/(LOSS) BEFORE TAXATION**

Profit/(loss) before taxation is arrived at after charging:

	<b>2009</b>	<b>2008</b>
	<i>Rmb '000</i>	<i>Rmb '000</i>
Depreciation	7,140	7,899
Amortisation of lease prepayments	135	135
Loss on disposal of property, plant and equipment	35	288
Property, plant and equipment written off	25	-
Research and development costs	405	472
Auditors' remuneration	1,300	1,700
Allowance for impairment of trade and other receivables	27,097	4,973
Staff costs (including directors' emoluments)	12,719	16,891
Operating leases - office premises	3,287	4,648
Share of associates' taxation	<u>487</u>	<u>-</u>

**10 FINANCE COSTS**

Interest on bank borrowings wholly repayable within five years:

	<b>2009</b>	<b>2008</b>
	<i>Rmb '000</i>	<i>Rmb '000</i>
Bank loan interest	<u>1,509</u>	<u>3,443</u>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2009 (Prepared in accordance with Hong Kong Financial Reporting Standards)

## 11 DIRECTORS' EMOLUMENTS

Directors' emoluments disclosed pursuant to the disclosure requirement of the Listing Rules are as follows:

### (a) Directors' emoluments

The emoluments paid or payable to each of the 11 (2008: 14) directors were as follows:

2009	Wang	Liang <sup>1</sup>	Su	Liu <sup>1</sup>	Liu	Du	Bi	Wu <sup>1</sup>	Lin <sup>1</sup>	Xiang <sup>1</sup>	Zhang <sup>2</sup>	Total	
	Shouguan	Jie	Weiguo	Hongguang	Qingmin	Kai	Jianzhong	Qicheng	Wenbin	Yongchun	Zhaozhang		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	
Fees	-	40	-	40	-	-	-	40	40	40	-	200	
Salaries and other benefits	79	-	113	-	57	57	102	-	-	-	24	432	
Contributions to retirement benefit schemes	-	-	7	-	5	5	7	-	-	-	2	26	
Total	79	40	120	40	62	62	109	40	40	40	26	658	
2008	Sun	Wang	Zhang	Liang	Su	Liu	Liu	Shi	Du	Bi	Wu	Zhang	Total
	Zhen	Shouguan	Bin	Jie	Weiguo	Hongguang	Qingmin	Li	Kai	Jianzhong	Qicheng	Zhaozhang	
	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Fees	-	-	-	35	-	35	-	-	-	-	35	-	175
Salaries and other benefits	63	72	62	-	104	-	94	66	62	97	-	119	739
Contributions to retirement benefit schemes	12	-	12	-	20	-	-	12	12	18	-	23	109
Total	75	72	74	35	124	35	94	78	74	115	35	142	1,023

The amounts disclosed above include directors' fees of Rmb200,000 (2008: Rmb175,000) payable to independent non-executive directors.

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

Note:

(1) Independent non-executive directors

(2) Resigned on 30 March 2009

**11 DIRECTORS' EMOLUMENTS (Continued)**

**(b) Five highest-paid individuals**

During the year, the five highest-paid individuals all were (2008: five) directors of the Company and details of their emoluments are set out in (a) above.

	2009 <i>Rmb'000</i>	2008 <i>Rmb'000</i>
Salaries and other benefits	408	480
Contributions to retirement benefit schemes	24	73
	<u>432</u>	<u>553</u>

**12 DIVIDEND**

The Board of directors of the Company does not recommend the payment of a dividend in respect of the year ended 31 December 2009 (2008: Nil).

**13 BASIC EARNINGS PER SHARE**

The calculation of basic earnings per share is based on the profit attributable to equity holders of the Company of Rmb7,727,000 (2008: loss of Rmb69,001,000) and 873,370,000 (2008: 873,370,000) shares in issue during the year.

No diluted earnings per share are calculated as there are no dilutive potential shares for the two years ended 31 December 2009 and 31 December 2008.

**14 PROPERTY, PLANT AND EQUIPMENT**

	<b>Buildings</b> <i>Rmb'000</i>	<b>Plant, machinery and equipment</b> <i>Rmb'000</i>	<b>Motor vehicles and others</b> <i>Rmb'000</i>	<b>Construction in progress</b> <i>Rmb'000</i>	<b>Total</b> <i>Rmb'000</i>
<b>Cost</b>					
At 1 January 2008	99,021	51,884	26,037	1,000	177,942
Additions	30	2,969	3,549	25,487	32,035
Transferred from construction in progress	-	25,787	-	(25,787)	-
Disposal of a subsidiary	(49,879)	(5,492)	(4,245)	-	(59,616)
Disposals and written off	-	(731)	(1,026)	-	(1,757)
At 31 December 2008	49,172	74,417	24,315	700	148,604
Additions	-	3,040	1,828	478	5,346
Transferred from construction in progress	-	1,178	-	(1,178)	-
Disposals and written off	(866)	(1,764)	(1,250)	-	(3,880)
At 31 December 2009	48,306	76,871	24,893	-	150,070

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2009 (Prepared in accordance with Hong Kong Financial Reporting Standards)

### 14 PROPERTY, PLANT AND EQUIPMENT (Continued)

	Buildings <i>Rmb'000</i>	Plant, machinery and equipment <i>Rmb'000</i>	Motor vehicles and others <i>Rmb'000</i>	Construction in progress <i>Rmb'000</i>	Total <i>Rmb'000</i>
<b>Accumulated depreciation and impairment losses</b>					
At 1 January 2008	35,920	23,650	8,125	-	67,695
Charge for the year	2,163	3,354	2,382	-	7,899
Disposal of a subsidiary	(7,163)	(1,231)	(2,467)	-	(10,861)
Written back on disposals and write-off	-	(323)	(137)	-	(460)
At 31 December 2008	30,920	25,450	7,903	-	64,273
Charge for the year	908	3,964	2,268	-	7,140
Written back on disposals and write-off	(376)	(1,588)	(505)	-	(2,469)
At 31 December 2009	31,452	27,826	9,666	-	68,944
<b>Net book value</b>					
At 31 December 2009	16,854	49,045	15,227	-	81,126
At 31 December 2008	18,252	48,967	16,412	700	84,331

At 31 December 2009, the Group has pledged buildings and plant, machinery and equipment with net book value of approximately Rmb5,319,000 and Rmb15,101,000 (2008: Rmb5,566,000 and Rmb16,526,000) respectively to secure general banking facilities granted to the Group and an investee company.

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

### 15 LEASE PREPAYMENTS

	2009 <i>Rmb'000</i>	2008 <i>Rmb'000</i>
<b>Net book value</b>		
At 1 January	5,013	14,493
Disposal of a subsidiary	-	(9,345)
Amortisation for the year	(135)	(135)
At 31 December	4,878	5,013

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

At 31 December 2009, the Group has pledged its land use rights with net book value of approximately Rmb4,878,000 (2008: Rmb5,013,000) to secure banking facilities granted to the Group.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

For the year ended 31 December 2009 (Prepared in accordance with Hong Kong Financial Reporting Standards)

**16 SUBSIDIARIES**

Details of the subsidiaries at 31 December 2009 are as follows:

Name of subsidiaries	Place of establishment/ registration and operation	Registered capital	Percentage of registered capital held by the Company		Principal activity
			Directly	Indirectly	
Northeast Electric (Hong Kong) Limited	Hong Kong	US\$20,000,000	100%	-	Investment holding and general trading
Shenyang Gaodongjia Desiccation Equipment Co., Limited ("Gaodongjia")	The PRC(note b)	US\$778,500	70%	-	Manufacture of metallic case and desiccation equipment
Shenyang Zhaolida Machinery Equipment Co., Limited ("Zhaolida")	The PRC(note a)	Rmb100,000	100%	-	Sales of machinery and electrical transmission equipment
Shenyang Kaiyi Electric Co., Limited	The PRC(note a)	Rmb1,000,000	10%	90%	Manufacture of high-voltage electrical equipment, switch and capacitor
Northeast Electric (Beijing) Co., Limited	The PRC(note a)	Rmb2,000,000	-	100%	Sales of machinery and electronic equipment
Great Talent Technology Limited	British Virgin Islands	US\$1	-	100%	Investment holding
Fuxin Enclosed Busbars Co., Limited	The PRC(note c)	US\$2,800,000	-	100%	Manufacture of enclosed busbars
New Northeast Electric (Jinzhou) Power Capacitors Co., Limited ("New Jinzhou")	The PRC(note b)	US\$15,450,000	-	100%	Manufacture of power capacitors
Jinzhou Jinrong Electric Co., Limited	The PRC(note a)	Rmb3,000,000	-	69.75%	Manufacture of high-voltage capacitors

**Notes:**

(a) The companies are limited companies established under Company Law of the PRC.

(b) The companies are sino-foreign joint venture companies.

(c) The company is a wholly foreign owned company.

None of the subsidiaries had any debt capital outstanding at the balance sheet date or at any time during the year.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2009 (Prepared in accordance with Hong Kong Financial Reporting Standards)

### 17 INTERESTS IN ASSOCIATES

	2009 <i>Rmb '000</i>	2008 <i>Rmb '000</i>
<b>Unlisted shares, at cost</b>		
At 1 January	76,227	45,495
Exchange adjustment	(141)	(2,645)
Subsidiary classified as associate after partial disposal	-	33,377
At 31 December	<u>76,086</u>	<u>76,227</u>
<b>Share of post-acquisition profits and reserves</b>		
At 1 January	13,526	13,902
Share of associates' losses for the year	(1,676)	(376)
At 31 December	<u>11,850</u>	<u>13,526</u>
	<u>87,936</u>	<u>89,753</u>

Details of the associates of the Group at 31 December 2009 are as follows:

Name of associates	Place of incorporation/ registration and operation	Particulars of issued and paid up capital/ registered capital	Proportion of registered capital indirectly held by the Group	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 Isolator Switchgears Co., Limited ("New High-Voltage Isolator")	The PRC	US\$21,500,000	25.60%	Manufacture of electrical transmission and transformation equipment
Shenyang Hongyue Electric Co., Limited	The PRC	Rmb100,000	25.60%	Not yet commenced business

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

	2009 <i>Rmb '000</i>	2008 <i>Rmb '000</i>
Total assets	522,415	451,867
Total liabilities	(52,264)	(56,841)
Net assets	<u>470,151</u>	<u>395,026</u>
Group's share of associates' net assets	<u>87,936</u>	<u>89,753</u>
Total revenue	<u>90,013</u>	<u>32,442</u>
(Loss)/profit for the year	<u>(8,570)</u>	<u>540</u>
Group's share of associates' losses for the year	<u>(1,676)</u>	<u>(376)</u>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

For the year ended 31 December 2009 (Prepared in accordance with Hong Kong Financial Reporting Standards)

**18 AVAILABLE-FOR-SALE INVESTMENT**

	<b>2009</b>	<b>2008</b>
	<i>Rmb '000</i>	<i>Rmb '000</i>
<b>Unlisted equity securities, at cost</b>		
At 1 January	216,055	235,971
Exchange adjustment	(113)	(4,430)
Return on investment	-	(2,949)
Disposal	-	(12,537)
At 31 December	<u>215,942</u>	<u>216,055</u>
 <b>Impairment loss</b>		
At 1 January	-	2,537
Written back on disposal	-	(2,537)
At 31 December	<u>-</u>	<u>-</u>
	 <u>215,942</u>	 <u>216,055</u>

Unlisted securities are not stated at fair value but at cost less any accumulated impairment loss, because they do not have a quoted market price on active market, the range of reasonable fair value estimates is significant and the probabilities of the various estimates cannot be reasonably assessed.

The available-for-sale investment comprised:

	<b>2009</b>	<b>2008</b>
	<i>Rmb '000</i>	<i>Rmb '000</i>
17.09% equity investment in New Ultra High-Voltage #	<u>215,942</u>	<u>216,055</u>

# : New Northeast Electric Ultra High-Voltage Equipment Co., Limited ("New Ultra High-Voltage") (previously known as New Northeast Electric (Shenyang) High-Voltage Switches Co., Limited ("New High-Voltage"))

**19 AMOUNT DUE FROM A NON-BANK FINANCIAL INSTITUTION**

In 2005, the Company obtained an aggregate of Rmb76,090,000 receivable due from Benxi Iron & Steel (Group) Limited ("Bengang Group"). Subsequently, the Company commenced litigation against Bengang Group for the repayment of the debts of Rmb76,090,000.

- (i) On 2 November 2005, a judgement ((2005) Shen Zhong Min Si He Chu Zi No. 13) made by the Liaoning Province Shenyang Intermediate People's Court ("Liao Shen Intermediate Court"), but Bengang Group not agreed and filed an appeal to the Liaoning Province High People's Court ("Liao High Court"). On 16 December 2005, a civil judgement order ((2005) Liao Min Er Zhong Zi No. 220) made by the Liao High Court ruled that Bengang Group was liable to repay the principal of Rmb15,900,000 and the accrued interest thereon to the Company. On 10 March 2006, a Notice of Execution was issued by Liao Shen Intermediate Court and delivered to Bengang Group for the outstanding debts of Rmb15,900,000. On 30 April 2006, Bengang Group filed an appeal to the Liao High Court.

Regarding to the above-mentioned judgement order ((2005) Liao Min Er Zhong Zi No. 220 involving the principal of Rmb15,900,000 and the related interest), a civil judgement order ((2007) Liao Li Min Jian Zi No. 56) dated 20 June 2007 made by the Liao High Court stated that the case would be returned to the Liao High Court for rehearing by setting another collegial panel and the execution of the original judgement would be suspended during the rehearing. On 10 April 2008, referred to Liao High Court's conclusion in (2008) Zi Liao Shen Min Zhong Zi No. 2, judgement made in first and second instance should be withdrawn and returned to Liao Shen Intermediate Court for rehearing. On 10 November 2008, the Liao Shen Intermediate Court commenced the public hearing proceeding upon the Company's litigation request.

On 6 February 2009, a civil judgement order ((2008) Shen Zhong Shen Min Chu Zai Zi No. 2) made by the Liao Shen Intermediate Court objected the Company's litigation request. The Company did not agree and filed an appeal to the Liao High Court. On 20 July 2009, a civil judgement order ((2009) Liao Shen Min Zai Zi No. 40) made by the Liao High Court objected the Company's appeal request and maintained the original judgement. This judgement is the final judgement.

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

- (ii) Regarding to the remaining debt of Rmb60,190,000, the Liao Shen Intermediate Court made in first instance by (2005) Shen Zhong Min Si He Chu Zi No. 21, 22 and 23 dated 30 March 2006 and ruled that Bengang Group should repay the principal and the accrued interest thereon to the Company. Subsequently, Bengang Group filed an appeal to the Liao High Court on 30 April 2006. On 14 May 2008, the judgements ((2006) Liao Min Er Zhong Zi No. 214, 215 and 216) made by the Liao High Court stated that the above-mentioned judgements ((2005) Shen Zhong Min Si He Chu Zi No. 21, 22 and 23) should be repealed and the case would be returned to the Liao Shen Intermediate Court for rehearing.

On 28 March 2009, the Liao Shen Intermediate Court commenced the public hearing proceeding upon the Company's litigation request. On 9 June 2009, civil judgement orders ((2008) Shen Zhong Min Si Chu Zi No. 143, 144 and 145) made by the Liao Shen Intermediate Court objected the Company's litigation request. The Company did not agree and filed an appeal to the Liao High Court. On 26 and 29 October 2009, civil judgement orders ((2009) Liao Min Er Zhong Zi No. 182, 183 and 184) made by the Liao High Court objected the Company's appeal request and maintained the original judgement. This judgement is the final judgement.

- (iii) In view of above mentioned paragraphs (i) and (ii), the directors opined that the probability of recovering the debts of Rmb76,090,000 was remote. Accordingly, the full amount of impairment losses of Rmb76,090,000 brought forward from previous years was considered necessary.

**20 INVENTORIES**

	<b>2009</b>	<b>2008</b>
	<i>Rmb'000</i>	<i>Rmb'000</i>
Raw materials and consumables	22,062	22,299
Work in progress	11,468	8,600
Finished goods	36,881	38,075
	70,411	68,974
Less: Write-down of inventories	1,428	1,435
	<u>68,983</u>	<u>67,539</u>

The cost of inventories recognised as expense and included in the consolidated income statement amounted to approximately Rmb300,958,000 (2008: Rmb404,605,000).

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

For the year ended 31 December 2009 (Prepared in accordance with Hong Kong Financial Reporting Standards)

**21 TRADE AND OTHER RECEIVABLES**

	<b>2009</b>	<b>2008</b>
	<i>Rmb'000</i>	<i>Rmb'000</i>
Trade and bills receivables	275,639	203,000
Less: allowance for impairment	<u>17,463</u>	<u>15,205</u>
	<u>258,176</u>	<u>187,795</u>
Receivable from Bengang Group (Note 19)	76,090	76,090
Other receivables	<u>41,102</u>	<u>103,532</u>
	117,192	179,622
Less: allowance for impairment	<u>103,984</u>	<u>80,793</u>
	<u>13,208</u>	<u>98,829</u>
Purchase deposits to suppliers	1,454	26,751
Prepayments	11,926	4,216
Dividend receivables	15,757	20,074
	<u>29,137</u>	<u>51,041</u>
Prepayments - non-current portion	<u>(6,831)</u>	<u>(844)</u>
Net trade and other receivables	<u><u>293,690</u></u>	<u><u>336,821</u></u>

The directors consider that the carrying amounts of the trade and other receivables approximate to their fair values. The Group does not hold any collateral over all the receivable balances.

The credit terms given to the customers vary which are based on the sales contracts signed with individual customers and are generally based on their financial strengths. The ageing analysis of trade and bills receivables is as follows:

	<b>2009</b>	<b>2008</b>
	<i>Rmb'000</i>	<i>Rmb'000</i>
Within 1 year	209,182	153,016
1 year to 2 years	36,296	27,153
2 years to 3 years	14,334	11,922
Over 3 years	<u>15,827</u>	<u>10,909</u>
	<u><u>275,639</u></u>	<u><u>203,000</u></u>

The amounts within 1 year presented in the ageing analysis above represented the trade and bills receivables that are neither past due nor impaired.

The credit quality of trade 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.

**21 TRADE AND OTHER RECEIVABLES**

At 31 December 2009, trade and other receivables of Rmb148,596,000 (2008: Rmb376,977,000) were impaired. The amount of the allowance was Rmb121,447,000 as at 31 December 2009 (2008: Rmb95,998,000). The individually impaired receivables mainly related to debtors, which are in unexpectedly difficult economic situations. It was assessed that a small portion of the receivables is expected to be recovered. The ageing analysis of these receivables is as follows:

	<b>2009</b>	<b>2008</b>
	<i>Rmb '000</i>	<i>Rmb '000</i>
Within 1 year	3,384	1
1 year to 2 years	19,389	150
2 years to 3 years	5,283	7,260
Over 3 years	93,391	88,587
	<u>121,447</u>	<u>95,998</u>

Movements in the allowance for impairment are as follows:

	<b>2009</b>	<b>2008</b>
	<i>Rmb '000</i>	<i>Rmb '000</i>
At 1 January	95,998	98,461
Impairment loss recognised	27,097	4,973
Reversal of impairment	(1,648)	-
Uncollectible amounts written off	-	(7,436)
At 31 December	<u>121,447</u>	<u>95,998</u>

Included in trade and other receivables are the following amounts denominated in currencies other than the functional currency of the entity to which they relate:

	<b>2009</b>	<b>2008</b>
	<i>'000</i>	<i>'000</i>
Hong Kong dollars	2,733	2,733
Euro	546	546
Japanese Yen	2,638	2,638
Swiss Franc	692	692
	<u>692</u>	<u>692</u>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (*Continued*)

For the year ended 31 December 2009 (Prepared in accordance with Hong Kong Financial Reporting Standards)

### 22 AMOUNTS DUE TO ASSOCIATES

	2009	2008
	<i>Rmb'000</i>	<i>Rmb'000</i>
Amounts due to associates	9,594	40,270
Less: Non-current portion	-	32,176
	<u>9,594</u>	<u>8,094</u>

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

### 23 AMOUNT DUE TO AN INVESTEE COMPANY

	2009	2008
	<i>Rmb'000</i>	<i>Rmb'000</i>
Amount due to an investee company	102,172	65,079
Less: Non-current portion	92,920	62,827
	<u>9,252</u>	<u>2,252</u>

The amount is unsecured, interest free and, except for non-current portion, is repayable on demand. The directors consider that the carrying amount of amount due to an investee company approximates to its fair value.

### 24 NON-CURRENT ASSETS HELD FOR SALE

	2009	2008
	<i>Rmb'000</i>	<i>Rmb'000</i>
Unlisted equity securities, at fair value	-	1,300

As detailed in the note 39 to the consolidated financial statements, the Group received 98.5% equity interest in Shenyang Tai Sheng Trading Co., Limited ("Tai Sheng Trading") on 22 September 2008. The interest in Tai Sheng Trading was initially recognised at its fair value of Rmb37,506,000. On 23 September 2008, Tai Sheng Trading commenced its winding-up process and has made an initial distribution of assets (including debts of Rmb47,100,000 assigned to the Group and liabilities of Rmb10,894,000 assumed by the Group) with net assets value of Rmb36,206,000. After the above distribution, the net assets value of Tai Sheng Trading was reduced to Rmb1,300,000 and it was returned to the Group after the completion of winding-up on 29 June 2009.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

For the year ended 31 December 2009 (Prepared in accordance with Hong Kong Financial Reporting Standards)

**25 PLEDGED BANK DEPOSITS**

	<b>2009</b>	<b>2008</b>
	<i>Rmb '000</i>	<i>Rmb '000</i>
Restricted bank deposits denominated in		
- Renminbi	<u>23,073</u>	<u>19,712</u>

The restricted bank deposits are held in subsidiaries as pledge for general banking facilities granted to the Group.

The effective interest rates on restricted bank deposits, with maturities ranging from June 2010 to April 2014, were 4.50% to 5.40% (2008: 4.50% to 5.40%) per annum.

**26 CASH AND CASH EQUIVALENTS**

	<b>2009</b>	<b>2008</b>
	<i>Rmb '000</i>	<i>Rmb '000</i>
Cash at banks and on hand	<u>42,181</u>	<u>30,216</u>
Denominated in:		
- Renminbi	40,520	29,159
- United States dollars	11	670
- Euro	5	5
- Hong Kong dollars	<u>1,645</u>	<u>382</u>
	<u>42,181</u>	<u>30,216</u>

Cash at banks denominated in Rmb are deposited with banks in China.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2009 (Prepared in accordance with Hong Kong Financial Reporting Standards)

### 27 TRADE AND OTHER PAYABLES

	2009	2008
	<i>Rmb '000</i>	<i>Rmb '000</i>
Trade and bills payables	153,376	84,485
Other payables	96,114	204,618
	<u>249,490</u>	<u>289,103</u>

The ageing analysis of trade and bills payables is as follows:

	2009	2008
	<i>Rmb '000</i>	<i>Rmb '000</i>
Within 1 year	133,938	76,880
1 year to 2 years	14,292	4,142
2 years to 3 years	2,419	1,661
Over 3 years	2,727	1,802
	<u>153,376</u>	<u>84,485</u>

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

The average credit period on purchase is 6 months. The Group has proper financial risk management policies to ensure that all payables are paid within the credit timeframe.

Approximately 93% of trade and other payables are denominated in Renminbi.

### 28 BANK BORROWINGS

	2009	2008
	<i>Rmb '000</i>	<i>Rmb '000</i>
Rmb bank loans repayable within 1 year		
- secured	23,000	20,000
- unsecured	2,350	2,450
	<u>25,350</u>	<u>22,450</u>

The bank borrowings are secured by certain property, plant and equipment, land use rights and bank deposits of the Group as set out in notes 14, 15 and 25 respectively. Also, the bank borrowings are guaranteed by a director. All bank borrowings are with floating interest rates ranging from 5.31% to 6.37% (2008: 6.95% to 9.22%) per annum.

29 PROVISION FOR LOSS ON GUARANTEE OBLIGATIONS

	2009	2008
	<i>Rmb '000</i>	<i>Rmb '000</i>
Provision for loss on guarantee obligations given to:		
Northeast Electrical Transmission Group Corporation ("NET") (note a)	30,994	30,994
Jinzhou Power Capacitors Limited ("Jinzhou Power") (note b)	60,722	60,722
Shuangjia Insulator & Electric Co. Ltd ("Shuangjia") (note c)	9,252	9,252
Kingdom Hotel Shenyang Limited ("Kingdom Hotel Shenyang") (note d)	24,000	24,000
	<u>124,968</u>	<u>124,968</u>

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 the 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.

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. On 5 March 2008, an execution notice made by the Jinzhou Intermediate People's Court requested the Company to fulfill the obligations as established by the judgement. The Company has not yet settled the above-mentioned debts up to the date of this report.

**29 PROVISION FOR LOSS ON GUARANTEE OBLIGATIONS (Continued)***Notes:*

- (b) 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. On 14 April 2008, an execution notice made by the Jinzhou Intermediate People's Court requested the Company to fulfill the obligations as established by the judgement. The Company has not yet settled the above-mentioned debts up to the date of this report.
- (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) The Company acted as the guarantor for a bank loan amounting to Rmb24,000,000 which was entered into by Kingdom Hotel, 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 Hotel 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 during the year ended 31 December 2007. Up to the consolidated financial statements, approval date, the Company had not repaid this debt.

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

**30 SHARE CAPITAL**

	<b>2009</b>	<b>2008</b>
	<i>Rmb'000</i>	<i>Rmb'000</i>
Registered, issued and fully paid-up capital:		
615,420,000 ordinary "Domestic" shares of Rmb1 each, of which:		
- Non-listed	218,256	218,394
- Listed "A" shares	<u>397,164</u>	<u>397,026</u>
	615,420	615,420
257,950,000 listed "H" shares of Rmb1 each	<u>257,950</u>	<u>257,950</u>
	<u><u>873,370</u></u>	<u><u>873,370</u></u>

Regarding to the application for release of 138,587 restricted non-tradable shares as tradable shares, it was approved by China Securities Depository and Clearing Corporation Limited (Shenzhen Branch) and the registration procedure for the release of such restricted non-tradable shares was completed on 10 August 2009. Accordingly, 138,587 restricted non-tradable shares was transferred to tradable "A" shares on the following day.

**31 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.

**Capital contribution**

Capital contribution represented gain on acquisition of subsidiaries from, and gain on disposal of an associate to, an equity participant in 2004.

**Statutory surplus reserve**

Pursuant to applicable PRC regulations, certain PRC subsidiaries are required to appropriate 10% of their profit-after-tax (after offsetting prior year losses) to the reserve until such reserve reaches 50% of the registered capital. The transfer to the reserve must be made before distribution of dividends to shareholders. The statutory reserve can be utilised, upon approval by the relevant authorities, to offset accumulated losses or to increase registered capital of the subsidiary, provided that the balance after such issue is not less than 25% of its registered capital.

**31 RESERVES (*Continued*)**

**Discretionary surplus 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 surplus reserve (in accordance with the PRC Accounting Regulations). The discretionary surplus reserve may be used for the same purposes as the statutory surplus reserve.

**Translation reserve**

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of operations outside the PRC.

**32 GOVERNMENT GRANTS**

	<b>2009</b>	<b>2008</b>
	<i>Rmb'000</i>	<i>Rmb'000</i>
At 1 January	-	-
Additions	700	-
Amount recognised as other income (Note 7)	(113)	-
At 31 December	<u>587</u>	<u>-</u>

- (i) According to a notice dated 17 April 2009 from the Liaoning Province Economic and Information Technology Committee and Liaoning Province Finance Bureau, a government grant of Rmb500,000 was received by New Jinzhou during the year for the project development funding. Such grant is used to compensate the expenses incurred on the respective project and the same amount is recognised as revenue in consolidated income statement on a systematic basis in the same periods in which the expenses are incurred, of which Rmb113,000 has been recognised during the year (2008: Nil).
- (ii) According to a notice dated 9 December 2009 from the Liaoning Province Science and Technology Bureau and Liaoning Province Finance Bureau, a government grant of Rmb200,000 was received by New Jinzhou during the year for the project development funding. Such grant is used to compensate the expenses incurred on the respective project and the same amount is recognised as revenue in consolidated income statement on a systematic basis in the same periods in which the expenses are incurred, but there is no expense incurred in respect of such project and no corresponding income recognised during the year.

### 33 DEFERRED TAX ASSETS

The major components of deferred tax assets recognised by the Group and movements thereon during the current and prior years are as follows:

	Temporary differences in respect of provisions and accruals <i>Rmb'000</i>
At 1 January 2008	5,289
Reversal of temporary differences upon disposal of a subsidiary	(1,981)
Credited to the consolidated income statement (Note 8)	530
Change in tax rate (Note 8)	1,282
At 31 December 2008	5,120
Credited to the consolidated income statement (Note 8)	6,791
At 31 December 2009	<u>11,911</u>

Major components of unrecognised deferred tax assets in respect of the following items are as follows:

	2009 <i>Rmb'000</i>	2008 <i>Rmb'000</i>
Deductible temporary differences	315,535	315,535
Tax losses	258,882	271,839
	<u>574,417</u>	<u>587,374</u>

Deferred tax assets in respect of above items of Rmb574,417,000 (2008: Rmb587,374,000) have not been recognised due to the unpredictability of future profit streams. Included in unrecognised tax losses are losses of Rmb258,882,000 (2008: Rmb271,839,000) that will expire in 2014 (2008: 2013).

### 34 DISPOSAL OF SUBSIDIARIES

Regarding to the civil written order ((2008) Min Er Zhong Zi No. 23) made by the Supreme Court on 5 September 2008 (details are set out in note 39), the Group has returned back the 74.4% equity interest in New High-Voltage Isolator to Shenyang High-Voltage by entering into a shares transfer agreement with Shenyang High-Voltage on 20 September 2008. The transaction was completed on 22 September 2008. In view of this, the transaction is deemed as a disposal of a subsidiary.

On 31 October 2008, the Company entered into a sale and purchase agreement with a third party in which the Company agreed to sell its 100% equity shareholdings in Shenyang Jiatai Machinery Equipment Co., Limited at a cash consideration of Rmb5,970,000. The transaction was completed on 13 November 2008.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2009 (Prepared in accordance with Hong Kong Financial Reporting Standards)

### 34 DISPOSAL OF SUBSIDIARIES (Continued)

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

	2009	2008
	<i>Rmb'000</i>	<i>Rmb'000</i>
Non-current assets	-	60,081
Current assets	-	155,271
Current liabilities	-	(65,933)
	<hr/>	<hr/>
	-	149,419
Less: Equity shareholdings being classified as an associate	-	33,377
Net assets at the date of disposal	-	116,042
Losses on share exchange scheme	-	(71,846)
Loss on disposal of a subsidiary	-	(720)
Total consideration	<hr/> <hr/>	<hr/> <hr/>
	-	43,476
	<hr/> <hr/>	<hr/> <hr/>
	<hr/> <hr/>	<hr/> <hr/>
	2009	2008
	<i>Rmb'000</i>	<i>Rmb'000</i>
Received:		
Cash	-	5,970
98.5% equity shareholdings in Tai Sheng Trading	-	37,506
	<hr/>	<hr/>
	-	43,476
	<hr/> <hr/>	<hr/> <hr/>
Net cash inflow/(outflow) from disposal of subsidiaries:		
Cash consideration	-	5,970
Bank balances and cash disposed of	-	(2,052)
	<hr/>	<hr/>
	-	3,918
	<hr/> <hr/>	<hr/> <hr/>

### 35 MAJOR NON-CASH TRANSACTIONS

The major non-cash transactions entered into by the Group during the year are as follows:

During the year, proceeds from disposal of certain plant, machinery and equipment with aggregate amount of Rmb 1,260,000 (2008: Rmb966,000) was offset with trade and other payables. The net book value of the relevant plant, machinery and equipment amounting to Rmb1,218,000 (2008: Rmb1,251,000).

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

For the year ended 31 December 2009 (Prepared in accordance with Hong Kong Financial Reporting Standards)

**36 CONTINGENT LIABILITIES**

	<b>2009</b>	<b>2008</b>
	<i>Rmb'000</i>	<i>Rmb'000</i>
Guarantees given to banks in respect of banking facilities utilised by other entities:		
An investee company (note)	335,000	280,000
Former subsidiary	-	4,400
	<u>335,000</u>	<u>284,400</u>

As detailed in the note 39 to the consolidated financial statements, during the year, China Great Wall Asset Management Corp. Shenyang Office (“Great Wall”) commenced litigation against Shenyang High-Voltage Switchgears Limited (“Shenyang High-Voltage”), the borrower, for the repayment of loan principal of Rmb351,750,000 and the Company was requested to bear joint and several liabilities in relation to the said loan principal and the interest accrued thereon. The respective judgement has not been completed up to the date of this report.

*Note:* At the balance sheet date, the Group provided the joint responsibility guarantees to Shanghai Pudong Development Bank Shenyang Branch and Hua Xia Bank Shenyang Branch for a total integrated banking facilities granted to New High-Voltage approximately amounting to Rmb220,000,000 (2008: Rmb220,000,000) and Rmb115,000,000 (2008: Rmb60,000,000) respectively.

In the opinion of the directors, the provision of the guarantees will not create any loss to the Group and the fair values of the liabilities in relation to the above guarantees given by the Group are insignificant as at 31 December 2009 and 31 December 2008.

**37 OPERATING LEASE COMMITMENTS**

At the balance sheet date, the Group had leased various office premises, machinery and equipment under certain 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:

	<b>2009</b>	<b>2008</b>
	<i>Rmb'000</i>	<i>Rmb'000</i>
Within 1 year	4,879	4,920
1 year to 5 years	10,445	5,193
Over 5 years	8,728	8,246
	<u>24,052</u>	<u>18,359</u>

**38 BALANCES WITH RELATED PARTIES**

- (a) 24.28% of the Company's shares is held by New Northeast Electric Investments Co., Limited, a company incorporated in the PRC, in which 82.22% of such company's shares is held by Ms. Tian Li. In the opinions of the directors, the ultimate controlling party of the Group is Ms. Tian Li.
- (b) The Group's balances with the following related parties as at 31 December 2009 are as follows:

	<b>2009</b>	<b>2008</b>
	<i>Rmb '000</i>	<i>Rmb '000</i>
Associates:		
Trade payables	8,123	8,710
Balances due from the Group	9,594	40,270

The balances are unsecured, interest free and, except for those non-current portion, are repayable on demand.

**39 LITIGATIONS**

- (a) In May 2004, a lawsuit was brought by China Development Bank (the "China Bank") against the Company and certain of its subsidiaries, Shenyang Chengtai Energy Power Co., Limited ("Chengtai Energy"), New Northeast Electric (Shenyang) High-Voltage Isolator Switchgears Co., Limited (formerly known as Shenyang Suntime High-Voltage Electric Co., Limited) and Shenyang Suntime Storage and Logistics Co., Limited ("Suntime Storage"), and the Company's associate, New Northeast Electric (Shenyang) High-Voltage Switchgear Co., 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 China 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 ((2004) Gao Min Chu Zi No. 802) issued by the Beijing High People's Court (the "Beijing High Court") on 18 March 2005, the Beijing High Court ruled out that there is no legal relationship between the claims brought by the China Bank against the Company, the Named Companies and Shenyang High-Voltage and accordingly rejected the claim by the China Bank against the Company and the Named Companies. However, on 22 March 2005, the China Bank filed an appeal to the PRC Supreme People's Court (the "Supreme Court").

**39 LITIGATIONS (*Continued*)**

- (a) On 6 June 2006, the Supreme Court ruled out that there is a legal relationship between the claims brought by the China 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 judgement order ((2004) Gao Min Chu Zi No.802) ("the Order") made by the Beijing High Court cancelled the contract signed by the Company and Shenyang High-Voltage in relation to swapping the Company's creditor's rights in Northeast Transmission Machinery Group ("NET") amounting to Rmb76,660,000 for the 95% and 95% equity interest of Chengtai Energy and Suntime Storage respectively held by Shenyang High-Voltage. The Beijing High Court also ruled out that the Company should return the related equity interests 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; Shenyang 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.

According to the Order, the Company was required to compensate Shenyang High-Voltage with 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 of 2007.

Regarding to the civil judgement order ((2008) Min Er Zhong Zi No. 23) made by the Supreme Court on 5 September 2008, such judgement was a final decision. It stated that: 1) the decisions in the Order made by the Beijing Higher Court as above mentioned would be remained unchanged; 2) to cancel the agreement in relation to swapping the 98.5% equity interest in Tai Sheng Trading (formerly known as Shenyang Tiansheng Communication Equipment Co., Limited) held by the Company for the 74.4% equity interest in New High-Voltage Isolator held by Shenyang High-Voltage; 3) both parties should return the related equity interests to each other within 10 days after the judgement comes into effect, and if not, the Company should compensate for loss to Shenyang High-Voltage within limit of Rmb130,000,000 less Rmb27,878,800.

Upon the judgement, the Group has received the 98.5% equity interest in Tai Sheng Trading on 22 September 2008 and returned back the 74.4% equity interest in New High-Voltage Isolator to Shenyang High-Voltage on the next day. After received the equity interest in Tai Sheng Trading, it is decided to winding up Tai Sheng Trading. The Liquidator will transfer Tai Sheng Trading's creditors' rights and debts to the Company (agreed by the creditors of Tai Sheng Trading) according to the Liquidation Report of Tai Sheng Trading. The loss for the above share exchange scheme was Rmb71,846,000 being charged in the consolidated income statement in 2008.

**39 LITIGATIONS (*Continued*)**

- (b) On 15 July 2005, the Industrial and Commercial Bank of China Liaoning Branch (the "Industrial Bank") entered into a Debt Assignment Agreement with Great Wall, under which all of the debt assets were assigned to Great Wall who was entitled to claim the debt. The fact that Shenyang High-voltage entered into the loan contracts for loan principal of Rmb351,750,000 with a subordinate financial institution of the Industrial Bank during the period between 1986 and 2003, and so far the debt has not been paid by Shenyang High-voltage on the due date because of its inability to pay.

On 24 February 2009, Great Wall brought a lawsuit to the Liao High Court against Shenyang High-voltage for the overdue liabilities, requesting the court to order Shenyang High-voltage to repay the liabilities including the loan principal of Rmb351,750,000 and the interest accrued thereon. On 18 May 2009, Great Wall brought an additional lawsuit to the Liao High Court, requesting: 1) the Company to be an additional defendant of the litigation; and 2) the Company to bear joint and several liabilities in relation to the said loan principal and the interest accrued thereon.

According to the legal advice of PRC legal adviser of the Company, the Company should not be a defendant of such litigation, and Great Wall's claim against the Company to bear joint and several liabilities has no facts and legal basis. In the opinion of the directors, such litigation will not have any impact on the Group's financial position and the profit for the year. The Company has employed the lawyer to respond to the lawsuit accordingly and the respective judgement has not been completed up to the date of this report.

40 FINANCIAL RISKS MANAGEMENT OBJECTIVES AND POLICIES

(A) Financial instruments

The Group has classified its financial assets and liabilities in the following categories:

	Notes	Loans and receivables <i>Rmb '000</i>	Available-for-sale investment <i>Rmb '000</i>	Financial liabilities at amortised cost <i>Rmb '000</i>
<b>2009</b>				
Available-for-sale investment	18	-	215,942	-
Trade and other receivables	21	287,141	-	-
Amounts due to associates	22	-	-	9,594
Amount due to an investee company	23	-	-	102,172
Pledged bank deposits	25	23,073	-	-
Cash and cash equivalents	26	42,181	-	-
Trade and other payables	27	-	-	249,490
Bank borrowings	28	-	-	25,350
Total		352,395	215,942	386,606
<b>2008</b>				
Available-for-sale investment	18	-	216,055	-
Trade and other receivables	21	306,698	-	-
Amounts due to associates	22	-	-	40,270
Amount due to an investee company	23	-	-	65,079
Non-current assets held for sale	24	1,300	-	-
Pledged bank deposits	25	19,712	-	-
Cash and cash equivalents	26	30,216	-	-
Trade and other payables	27	-	-	289,103
Bank borrowings	28	-	-	22,450
Total		357,926	216,055	416,902

**40 FINANCIAL RISKS MANAGEMENT OBJECTIVES AND POLICIES (*Continued*)****(B)(I) Financial risk factors**

The Group's activities expose it to a variety of financial risks: market risk (including foreign currency risk, interest rate risk and price risk), credit risk and liquidity risk arising in the normal course of its business and financial instruments. The Group's risk management objectives and policies mainly focus on minimising the potential adverse effects of these risks on the Group by closely monitoring the individual exposure as summarised below.

**(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 date 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**

Except for pledged bank deposits (Note 25) and cash and cash equivalents (Note 26), the Group has no other significant interest-bearing assets. The Group's income and operating cash flows are substantially independent of changes in market interest rates. Management does not anticipate significant impact on interest-bearing assets resulted from the changes in interest rates because the interest rates of bank deposits are not expected to change significantly.

The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of People's Bank of China's announced benchmark interest rate arising from the Group's borrowings denominated in Rmb.

Borrowings at variable rates expose the Group to cash flow interest-rate risk. Borrowings at fixed rates expose the Group to fair value interest-rate risk. Details of the Group's borrowings have been disclosed in Note 28.

**40 FINANCIAL RISKS MANAGEMENT OBJECTIVES AND POLICIES (*Continued*)****(B)(I) Financial risk factors (*Continued*)****(b) Interest rate risk (*Continued*)**

The Group has not used any interest rate swaps to hedge its exposure to interest rate risk. In order to manage the cash flow interest rate risk, the Group will repay the corresponding borrowing when it has surplus funds.

The sensitivity analysis below have been determined based on the exposure to interest rates for the variable-rate bank borrowings at the balance sheet date. For variable-rate bank borrowings, the analysis is prepared assuming the amount of liability outstanding at the balance sheet date was outstanding for the whole year.

At 31 December 2009, it is estimated that a general increase/decrease of 100 basis points, with all other variables held constant, post-tax profit (2008: loss) for the year would have been approximately Rmb399,000 (2008: Rmb275,000) lower/higher (2008: higher/lower), mainly as a result of higher/lower interest expense on floating rate borrowings.

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the balance sheet date and had been applied to the exposure to interest rate risk for financial instruments in existence at that date. The above changes in interest rates represent management's assessment of a reasonably possible change in interest rates over the period until the next annual reporting date. The analysis is performed on the same basis for 2008.

**(c) Price risk**

The Group is exposed to equity securities price risk because investments held by the Group are classified on the consolidated balance sheet as available-for-sale investment. As the Group's policy is only to invest on such investment by its surplus funds, the exposure may not have significant impact on the Group's financial position. The Group is not exposed to commodity price risk.

40 FINANCIAL RISKS MANAGEMENT OBJECTIVES AND POLICIES (*Continued*)

**(B)(I) Financial risk factors (*Continued*)**

**(d) Credit risk**

The Group's credit risk is principally attributable to trade and other receivables.

The Group has no significant concentrations of credit risk. It has policies in place to ensure that sales of products are made and services are provided to customers with an appropriate credit history. It also sets credit limit on each individual customer and prior approval is required for any transaction exceeding that limit. The customer with sound payment history would accumulate a higher credit limit.

The maximum exposure to credit risk without taking account of any collateral held is represented by the carrying amount of each of financial assets in the consolidated balance sheet after deducting any impairment allowance. Further quantitative disclosure in respect of the Group's exposure to credit risk arising from trade and other receivables are set out in note 21.

The credit risk on bank balances is limited because the Group mitigates its exposure to credit risk by placing deposits with financial institutions with established credit ratings.

**(e) 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.

Individual operating entities within the Group are responsible for their own cash management, including the short term investment of cash surpluses and the raising of loans to cover expected cash demands, subject to approval by the parent company's board when the borrowings exceed certain predetermined levels of authority. The Group's policy is to regularly monitor its liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

The table below categorised the Group's financial liabilities into relevant maturity groupings based on the remaining period from the balance sheet date to the contractual maturity date. The tabulated amounts are the contractual undiscounted cash flow payments of the Group.

## 40 FINANCIAL RISKS MANAGEMENT OBJECTIVES AND POLICIES (Continued)

## (B)(I) Financial risk factors (Continued)

## (e) Liquidity risk (Continued)

	Less than 1 year	Between 1 year and 2 years	Total
	<i>Rmb '000</i>	<i>Rmb '000</i>	<i>Rmb '000</i>
<b>At 31 December 2009</b>			
Trade and other payables	249,490	-	249,490
Amounts due to associates	9,594	-	9,594
Amount due to an investee company	9,252	92,920	102,172
Bank borrowings	27,126	-	27,126
	<u>295,462</u>	<u>92,920</u>	<u>388,382</u>
<b>At 31 December 2008</b>			
Trade and other payables	289,103	-	289,103
Amounts due to associates	8,094	32,176	40,270
Amount due to an investee company	2,252	62,827	65,079
Bank borrowings	24,166	-	24,166
	<u>323,615</u>	<u>95,003</u>	<u>418,618</u>

## (B)(II) 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 total debts ratio. This ratio is calculated as total liabilities divided by total capital. Total liabilities include current liabilities and non-current liabilities. Total capital includes total borrowings and total equity as shown in the consolidated balance sheet. The Group's policy is to keep the total debts ratio at a reasonable level.

40 FINANCIAL RISKS MANAGEMENT OBJECTIVES AND POLICIES (*Continued*)

**(B)(II) Capital risk management (*Continued*)**

The total debts ratios at 31 December 2009 and 2008 are as follows:

	<b>2009</b>	<b>2008</b>
	<i>Rmb '000</i>	<i>Rmb '000</i>
Current liabilities	422,643	447,768
Non-current liabilities	<u>92,920</u>	<u>95,003</u>
Total liabilities	515,563	542,771
Total equity	<u>320,988</u>	<u>313,933</u>
Total capital	<u>836,551</u>	<u>856,704</u>
Total debts ratio	62%	63%

Neither the Company nor any of its subsidiaries are subject to either internally or externally imposed capital requirements.

**(C) Fair value estimation**

All of the financial instruments are carried at amounts not materially different from their fair values as at 31 December 2009 and 2008.

Estimated discounted cash flows are used to determine fair value of financial instruments where appropriate (i.e. level 3 - lowest level).

**41 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2009**

Up to the date of issue of these consolidated financial statements, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the year ended 31 December 2009 and which have not been early adopted in these consolidated financial statements.

The Group is in the process of making an assessment of what the impact of these amendments, new standards and new interpretations is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Group's results of operations and financial position.

In addition, the following developments may result in new or amended disclosures in the consolidated financial statements:

	<b>Effective for accounting periods beginning on or after</b>
HKFRS 2 (Amendments), Group cash-settled share-based payment transactions	1 January 2010
HKFRS 3 (Revised), Business combinations	1 July 2009
HKAS 24 (Revised), Related party disclosures	1 January 2011
Amendments to HKAS 27, Consolidated and separate financial statements	1 July 2009
Amendments to HKAS 39, Financial instruments: Recognition and Measurements - Eligible hedged items	1 July 2009
HK(IFRIC) 17, Distribution of non-cash assets to owners	1 July 2009
Improvements to HKFRSs (2009)	1 July 2009 or 1 January 2010

**42 COMPARATIVE FIGURES**

As a result of the application of HKAS 1 (revised 2007), *Presentation of financial statements*, certain comparative figures have been adjusted to conform to the current year's presentation and to provide comparative amounts in respect of items disclosed for the first time in 2009. Further details of these developments are disclosed in note 3.

**Significant differences between the consolidated financial statements of the Group prepared in accordance with the PRC Accounting Rules and Regulations and Hong Kong Financial Reporting Standards ("HKFRSs")**

**(1) Reconciliation of the profit/(loss) attributable to the Group prepared in accordance with the PRC Accounting Rules and Regulations and HKFRSs is summarised below:**

	<b>2009</b>	<b>2008</b>
	<i>Rmb '000</i>	<i>Rmb '000</i>
Profit/(loss) attributable to shareholders under the PRC Accounting Rules and Regulations	7,670	(69,112)
Differences:		
- Others	<u>57</u>	<u>111</u>
Profit/(loss) attributable to equity holders of the Company under HKFRSs	<u><u>7,727</u></u>	<u><u>(69,001)</u></u>

**(2) Reconciliation of shareholders' funds of the Group prepared in accordance with the PRC Accounting Rules and Regulations and HKFRSs is summarised below:**

	<b>2009</b>	<b>2008</b>
	<i>Rmb '000</i>	<i>Rmb '000</i>
Shareholders' funds under the PRC Accounting Rules and Regulations	318,543	311,138
Differences:		
- Others	<u>(6)</u>	<u>(63)</u>
Total equity attributable to equity holders of the Company under HKFRSs	<u><u>318,537</u></u>	<u><u>311,075</u></u>

### Shareholders of Northeast Electric Development Co., Ltd.

We have audited the financial reports of Northeast Electric Development Co., Ltd. (hereinafter referred to as "Northeast Electric") and its subsidiaries as of Dec. 31, 2009, including consolidated balance sheets and the related profit and loss, cash flow and change of equity for the year then ended, with notes thereto.

#### I. Responsibility of the managerial staff to the reports

It is the responsibility of the managerial staff to work out 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. Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the company as of Dec. 31, 2009, 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.  
Shenzhen, P.R.China  
Mar. 22, 2010

Certified Accountant of P.R.C.  
Liu Ren Zhi  
Certified Accountant of P.R.C.  
Zhao Wei Qian

**BALANCE SHEET (CONSOLIDATED)**

For the year ended 31 December 2009 (Prepared in accordance with P.R.C. Accounting Rules and Regulations)

*In RMB Yuan*

Items	Notes	Balance at end of period	Balance at beginning of period
<b>Current Assets:</b>			
Cash and deposits	V.1	65,253,681.04	49,928,339.70
Settlement excess reserve		-	-
Funds offered in inter-bank markets		-	-
Tradable financial assets		-	-
Bills Receivable	V.2	730,000.00	4,384,150.00
Accounts receivables	V.3	257,446,709.33	173,660,074.88
Prepayment	V.4	2,625,985.65	29,177,979.98
Premium Payable		-	-
Reinsurance Receivable		-	-
Reserve of Reinsurance Arrangement		-	-
Interest receivable		-	-
Dividends receivable	V.5	15,756,938.72	20,084,734.00
Other receivables	V.6	13,170,240.00	98,780,319.84
Purchase of buyback financial assets		-	-
Inventories	V.7	68,983,251.92	67,538,682.26
Non-current asset due within 1 year		-	-
other current assets		-	-
Total current assets		423,966,806.66	443,554,280.66
<b>Non-current Assets:</b>			
Deposits and advances		-	-
Saleable financial assets		-	-
Investment held till due		-	-
Long term account receivables		-	-
Long term equity investment	V.8	303,877,580.46	307,108,288.52
Invested Real Estate		-	-
fixed assets	V.9	81,125,659.63	83,630,674.91
Construction in progress		-	700,574.53
Material of works		-	-
Liquidation of Fixed Assets		-	-

**BALANCE SHEET (CONSOLIDATED) (Continued)**

For the year ended 31 December 2009 (Prepared in accordance with P.R.C. Accounting Rules and Regulations)

*In RMB Yuan*

Items	Notes	Balance at end of period	Balance at beginning of period
Producing Bio-Material assets		-	-
Assets of Oil and Gas		-	-
Intangible Assets	V.10	4,922,639.81	5,114,463.37
Expenditures of development		-	-
Good Will		-	-
Long-term deferred expenses	V.11	10,754,099.06	1,788,472.19
Deferred Income Tax Assets	V.12	11,910,752.23	5,119,501.89
Other non-current assets		-	-
Total Non-current assets		412,590,731.19	403,461,975.41
Total Assets		836,557,537.85	847,016,256.07
<b>Current Liabilities:</b>			
Short-term borrowings	V.14	25,350,000.00	22,450,000.00
Borrowings fm Central Bank		-	-
Deposits received & by inter-banks		-	-
Funds received fm inter-bank markets		-	-
Transactional financial liabilities		-	-
Bills payable	V.15		6,000,000.00
Account payable	V.16	153,375,840.11	78,484,781.19
Advance	V.17	18,963,505.02	60,610,993.70
Buyback Financial Assets sold		-	-
Fees payable & commission		-	-
Salaries due employees	V.18	1,345,152.97	1,452,116.29
Taxes payable	V.19	13,848,713.11	2,044,217.23
Interest payable		-	-
Dividends payable		40,017.86	40,017.86
Other payables	V.20	84,164,434.70	236,970,590.90
Reinsurance Payable		-	-
Reserve of Reinsurance Arrangement		-	-

**BALANCE SHEET (CONSOLIDATED) (Continued)**

For the year ended 31 December 2009 (Prepared in accordance with P.R.C. Accounting Rules and Regulations)

*In RMB Yuan*

Items	Notes	Balance at end of period	Balance at beginning of period
Payments of entrusted purchase & selling stocks		-	-
Payments of entrusted underwriting stocks		-	-
Non-current liabilities due within 1 year		-	-
Other current liabilities	V.21	587,446.97	-
<b>Total Current Liabilities</b>		<b>297,675,110.74</b>	<b>408,052,717.17</b>
<b>Non-current liabilities</b>			
Long-term borrowings		-	-
Bonds payable		-	-
Long-term account payables		-	-
Special payables		-	-
Estimated Liabilities	V.22	124,967,867.25	124,967,867.25
Deferred income tax liabilities		-	-
Other non-current liabilities	V.23	92,920,097.04	-
<b>Total non-current liabilities</b>		<b>217,887,964.29</b>	<b>124,967,867.25</b>
<b>Total liabilities</b>		<b>515,563,075.03</b>	<b>533,020,584.42</b>
<b>Shareholders' Equity</b>			
Paid-up Capital	V.24	873,370,000.00	873,370,000.00
Capital reserve	V.25	883,422,403.92	883,422,403.92
minus: shares in store		-	-
Special reserve		-	-
Reserve	V.26	108,587,124.40	108,587,124.40
Normal risk provision		-	-
Retained profit	V.27	-1,528,964,095.88	-1,536,634,262.58
Difference of exchange of foreign-currency reports		-17,873,106.00	-17,608,232.54
<b>Total interests due to parent company's shareholders</b>		<b>318,542,326.44</b>	<b>311,137,033.20</b>
Minority interests		2,452,136.38	2,858,638.45
<b>Total Shareholders' equity interests</b>		<b>320,994,462.82</b>	<b>313,995,671.65</b>
<b>Total liabilities and shareholders' equity interests</b>		<b>836,557,537.85</b>	<b>847,016,256.07</b>

**BALANCE SHEET (PARENT COMPANY)**

For the year ended 31 December 2009 (Prepared in accordance with P.R.C. Accounting Rules and Regulations)

*In RMB Yuan*

<b>Items</b>	<b>Notes</b>	<b>Balance at end of period</b>	<b>Balance at beginning of period</b>
<b>Current Assets:</b>			
Cash and deposits		35,497.71	2,790,853.63
Tradable financial assets		-	-
Bills Receivable		-	-
Accounts receivables	XI.1	-	44,769,620.00
Prepayment		-	-
Interest receivable		-	-
Dividends receivable		-	-
Other receivables	XI.2	490,776,479.71	549,282,433.92
Inventories		-	2,038,808.56
Non-current asset due within 1 year		-	-
other current assets		-	-
Total current assets		490,811,977.42	598,881,716.11
<b>Non-current Assets:</b>			
Saleable financial assets		-	-
Investment held till due		-	-
Long term account receivables		-	-
Long term equity investment	XI.3	157,737,418.63	157,737,418.63
Invested Real Estate		-	-
fixed assets		861,330.60	1,605,673.57
Construction in progress		-	-
Material of works		-	-
Liquidation of Fixed Assets		-	-
Producing Bio-Material assets		-	-
Assets of Oil and Gas		-	-
Intangible Assets		-	-

**BALANCE SHEET (PARENT COMPANY) (Continued)**

For the year ended 31 December 2009 (Prepared in accordance with P.R.C. Accounting Rules and Regulations)

*In RMB Yuan*

<b>Items</b>	<b>Notes</b>	<b>Balance at end of period</b>	<b>Balance at beginning of period</b>
Expenditures of development		-	-
Good Will		-	-
Long-term deferred expenses		-	-
Deferred Income Tax Assets		-	-
Other non-current assets		-	-
Total Non-current assets		158,598,749.23	159,343,092.20
Total Assets		649,410,726.65	758,224,808.31
<b>Current Liabilities:</b>			
Short-term borrowings		-	-
Transactional financial liabilities		-	-
Bills payable		-	-
Account payable		-	6,898,775.24
Advances		665,000.00	1,325,000.00
Salaries due employees		39,188.90	27,023.32
Taxes payable		37,597.62	145,748.56
Interest payable		-	-
Dividends payable		-	-
Other payables		80,546,271.43	267,565,046.74
Non-current liabilities due within 1 year		-	-
Other current liabilities		-	-
Total Current Liabilities		81,288,057.95	275,961,593.86

**BALANCE SHEET (PARENT COMPANY) (Continued)**

For the year ended 31 December 2009 (Prepared in accordance with P.R.C. Accounting Rules and Regulations)

*In RMB Yuan*

<b>Items</b>	<b>Notes</b>	<b>Balance at end of period</b>	<b>Balance at beginning of period</b>
<b>Non-current liabilities</b>			
Long-term borrowings		-	-
Bonds payable		-	-
Long-term account payables		-	-
Special payables		-	-
Estimated Liabilities		124,967,867.25	124,967,867.25
Deferred income tax liabilities		-	-
Other non-current liabilities		92,920,097.04	-
Total non-current liabilities		217,887,964.29	124,967,867.25
Total liabilities		299,176,022.24	400,929,461.11
<b>Shareholders' Equity</b>			
Paid-up Capital		873,370,000.00	873,370,000.00
Capital reserve		979,214,788.45	979,214,788.45
Minus: shares in store		-	-
Special reserve		-	-
Reserve		108,587,124.40	108,587,124.40
Normal risk provision		-	-
Retained profit		-1,610,937,208.44	-1,603,876,565.65
Total Shareholders' equity interests		350,234,704.41	357,295,347.20
Total liabilities and shareholders' equity interests		649,410,726.65	758,224,808.31

**PROFIT AND LOSS (CONSOLIDATED)**

For the year ended 31 December 2009 (Prepared in accordance with P.R.C. Accounting Rules and Regulations)

*In RMB Yuan*

Items	Notes	Amount of the period	Amount of the last period
<b>I. Total income of sales</b>		423,742,945.28	517,717,563.70
Inclu.:income of sales	V.28	423,742,945.28	517,717,563.70
Interest income		-	-
Premium earned		-	-
Charges and commissions		-	-
<b>II. Total cost of sales</b>		415,225,958.46	521,857,220.04
inclu.:Cost of sales	V.28	300,957,971.39	404,605,290.11
Interest expenses		-	-
Fees and commissions		-	-
Surrender value		-	-
Net amount of payouts		-	-
Net amount of reserve of insurance contracts		-	-
Premium expenses		-	-
Expenses of reinsurance		-	-
Sales tax and surcharges	V.29	98,501.08	177,497.32
Expenses of sales		42,639,130.79	48,122,876.77
Administrative expenses		44,564,264.84	60,631,879.70
Financial expenses		1,516,583.34	2,036,205.61
Loss of assets diminution	V.30	25,449,507.02	6,283,470.53
plus: income of fair value variance		-	-
(loss is posed as " - ")			
Return on investments	V.31	-1,677,139.94	-65,621,029.62
(loss is posed as " - ")			
inclu.:return on investments to associates and related parties		-1,677,139.94	-376,015.35
Gain/loss of exchange		-	-
(loss is posed as " - ")			

**PROFIT AND LOSS (CONSOLIDATED) (Continued)**

For the year ended 31 December 2009 (Prepared in accordance with P.R.C. Accounting Rules and Regulations)

*In RMB Yuan*

Items	Notes	Amount of the period	Amount of the last period
<b>III. Operational Profit</b>		6,839,846.88	-69,760,685.96
(Total loss is posed as " - ")			
plus: Income of non-operational activities	V.32	265,694.97	753,117.21
minus: Expenses of non-operational activities	V.33	259,474.13	541,723.87
inclu.: loss of disposal of non-current assets		157,163.81	288,668.05
<b>IV. Total Profit</b>		6,846,067.72	-69,549,292.62
(Total loss is posed as " - ")			
minus: Income tax expenses	V.34	-417,596.91	1,020,140.79
<b>V. Net Profit</b>		7,263,664.63	-70,569,433.41
Net profit belong to parent company's shareholders		7,670,166.70	-69,112,495.33
Minority interests		-406,502.07	-1,456,938.08
<b>VI. Earnings per share:</b>		-	-
(A) Primary earnings per share	V.35	0.01	-0.08
(B) Diluted earnings per share	V.35	0.01	-0.08
<b>VII. Other Comprehensive Income</b>	V.36	-264,873.46	-9,301,902.22
<b>VIII. Total Comprehensive Income</b>		6,998,791.17	-79,871,335.63
Total Comprehensive Income due to Parent Company		7,405,293.24	-78,414,397.55
Total Comprehensive Income due to Minority shareholders		-406,502.07	-1,456,938.08

**PROFIT & LOSS (PARENT COMPANY)**

For the year ended 31 December 2009 (Prepared in accordance with P.R.C. Accounting Rules and Regulations)

*In RMB Yuan*

Items	Notes	Amount of the period	Amount of the last period
<b>I. Total income of sales</b>	XI.4	2,803,418.81	104,917,592.10
Minus: Cost of sales	XI.4	2,038,808.56	94,559,487.87
Sales tax and surcharges		-	-
Expenses of sales		26,557.00	2,758,363.00
Administrative expenses		7,672,377.30	13,415,193.43
Financial expenses		-15,887.47	-37,999.55
Loss of asset devaluation		117,136.21	1,918,604.53
plus:income of fair value variance		-	-
(loss is posed as " - ")			
Return on investments	XI.5	-	-102,178,150.52
(loss is posed as " - ")			
inclu.:return on investments to		-	-
associates and related parties			
<b>II.Total Profit</b>		-7,035,572.79	-109,874,207.70
( Total loss is posed as " - ")			
plus:Income of non-operational		-	-
activities			
minus:Expenses of non-operational		25,000.00	8,937.17
activities			
inclu.:loss of disposal of		25,000.00	-
non-current assets			
<b>III.Total Profit</b>		-7,060,572.79	-109,883,144.87
minus:Income tax expenses		-	-
<b>IV.Net Profit</b>		-7,060,572.79	-109,883,144.87
( Total loss is posed as " - ")			
<b>V. Earnings per share:</b>		-	-
(A)Primary earnings per share		-0.01	-0.13
(B)Diluted earnings per share		-0.01	-0.13
<b>VI. Other Comprehensive Income</b>		-	-
<b>VII. Total Comprehensive Income</b>		-7,060,572.79	-109,883,144.87

## CASH FLOW (CONSOLIDATED)

For the year ended 31 December 2009 (Prepared in accordance with P.R.C. Accounting Rules and Regulations)

*In RMB Yuan*

Items	Notes	Amount of the period	Amount of the last period
<b>I. Operational Activity Cash Flow adjusted by Net Profit</b>			
Cash from sales of goods, services provided		365,630,125.35	579,259,085.28
Increase by deposits and inter-bank deposits		-	-
Increase of borrowings from Central Bank		-	-
Increase of funds received in the inter-bank markets		-	-
Cash received from premium under insurance contracts		-	-
Net amount received under re-insurance business		-	-
Net increase of insured funds and investment		-	-
Net increase of disposal of transactional financial assets		-	-
Cash of interest, fees and commission received		-	-
Net increase of funds received in inter-bank markets		-	-
Net increase of funds of buyback business		-	-
Taxes refunded received		151,563.90	247,666.11
Cash received relating to operations	V.37(1)	116,771,415.48	98,245,290.36
Inflow of operational activity cash		482,553,104.73	677,752,041.75
Cash paid to purchase goods, received labor		238,671,134.17	419,521,619.22
Net increase of customer loans		-	-
Net increase of deposits with Central Bank		-	-
Cash of payout under insurance contracts		-	-
Cash paid over interest, fees and commission		-	-
Cash paid to premium		-	-
Cash paid to employees and for employees		27,544,867.43	39,210,610.99
Taxes paid		20,319,307.02	29,563,339.73
Other cash paid relating operations	V.37(2)	173,778,941.41	174,214,792.31
Sub-total of outflow of operating activity		460,314,250.03	662,510,362.25
Net amount of cash flow by operating activity		22,238,854.70	15,241,679.50
<b>II. Cash flow by investment activity</b>			
Cash received by withdrawn investment		-	-
Cash of return on investment		4,309,753.97	-
Net cash received from disposal of fixed assets,intangible assets and other long-term assets		100,000.00	493,000.00
Net amount of cash in disposing subsidiaries and other operating units		-	5,856,512.31
Cash paid to other investment-related activities		-	-

**CASH FLOW (CONSOLIDATED)(Continued)**

For the year ended 31 December 2009 (Prepared in accordance with P.R.C. Accounting Rules and Regulations)

*In RMB Yuan*

Items	Notes	Amount of the period	Amount of the last period
<b>II. Cash flow by investment activity</b>			
Sub-total of outflow of cash in investment activities		4,409,753.97	6,349,512.31
Cash paid in purchase/construction of fixed assets, intangible assets and other long-term assets		16,327,142.71	19,548,483.80
Cash paid to invest		-	-
Net increase of pledged loans		-	-
Net cash received from subsidiaries and other operational units		-	-
Cash from other financial-related activities		-	1,938,993.96
Sub-total of inflow of cash in financial activities		16,327,142.71	21,487,477.76
Total in/outflow of cash in investment activities		-11,917,388.74	-15,137,965.45
<b>III. Cash flow generated in financial activities:</b>			
Cash received for new investment		-	-
Inclu: subsidiaries receive cash from minority shareholders		-	-
Cash received from borrowing		13,000,000.00	35,450,000.00
Cash received by issuing bonds		-	-
Cash from other financial-related activities			
Sub-total of inflow of cash in financial activities		13,000,000.00	35,450,000.00
Cash paid to repay loans		10,100,000.00	63,368,876.60
Cash paid to allocate dividends, profit or repay interests		1,509,296.27	3,442,543.95
Inclu: subsidiaries' dividends, profits paid to minority shareholders		-	-
Cash paid to other financial-related activities		-	30,164.80
Sub-total of outflow of cash in financial activities		11,609,296.27	66,841,585.35
Net cash generated in financial activities		1,390,703.73	-31,391,585.35
<b>IV. Effect of change of foreign-currency rates on cash and cash equivalents</b>		-268,165.85	-3,552,998.55
<b>V. Net increase of cash and cash equivalents</b>		11,444,003.84	-34,840,869.85
Plus: balance of cash and cash equivalents at beginning of period		30,736,939.70	65,577,809.55
<b>VI. Cash and cash equivalents at end of period</b>		42,180,943.54	30,736,939.70

## CASH FLOW (PARENT COMPANY)

For the year ended 31 December 2009 (Prepared in accordance with P.R.C. Accounting Rules and Regulations)

*In RMB Yuan*

Items	Notes	Amount of the period	Amount of the last period
<b>I.Cash flow generated in Operational activities:</b>			
Cash from sales of goods, services provided		12,490,058.00	108,522,835.60
Refunds of taxes and expenses		-	-
Other cash from operation-related activities		117,513,292.78	35,453,928.74
Sub-total of inflow of cash in operational activities		130,003,350.78	143,976,764.34
Cash paid for goods and services		5,840,300.00	98,129,368.00
Cash paid to and for the employees		1,943,418.22	3,299,546.01
Taxes and expenses paid		711,627.26	1,910,702.92
Other cash paid to operation-related activities		124,257,671.22	41,645,021.34
Sub-total of outflow of cash in operational activities		132,753,016.70	144,984,638.27
Net in/outflow of cash generated in operational activities		-2,749,665.92	-1,007,873.93
<b>II.Cash flow generated in investment activities:</b>			
Cash of withdrawn investment		-	-
Cash received from return of investments		-	-
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		-	-
Net amount of cash in disposing subsidiaries and other operating units		-	-
Other cash received from investment-related activities		-	-
Sub-total of inflow of cash in investment activities		-	-
Cash paid in purchase/construction of fixed assets, intangible assets and other long-term assets		5,690.00	137,030.00
Cash paid to invest		-	100,000.00
Net cash received from subsidiaries and other operational units		-	-
Cash paid to other investment-related activities		-	-
Sub-total of outflow of cash in investment activities		5,690.00	237,030.00
Total in/outflow of cash in investment activities		-5,690.00	-237,030.00

**CASH FLOW (PARENT COMPANY) (Continued)**

For the year ended 31 December 2009 (Prepared in accordance with P.R.C. Accounting Rules and Regulations)

*In RMB Yuan*

Items	Notes	Amount of the period	Amount of the last period
<b>III. Cash flow generated in financial activities:</b>			
Cash received for new investment		-	-
Cash received from borrowing		-	-
Cash from other financial-related activities		-	-
Sub-total of inflow of cash in financial activities		-	-
Cash paid to repay loans		-	-
Cash paid to allocate dividends, profit or repay interests		-	-
Cash paid to other financial-related activities		-	-
Sub-total of outflow of cash in financial activities		-	-
Net cash generated in financial activities		-	-
<b>IV. Effect of change of foreign-currency rates on cash and cash equivalents</b>			
<b>V. Net increase of cash and equivalents</b>			
		-2,755,355.92	-1,244,903.93
plus: Balance at beginning of period of cash and equivalents		2,790,853.63	4,035,757.56
<b>VI. Balance of Cash and equivalents by end of period</b>		<b>35,497.71</b>	<b>2,790,853.63</b>

# CHANGE OF EQUITY (CONSOLIDATED)

For the year ended 31 December 2009 (Prepared in accordance with P.R.C. Accounting Rules and Regulations)

Items	Amount at same time, but year										In RMB Yuan							
	Amount in this period					Amount at same time, but year												
	Shareholder's equity due to parent company					Shareholder's equity due to parent company												
	Paid-up Capital	Capital Reserve	Special Reserve	Reserve	Normal Risk Reserve	Retained Profit	Others	Minority interests	Total shareholder's equity	Paid-up Capital	Capital Reserve	Special Reserve	Reserve	Normal Risk Reserve	Retained Profit	Others	Minority interests	Total shareholder's equity
I. Balance of last year	873,370,000.00	883,422,403.92	-	108,587,124.40	-	-1,516,634,262.58	-17,608,232.54	2,858,638.45	313,995,671.65	873,370,000.00	883,422,403.92	-	108,587,124.40	-	-1,438,523,595.67	-8,307,955.84	4,315,576.53	422,863,553.34
Plus: Change of Accounting Policy	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Corrections to previous errors	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Others	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
II. Balance at beginning of this year	873,370,000.00	883,422,403.92	-	108,587,124.40	-	-1,516,634,262.58	-17,608,232.54	2,858,638.45	313,995,671.65	873,370,000.00	883,422,403.92	-	108,587,124.40	-	-1,467,521,267.25	-8,306,330.32	4,315,576.53	393,867,007.28
III. Variation of the period (decrease posed as "-")	-	-	-	-	-	7,670,166.70	-264,873.46	-406,502.07	6,998,791.17	-	-	-	-	-	-69,112,495.33	-9,301,902.22	-1,456,638.08	-79,871,335.63
I. net profit	-	-	-	-	-	7,670,166.70	-	-406,502.07	7,265,664.63	-	-	-	-	-	-69,112,495.33	-	-1,456,638.08	-70,569,433.41
II. other comprehensive income	-	-	-	-	-	-	-264,873.46	-	-264,873.46	-	-	-	-	-	-9,301,902.22	-	-	-9,301,902.22
Sub-total of I. and II.	-	-	-	-	-	-7,000,642.79	-264,873.46	-406,502.07	6,998,791.17	-	-	-	-	-	-69,112,495.33	-9,301,902.22	-1,456,638.08	-79,871,335.63
III. Shareholder's equity and Capital decreased	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
I. Capital invested	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2. Amount of shares taken as equity	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
3. Others	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
IV. Distribution of profit	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
I. Reserve	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2. Normal risk reserve	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
3. Distribution to shareholders	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
4. Others	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
V. Internal control demand	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
shareholder's equity	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
1. Capital reserve to increase capital	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2. Reserve to increase capital	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
3. Reserve to cover loss	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
4. Others	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
VI. Special reserve	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
1. Provision of the period	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2. Usage of the period	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
IV. Balance by end of period	873,370,000.00	883,422,403.92	-	108,587,124.40	-	-1,538,984,095.88	-17,873,106.00	2,452,136.38	320,994,463.82	873,370,000.00	883,422,403.92	-	108,587,124.40	-	-1,536,634,262.58	-17,608,232.54	2,858,638.45	313,995,671.65

# CHANGE OF EQUITY (PARENT COMPANY)

For the year ended 31 December 2009 (Prepared in accordance with P.R.C. Accounting Rules and Regulations)

Items	Amount in this period										Amount at same time last year										In RMB Yuan
	Paid-up Capital	Capital Reserve	Minus: stocks in store	Special Reserve	Reserve	Normal Risk Reserve	Retained Profit	Total shareholder's equity	Paid-up Capital	Capital Reserve	Minus: stocks in store	Special Reserve	Reserve	Normal Risk Reserve	Retained Profit	Total shareholder's equity					
I. Balance of last year	873,370,000.00	979,214,788.45	-	-	108,587,124.40	-	-1,603,876,565.65	357,295,347.20	873,370,000.00	979,214,788.45	-	-	108,587,124.40	-	-1,493,993,420.78	467,178,492.07					
Plus: Change of Accounting Policy	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-					
Corrections to previous errors	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-					
Others	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-					
II. Balance at beginning of this year	873,370,000.00	979,214,788.45	-	-	108,587,124.40	-	-1,603,876,565.65	357,295,347.20	873,370,000.00	979,214,788.45	-	-	108,587,124.40	-	-1,493,993,420.78	467,178,492.07					
III. Variations of the period	-	-	-	-	-	-	-7,060,642.79	-7,060,642.79	-	-	-	-	-	-	-109,883,144.87	-109,883,144.87					
(decrease posed as "-")	-	-	-	-	-	-	-7,060,642.79	-7,060,642.79	-	-	-	-	-	-	-109,883,144.87	-109,883,144.87					
i. net profit	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-109,883,144.87	-109,883,144.87					
ii other comprehensive income	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-					
Sub-total of I. and II.	-	-	-	-	-	-	-7,060,642.79	-7,060,642.79	-	-	-	-	-	-	-109,883,144.87	-109,883,144.87					
iii. Shareholder's equity and Capital (decrease)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-					
1. Capital invested	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-					
2. Amount of shares taken as equity	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-					
3. Others	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-					
iv. Distribution of profit	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-					
1. Reserve	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-					
2. Normal risk reserve	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-					
3. Distribution to shareholders	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-					
4. Others	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-					
v. internal earned-forward shareholder's equity	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-					
1. Capital reserve to increase capital	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-					
2. Reserve to increase capital	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-					
3. Reserve to cover loss	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-					
4. Others	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-					
vi. Special reserve	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-					
1. Provision of the period	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-					
2. Usage of their period	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-					
IV. Balance by end of period	873,370,000.00	979,214,788.45	-	-	108,587,124.40	-	-1,603,876,565.65	350,234,704.41	873,370,000.00	979,214,788.45	-	-	108,587,124.40	-	-1,603,876,565.65	357,295,347.20					

## Notes to the Financial Reports

Year of 2009

### 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: No.38, Jing Xing Bei Street, Tie Xi District, Shenyang, Liaoning Province, P.R.China. Legal Representative:Su Wei Guo.**
- 2. The company engage in producing and selling electricity transmitting and transforming equipments, corollary equipments, and providing relative after-sale services, and services of developing electricity transforming technology, consulting, transferring and experimenting. Registered Capital of the company is RMB873,370,000.00.**
- 3. Parent Company of the 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. 22, 2010, during the 2nd session of the 6th Board of Directors Meeting.**

**II. Major Accounting Policies, Evaluation and Corrections of Previous periods****1. Groundwork of 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.

**2. Declaration of compliance with the <Enterprise Accounting Rules>**

The financial statements of the company of Year 2009 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 Rules>.

**3. Accounting period**

Accounting period of the Company starts from Jan. 1 till Dec. 31 of each calendar year.

**4. Accounting Currency**

Renminbi is the accounting currency of the Company.

**5. Accounting of consolidation of companies under/ or not under the same controlling party****A. Consolidation of companies under the same controlling party:**

Assets and Liabilities of the consolidated companies 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.

Expenditures arise directly from consolidation, including fees of auditing, evaluation, legal services, are taken into profit and loss of the period. Parent company should work out consolidated Balance Sheet, Profit and Loss and Cash & Flow after merging subsidiary(ies). Each item of assets and liabilities of the consolidated company should be taken by the book value. Adjustments according the Rules of the consolidated company due to different adaptation of accounting standards will be taken into consolidation. Consolidated Profit and Loss include all items of income, expenditures and profit from beginning till end of the period of the consolidated party(ies). Net profit made by the consolidated company should be listed exclusively in the consolidated Profit and Loss. Cash flows from beginning till end of the period of all consolidated parties are taken into the consolidated Cash Flow.

**B. For companies not under the same controlling party:**

Consolidated costs are assets paid, liabilities occurred or undertaken, fair value of equity bonds issued plus all relative expenditure. The above-mentioned assets and liabilities are computed by fair value on the date of merging, difference between fair value and book value are taken into profit and loss of the period. Good will are recognized by the difference between consolidation costs and recognizable net assets fair value of the consolidated party. Computation of all recognizable assets, liabilities, fair value of contingent liabilities and consolidation costs of the consolidated party are to be re-checked when consolidation costs are smaller than shares of recognizable net asset of the consolidated party, and the amount of which is to be taken into profit and loss of the period if the difference remain after re-check.. Parent company is to prepare consolidated balance sheet of the date of consolidation after merge. All items of recognizable assets, liabilities and contingent liabilities of the consolidated party are to be shown on the reports by their fair value.

**6. Preparation of Consolidated Financial Reports**

- A. Consolidated Financial Reports are based on all reports and relative information of the Company and its subsidiaries consolidated, long-term equity investments are adjusted according to method of equity, investments and transactions between the Company and the consolidated subsidiaries are off-set, then Minority Interests are consolidated.
- B. Accounting Policy of the Company is adopted while consolidating if different policies are exercised by the subsidiaries.
- C. For subsidiary(ies) under the same controlling party, asset, liabilities, operating outcome and cash flow are consolidated into the consolidated Financial Reports from beginning of period of consolidation.
- D. Net profit and loss made by the consolidated subsidiary(ies) under the same controlling party are taken into extraordinary profit and loss, and are shown exclusively.
- E. For non-consolidating items under the same controlling party, if assets of the consolidated party by end of year prior to consolidation/ or operating income or total profit reach to/ or surpass 20% of the corresponding item of the controlling party, referencing profit and loss is prepared from beginning of the period of consolidation.
- F. Consolidation of subsidiary(ies) not under the same controlling party are prepared with adjustments based on recognizable assets' fair value on the date of acquisition.

**7. Recognition of Cash and Cash equivalents**

Cash is cash at hands and deposits for payments.

Short-term (usually are due within 3 months from purchasing dates), 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. Foreign currency business and computation of foreign currency reports****A. Computation of foreign currency business**

Foreign currency businesses are changed to booking currency by the exchange rate borders on spot rate of date of transaction, which is the exchange rate at beginning of the month of transaction.

On each balance sheet date, foreign-currency monetary items and non-monetary items are managed by the following rules:

- a. Assets and liabilities in the Balance Sheet are changed to booking currency at the spot rate of the balance sheet date. Differences in exchange arisen from different spot rates of date of balance sheet date and that of recognition date or of previous balance sheet date, are taken into profit and loss of the period.
- b. Non-monetary foreign currency items computed at history costs are exchanged to booking currency at spot rate of date of transaction.
- c. Non-monetary foreign currency items computed at fair value are exchanged at spot rate of date of value recognition, difference between booking currency amounts before and after exchange are taken into profit and loss of the period as variation of fair value.

**B. Exchange of Foreign currency financial reports**

All items of assets and liabilities of subsidiaries whose booking currency are foreign currency are exchanged into booking currency of parent company at spot rate of date of consolidated financial reports in preparing Renminbi financial reports. Shareholders' equity except for "retained profit" are exchanged into parent company's booking currency at spot rate of occurrence. Incomes and Expenses in Profit and Loss are exchanged into parent company's booking currency at spot rate of transaction dates/ or at spot rate borders on transaction dates. Exchange differences are to be reflected in items of Exchange Difference by foreign currency reports in Profit and Loss.

## 9. Financial Instruments

### A. Classifications 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.

### B. 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

### C. 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.

### D. Transfer of Financial Assets

Recognition of a certain item of financial asset is terminated when the Company transfer almost all of the risks and reward of such asset to the transferred party, or give up control over such asset.

**E. 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

**F. 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 prediction of future cash value and current book value;
- c. Recognition of bad debts and accrument: Separate test is exercised for receivables of large amounts, diminution provision are set at difference between prediction of future cash value and current book value if evidences showing depreciation. For account receivables of insignificant amounts and tested not to be diminished, aging method is adopted to accrue provision by age and designated proportion of such receivable; For those insignificant amount receivables with high risk after analysis by method of credit risk combination analysis, individual test is processed and provision accrued. For those receivables showing no diminution after individual test, aging method is adopted to accrue provision by age and designated proportion.
- 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.

**10. Account Receivables****(1) Recognition and Accrue of Account Receivables with large amounts**

Standard of recognition of provision under single Account Receivable of large amount	Over 1 million Yuan
Accrue of provision under single Account Receivable of large amount	Aging Method

**(2) Base of recognition and Accrue of Account Receivables of insignificant amount with high risk after method of credit risk combination analysis**

Base of recognition of credit risk combination	Receivables of over 4 years with apparent signs of difficulty in retrieve
Method of accrue by method of credit risk Combination	Aging Method

**(3) Aging Method**

Age	Proportion of provision (%)	Proportion of provision of other receivables (%)
Within 2 years	-	-
2 – 3 years	40	40
3- 4 years	60	60
Over 4 years	100	100

**11. Inventories****(1) Classifications of inventories**

Inventories are classified as merchandise inventory, raw material, work in progress, finished goods, low value articles.

**(2) Valuation of goods in transit**

Inventories are carried at real costs, calculated using the weighted average cost method.

**(3) Standard for market price and method of provision**

Market price of inventories is determined by estimated selling price minus estimated costs of production, minus estimated costs of sales under normal operating circumstances.

Method of accrue of inventories depreciation: Based on overall stock-takings during mid-year and end-year, provisions are set according to differences between market price and cost of stock of an individual inventory for those inventories that are lost, all or part of them are obsolete, or selling prices are lower than cost of inventory, and loss are carried into profit and loss of the period. Future event impact as well as purposes of inventory and fluctuations of price and cost of stock of a specific inventory are taken into consideration when determinating its market price.

**(4) Stock-taking system**

perpetual inventory method is adopted.

**(5) Amortization of low-value article and packing**

*low-value article*

One time amortization is adopted for low-value article when taken.

*packing*

One time amortization is adopted for packing when used.

**12. Long-term equity investment**

**(1) Recognition of Initial cost of investment**

**A. Initial cost of investment of long-term equity investment by consolidation are recognized by the following:**

- 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 consolidating 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. Initial cost of investment of consolidation of subsidiaries not under the same controlling party are determined by the following:

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.

**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) Follow-up computation and profit & loss recognition**

- A. Long-term investment with controlling power over the invested company is taken by method of cost. Adjustments are made by method of equity when preparing consolidated reports.
- B. Method of cost is adopted when accounting those long-term investments without joint control or major influence over the invested company, no price can be quoted in active markets, fair value of which investments can not be computed.
- C. Method of equity is adopted when reporting those long-term investments with joint control or major influence over the invested company.

Long-term investments are calculated at initial cost with Method of Cost. Any supplement or withdrawal to the investments are to adjust the cost of investment. Cash dividends or profit distributed by the invested company are recognized as return on investment of the period.

Initial costs of investment are not to be adjusted when larger than shares of recognizable fair value of net

worth of the invested company under method of equity; Difference between initial cost of investment and shares of recognizable fair value of net worth of the invested company is taken into profit & loss of the period when cost is less, and such cost is adjusted in the meantime. Return on investments are recognized by shares of net worth of the invested company after acquisition of long-term equity, and book value of such investment is adjusted accordingly. Profit or cash dividends pro rata distributed by the invested company are to minus book value of the relative long-term investment.

Book value of long-term investment is adjusted when changes occur other than net worth of the invested company, and is to reported in shareholder's equity accordingly.

**(3) Basis of recognition of joint control or major influence**

- A. Joint control is control power jointly withholding over a certain economic activity according to the relative contract, and is only existed when unanimous opinion are needed over some major financial matters or operating decisions of such activity.
- B. Major influence is the right to take part in financial and operating decisions of an enterprise, but without control or jointly control makings of such decisions. In recognizing such influence, potential voting elements such as convertible bonds of the invested company held by the Company, or stock warrants exercisable during the period.

**(4) Test method of depreciation and method of provision over such depreciation**

Long-term investment is checked item by item on balance sheet date for any signs of depreciation. Retrievable value is estimated if any such signs existed. Such value is reported as book value of the relative long-term investment if it's less than the original book value, with the difference minus reported as loss of asset in the profit & loss of the period, provision of depreciation is accrued accordingly. Loss of long-term investment depreciation once recognized, is not to be reversed.

**13. 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 depreciated 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.

**14. Fixed Assets**

**(1) Conditions of recognition of fixed assets**

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.

**(2) Depreciation of all types of fixed assets**

Type	Service life (year)	Scrape value rate (%)	Annual depreciation rate (%)
Buildings	20-40	3	2.43-4.85
Machinery and equipment	8-20	3	4.85-12.13
Motor vehicles and others	6-17	3	5.71-16.17

**(3) Test method of fixed asset devaluation, and provision method of devaluation**

Signs of devaluation are determined on balance sheet date. Retrievable value is estimated when signs such as continuous plummet of such asset market price, or obsolete technology, or damage, or long-time idleness. Such value is reported as book value of the relative fixed asset if it's less than the original book value, with the difference minus reported as loss of asset in the profit & loss of the period, provision of devaluation is accrued accordingly. Loss once recognized, is not to be reversed.

**(4) Basis of recognition fixed assets by financial lease, method of calculation of such assets**

Financial lease is recognized when all risk and return on certain asset is transferred. Book value of such asset is reported by lower of fair value on lease date and present worth of minimum payment of rent, plus initial expense directly to the leasing project, minimum payment of rent is reported as book value of the long-term payable, difference as financial-expenses-to-recognize. Financial-expenses-to-recognize is amortized by effective interest method during term of lease. Provision of depreciation of such asset is set by rate decided according to term of lease and estimated scrap value .

**15. Work in progress****A. Calculation of work-in-progress**

Work 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.

**B. Provision of work-in-progress devaluation**

Thorough checkup is conducted on balance sheet date to decide if any signs of devaluation of work-in-progress exist. If any of the following signs exist, including: (1) Long-time suspension of construction with re-start estimated within the next 3 years; (2) performance or technology of such work-in-progress are obsolete, and there are great uncertainties in the economic outcome by such work, then retrievable value of the work is estimated. Such value is reported as book value of the relative work-in-progress if it's less than the original book value, with the difference minus reported as loss of asset in the profit & loss of the period, provision of depreciation is accrued accordingly. Loss of work-in-progress devaluation once is recognized, is not to be reversed.

**16. Borrowing Expenses**

- A. Borrowing expenses that satisfy conditions of capitalization of construction or production is capitalized and taken into cost of the relative asset; other borrowing expenses are recognized as expenses and taken into profit & loss of the period when occur. Borrowing expenses satisfy the following conditions at the same time are capitalized:

- a. Asset expenditures arise, including payment by cash, transfer of non-cash asset, undertaking of interest-bearing liability to construct or produce assets that satisfy capitalization conditions;
  - b. Borrowing expenses occur;
  - c. Construction or production has begun to enable the asset ready to use or sell;
- B. Borrowing expenses capitalization is suspended when the relative asset reach to the state ready to use or sell. Borrowing expenses occur after that is recognized as expenses and is taken into profit & loss of the period.

**17. Intangible assets**

- A. Intangible assets are recognizable non-monetary assets without physical forms that are controlled or owned by the Company, including technical know-how, land-use right, etc.**
- B. Intangible assets are calculated at real costs of acquisitions.**
- C. For intangible assets reported by their service life, are taken into profit & loss of the period by straight-line method within their service life from usage; no amortization is calculated for intangible assets with uncertain service life; the Company re-check service lives and methods of amortization of each intangible assets, and change those different from the present methods in practice.**
- D. Provision for intangible assets devaluation**

By end of report period, capability of bring about economic outcome for the Company by intangible assets are checked up, and provisions are set by difference between their book value and retrievable value if any of the following sign exist: (1)Other new technology has replaced a certain intangible asset so its capability to bring about economic outcome has been greatly hampered; (2) Market price has plummeted to a great extent during the period, and are expected no recovery within the rest of the amortization periods; (3) Legal protection time has due for a certain intangible asset, estimate of retrievable value of such asset is conducted when there's still usable value. Such retrievable value is reported as book value of the relative intangible asset if it's less than the original book value, with the difference minus reported as loss of asset in the profit & loss of the period, provision of depreciation is accrued accordingly; (4) other circumstances that show certain intangible assets are actually devalued. Once loss of intangible asset devaluation is recognized can not be reversed.

**18. Long term deferred expenses**

- A. All expenses with amortization term to be longer than 1 year are recognized as long term deferred expenses.
- B. Long term deferred expenses are calculated at real cost at acquisition, preliminary expenses are taken into profit & loss of the period when occur; Fixtures of fixed assets under operating lease are amortized evenly within the term of lease, other long term deferred expenses are amortized evenly within the period the project benefited from such assets. The rest of un-amortized value are taken into profit & loss of the period if no contribution will be brought about of such long term deferred assets.

**19. Estimated Liability**

- A. Liability relative to contingent items and complied with the following is recognized as estimated liability the Company: Such liability is present undertaking by the Company; Implementation of such liability may lead to outflow of economic interests of the Company; Amount of such liability can be reliably counted.
- B. If all or part of the expenditures to discharge estimated liability by the Company will be compensated by a third party, such compensation is recognized as asset when payment can be ascertained, and such asset recognition amount can not surpass the amount of book value of relative estimated liability.

**20. Income****A. Income of 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.

**B. Labor income**

Labor income is recognized when labor starts and finishes within the same fiscal year; and labor finishes in a different fiscal year, then labor income is recognized by percentage of extent of finish when outcome of labor transaction can be reliably estimated.

**C. Incom from 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;

- D. Income of interest, is reported according to time and effective interest rates used by other parties; income of charges of usage is reported according to time and method stated in the relative contract/ or agreement.**

**21. Subsidy by the Government**

Subsidy by the Government includes fiscal allocation, fiscal discount, return of taxes and allocation of non-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.

**22. Deferred income tax asset/Deferred income tax liability**

**A. Recognition of deferred income tax asset**

- a. 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:
- 1/ Such transactions are not due to corporate consolidation;
  - 2/ Neither profit nor taxable income (or offsettable loss) will not be affected when transactions occur.
- b. 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:
- 1/ Temporary difference can be reversed in the predictable future;
  - 2/ Taxable income possibly used to offset offsettable temporary difference.
- c. 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.

**B. Recognition of deferred income tax liability**

All deferred income tax liability arise from taxable temporary difference are recognized except for the following situations:

- a. Initial recognition of goodwill;
- b. Initial recognition of assets or liabilities satisfying both the below conditions:
  - 1/ Such transactions are not due to corporate consolidation;
  - 2/ Neither profit nor taxable income (or offsettable loss) will not be affected when transactions occur.
- c. 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.
  - 1/ The investing company can control time of reverse of temporary difference;
  - 2/ Such temporary difference are probably not to be reversed in the predictable future.

**23. Changes in Major accounting policy, or accounting valuation**

There's no change to the present accounting policy or valuation of the Company.

**24. Correction to previous accounting errors**

There's no correction to previous accounting errors.

**25. Other Major Accounting Policies, Valuation, and methods of Work-out of Financial Reports**

None

III. Taxes

1. Major types of tax and rates

Types of tax	Tax base	Taxable rate (%)
Value-added tax	Sales tax less deductible purchase sales	17
Sales tax	Income subject to tax	5
Maintenance & Construction of the city tax	Amount subject to Value-added tax and Sales tax	7
Surtax for education expenses	Amount subject to value-added tax and income tax	3, 4
Income tax of enterprise	Amount subject to income tax	See III.2

2. Tax preferences and relative official grants

- (1) Corporate Income Tax Rates for the Company and subsidiaries such as Jinzhou Jinrong Electric Appliance Co., Ltd., Shenyang Kaiyi Electric Co., Ltd. (referred as Kaiyi Electric), Shenyang Gaodongjia Dessication Equipment Co., Ltd., Shenyang Zhaolida Machinery Equipment Co., Ltd. and Northeast Electric (Beijing) Co., Ltd. are 25%.
- (2) 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.
- (3) 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 25%. 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 half 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.
- (4) Northeast Electric (HK) Co., Ltd. is a wholly owned subsidiary of the company registered in HKSAR of P. R. China, its income rate is 16.5%.
- (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.

IV. consolidated financial report

1. Subsidiaries

(1) Subsidiaries setup or invested

Company names	types	Place of registration	business	Registered capital	Business scope	Actual investment amount at end of period	Other balances constituting investments to subsidiaries	Percentages of shares held(%)	Percentage of voting rights(%) consolidated	Minority interest & loss of minority interests	Amount of minority interest to offset profit	Balance of parent co's shareholder's equity setting off loss of the period undertaken by minority shareholders that exceeds shares held by minority interests at beginning of period
Northeast Electric (HK) Co Ltd	Fully-owned	HK	Trade	USD20MILLION	INVESTMENT/Trade	USD20MILLION	-	100	100	-	-	-
Greenet Technology Co.,Ltd.	Fully-owned	BVI	Investment	USD1	Investment	USD1	-	100	100	-	-	-
Northeast Electric (Beijing) Co Ltd	Fully-owned	Beijing	Sales	RMB2MILLION	Sales of machinery, electric equipment, handtools	RMB2MILLION	-	100	100	-	-	-
Shenyang Kaiyi Electric Co Ltd	Fully-owned	Shenyang	Manufacturing	RMB1MILLION	Manufacturing high-voltage electric equipment, switches system, electric capacitor	RMB1MILLION	-	100	100	-	-	-
Shenyang Zhaidia Machinery Co Ltd	Fully-owned	Shenyang	Sales	RMB0.1M	Sales of machinery	RMB0.1M	-	100	100	-	-	-
Fuxin Close Mother Cable Co Ltd	Fully-owned	Fuxin	Manufacturing	USD2.8M	close mother cable	USD2.8M	-	100	100	-	-	-

NOTES TO THE FINANCIAL REPORTS (Continued)

For the year ended 31 December 2009 (Prepared in accordance with P.R.C. Accounting Rules and Regulations)

(2) Subsidiaries under the same controlling parties by merge

Company names	Types	Place of registration	business	Registered capital	Business scope	Actual investment amount at end of period	Other balances constituting investments to subsidiaries	Percentages of shares held(%)	Percentage of voting rights(%)	Minority interest consolidated	Amount of minority interest to offset profit & loss of minority interests	Balance of parent co's shareholder's equity	
												setting off loss of the period undertaken by minority shareholders that exceeds shares held by minority interests at beginning of period	setting off loss of the period undertaken by minority shareholders that exceeds shares held by minority interests at beginning of period
New Northeast Electric (Jinzhou) Electric Capacitor Co Ltd	Fully-owned	Jinzhou	Manufacturing	USD15.45MILLION	Manufacturing capacitor	USD15.45MILLION	-	100	100	Y	-	-	-
Jinzhou Jiarong Capacitor Co Ltd	Fully-owned	Jinzhou	Manufacturing	RMB2.6925MILLION	Dry high-voltage capacitor	RMB2.6925MILLION	-	69.75	69.75	Y	1,228,461.35	-	-

(3) Subsidiaries under different controlling parties by merge

Company names	Types	Place of registration	business	Registered capital	Business scope	Actual investment amount at end of period	Other balances constituting investments to subsidiaries	Percentages of shares held(%)	Percentage of voting rights(%)	Minority interest consolidated	Amount of minority interest to offset profit & loss of minority interests	Balance of parent co's shareholder's equity	
												setting off loss of the period undertaken by minority shareholders that exceeds shares held by minority interests at beginning of period	setting off loss of the period undertaken by minority shareholders that exceeds shares held by minority interests at beginning of period
Shenyang GaoDong Jia Desiccation Equipment Co Ltd	controlling	Shenyang	Manufacturing	USD0.7785 MILLION	Metal Box and Drying Equipment manufacturing	USD0.54495 MILLION	-	70	70	Y	1,228,675.08	-	-

2. **No Special-purpose-vehicle or any entity entrusted to operate or gaining controlling power by way of accepting a lease**
3. **No change in scope of consolidation**
4. **No new member of consolidation or member left out of consolidation**
5. **No consolidation under the same controlling party happen during the period**
6. **No consolidation under different controlling party happen during the period**
7. **No less subsidiary by selling equity stocks**
8. **No retro-purpose happen during the period**
9. **No consolidation by merger happen during the period**
10. **Exchange rates of principal financial reports of off-shore entities**

Northeast Electric (HK) Co., Ltd. and Gaocai Technology Co., Ltd. are off-shore subsidiaries keeping book in Hongkong dollar. By end of period all of their assets, liabilities are exchanged to RMB by spot rates of balance sheet date, items of shareholder's equity except for "retained profit" are exchanged to RMB by spot rates of occurrence. Items of income and expenses in Profit & Loss are exchanged into RMB by rates bordering spot rates of dates of transaction. Exchange differences arise from different rates are reflected under item of Foreign Currency Reports Exchange Difference in Shareholder's Equity of Balance Sheet.

## NOTES TO THE FINANCIAL REPORTS (Continued)

For the year ended 31 December 2009 (Prepared in accordance with P.R.C. Accounting Rules and Regulations)

### V. Notes to Consolidated Financial Reports

#### 1. Cash and Deposits

*In RMB yuan*

Items	Amount by end of period			Amount at beginning of period		
	Amount in foreign currency	Exchange rates	Amount in RMB	Amount in foreign currency	Exchange rates	Amount in RMB
Cash:						
RMB	13,815.27	1.00	13,815.27	16,906.36	1.00	16,906.36
USD	1,162.34	6.8282	7,936.69	1,162.34	6.8346	7,944.13
Sub-total			21,751.96			24,850.49
Deposits:						
RMB	40,506,278.03	1.00	40,506,278.03	29,142,099.60	1.00	29,142,099.60
HKD	1,868,247.52	0.8805	1,644,991.94	759,457.24	0.8819	669,765.34
USD	364.43	6.8282	2,502.22	54,306.47	6.8346	373,566.11
EUR	563.03	9.2452	5,205.32	562.84	9.6590	5,211.87
JPY	255.00	0.0616	15.71	240.00	0.0705	16.94
CHF	33.13	5.9873	198.36	33.13	6.8787	227.89
Sub-total			42,159,191.58			30,190,887.75
Others:						
RMB	23,072,737.50	1.00	23,072,737.50	19,712,601.46	1.00	19,712,601.46
Sub-total	23,072,737.50	1.00	23,072,737.50	19,712,601.46	1.00	19,712,601.46
Total			65,253,681.04			49,928,339.70

#### Remarks:

1. By end of period, deposits under performance guarantees in the banks total RMB23,072,737.50.
2. Time limit of the above-mentioned deposits are all over 3 months.

#### 2. Bills Receivables

##### (1) Classification of bills receivables

*In RMB yuan*

types	Amount by end of period	Amount at beginning of period
Bank accepted bills of exchange	730,000.00	4,384,150.00

(2) By end of period there's no bills receivable pledged.

(3) By end of period undue bills endorsed other parties by the Company:

In RMB yuan

Issuer	Date of issue	Due date	Amount	Note
Zhongshan Tongxing Packaging Co., Ltd.	2009.7.15	2010.1.15	700,000.00	Due to pay
Shanghai Electric Co Ltd.	2009.8.24	2010.2.24	220,000.00	Due to pay
Shanghai Electric Co Ltd.	2009.8.24	2010.2.24	220,000.00	Due to pay
Shanghai Electric Co Ltd.	2009.8.24	2010.2.24	220,000.00	Due to pay
Shanghai Electric Co Ltd.	2009.8.24	2010.2.24	220,000.00	Due to pay
Shanghai Electric Co Ltd.	2009.8.24	2010.2.24	220,640.00	Due to pay
Shanghai Shenhuo Alumium Foil Co., Ltd.	2009.9.10	2010.3.10	1,000,000.00	Due to pay
Longkou Conglin Alumium Co Ltd	2009.10.22	2010.4.22	1,000,000.00	
Longkou Nanshan Fine Woolen Fabric Factory	2009.10.12	2010.4.12	200,000.00	
Ningbo Yinzhou Ningnan Trade Co. Ltd.	2009.11.3	2010.5.3	500,000.00	
Total			4,500,640.00	

### 3. Account Receivables

(1) Disclosure of account receivables by types:

In RMB yuan

Types	Amount by end of period				Amount at beginning of period			
	Balance		Bad debt provision		Balance		Bad debt provision	
	Amount	Proportion (%)	Amount	Proportion (%)	Amount	Proportion (%)	Amount	Proportion (%)
Single large amount account receivable	219,126,183.02	79.71	6,312,986.17	36.15	133,238,671.93	70.55	4,320,679.17	28.42
Other receivables with higher risks after risk reorganization though with small amount	5,908,439.94	2.15	5,908,439.94	33.83	8,115,124.52	4.29	8,115,124.52	53.37
Other insignificant amount account receivables	49,874,887.28	18.14	5,241,374.80	30.02	47,511,100.50	25.16	2,769,018.38	18.21
Total	274,909,510.24	100.00	17,462,800.91	100.00	188,864,896.95	100.00	15,204,822.07	100.00

**Remarks:**

The Company has set the criteria for single large amount account receivable as RMB 1 million, according to the scale of operation, character of the operation and state of customers' settlement.

Foundation of judgment of any single account receivables with higher risks after risk reorganization though with insignificant amount, is there're unrecoverable signs showing, or age exceed 4 years.

**NOTES TO THE FINANCIAL REPORTS (Continued)**

For the year ended 31 December 2009 (Prepared in accordance with P.R.C. Accounting Rules and Regulations)

- (2) **Bad debt provision for single large amount receivable or insignificant amount but with individual devaluation test is conducted:**

*In RMB yuan*

Contents	Balance	Amount of bad debts	Ratio of provision	reason
Payment of goods	219,126,183.02	6,312,986.17	2.88%	By age

- (3) **Receivables of insignificant amount but with high risk by credit risk combination analysis:**

*In RMB yuan*

Age	Amount by end of period			Amount at beginning of period		
	Balance		Bad debt provision	Balance		Bad debt provision
	Amount	Ratio(%)		Amount	Ratio(%)	
Over 4 years	5,908,439.94	100.00	5,908,439.94	8,115,124.52	100.00	8,115,124.52
Total	5,908,439.94	100.00	5,908,439.94	8,115,124.52	100.00	8,115,124.52

- (4) **There's no account receivables write-off.**
- (5) **There's no receivables from company holding 5% or over voting shares of the company.**
- (6) **There's no receivables from associates during the period.**
- (7) **There's no termination of recognized account receivables.**

#### 4. Prepayments

##### (1) Prepayments are listed by age:

*In RMB yuan*

Age	Amount by end of period		Amount at beginning of period	
	Amount	Proportion(%)	Amount	Proportion(%)
Within 1 year	2,235,740.64	85.14	28,686,365.91	98.32
1-2 years	132,499.57	5.04	491,614.07	1.68
2-3 years	257,745.44	9.82	-	-
Total	2,625,985.65	100.00	29,177,979.98	100.00

##### (2) Top 5 prepayments customers are:

*In RMB yuan*

Company	Relationship	Amount	Year of transaction	Reason for unsettlement
Fuxin Heating Power Company	Non-associate	719,518.23	2009	Prepaid heating fees
Hongkong Technology Park Co.	Non-associate	227,392.00	2009	Prepaid rents
Wuxi Guoda Machinery Co Ltd	Non-associate	180,700.00	2009	Prepaid payment for goods
Nanjing Tairong Specialty Oil Products Co Ltd	Non-associate	153,915.50	2009	Prepaid payment for goods
Ningbo Bonded District Pioneer Trade Co Ltd	Non-associate	108,000.00	2007	Prepaid payment for machinery
Total		1,389,525.73		

##### Remarks of major prepayment customers:

1. Heating fees to Fuxin Heating Power Co. are fees for 2010 by Fuxin Closed Mother Cable Company Limited.
2. Prepayment to Hongkong Technology Park Co., Ltd. is rent for Jan. 2010 by Northeast Electric (HK) Co., Ltd.
3. Prepayment to Ningbo Bonded District Pioneer Trade Co Ltd is payment for machinery which is purchased by New Northeast (Jinzhou) Electric Capacity Co., Ltd., and listed under this item temporarily till invoice is obtained.
4. Other prepayments are payment for goods.

##### (3) There's no prepayment from shareholder company holding 5% or over shares of the company.

##### (4) Notes to Prepayments:

Decrease of prepayments by end of period are due to transfer to other receivables from prepayments to Jinzhou Electric Capacity Co Ltd.

## NOTES TO THE FINANCIAL REPORTS (Continued)

For the year ended 31 December 2009 (Prepared in accordance with P.R.C. Accounting Rules and Regulations)

### 5. Dividends Receivables

In RMB yuan

Items	Amount at			Amount by end of period	Reason for outstanding receivables	If devaluation happens (Y/N)
	beginning of period	Increase in the period	Decrease in the period			
Dividends over 1 year						
New Northeast Group Electric High-Voltage Equipment Co., Ltd.	12,440,000.00	-	4,315,659.41	8,124,340.59	To be distributed	N
Weida High-Voltage Electric Co., Ltd.	7,644,734.00	-	12,135.87	7,632,598.13	To be distributed	N
Total	20,084,734.00	-	4,327,795.28	15,756,938.72		

#### Remarks to Dividends Receivables:

1. Decrease of the item is due to dividends of RMB4,309,753.97 received from New Northeast Group Electric High-Voltage Equipment Co., Ltd., and exchange difference of RMB18,041.31.
2. New Northeast Group Electric High-Voltage Equipment Co., Ltd. is formerly New Northeast Electric (Shenyang) High-Voltage Switches Co., Ltd., and is renamed on Dec. 8, 2009 by the approval of Shenyang State Administration for Industry and Commerce.

### 6. Other Receivables

#### (1) Disclosures to Other Receivables by classification:

In RMB yuan

Types	Amount by end of period				Amount at beginning of period			
	Balance		Bad debt provision		Balance		Bad debt provision	
	Amount	Proportion (%)	Amount	Proportion (%)	Amount	Proportion (%)	Amount	Proportion (%)
Single large amount account receivable	100,840,043.78	86.07	100,840,043.78	96.98	167,304,884.98	93.17	78,128,829.27	96.70
Other receivables with higher risks after risk reorganization though with small amount	2,119,636.75	1.81	2,119,636.75	2.04	1,715,462.90	0.95	1,715,462.90	2.12
Other insignificant amount account receivables	14,194,932.28	12.12	1,024,692.28	0.98	10,552,816.59	5.88	948,552.46	1.18
Total	117,154,612.81	100.00	103,984,372.81	100.00	179,573,164.47	100.00	80,792,844.63	100.00

#### Remark:

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.

Single other receivable with insignificant amount while tested to be of high risk after credit risk combination analysis, with basis of judgement by showing signs of unrecoverable or with age over 4 years.

**(2) Bad debt provision for single large amount receivable or insignificant amount but with individual devaluation test is conducted:**

*In RMB yuan*

Contents	Balance	Amount of bad debts	Ratio of provision	reason
Benxi Steel (Group) Co., Ltd.	76,090,000.00	76,090,000.00	100%	See Notes V.6(6)
Jinzhou Power Capacity Co., Ltd.	24,750,043.78	24,750,043.78	100%	See Notes V.6(6)
Total	100,840,043.78	100,840,043.78		

**(3) Receivables of insignificant amount but with high risk by credit risk combination analysis:**

*In RMB yuan*

Age	Amount by end of period			Amount at beginning of period		
	Balance		Bad debt provision	Balance		Bad debt provision
	Amount	Ratio(%)		Amount	Ratio(%)	
Over 4 years	2,119,636.75	100.00	2,119,636.75	1,715,462.90	100.00	1,715,462.90
Total	2,119,636.75	100.00	2,119,636.75	1,715,462.90	100.00	1,715,462.90

**(4) There's no write-off of other receivables during the period.**

**(5) There's no other receivables from company holding 5% or over voting shares of the company.**

**(6) Characteristics or contents of large amount other receivables**

- 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 governments 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. On May 14, 2008, High Court of Law of Liaoning Province has ordererd retry of the case to Shenyang City Midium Court of Law by Rulings of 214<sup>th</sup>, 215<sup>th</sup>, 216<sup>th</sup> of (2006) Liao Min Er Zhong Zi, revocating Rulings of 21<sup>rd</sup>, 23<sup>rd</sup>, 22<sup>nd</sup> of Shen Zhong Min Si He Chu Zi by the latter Court of Law. On Jun. 9, 2009 the City Midium Court of Law has refuted the Company's case by rulings of (2008)Shen Zhong Min Si Chu Zi No.143, 144 and 145, and the Company has appealed to the Provincial High Court. On Oct. 26 and 29, 2009, the Provincial High Court has made final rulings of (2009) Liao Min Er Zhong Zi No. 182, 183 and 184, sustaining previous rulings. The Company may appeal for retrial by providing evidence and facts if still holds objections.

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. On Apr. 10, 2008, High Court of Law of Liaoning Province ruled by Ruling of 2<sup>nd</sup> (2008) Liao Shen Min Zhong Zi, revocating rulings of 1<sup>st</sup> and 2<sup>nd</sup> tries, ordering retry of the case to Midium Court of Law of Liaoning Province Shenyang City. On Feb. 12, 2009, the latter Court of Law ruled by Ruling of 2<sup>nd</sup> [2008] Shen Zhong Shen Min Chu Zai Zi, rejecting the relative lawsuit appeals. The Company has appealed to High Court of Liaoning Province. On Jul. 20, 2009, by Ruling of (2009) Liao Shen Min Zai Zi No.40, the High Court has revoked the Company's appeal by sustaining previous rulings, which is the final ruling. The Company may appeal again by providing further evidence and facts if still objects. The Company has set up bad debt provision for full amount of such receivable for age over 4 years.

2. By end of period there are receivables due to Jinzhou Power Capacity Co. Ltd of RMB24,750,043.78, including receivables of RMB2,038,829.27 for product quality problem which provision has been fully accrued.The Company has accrued bad debt provision over full amount of receivable due to Jinzhou Power Capacity.

**(7) There's no Other Receivables due to associated companies during the period.**

**(8) There's no termination of recognition of Other Receivables during the period.**

## 7. Inventories

## (1) Classification of inventories

In RMB yuan

Items	Amount by end of period			Amount at beginning of period		
	Balance	Provision for		Balance	Provision for	
		devaluation	Book value		devaluation	Book value
Raw Material	22,062,431.33	117,406.40	21,945,024.93	22,298,658.85	124,328.68	22,174,330.17
Goods in process	11,468,217.78	-	11,468,217.78	8,599,627.26	-	8,599,627.26
Finished Goods	36,880,650.38	1,310,641.17	35,570,009.21	38,075,366.00	1,310,641.17	36,764,724.83
Total	70,411,299.49	1,428,047.57	68,983,251.92	68,973,652.11	1,434,969.85	67,538,682.26

## (2) Provisions for devaluation

In RMB yuan

Types	Balance at beginning of period	Provisions in the period	Decrease during the period		Amount by end of period
			Reverse	Set-off	
	Raw Materials	124,328.68	-	-	6,922.28
Finished Goods	1,310,641.17	-	-	-	1,310,641.17
Total	1,434,969.85			6,922.28	1,428,047.57

## (3) Preparation for Inventories devaluation

In RMB yuan

Items	Basis for devaluation	Reason for revert to inventory	Ratio of reverted amount to
	provisions accrual	devaluation provision during the period	total balance of inventory
Raw Materials	Net worth recoverable lower than cost		-
Finished Goods	Net worth recoverable lower than cost		-

**Remark:**

Set-off of Inventory Devaluation Provision is due to usage of production.

# NOTES TO THE FINANCIAL REPORTS (Continued)

For the year ended 31 December 2009 (Prepared in accordance with P.R.C. Accounting Rules and Regulations)

## 8. Long term equity investment

### (1) Long-term equity investments are listed as below:

*In RMB yuan*

Company invested	Method of accounting	Initial investment cost	Balance at beginning of period	Variation	Balance by end of period	Shares held of the invested company (%)	Voting shares percentage in the invested company(%)	Discrepancy between ratio of shares and percentage of voting shares	Provision for devaluation during the period	Provision for devaluation during the period	Cash dividends during the period
New Northeast Electric (Shenyang)	Method of Equity	29,959,476.52	30,773,069.12	493,576.62	31,266,645.74	25.60	25.60	-	-	-	-
High-voltage Switches Co Ltd											
Wei Da High-Voltage Electric Co Ltd	Method of Equity	42,847,035.48	58,979,807.00	-2,310,498.28	56,669,308.72	20.80	20.80	-	-	-	-
New Northeast Group Electric	Method of cost	216,055,412.40	216,055,412.40	-113,786.40	215,941,626.00	17.09	17.09	-	-	-	-
High-Voltage Equipment Co Ltd.											
Shenyang Taisheng Trade Co Ltd	Method of cost	1,300,000.00	1,300,000.00	-1,300,000.00	-	98.50	98.50	-	-	-	-
Total			307,108,288.52	-3,230,708.06	303,877,580.46	-	-	-	-	-	-

#### Remarks:

- Variations to investment to New Northeast Electric (Shenyang) High-Voltage Switches Co Ltd including Return on Investment of RMB561,802.60 recognized by the company's profit of 2009, and exchange loss of RMB68,225.98.
- Variations to investment to Wei Da High-Voltage Electric Co Ltd including Return on Investment of -RMB2,238,942.54 recognized by the company's loss of 2009, and exchange loss of RMB71,555.74.
- For New Northeast Group Electric High-Voltage Equipment Co Ltd, variation to investment is constituted by exchange loss.
- Shenyang Taisheng Trade Co Ltd ceased operation on Jun. 29, 2009 by approval from Shenyang State Administration of Industry and Commerce.

## 9. Fixed Assets

## (1) Fixed Assets

*In RMB yuan*

Items	Balance at beginning of period	Increase during the period	Decrease during the period	Balance at end of period
<b>I. Total fixed assets - cost</b>	147,903,398.17	6,333,375.03	4,473,913.59	149,762,859.61
Inclu. Buildings	49,172,420.57	-	866,131.00	48,306,289.57
Machinery	74,416,520.01	4,218,505.92	1,764,095.97	76,870,929.96
Motor Vehicles and others	24,314,457.59	2,114,869.11	1,843,686.62	24,585,640.08
<b>II. Aggregated Depreciation</b>	62,161,025.26	7,093,574.30	2,638,723.98	66,615,875.58
Inclu. Buildings	30,602,529.74	908,334.08	376,134.57	31,134,729.25
Machinery	23,818,504.06	3,963,887.16	1,587,686.37	26,194,704.85
Motor Vehicles and others	7,739,991.46	2,221,353.06	674,903.04	9,286,441.48
<b>III. Total Net worth</b>	85,742,372.91	-	-	83,146,984.03
Inclu. Buildings	18,569,890.83	-	-	17,171,560.32
Machinery	50,598,015.95	-	-	50,676,225.11
Motor Vehicles and others	16,574,466.13	-	-	15,299,198.60
<b>IV. Total provision for devaluation</b>	2,111,698.00	-	90,373.60	2,021,324.40
Inclu. Buildings	317,644.79	-	-	317,644.79
Machinery	1,631,799.61	-	-	1,631,799.61
Motor Vehicles and others	162,253.60	-	90,373.60	71,880.00
<b>V. Total Book Value</b>	83,630,674.91	-	-	81,125,659.63
Inclu. Buildings	18,252,246.04	-	-	16,853,915.53
Machinery	48,966,216.34	-	-	49,044,425.50
Motor Vehicles and others	16,412,212.53	-	-	15,227,318.60

Depreciation during the period totaled RMB7,093,574.30.

Work-in-progress changed to Fixed Assets at cost totaled RMB1,178,463.76.

## NOTES TO THE FINANCIAL REPORTS (*Continued*)

For the year ended 31 December 2009 (Prepared in accordance with P.R.C. Accounting Rules and Regulations)

- (2) **There's no temporarily idled fixed assets by end of period.**
- (3) **There's no fixed assets acquired by financial lease by end of period.**
- (4) **There's no fixed assets in renting by end of period.**
- (5) **There's no fixed assets to be sold by end of period.**
- (6) **There's no fixed assets with certificate of title to be obtained.**

***Remarks:***

1. Buildings pledged to Bank of China, Fuxin Branch by Fuxin Closed Mother Cable Company Limited – a fully own subsidiary of the Company is RMB5,319,005.43 by net worth for loan of RMB8 million.
2. Machinery pledged to Guangdong Development Bank, Dalian Branch for bank loan of RMB15 million has total net worth of RMB15,100,513.55.
3. During the period, fully-own subsidiary of the Company - Fuxin Closed Mother Cable Company Limited has setoff provisions for devaluation of fixed assets by RMB90,373.60 during disposal.

**10. Intangible Assets****(1) Intangible Assets***In RMB yuan*

Items	Balance at beginning of period	Increase during the period	Decrease during the period	Balance at end of period
<b>I. Total Intangible Assets - costs</b>	7,431,501.05	-	-	7,431,501.05
Utilitu Model Patents	450,000.00	-	-	450,000.00
Softwares	207,000.00	-	-	207,000.00
Land-use Rights	6,774,501.05	-	-	6,774,501.05
<b>II. Total Aggregate Amortization</b>	2,317,037.68	191,823.56	-	2,508,861.24
Utilitu Model Patents	360,000.16	45,000.04	-	405,000.20
Softwares	195,666.56	11,333.44	-	207,000.00
Land-use Rights	1,761,370.96	135,490.08	-	1,896,861.04
<b>III. Total Net Worth</b>	5,114,463.37	-	-	4,922,639.81
Utilitu Model Patents	89,999.84	-	-	44,999.80
Softwares	11,333.44	-	-	-
Land-use Rights	5,013,130.09	-	-	4,877,640.01
<b>IV. Total Provisions for Devaluation</b>	-	-	-	-
Utilitu Model Patents	-	-	-	-
Softwares	-	-	-	-
Land-use Rights	-	-	-	-
Total Book Value of Intangible Assets	5,114,463.37	-	-	4,922,639.81
Utilitu Model Patents	89,999.84	-	-	44,999.80
Softwares	11,333.44	-	-	-
Land-use Rights	5,013,130.09	-	-	4,877,640.01

Amortization during the period is RMB191,823.56

**Remark:**

- Land-use rights pledged to Bank of China, Fuxin Branch by Fuxin Closed Mother Cable Company Limited – a fully own subsidiary of the Company is RMB4,877,640.01 for loan of RMB8 million.
- During the period Softwares has been fully amortized, rest of months to amortized for Utility Model Patents is 12 months, and those for Land-use rights is 432 months.

## NOTES TO THE FINANCIAL REPORTS (Continued)

For the year ended 31 December 2009 (Prepared in accordance with P.R.C. Accounting Rules and Regulations)

### 11. Long-term Deferred Expenses

*In RMB yuan*

Items	Amount at beginning of period	Increase in the period	Amortization	Amount by end of period	Other decrease	Reasons for other decrease
Rents for buildings	-	2,216,280.60	123,830.15	2,092,450.45	-	-
Rents for lands	100,833.21	550,000.00	109,999.88	540,833.33	-	-
Rents for machinery	-	5,400,000.00	150,000.00	5,250,000.00	-	-
Improvement expenditures for fixed assets rented	1,687,638.98	2,114,512.79	931,336.49	2,870,815.28	-	-
Total	1,788,472.19	10,280,793.39	1,315,166.52	10,754,099.06	-	-

#### Remark:

1. Total rents paid for buildings, lands and machinery according to relative contracts is RMB8,166,280.60, among those contracts, renting term for buildings is from Apr. 2009 to Nov. 2012, renting for machinery is from Dec. 2009 to Dec. 2012, and renting term for lands is from Dec. 2009 to Dec. 2012.
2. Improvement Expenditures for fixed assets rented is for manufacturing plants rented.

### 12. Deferred Tax Assets

#### (1) Deferred Tax Assets and Deferred Liabilities recognized

*In RMB yuan*

Items	Amount by end of period	Amount at beginning of period
Deferred Tax Assets		
Provision Devaluation for fixed assets	11,910,752.23	5,119,501.89
Sub-total	11,910,752.23	5,119,501.89
Deferred Tax Liabilities		
Evaluation of transactional Financial Derivatives and Financial Instruments	-	-
Financial Assets Fair Value variations taken into Capital Reserve	-	-
Sub-total	-	-

## (2) Temporary differences corresponding to assets/ or liabilities that lead to such differences

In RMB yuan

Items	Amount of Temporary Difference
Bad debt provision	44,359,175.22
Provision of devaluation of inventories	1,428,047.57
Provision for fixed assets devaluation	1,855,786.12
Total	47,643,008.91

## 13. Details of Provisions for Assets Devaluation

In RMB yuan

Items	Balance at beginning	Increase during			Balance at end
	of period	the period	Revert	Set-off	of period
I. Bad debt provision	95,997,666.70	27,097,476.60	1,647,969.58	-	121,447,173.72
II. Provision for devaluation of inventories	1,434,969.85	-	-	6,922.28	1,428,047.57
III. Provision for sellable Financial Assets devaluation	-	-	-	-	-
IV. Provision for investment devaluation held till due	-	-	-	-	-
V. Provision for long-term investment devaluation	-	-	-	-	-
VI. Provision for devaluation of investment real-estate	-	-	-	-	-
VII. Provision for devaluation of fixed assets	2,111,698.00	-	-	90,373.60	2,021,324.40
VIII. Provision for devaluation of building materials	-	-	-	-	-
IX. Provision for devaluation of Work-in-Progress	-	-	-	-	-
X. Provision for devaluation of producing bio-materials	-	-	-	-	-
Inclu: provision for devaluation of matured producing bio-materials	-	-	-	-	-
XI. Provision for devaluation of assets of oil and gas	-	-	-	-	-
XII. Provision of devaluation of intangible assets	-	-	-	-	-
XIII. Provision of devaluation of Good Will	-	-	-	-	-
XIV. Others	-	-	-	-	-
Total	99,544,334.55	27,097,476.60	1,647,969.58	97,295.88	124,896,545.69

**Remark:**

1. Reverted amount of inventories devaluation provision is due to change to cost of production while usage of raw material.
2. Disposal of fixed assets during the period lead to revert, while provision for devaluation is set-off at the same time.

**14. Short-term Borrowings****(1) Classification of short-term borrowings***In RMB yuan*

Items	Amount by end of period	Amount at beginning of period
Borrowings with pledge	8,000,000.00	5,000,000.00
Borrowings with pledge and guarantee	15,000,000.00	15,000,000.00
Guaranteed Borrowings	2,350,000.00	2,450,000.00
Total	25,350,000.00	22,450,000.00

Short-term borrowings are classified as hypothecated borrowings, pledged borrowings and guaranteed borrowings.

**Remark:**

1. Pledges made to Bank of China Fuxin Branch for bank loan of RMB8 million by subsidiary Fuxin Closed Mother Cable Company Limited see Notes V. 9 and Notes V. 10. The loan is granted in different lots, terms of which is between May 22, 2009 till Nov. 15, 2010.
2. Pledges made to Guangdong Development Bank Dalian Branch by subsidiary – New Northeast Electric (Jinzhou) Capacity Co.,Ltd for bank loan of RMB15 million, see Notes. V. 9, and with joint liability guarantees by Northeast Electric Development Co., Ltd., Jinzhou Power Capacity Co., Ltd., Jinzhou Jinrong Electric Co., Ltd., New Northeast Group Electric High-voltage Equipment Co Ltd and individual Du Kai. Terms of the loan is between Dec. 3, 2009 till Dec. 2, 2010.
3. New Northeast Electric (Jinzhou) Power Capacity Co Ltd has provided subsidiary of the Company – Jinzhou Jinrong Electric Co Ltd guarantee for bank loan of RMB2.35 million from Bank of Jinzhou, Jinzhong Sub-branch.. Term of the loan is between Mar. 17, 2009 till Mar. 16, 2010. Up to the report date, the loan is being extended by the bank.

**15. Bills Payable***In RMB yuan*

Types	Amount by end of period	Amount at beginning of period
Bank Accepted Bills	-	6,000,000.00

**Remark:**

RMB6 million Bank Accepted Bills issued during last reporting period which is pledged with the same amount of deposit, due in this period, and the pledged deposit was released accordingly.

**16. Account Payable****(1) Age of Account Payables***In RMB yuan*

Items	Amount by end of period	Amount at beginning of period
Within 1 year	133,938,192.16	70,879,936.84
1-2 years	14,292,230.97	4,141,854.79
2-3 years	2,418,787.93	1,660,586.34
Over 3 years	2,726,629.05	1,802,403.22
Total	153,375,840.11	78,484,781.19

**Remark:**

Account Payables with age over 1 year mainly are goods payment not yet to be paid according to relative agreements.

**(2) There's no account payable to company holding 5% or over voting shares of the company.****17. Prepayment****(1) Ages of Prepayment***In RMB yuan*

Items	Amount by end of period	Amount at beginning of period
Within 1 year	11,303,452.50	58,708,291.18
1-2 years	6,905,000.00	1,147,650.00
Over 3 years	755,052.52	755,052.52
Total	18,963,505.02	60,610,993.70

**Remarks to Prepayment over 1 year with large amount:**

Prepayment over 1 year with large amount are mainly sales income still not reached to the standards of recognition.

**(2) There's no prepayment from company holding 5% or over voting shares of the company.**

**NOTES TO THE FINANCIAL REPORTS (Continued)**

For the year ended 31 December 2009 (Prepared in accordance with P.R.C. Accounting Rules and Regulations)

**18. Salaries and benefits payable to employees***In RMB yuan*

Items	Balance at beginning of period	Increase during the period	Decrease during the period	Balance by end of period
I. Salaries, allowances and subsidies	-	17,830,939.75	17,830,939.75	-
II. Benefits	62,636.11	1,407,896.13	1,407,896.13	62,636.11
III. Social Securities	605,163.43	5,445,316.57	5,833,212.20	217,267.80
Inclu.: 1. Medicare	62,409.27	882,963.43	937,366.35	8,006.35
2. basic endowment insurance	474,089.77	3,878,628.57	4,178,170.43	174,547.91
3. Industrial injury insurance	14,507.98	207,765.84	209,020.34	13,253.48
4. birth insurance	2,505.90	73,037.98	73,037.98	2,505.90
5. unemployment insurance	51,650.51	402,920.75	435,617.10	18,954.16
IV. Housing provident funds	451,702.71	2,190,370.69	2,174,601.19	467,472.21
V. Funds for labor union and education of employees	332,614.04	555,847.97	290,685.16	597,776.85
VI. Others	-	7,533.00	7,533.00	-
<b>Total</b>	<b>1,452,116.29</b>	<b>27,437,904.11</b>	<b>27,544,867.43</b>	<b>1,345,152.97</b>

There's no behind payable salaries to employees.

**19. Tax payable***In RMB yuan*

Items	Amount by end of period	Amount at beginning of period
Value-added tax	10,152,568.14	767,413.76
Income tax -enterprise	3,402,229.00	900,754.08
Income tax - person	152,411.48	129,996.66
Tax on land use rights	-	94,828.50
Tax on buildings' ownership	17,598.76	17,981.98
Education	2,770.19	2,770.19
Others	121,135.54	130,472.06
<b>Total</b>	<b>13,848,713.11</b>	<b>2,044,217.23</b>

**20. Other Payables****(1) Ages of Other Payables**

*In RMB yuan*

Items	Amount by end of period	Amount at beginning of period
Within 1 year	30,607,461.98	97,285,224.56
1-2 years	8,308,658.73	104,486,267.08
2-3 years	11,502,178.54	1,774,051.49
Over 3 years	33,746,135.45	33,425,047.77
Total	84,164,434.70	236,970,590.90

(2) There's no other payables to company holding 5% or over voting shares of the company.

**(3) Remarks to large amount Other Payable over 1 year**

Large amount Other Payable over 1 year are mainly unpaid intra-group payments.

**(4) Remarks to large amount Other Payable**

Large amount Other Payable are mainly unpaid intra-group payments.

**21. Other current liabilities**

*In RMB yuan*

Items	Balance by end of period	Balance at beginning of period
Deferred Income	587,446.97	-

**Remarks to other current liabilities**

Deferred income are government subsidy granted to New Northeast Electric (Jinzhou) Capacity Co., Ltd. – a fully-owned subsidiary of the Company.

- (1) Liaoning Committee of Economy and Information Liaoning Department of Finance granted New Jin Cap research funds of RMB500,000.00 in the Notification of Provincial Enterprise Technology Center Funding Plans for Year 2009 (Ref. Liao Jing Xin Fa [2009] No.23), for the purpose of development and reseach of <±800KV Direct Current Electricity Transmitting Power Capacity and Complete Equipment>. The fund was received on May 5, 2009, expenditure under this item is RMB112,553.03 during the period, balance of the fund is RMB387,446.97 by end of period.
- (2) Liaoning Committee of Technology, Liaoning Department of Finance granted New Jin Cap research funds of RMB200,000.00 in the Notification of Awards Plan for Liaoning Commercialization of Research in Year 2009 (Ref. Liao Ke Fa [2009] No.50), for the purpose of research in <High-capacity Capacitor>. The fund was received by the company on Dec. 30, 2009, and has not been used during the period, balance of the item is RMB200,000.00.

## NOTES TO THE FINANCIAL REPORTS (Continued)

For the year ended 31 December 2009 (Prepared in accordance with P.R.C. Accounting Rules and Regulations)

### 22. Estimated Liabilities

*In RMB yuan*

Items	Amount at beginning of period	Increase during the period	Decrease during the period	Amount by end of period
Guarantee for loans	115,715,007.25	-	-	115,715,007.25
Others	9,252,860.00	-	-	9,252,860.00
Total	124,967,867.25	-	-	124,967,867.25

#### Remarks:

1. The company has provided guarantee for the loan agreement between Northeast Electrical Transmission and Transformation Equipment Company Corporation Limited ("NET") (former shareholder of the company) and China Ever Bright Bank Co., Ltd., principal of which loan is RMB30,000,000.00, 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 date, the Company has not yet repaid the above-mentioned amount.
2. The company has provided guarantee for the bank loan of RMB13,000,000.00 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, the above-mentioned repayment has not yet been made.
3. 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.

4. 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.
5. 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.
6. 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.

**23. Other non-current liabilities**

*In RMB yuan*

Items	Balance by end of period	Balance at beginning of period
New Northeast Group Electric High-voltage Equipment Co Ltd	92,920,097.04	-

**Remarks:**

By end of period, payment due to New Northeast Group Electric High-voltage Equipment Co Ltd amounts to RMB92,920,097.04, and the latter has will not recover the fund within the year.

## NOTES TO THE FINANCIAL REPORTS (Continued)

For the year ended 31 December 2009 (Prepared in accordance with P.R.C. Accounting Rules and Regulations)

### 24. Capital

*In RMB yuan*

Items	Amount at beginning of period	Changes during the period(+、-)				Amount by end of period
		rights offering	Complimentary shares	others	Sub-total	
<b>I. Shares with limited selling conditions</b>						
1. state shares	-	-	-	-	-	-
2. legal person shares	218,394,237.00	-	-	-138,587.00	-138,587.00	218,255,650.00
Inclu.:legal person shares-domestic	218,394,237.00	-	-	-138,587.00	-138,587.00	218,255,650.00
Sub- Total	218,394,237.00	-	-	-138,587.00	-138,587.00	218,255,650.00
<b>II. shares with unlimited selling conditions</b>						
1. common RMB shares(A share)	397,025,763.00	-	-	138,587.00	138,587.00	397,164,350.00
2. foreign shares listed abroad(H share)	257,950,000.00	-	-	-	-	257,950,000.00
Sub-Total:	654,975,763.00	-	-	138,587.00	138,587.00	655,114,350.00
<b>III. Total shares</b>	<b>873,370,000.00</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>873,370,000.00</b>

#### **Remarks to Changes of Equity:**

On Aug. 7, 2009, 138,587shares of Shares with Limited Selling Conditions changed to A-Share of Unlimited Selling Conditions.

**25. Capital Reserve***In RMB yuan*

Items	Amount at beginning of period	Increase during the period	Decrease during the period	Amount by end of period
Share premium	115,431,040.00	-	-	115,431,040.00
Others	767,991,363.92	-	-	767,991,363.92
Total	883,422,403.92	-	-	883,422,403.92

**Remarks:**

No change to this item during the period.

**26. Reserve***In RMB yuan*

Items	Amount at beginning of period	Increase during the period	Decrease during the period	Amount by end of period
Legal reserve	80,028,220.48	-	-	80,028,220.48
Company reserve	28,558,903.92	-	-	28,558,903.92
Total	108,587,124.40	-	-	108,587,124.40

**Remarks:**

No change to the item of Reserve during the period.

**27. Retained Profit***In RMB yuan*

Items	Amount	Ratio of Withdrawal or Distribution
Before Adjustment Retained Profit of last period	-1,536,634,262.58	
Adjustment Retained Profit at beginning of year (Increase+,Decrease-)	-	
After Adjustment Retained Profit at beginning of year	-1,536,634,262.58	
Plus: Net Profit to Parent Company of the period	7,670,166.70	
Minus: Legal Reserve	-	
Random Reserve	-	
Common Risk Reserve	-	
Dividends due Common Shares	-	
Common Shares change to Equity	-	
Retained Profit at end of period	-1,528,964,095.88	

**28. Income and cost of sales**

**(1) Income and cost of sales**

*In RMB yuan*

Items	Year 2009	Year 2008
Major Income of Sales	422,623,294.25	513,761,745.48
Other Income of Sales	1,119,651.03	3,955,818.22
Cost of Sales	300,957,971.39	404,605,290.11

**(2) Main Operations (By products)**

*In RMB yuan*

Products	Amount of the period		Amount of last period	
	Income of sales	Cost of sales	Income of sales	Cost of sales
Closed Mother Cable	70,513,434.27	49,364,335.49	87,785,633.62	67,071,997.43
Power Capacitor	234,737,138.27	141,463,378.94	180,703,484.89	121,581,086.06
High-voltage Switches	117,372,721.71	109,138,440.17	234,857,006.48	204,433,425.23
Others	-	-	10,415,620.49	7,725,737.32
Total	422,623,294.25	299,966,154.60	513,761,745.48	400,812,246.04

**(3) Main Operations (by districts)**

*In RMB yuan*

District	Amount of the period		Amount of last period	
	Income of sales	Cost of sales	Income of sales	Cost of sales
Northeast	49,088,025.89	34,107,381.32	193,112,792.90	152,697,487.67
Central North	235,598,818.24	178,890,868.60	203,931,683.69	167,860,481.05
Central	26,212,065.77	16,566,786.77	30,336,921.37	20,752,116.48
Central East	75,894,709.02	47,469,235.17	19,346,638.08	12,966,906.82
Central South	19,279,061.62	12,256,644.24	39,065,976.71	27,348,570.78
Southwest	11,223,777.79	6,942,915.73	10,817,075.21	7,240,202.63
Northwest	5,326,835.92	3,732,322.77	14,337,529.49	9,235,140.93
Exports	-	-	2,813,128.03	2,711,339.68
Total	422,623,294.25	299,966,154.60	513,761,745.48	400,812,246.04

**Remarks:**

- Income of Sales includes Incomes of Main Operations and others Operations, with Close Mother Cable, Electric Capacitor and High-voltage Switches as products of main operations.
- Incomes become less than last period due to report of last period consolidated incomes by New Northeast Electric (Shenyang) High-voltage Switches Co. Ltd. from Jan. – Sep 2008.

**29. Sales tax and surtax***In RMB yuan*

Items	Amount of the period	Amount of last period	Ratio of tax
Sales tax	-	46,568.39	5%
Tax on City maintenance and construction	65,364.99	85,448.17	7%
Education Surtax	28,013.57	45,480.76	3%
Other taxes	5,122.52	-	
Total	98,501.08	177,497.32	

**Remarks:**

Amounts under this item are mainly Tax on City maintenance and construction and Education Surtax which are taxed by amount of Value-added Tax.

**30. Loss from Diminution of Assets***In RMB yuan*

Items	Amount of the period	Amount of last period
I. Bad debt loss	25,449,507.02	4,972,829.36
II. Inventory devaluation loss	-	1,310,641.17
III. Sellable Financial Assets Devaluation loss	-	-
IV. Loss over Investments Held till Due	-	-
V. Loss over Long-term Equity Investment Devaluation	-	-
VI. Loss over Invested Real Estate Devaluation	-	-
VII. Loss over Fixed Assets Devaluation	-	-
VIII. Loss over Building Materials Devaluation	-	-
IX. Loss over Work-in-progress Devaluation	-	-
X. Loss over Producing Bio-Assets Devaluation	-	-
XI. Loss over Assets of Oil & Gas Devaluation	-	-
XII. Loss over Intangible Assets Devaluation	-	-
XIII. Loss over Good Will Diminution	-	-
XIV. Others	-	-
Total	25,449,507.02	6,283,470.53

**31. Return on Investment**

**(1) Details of Return on Investment**

*In RMB yuan*

Items	Amount of the period	Amount of last period
Return on Long-term Equity Investment by Method of Cost	-	7,321,272.06
Return on Long-term Equity Investment by Method of Equity	-1,677,139.94	-376,015.35
Return by disposal of Long-term Equity Investment	-	-72,566,286.33
Total	-1,677,139.94	-65,621,029.62

**(2) Return on Long-term Equity Investment by Method of Equity:**

*In RMB yuan*

Company invested	Amount of the period	Amount of last period	Change from last period
New Northeast Electric (Shenyang) High-voltage Switches Co Ltd	561,802.60	-2,603,987.00	Profit by Joint Venture of the period
Wei Da High-voltage Electric Co. Ltd	-2,238,942.54	2,227,971.65	Loss by Joint Venture of the period
Total	-1,677,139.94	-376,015.35	

**Remarks:**

1. Amount under this item is Return on Investment recognized by Method of Equity.
2. Increase of this period over last is due to loss incurred by shares swaps under Case of China Development Bank by rulings of the Court of Law.

**32. Non-operating Revenue**

**(1)**

*In RMB yuan*

Items	Amount of the period	Amount of last period
Total revenue by disposing non-current assets	24,403.72	508.80
Inclu.: Revenue by disposing fixed assets	24,403.72	508.80
Revenue by disposing intangible assets	-	-
Government subsidy	112,553.03	-
Incomes of Fine	24,035.00	14,260.00
Others	104,703.22	738,348.41
Total	265,694.97	753,117.21

**(2) Government Subsidy***In RMB yuan*

Items	Amount of the period	Amount of last period	Note
Research on ±800KV Direct Current Electricity Transmitting Power Capacity and Complete Equipment	112,553.03	-	Grants by Liaoning Committee of Economy and Information, Liaoning Department of Finance

**Remarks:**

For details see Note V.21 Other current liability

**33. Non-operating expenses***In RMB yuan*

Items	Amount of the period	Amount of last period
Total loss of disposal of non-current assets	157,163.81	288,668.05
Inclu: loss of disposal of fixed assets	157,163.81	288,668.05
Loss of disposal of intangible assets	-	-
Expenses of fine	14,627.79	148,296.93
Others	87,682.53	104,758.89
Total	259,474.13	541,723.87

**34. Income Tax Expenses***In RMB yuan*

Items	Amount of the period	Amount of last period
Income Tax of the period by Law of Tax and relative regulations	6,373,653.43	2,831,887.09
Adjustments to Deferred Income Tax	-6,791,250.34	-1,811,746.30
Tax	-417,596.91	1,020,140.79

## NOTES TO THE FINANCIAL REPORTS (Continued)

For the year ended 31 December 2009 (Prepared in accordance with P.R.C. Accounting Rules and Regulations)

### 35. Calculations of Primary Earnings Per Share and Diluted Earnings Per Share

				<i>In RMB yuan</i>
Items	Calculation	Amount of the period	Amount of last period	
Net Profit to Common Shareholders of the Company	P0	7,670,166.70	-69,112,495.33	
Non-operational Profit & Loss to Common Shareholders of the Company	F	-268.06	-72,357,234.13	
Net Profit to Common Shareholders of the Company after deduction of non-operational profit & loss	$P0' = P0 - F$	7,670,434.76	3,244,738.80	
Impact on Net Profit to Common Shareholders of the Company by dilution	V	-	-	
Net Profit to Common Shareholders of the Company, adjusted by <Enterprise Accounting Standards> and relative regulations with consideration of impact by potential dilutional common shares	$P1 = P0 + V$	7,670,166.70	-69,112,495.33	
Impact on Net Profit to Common Shareholders of the Company after deduction of non-operational profit & loss by dilution	V'	-	-	
Net Profit to Common Shareholders of the Company after deduction of non-operational profit & loss, adjusted by <Enterprise Accounting Standards> and relative regulations with consideration of impact by potential dilutional common shares	$P1' = P0' + V'$	7,670,434.76	3,244,738.80	
Total Shares at beginning of period	S0	873,370,000.00	873,370,000.00	
Shares increased by Reserves changed to Equity/ or distributions of Dividends during the period	S1	-	-	
Shares increased by new shares issued/ or bonds changed to shares during the period	Si	-	-	
Shares decreased by buy-back during the period	Sj	-	-	
Reverse Split during the period	Sk	-	-	
No. of months during the period	M0	12.00	12.00	
Accumulated no of months from next month of increasing shares till end of reporting period	Mi	-	-	

## 35. Calculations of Primary Earnings Per Share and Diluted Earnings Per Share (Continued)

In RMB yuan

Items	Calculation	Amount of the period	Amount of last period
Accumulated no of months from next month of decreasing shares till end of reporting period	Mj	-	-
Weighted average common shares issued abroad	$S=S_0+S_1+S_i \times M_i$ $\div M_0 - S_j \times M_j \div M_0 - S_k$	873,370,000.00	873,370,000.00
Plus: weighted average common shares supposing potential dilutional common shares changed to common shares	X1	-	-
Average common shares to calculate diluted earnings per share	$X_2=S+X_1$	873,370,000.00	873,370,000.00
Inclu: weighted average common shares increased by convertible company bonds		-	-
weighted average common shares increased by stock warrants		-	-
weighted average common shares increased by implementing buyback		-	-
Primary earnings per share due to common shareholders	$EPS_0=P_0 \div S$	0.01	-0.08
Primary earnings per share due to common shareholders after deduction of extraordinary profit & loss	$EPS_0'=P_0' \div S$	0.01	0.004
Diluted earnings per share due to common shareholders	$EPS_1=P_1 \div X_2$	0.01	-0.08
Diluted earnings per share due to common shareholders after deduction of extraordinary profit & loss	$EPS_1'=P_1' \div X_2$	0.01	0.004

**NOTES TO THE FINANCIAL REPORTS (Continued)**

For the year ended 31 December 2009 (Prepared in accordance with P.R.C. Accounting Rules and Regulations)

**36. Other comprehensive revenues***In RMB yuan*

Items	Amount of the period	Amount of last period
<b>1. Amount of profit(loss) by sellable Financial Assets</b>	-	-
Minus: Impact to Income tax by sellable Financial Assets	-	-
Net amount of profit & loss reverted from items of Other Comprehensive Revenues of last period	-	-
Sub-total	-	-
<b>2. Proportion of Other Comprehensive Revenues of companies invested enjoyed by the Method of Equity</b>	-	-
Minus: Impact to Income Tax by proportion of Other Comprehensive Revenues of companies invested enjoyed by the Method of Equity	-	-
Net amount of profit & loss reverted from items of Other Comprehensive Revenues of last period	-	-
Sub-total	-	-
<b>3. Profit (Loss) by Cash Flow Hedging</b>	-	-
Minus: Impact to Income Tax by Cash Flow Hedging	-	-
Net amount of profit & loss reverted from items of Other Comprehensive Revenues of last period Adjustments to Initial amount recognized by Hedging	-	-
Sub-total	-	-
<b>4. Exchange difference of Foreign currency reports</b>	-264,873.46	-9,301,902.22
Minus: Net amount taken into Profit & Loss disposing offshore operations	-	-
Sub-total	-264,873.46	-9,301,902.22
<b>5. Others</b>	-	-
Minsu: Impact to Income Tax by being taken into Other Comprehensive Revenues	-	-
Net amount of profit & loss reverted from items of Other Comprehensive Revenues of last period	-	-
Sub-total	-	-
<b>Total</b>	<b>-264,873.46</b>	<b>-9,301,902.22</b>

**Remarks:**

Exchange Differences generated by financial reports in HKD of Northeast Electric (Hongkong) Co Ltd and Gao Cai Technology Co Ltd contribute Other Comprehensive Revenues.

**37. Notes to Cash Flow****(1) Cash received from other operational activities**

	<i>In RMB yuan</i>
<b>Items</b>	<b>Amount</b>
Intra-group transactions	96,809,774.43
Deposits	19,052,439.93
Government Subsidy	700,000.00
Income of interest	155,784.80
Return of Service Charges	41,538.54
Others	11,877.78
<b>Total</b>	<b>116,771,415.48</b>

**Remarks:**

- Intra-group amount are payment received from Shenyang Beifu Machinery Co Ltd of RMB 30,790,000.00 and clearing commission of former subsidiary Taisheng Trade transferred RMB47,100,000.00 from Liaoning Xintai Electric Appliance Co Ltd.
- Deposits are bidding deposits received from suppliers by subsidiary – Fuxin Close Mother Cable Co Ltd and New Jin Cap.
- For Government subsidy received in the period see Note V. 21 Other Current Liability.

## NOTES TO THE FINANCIAL REPORTS (Continued)

For the year ended 31 December 2009 (Prepared in accordance with P.R.C. Accounting Rules and Regulations)

### (2) Cash paid to operational activities

<i>In RMB yuan</i>	
<b>Items</b>	<b>Amount</b>
Intra-group transactions	86,777,568.71
Deposits	27,858,000.00
Transportation	9,900,683.64
Consultance	7,950,687.67
Advertisement	5,650,403.00
Agent fees, such as auditing	5,063,549.09
Travelling	4,927,969.42
Office Expenses	4,482,757.16
Entertainment	4,009,279.64
Electricity	2,999,625.55
Contracting	2,850,000.00
Bidding	2,418,561.43
Rents	2,209,730.09
Fixtures	1,912,464.07
Others	1,336,206.59
Heating charges	1,112,856.27
Property management fee	765,038.45
Fuel expenses	747,890.45
After-sale expenses	477,511.26
Board of Director's fees	180,128.92
Insurance Premium	93,330.00
Conference expenses	54,700.00
Total	173,778,941.41

#### **Remarks:**

1. Intra-group transaction are repayments mainly.
2. Bidding deposits paid to customer by subsidiary – Fuxin Close Mother Cable and New Jin Cap.

## 38. Supplementary Information to Cash Flow

## (1) Supplementary Information to Cash Flow

In RMB yuan

Supplementary Information	Amount of the period	Amount of last period
<b>1. Operational Activity Cash Flow adjusted by Net Profit</b>		
Net Profit	7,263,664.63	-70,569,433.41
Plus: Provisions for assets diminution	25,449,507.02	6,283,470.53
Depreciation of fixed assets, depreciation of oil and gas assets, depreciation of production bio-assets	7,093,574.30	7,898,651.16
Amortization of intangible assets	191,823.56	514,337.07
Amortization of long term expenses payable	1,315,166.52	2,487,465.00
Loss on disposal of fixed assets, intangible assets and other long term assets (gain is shown as “-“)	132,760.09	181,504.13
Loss on discarding fixed assets (gain is shown as “-“)	-	106,655.12
Fair value variance loss (gain is shown as “-“)	-	-
Financial expenses (gain is shown as “-“)	1,509,296.27	3,442,543.95
Loss on investments (gain is shown as “-“)	1,677,139.94	65,621,029.62
Decrease of deferred income tax assets (increase is shown as “-“)	-6,791,250.34	-1,811,746.30
Increase of deferred income tax liabilities (decrease is shown as “-“)	-	-
Decrease of inventories (increase is shown as “-“)	-1,444,569.66	3,193,356.03
Decrease of operational account receivables (increase is shown as “-“)	-24,651,702.82	-306,166,701.28
Increase of operational account payables (decrease is shown as “-“)	10,493,445.19	304,060,547.88
Others	-	-
Net in/out flows generated from operational activities	22,238,854.70	15,241,679.50
<b>2. Major investment and financing activities not affecting cash:</b>	-	-
Debts changed as capital	-	-
Tradeable company bonds due within 1 year	-	-
Lease financing fixed assets	-	-
<b>3. Changes of cash and equivalents:</b>	-	-
Cash at end of period	42,180,943.54	30,736,939.70
Minus: cash at beginning of period	30,736,939.70	65,577,809.55
Plus: cash equivalents at end of period	-	-
Minus: cash equivalents at beginning of period	-	-
Net increase of cash and equivalents	11,444,003.84	-34,840,869.85

**NOTES TO THE FINANCIAL REPORTS (Continued)**

For the year ended 31 December 2009 (Prepared in accordance with P.R.C. Accounting Rules and Regulations)

**(2) Information of acquisition or disposal of subsidiaries and other operational departments***In RMB yuan*

Items	Amount of the period	Amount of last period
<b>I. Information of acquisition of subsidiaries and other operational departments</b>		
1. Prices of acquisition of subsidiaries and other operational departments	-	-
2. Cash or equivalents paid under acquisition of subsidiaries and other operational departments	-	-
Minus: Cash or equivalents held by subsidiaries and other operational departments	-	-
3. Net cash or equivalents paid under acquisition of subsidiaries and other operational departments	-	-
4. Net Worth of subsidiaries acquired	-	-
Current Assets	-	-
Non-current Assets	-	-
Current Liability	-	-
Non-current Liability	-	-
<b>II. Information of disposal of subsidiaries and other operational departments</b>		
1. Prices of disposal of subsidiaries and other operational departments	-	5,970,000.00
2. Cash or equivalents received under disposal of subsidiaries and other operational departments	-	5,970,000.00
Minus: Cash or equivalents held by subsidiaries and other operational departments	-	113,487.69
3. Net Cash received by disposing of subsidiaries and other operational departments	-	5,856,512.31
4. Net Worth of subsidiaries disposed	-	5,940,469.17
Current Assets	-	8,143,603.29
Non-current Assets	-	913,173.76
Current Liability	-	3,116,307.88
Non-current Liability	-	-

**(3) Composure of Cash and equivalents**

*In RMB yuan*

<b>Items</b>	<b>Amount by end of period</b>	<b>Amount at beginning of period</b>
<b>I. Cash</b>	42,180,943.54	30,736,939.70
Inclu: Cash on hand	21,751.96	24,850.49
Bank Deposits ready to pay	42,159,191.58	30,190,887.75
Other cash assets ready to pay	-	521,201.46
Deposits with Central Bank ready to pay	-	-
Deposits with other banks	-	-
Inter-bank lending	-	-
<b>II. Cash equivalents</b>	-	-
Inclu.:Bonds investment due within 3 months	-	-
<b>III. Balance of cash and equivalents by end of period</b>	<b>42,180,943.54</b>	<b>30,736,939.70</b>

**Remarks:**

1. There's no acquisition or disposal of subsidiaries or other operational departments during the period.
2. Pledged deposits are not included in the balance of cash and equivalents by end of period, for detail see Note V.1

## NOTES TO THE FINANCIAL REPORTS (Continued)

For the year ended 31 December 2009 (Prepared in accordance with P.R.C. Accounting Rules and Regulations)

### VI. Associates and relative transactions

#### 1. Parent Company of the Company

*In RMB'000*

Parent Company	Relationship	Type	Place of			Registered Capital	Percentage of shares	Voting shares	Ultimate	
			Registration	Legal Rep.	Business		held by Parent Company(%)	ratio held by Parent Co(%)	controlling party of the Company	Organization Code
New Northeast Electric Investment Co Ltd	Parent Company	Limited	Limited	Dai Bing	Investment	13,500	24.28%	24.28%	Tian Li	73465110-1

#### Remarks of Parent Company

1. Registered location of New Northeast Electric Investment Co Ltd changed from Shenyang to Ying Kou Economic and Technology Development Zone Bin Hai Industry Park (Xiong Yue Town). Legal Representative changed from Tian Li to Dai Bing.
2. There's no change to shares held by New Northeast Electric Investment Co Ltd.
3. Of the shares held by New Northeast Electric Investment Co Ltd of the Company, 208 million shares are pledged.

#### 2. Account Receivable/Payable from/to Associates

*In RMB yuan*

Items	Associates	Amount by end of period	Amount at beginning of period
Dividends Receivable	Wei Da High-voltage Electric Co Ltd	7,632,598.13	7,644,734.00
Account Payable	New Northeast Electric (Shenyang) High-voltage Switches Co Ltd	8,123,400.00	6,151,300.17
	New Northeast Electric (Shenyang) High-voltage Switches Co Ltd	8,888,909.56	40,464,620.52
Other Payable	Wei Da High-voltage Electric Co Ltd	704,400.00	705,520.00

3. Subsidiaries of the Company

Full names of subsidiary	Relationship	Type	Place of Registration	Legal Rep.	Business	Registered Capital	Percentage of shares held by the Company(%)	Voting shares ratio held by Parent Co(%)	Organization Code
Northeast Electric (HK) Co., Ltd	Fully-owned subsidiary	Limited	HK	Tian Jiang	Investment, Trade	USD20 million	100	100	-
Gaocai Technology Co., Ltd.	Fully-owned subsidiary	Limited	BVI	Wang Shan Kuan	Investment	USD 1.00	100	100	-
Northeast Electric (BEIJING) Co., Ltd	Fully-owned subsidiary	Limited	Beijing	Jia Shu Jie	Sales of machinery, electric products	RMB2 MILLION	100	100	66216024-9
Shenyang Kaiyi Electric Co Ltd	Fully-owned subsidiary	Limited	Shenyang	Bi Jian Zhong	Manufacturing of high-voltageelectric equipment	RMB1 MILLION	100	100	79846962-4
Shenyang Zhaoli Machinery Co.,Ltd.	Fully-owned subsidiary	Limited	Shenyang	Chen Guo Zhi	Sales of machinery	RMB0.1 MILLION	100	100	67950970-X
Fuxin Closed Mother Cable Company Limited	Fully-owned subsidiary	Limited	Fuxin	Liu Qing Min	Production and sales of close mother cable	USD2.8 MILLION	100	100	70168064-3
New Northeast (Jinzhou) Electric Capacitor Co., Ltd.	Fully-owned subsidiary	Limited	Jinzhou	Du Kai	Production of Power Capacitor	USD15.45 MILLION	100	100	75278947-0
Jinzhou Jinrong Electric Appliance Co., Ltd.	Controlling subsidiary	Limited	Jinzhou	Li Hong Liang	Dry high-voltage Capacitors	RMB2.0925MILLION	69.75	69.75	24203413-1
Shenyang Gaodongjia Desiccation Co., Ltd.	Controlling subsidiary	Limited	Shenyang	Wang Hai Yang	Metal box and desiccation equipment	USD0.54495 MILLION	70	70	60460565-X

4. Associates and Joint Ventures

In RMB yuan

Company	Type	Place of Registration	Legal Rep.	Business	Registered Capital	Percentage of shares held by		Total		Net Profit					
						Parent Co(%)	Voting shares ratio held by Parent Co(%)	Total Assets	Total Liabilities		Net Assets	Income of sales of the period	relationship	Organization code	
L-Joint Ventures															
New Northeast Electric (Shenyang) High-voltage Switches Co Ltd	Limited	Shenyang	Liu Bing	Development and designing of high-voltage transmitting and transforming electricity	USD21.50m	25.60	25.60	230,734,188.02	52,229,529.20	178,504,658.82	89,884,853.43	2,194,541.40	JV	75553376-1	
Wei Da High-voltage Electric Co Ltd	Limited	BVI	Lo Yuet	Investment	USD12.626	20.80	20.80	272,491,087.52	42,487.90	272,448,599.62	-	-10,764,146.84	JV	-	

**VII. Events of Contingency****1. Contingent Liabilities due to unsettled Lawsuit mitigation and impact to financial reports**

China Great Wall Asset Management Corp Shenyang Rep. Office (hereinafter referred to as 'Great Wall Asset') vs. Shenyang High-voltage Switches Co Ltd (hereinafter referred to as 'Shenyang High Switches') on infringement of loan contract.

Shenyang High Switches has signed 41 loan contracts during the period 1986 to 2003 with ICBC Liaoning Province Branch Shenyang Shifudalu Sub-branch and other financial institutions., totaling loans of RMB35.175million. On Jul. 15, 2005, ICBC Liaoning Province Branch signed <Transfer of Creditor's Rights> with Great Wall Asset, transferring the relative rights. Shenyang High Switches started up joint ventures with tangible assets and land-use rights, which are New Northeast Group Electric High-voltage Equipment Co Ltd(hereinafter referred to as 'New Shen High'), New Northeast Electric (Shenyang) High-voltage Insulate Switches Co Ltd (hereinafter referred to as 'Shenyang High Insulate'), Shenyang Xintai Warehouse Logistics Co Ltd((hereinafter referred to as 'Xintai Warehouse') and Shenyang Chengtai Energy Co Ltd.(hereinafter referred to as 'Chengtai Energy'). The Company has acquired shares of Shenyang High Insulate, Xintai Warehouse and Chengtai Energy. Great Wall Asset sued Shenyang High Switches to Liaoning Provincial High Court (hereinafter referred to as 'Liao High Court') for repayment of RMB35,175million on Feb. 24, 2009, and again on May 18, 2009 applied to charge the Company for Related Party Transaction and Apparent inappropriate consideration of equity swap, demanding the Company undertake joint liability for Shenyang High Switches's loans. The Company has received subpoena for court appearance(Ref. (2009)Liao Min Er Chu Zi No.12) from Liao High Court on Jul. 21, 2009.

At present, the case is being tried by the Liao High Court with no rulings made yet.

The Company believe that Great Wall Asset's charge is of no solid ground, and will not generate any negative impact on financial status.

**2. Contingent Liability by providing guarantee and impact on financial reports**

- (1) Up to Dec. 31, 2009 the Company has provided guarantee for New Northeast Group Electric High-voltage Equipment Co Ltd for their bank loan of RMB335,000,000.00, which is due in 1 year. The borrower has utilized RMB160,806,789.20.
- (2) Other contingent liabilities by providing guarantees, see Note V. 21.

**3. Other contingent liabilities and impact on financial reports**

- (1) Up to Dec. 31, 2009, RMB4,500,640.00 of undue bank accepted bills has been endorsed by the Company, including RMB2,800,640.00 of them paid, details see Note V.2(3).
- (2) By end of Dec. 31, 2009, the Company has issued Performance Bonds of RMB7,365,660.00 through Bank of China Fuxin Branch and Bank of China Liaoning Provincial Branch.

**VIII. Commitment**

There's no major commitment during the period.

**VIII. Post Balance Sheet date events**

Other post Balance Sheet date events

Fully-own subsidiary – Shenyang ZhaoLida Machinery Co Ltd ceased to operate by approval of State Administration of Industry and Commerce Shenyang Economic and Technology Development Zone Sub-Branch.

**X. Other Major events**

1. On May 20, 2008, Baili Holding Co., Ltd. (hereafter refer to as Baili Holding) signed Transfer of Credit Agreement with New Northeast Electric (Shenyang) High-voltage Switches Co., Ltd., the latter agreeing on transferring their rights of credit to the Company, i.e. 55,000,000.00, rights of credit to Beijing Office of the Company of 19,806,911.00, totaling 74,806,911.00 to Baili Holding. Baili Holding took legal proceedings against New Northeast Switches on Nov. 24, 2008 to People's High Court of Law of Liaoning Province, demanding the Company to repay 74,806,911.00, being debt principal and relative interest. On Feb. 4, 2009, subpoena issued by the People's High Court of Law of Liaoning Province under Case No. (2009) Liao Min San Chu Zi Prelim. 1st has been delivered to the Company. On Jun 17, 2009, Baili Holding has appealed to Liao High Court to withdraw the case, Liao High Court granted the withdrawal on Jun. 24, 2009 by ruling of (2009) Liao Min San Chu Zi No.1
2. Northeast Electric Development Co Ltd. Beijing Branch Company ceased to operate by approval of Beijing Municipal State Administration of Industry and Commerce on Mar. 23, 2009.

**XI. Major Notes to Parent Company's Financial Reports**

**1. Account Receivable**

**(1) Account Receivable**

*In RMB yuan*

Types	Amount by end of period				Amount at beginning of period			
	Balance		Bad debt provision		Balance		Bad debt provision	
	Amount	Proportion (%)	Amount	Proportion (%)	Amount	Proportion (%)	Amount	Proportion (%)
Single large amount account receivable	-	-	-	-	43,144,357.00	92.54	1,422,132.00	76.69
Other receivables with higher risks after risk reorganization though with small amount	179,400.00	100.00	179,400.00	100.00	227,060.00	0.48	227,060.00	12.24
Other insignificant amount account receivables	-	-	-	-	3,252,635.00	6.98	205,240.00	11.07
<b>Total</b>	<b>179,400.00</b>	<b>100.00</b>	<b>179,400.00</b>	<b>100.00</b>	<b>46,624,052.00</b>	<b>100.00</b>	<b>1,854,432.00</b>	<b>100.00</b>

**Remarks:**

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.

Foundation of judgment of any single account receivables with higher risks after risk reorganization though with insignificant amount, is there're unrecoverable signs showing, or age exceed 4 years.

- (2) **There's no provision for single large amount Bad debt or though insignificant amount but with high risk after credit risk combination analysis.**
- (3) **Receivables of insignificant amount but with high risk by credit risk combination analysis:**

*In RMB yuan*

Age	Amount by end of period			Amount at beginning of period		
	Balance		Bad debt provision	Balance		Bad debt provision
	Amount	Ratio(%)		Amount	Ratio(%)	
Over 4 years	179,400.00	100.00	179,400.00	227,060.00	100.00	227,060.00
<b>Total</b>	<b>179,400.00</b>	<b>100.00</b>	<b>179,400.00</b>	<b>227,060.00</b>	<b>100.00</b>	<b>227,060.00</b>

- (4) **There's no set-off of Account Receivables.**
- (5) **There's no receivables from company holding 5% or over voting shares of the company.**
- (6) **There's no receivables due from Associates.**
- (7) **There's no receivables not complied with recognition conditions during the period.**

## 2. Other Receivables

### (1) Other Receivables

In RMB yuan

Types	Amount by end of period				Amount at beginning of period			
	Balance		Bad debt provision		Balance		Bad debt provision	
	Amount	Proportion (%)	Amount	Proportion (%)	Amount	Proportion (%)	Amount	Proportion (%)
Single large amount receivable	566,359,300.93	99.77	76,090,000.00	98.94	623,369,984.15	99.53	76,090,000.00	98.76
Other receivables with higher risks after risk reorganization though with small amount	100,490.70	0.01	100,490.70	0.13	359,886.35	0.06	359,886.35	0.47
Other insignificant amount receivables	1,225,286.58	0.22	718,107.80	0.93	2,598,920.11	0.41	596,470.34	0.77
Total	567,685,078.21	100.00	76,908,598.50	100.00	626,328,790.61	100.00	77,046,356.69	100.00

#### Remarks:

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.

Single other receivable with insignificant amount while tested to be of high risk after credit risk combination analysis, with basis of judgement by showing signs of unrecoverable or with age over 4 years.

### (2) Receivables of insignificant amount but with high risk by credit risk combination analysis:

In RMB yuan

Age	Amount by end of period			Amount at beginning of period		
	Balance		Bad debt provision	Balance		Bad debt provision
	Amount	Ratio(%)		Amount	Ratio(%)	
Over 4 years	100,490.70	100.00	100,490.70	359,886.35	100.00	359,886.35
Total	100,490.70	100.00	100,490.70	359,886.35	100.00	359,886.35

### (3) There's no set-off of other receivables during the period.

### (4) There's no other receivables from company holding 5% or over voting shares of the company.

### (5) Characteristics or contents of large amount other receivables

Except for intra-group transactions with subsidiaries, other receivables with large amount includes transactions with Benxi Steel, see Note 6 (6).

### (6) There's no Other Receivables not complied with recognition conditions during the period.

## NOTES TO THE FINANCIAL REPORTS (Continued)

For the year ended 31 December 2009 (Prepared in accordance with P.R.C. Accounting Rules and Regulations)

### 3. Long-term Equity Investment

*In RMB yuan*

Company invested	Method of accounting	Initial investment cost	Balance at beginning of period	Variation	Balance by end of period	Percentage of shares held in co		Reason for difference between percentages of shares held and voting shares	Provision for devaluation during the period	Provision for devaluation during the period	Cash dividends during
						invested (%)	invested (%)				
Northeast Electric (HK) Co Ltd	Method of Cost	156,699,451.63	156,699,451.63	-	156,699,451.63	100	100	-	-	-	-
Shenyang Gaozhongjia Desiccation Co., Ltd.	Method of Cost	837,967.00	837,967.00	-	837,967.00	70	70	-	-	-	-
Shenyang Kaiyi Electric Co Ltd	Method of Cost	100,000.00	100,000.00	-	100,000.00	10	10	-	-	-	-
Shenyang Zhaolida Machinery Co Ltd	Method of Cost	100,000.00	100,000.00	-	100,000.00	100	100	-	-	-	-
Total	-	157,737,418.63	157,737,418.63	-	157,737,418.63	-	-	-	-	-	-

#### Remarks:

1. Amount in this item are investments to subsidiaries by Method of Equity, no change in the period.
2. For operations of Shenyang Zhaolida Machinery Co Ltd. see Note X.

**4. Income of Sales and Cost of Sales****Income of Sales***In RMB yuan*

<b>Items</b>	<b>Amount of the period</b>	<b>Amount of last period</b>
Income of Sales by Main Operations	2,803,418.81	104,917,592.10
Cost of Sales by Main Operations	2,038,808.56	94,559,487.87

**Remarks:**

Beijing branch company's cancellation in Mar. 2009 has contributed to decrease in the period.

**5. Return on Investment****(1) Detailed Return on Investment***In RMB yuan*

<b>Items</b>	<b>Amount of the period</b>	<b>Amount of last period</b>
Return on Long-term Equity Investment by Method of Cost	-	-
Return on Investment held till due	-	-
Return on Investment of sellable financial assets	-	-
Return on Investment of disposal of transactional financial assets	-	-
Others	-	-
Total	-	-102,178,150.52

**NOTES TO THE FINANCIAL REPORTS (Continued)**

For the year ended 31 December 2009 (Prepared in accordance with P.R.C. Accounting Rules and Regulations)

**6. Supplementary Information to Cash Flow***In RMB yuan*

Supplementary Information	Amount of the period	Amount of last period
<b>1. Operational Activity Cash Flow adjusted by Net Profit</b>		
Net Profit	-7,060,642.79	-109,883,144.87
Plus: Provisions for assets diminution	117,136.21	1,918,604.53
Depreciation of fixed assets, depreciation of oil and gas assets, depreciation of production bio-assets	163,580.87	316,451.65
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 “-“)	25,000.00	-
Loss on discarding fixed assets (gain is shown as “-“)	-	-
Fair value variance loss (gain is shown as “-“)	-	-
Financial expenses (gain is shown as “-“)	-	-
Loss on investments (gain is shown as “-“)	-	102,178,150.52
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 “-“)	2,038,808.56	2,698,155.54
Decrease of operational account receivables (increase is shown as “-“)	82,776,373.09	11,247,787.61
Increase of operational account payables (decrease is shown as “-“)	-80,809,921.86	-9,483,878.91
Others	-	-
Net in/out flows generated from operational activities	-2,749,665.92	-1,007,873.93
<b>2. Major investment and financing activities not affecting cash:</b>		
Debts changed as capital	-	-
Tradeable company bonds due within 1 year	-	-
Lease financing fixed assets	-	-
<b>3. Changes of cash and equivalents:</b>		
Cash at end of period	35,497.71	2,790,853.63
Minus: cash at beginning of period	2,790,853.63	4,035,757.56
Plus: cash equivalents at end of period	-	-
Minus: cash equivalents at beginning of period	-	-
Net increase of cash and equivalents	-2,755,355.92	-1,244,903.93

## XII. Major Notes to Parent Company's Financial Reports

### 1. Details of current extraordinary profit& loss

<i>In RMB yuan</i>		
Items	Amount of the period	Amount of last period
Profit & loss of disposal of non-current asset	-132,760.09	Loss over fixed asset disposal
Tax return/exemption with ultra vires approval/or no official approval	-	-
Government subsidy taken into profit & loss of the period(closely related to business of the company, except for those enjoyed by certain amount or quantity according to national standards	112,553.03	Liaoning Provincial Committee of Economic and Information, Department of Finance subsidy
Fund appropriation fees charged over non-enterprise taken into profit& loss of the period	-	
Revenue generated when cost of investment is less than recognizable fair value enjoyed of acquiring subsidiary, joint venture or joint operation	-	
Profit & loss of non-monetary asset swap	-	
Profit & loss entrusting third party to invest or manage asset	-	
Force majeure,	-	
Profit & loss or debt reorganization	-	
Expenses of reorganization of enterprise, such as placement of employees, integration	-	
Profit & loss over difference between fair value and inappropriate transaction price	-	
Net Profit & Loss of the period of subsidiaries under the same controlling party	-	
Profit & loss by contingent events non-related to normal business of the company	-	
Except for effective hedging, profit & loss of holding transactional financial assets, of variation of fair value of financial assets, of disposal of financial assets, transactional financial liabilities, sellable financial assets	-	
Reverse of account receivable provision by single devaluation test	-	
Profit & loss on entrusted loans	-	
Profit & loss by follow-up fair value of invested real estate	-	
Impact on profit & loss of the period by one-time adjustment according to Law of tax, of accounting, and legal regulations	-	
Trustee fee by entrusted operations	-	
Other Incomes and Expenses except for the above-mentioned	26,497.90	
Other items complied with definitions of non-operational profit & loss	-	
Amount of impact on Income Tax	-6,558.90	
Impact on Minority Interests (after tax)	-	
Total	-268.06	

## NOTES TO THE FINANCIAL REPORTS (Continued)

For the year ended 31 December 2009 (Prepared in accordance with P.R.C. Accounting Rules and Regulations)

### 2. Difference on figures by domestic and foreign Accounting Standards

#### (1) Difference in Net Profit and Net Asset in financial reports by HK Standards and by China Standards

*In RMB yuan*

	Net Profit		Net Worth	
	Amount of the period	Amount of last period	Amount by end of period	Amount at beginning of period
By China Accounting Standards	7,263,664.63	-70,569,433.41	320,994,462.82	313,995,671.65
Adjusted items and amounts by HK Financial Reports Standards				
Intangible Assets-Utility Modeland Software Amortization	56,333.48	111,083.25	-6,659.07	-62,992.55
By HK Accounting Standards	7,319,998.11	-70,458,350.16	320,987,803.75	313,932,679.10

#### (2) Remark:

Difference between A-share and H-share is intangible asset amortization. H-share financial report has been audited by Ting Ho Kwan Chan Accounts.

### 3. Ratio of earnings over net asset and earnings per share

*In RMB yuan*

Profit in the period	Weighted average earnings over net assets(%)	Earnings per share	
		Primary earnings per share	Diluted earning per share
Net profit due common shareholders	2.44	0.01	0.01
Net profit due common shareholders after deduction of extraordinary incomes	2.44	0.01	0.01

## 4. Explanation to extraordinary matters and reasons

In RMB yuan

Items	Variation between beginning and end of period	Variation percentage between beginning and end of period	Note
Cash and deposits	15,325,341.34	30.69%	Increase of bank deposits
Bills payable	-3,654,150.00	-83.35%	Bills due
Account receivable	83,786,634.45	48.25%	Increase of unpaid goods payment
prepayment	-26,551,994.33	-91.00%	Prepayment to Jinzhou Electric Capacitor Co Ltd is changed to other receivable
Other receivables	-85,610,079.84	-86.67%	Repayment received from Liaoning Xintai Electric Appliance Equipment Co Ltd and Shenyang Beifu Machinery Co Ltd
Work-in-progress	-700,574.53	-100.00%	Work-in-progress changed to fixed asset in the period
Long-term deferred expenses	8,965,626.87	501.30%	Rents for housing, lands and equipments paid
Deferred income tax assets	6,791,250.34	132.65%	Increase of asset devaluation provision
Bills payable	-6,000,000.00	-100.00%	Bills due paid
Account payable	74,891,058.92	95.42%	Increase of unpaid purchase of goods
advances	-41,647,488.68	-68.71%	Advances changed to income
Tax payable	11,804,495.88	577.46%	Increase of unpaid value-added tax and income tax for enterprise
Other payables	-152,806,156.20	-64.48%	Funds changed to other non-current liability due to Creditor's agreement not to recover within 1 year
Other current liability	587,446.97	-	Government subsidy received during the period
Other non-current liability	92,920,097.04	-	Funds that Creditor agree not to recover within 1 year
Loss of asset devaluation	19,166,036.49	305.02%	Provision set for full amount of account receivable to Jinzhou Electric Capacitor
Return on investment	63,943,889.68	-97.44%	No loss of disposal of asset in the period
Extraordinary expenses	-282,249.74	-52.10%	Amount of loss of disposal of fixed asset was large
Income tax expenses	-1,437,737.70	-140.94%	Increase of revenues of deferred income tax

**Legal Representative:** Mr. Su Weiguo    **Chief Financial Officer:** Rr. Bi Jianzhong    **Chief Accounting Officer:** Ms. Wang Hongling

**Date:** 22 March 2010



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

地址：中國沈陽市和平區太原南街189號金都飯店14樓  
網址：[www.nee.com.cn](http://www.nee.com.cn)  
電郵：[nee@nee.com.cn](mailto: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](http://www.nee.com.cn)  
E-mail : [nee@nee.com.cn](mailto:nee@nee.com.cn)  
Tel : (024) 2350 1976 2352 7083  
Fax : (024) 2352 7081  
Zip : 110001