

ANNUAL REPORT 2010 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.

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※ This report is published in both Chinese and English. If there are any inconsistencies in content, other than the independent auditor's report set out on pages 63 to 64 and the consolidated financial statements prepared in accordance with Hong Kong Financial Reporting Standards set out on pages 65 to 127 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. Executive Directors | : | Su Weiguo, Wang Shouguan, Bi Jianzhong, Liu Qingmin |
| 4. Independent Non-executive Directors | : | Wu Qicheng, Xiang Yongchun, Wang Yunxiao |
| 5. 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 in Hong Kong | : | 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.2 Xingshun Street, Tiexi District, Shenyang, the PRC |
| Postal | : | 110023 |
| Telephone | : | (86)24-23501976 (86)24-23527080 |
| 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 Share : Shenzhen Stock Exchange
Stock Name : Northeast Electric
Stock code : 000585
10. Date of Company’s first registration : 16 February 1993
Place of registration : No. 18, 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 : 210100402002708
licence
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
Unit: RMB

Operating profit	-4,923,564.07
Total profit	5,148,739.58
Net profit attributable to shareholders of listed company	1,683,987.53
Net profit attributable to shareholders of listed company after extraordinary items	-5,874,396.21
Net cash flow arising from operating activities	27,303.40

Note: After extraordinary items and the related amount:

Unit: RMB

Extraordinary items	Amount	Cause
Profits and losses on disposal of non-current assets	-318,487.16	Loss from disposal of fixed assets
Government subsidy recognised in current profits and losses	119,000.00	Special subsidies by the Economic and Information Commission of Liaoning Province and the Department of Finance of Liaoning Province
Profits and losses from debt restructuring (note)	10,243,866.77	Profits from debt restructuring
Non-operating income and expense	27,924.04	
Effect on income tax	-2,568,566.04	
Minority interest effect (after tax)	54,646.13	
Total	7,558,383.74	

Note:

Profits and losses from debt restructuring for this period increased compared with the last period, mainly due to the profit on debt restructuring, resulting from the fact that the Company and Liaoning Shunlong Trading Co., Ltd. entered into a repayment agreement to repay accounts receivable at lower book value.

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

	2010	2009	Increase/decrease of the year over last year (%)	2008
Total operating revenues	348,449,492.28	423,742,945.28	-17.77	517,717,563.70
Total profit	5,148,739.58	6,846,067.72	-24.79	-69,549,292.62
Net profit attributable to shareholders of listed company	1,683,987.53	7,670,166.70	-78.04	-69,112,495.33
Net profit attributable to shareholders of listed company after extraordinary items	-5,874,396.21	7,670,434.76	-	3,244,738.80
Net cash flow arising from operating activities	27,303.40	22,238,854.70	-99.88	15,241,679.50

	As at the end of 2010	As at the end of 2009	Increase/ decrease at the end of 2010 over the end of 2009 (%)	As at the end of 2008
Total assets	844,337,174.25	836,557,537.85	0.93	847,016,256.07
Shareholders' fund attributable to shareholders of listed company	314,979,605.97	318,542,326.44	-1.12	311,137,033.20
Share capital	873,370,000.00	873,370,000.00	0	873,370,000.00

2. Principal financial indicators
Unit: RMB

	2010	2009	Increase/decrease of the year over last year (%)	2008
Basic earnings per share (RMB/Share)	0.002	0.01	-80.00	-0.08
Diluted earnings per share (RMB/Share)	0.002	0.01	-80.00	-0.08
Earnings per share calculated by new share capital (RMB/Share)	0.002	0.01	-80.00	-0.08
Basic earnings per share after extraordinary items (RMB/Share)	-0.007	0.01	-	0.004
Earnings/net assets ratio (weighted average) (%)	0.53	2.44	-1.91	-17.38
Earnings/net assets ratio after extraordinary item (weighted average) (%)	-1.85	2.44	-	0.82
Net cash flow from operating activities per share (RMB/Share)	0.000031	0.0255	-99.88	0.0175
	As at the end of 2010	As at the end of 2009	Increase/decrease at the end of 2010 over the end of 2009 (%)	As at the end of 2008
Net assets per share attributable to shareholders of listed company (RMB/Share)	0.36	0.36	0	0.36

SUMMARY OF ACCOUNTING DATA AND FINANCIAL INDICATORS (Continued)

3. Assets Devaluation Preparation Sheet

As at 31 December 2010

Unit: RMB

Item	Initial balance	Increase in current period	Decrease in current period		Total	Final balance
			Transfer in due to recovery of assets value	Transfer out due to other reasons		
1. Bad debt preparation in total	121,447,173.72	8,246,740.20	379,401.12		379,401.12	129,314,512.80
Including: Accounts receivable	17,462,800.91	7,197,177.35				24,659,978.26
Other receivables	103,984,372.81	1,049,562.85	379,401.12		379,401.12	104,654,534.54
2. Short-term investment devaluation preparation in total						
Including: Investment in equity						
Investment in bond						
3. Inventory devaluation preparation in total	1,428,047.57	18,944.20		65,995.97	65,995.97	1,380,995.80
Including: Merchandise inventory	1,310,641.17					1,310,641.17
Product in production						
Raw material	117,406.40	18,944.20		65,995.97	65,995.97	70,354.63
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	2,021,324.40					2,021,324.40
Including: Houses, buildings	317,644.79					317,644.79
Transportation and others	71,880.00					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	124,896,545.69	8,265,684.40	379,401.12	65,995.97	445,397.09	132,716,833.00

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

Items	2010	2009	2008	2007	2006
1. Turnover (RMB'000)	348,449	423,743	517,717	618,496	465,989
2. Profit/(loss) before taxation (RMB'000)	5,194	6,903	-69,438	-292,246	34,892
3. Profit/(loss) attributable to shareholders (RMB'000)	1,074	7,320	-70,458	-344,907	29,540
4. Total assets (RMB'000)	844,337	836,551	856,704	937,160	1,295,288
5. Total liabilities (RMB'000)	527,560	515,563	542,771	543,467	364,417
6. Shareholders' fund (RMB'000)	316,777	320,988	313,933	393,693	829,347
7. Basic earnings/(loss) per share (RMB)	0.002	0.01	-0.08	-0.39	0.034
8. Net assets per share (RMB)	0.36	0.37	0.36	0.45	0.95
9. Return on net assets (%)	0.34	2.28	-22.44	-87.61	3.56
10. Shareholders' interest ratio (%)	37.52	38.37	36.64	42.01	63.40
11. Current ratio (%)	102.53	101.25	101.75	109.20	157.07
12. Gearing ratio (%)	62.48	61.63	63.36	57.99	28.13

(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)	1,729
- Others	-45
Net profit calculated under the PRC Accounting Rules (attributable to the equity holders of the Company)	1,684

CHANGES IN SHARE CAPITAL AND INFORMATION OF SHAREHOLDERS

(I) TABLE OF CHANGES IN SHARE CAPITAL

Unit: Share

	Beginning of the year	Increase/(decrease) (+/-)	End of the year
1. Shares subject to trading moratorium	218,255,650	-212,025,650	6,230,000
State-owned legal person shares	0	0	0
Public legal person shares	218,255,650	-212,025,650	6,230,000
2. Shares not subject to trading moratorium	655,114,350	212,025,650	867,140,000
Domestic listed A Shares	397,164,350	212,025,650	609,190,000
Overseas listed H Shares	257,950,000	0	257,950,000
3. Total shares	873,370,000	0	873,370,000

Note:

On 19 May 2010, the Company relieved 212,025,650 shares subject to trading moratorium, which increased shares not subject to trading moratorium to 867,140,000 shares.

(II) TABLE OF SHAREHOLDING OF TOP TEN SHAREHOLDERS

Total number of shareholders at the end of the reporting period was 92,607, including 92,533 shareholders of A shares and 74 shareholders of H shares.

Shareholdings of top ten shareholders
Unit: Share

Name of shareholders	Nature of shareholder	Percentage	Number of shares held at the end of the year	Number of untradeable shares	Number of shares pledged or frozen
HKSCC Nominees Limited	Foreign natural person	28.35%	247,565,998	0	0
New Northeast Electric Investments Co., Ltd.	Domestic non-state-owned legal person	24.06%	210,094,850	0	170,000,000
Shenzhen Zhongda Software Development Co., Ltd	Domestic non-state-owned legal person	0.41%	3,550,000	3,550,000	0
Jiangmen Huirong Trading Co., Ltd.	Domestic non-state-owned legal person	0.34%	3,000,000	0	0
Hu Li	Domestic natural person	0.25%	2,156,160	0	0
Zhang Xiaoping	Domestic natural person	0.24%	2,077,200	0	0
Deng Wenwei	Domestic natural person	0.23%	1,977,335	0	0
Li Xiuli	Domestic natural person	0.20%	1,760,936	0	0
Huang Jian	Domestic natural person	0.19%	1,689,800	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

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 20 December 2010, New Northeast Electric Investments Co., Ltd. carried out the registration of the pledge of stocks with Shanghai Pudong Development Bank Co., Ltd. Shenyang Branch, so 80,000,000 A shares subject to trading moratorium have been frozen since 20 December 2010.
3. On 28 June 2010, New Northeast Electric Investments Co., Ltd. carried out renewal of registration of the pledge of stocks with Bank of Communications Liaoning Branch, so 90,000,000 A shares subject to trading moratorium have been frozen since 28 June 2010.
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.

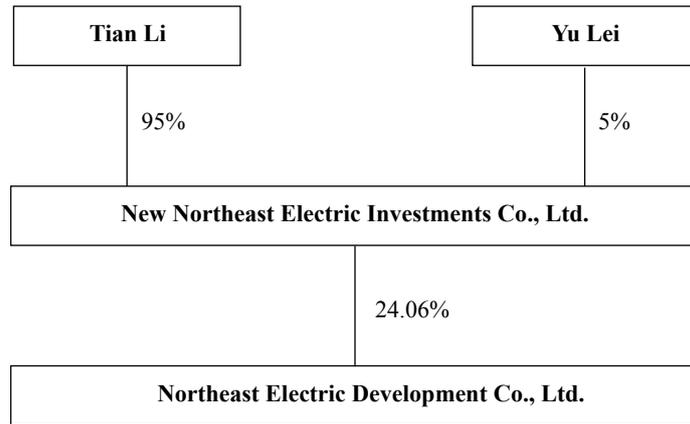
7. *Convertibles, options, warrants or other similar rights*

As of 31 December 2010, 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 RMB128,250,000, representing 95% of the registered capital; Mr. Yu Lei, the natural person, contributed RMB6,750,000, representing 5% 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.

PROFILE OF DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND STAFF

(I) PROFILE OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

1. Basic information

Name	Sex	Age	Position	Terms of office	Number of shares held at the beginning of the year	Number of shares held at the end of the year	Remuneration (RMB0'000)
Su Weiguo	M	49	Chairman	2010/3/8-2013/3/7	0	0	16.4
Wang Shouguan	M	67	Vice Chairman	2010/3/8-2013/3/7	0	0	7.9
Bi Jianzhong	M	34	Director/General manager	2010/3/8-2013/3/7	0	0	15.8
Liu Qingmin	M	48	Director	2010/3/8-2013/3/7	0	0	10.9
Wu Qicheng	M	66	Independent Director	2010/3/8-2013/3/7	0	0	3.5
Xiang Yongchun	M	68	Independent Director	2010/3/8-2013/3/7	0	0	3.5
Wang Yunxiao	M	65	Independent Director	2010/3/8-2013/3/7	0	0	2
Dong Liansheng	M	64	Chairman of the Supervisory Committee	2010/3/8-2013/3/7	0	0	0
Liu Xuehou	M	55	Supervisor	2010/3/8-2013/3/7	0	0	0
Bai Lihai	M	34	Supervisor	2010/3/8-2013/3/7	0	0	0
Du Kai	M	43	Resigned Director	2010/3/8-2010/6/4	0	0	13.5
Wang Yi	M	49	Resigned Director	2010/7/22-2010/12/10	0	0	12.5
Lin Wenbin	M	67	Resigned Independent Director	2007/3/7-2010/3/7	0	0	1.5
Liang Jie	F	50	Resigned Independent Director	2007/3/7-2010/3/7	0	0	1.5
Liu Hongguang	M	44	Resigned Independent Director	2007/3/7-2010/3/7	0	0	1.5
Fu Xiuheng	M	63	Resigned Supervisor	2007/3/7-2010/3/7	0	0	0
Dai Guiqing	F	42	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 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 2010.*
5. *Save as those set out in the register required to be maintained by directors and supervisors under 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.*
6. *Save as disclosed above, none of the directors, supervisors and senior management or any of their associates, as at 31 December 2010, 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.*
7. *Save as disclosed above, none of the directors, supervisors and senior management of the Company, as at 31 December 2010, 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.*

2. Directors and supervisors holding positions in the shareholders unit

Name	Name of shareholders	Position held	Period of employment
Wang Shouguan	New Northeast Electric Investments Co., Ltd	Vice Chairman	2004/02/14 to present

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

(1) **Executive 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. 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. Appointment and resignation of directors, supervisors and senior management during the reporting period

- (1) The sixth session of the Board of Directors of Northeast Electric Development Co., Ltd. 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 appointed as the Chairman and Mr. Bi Jianzhong was appointed as the General Manager (please refer to the announcement dated 8 March 2010 for details).
- (2) The sixth session of the Supervisory Committee of Northeast Electric Development Co., Ltd. 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, and one supervisor of employees elected at the previous representative assembly of workers, namely Mr. Liu Xuehou. Mr. Dong Liansheng was appointed as the chairman of the Supervisory Committee (please refer to the announcement dated 8 March 2010 for details).
- (3) Mr. Lin Wenbin, Ms. Liang Jie, and Mr. Liu Hongguang resigned as independent non-executive directors, and Mr. Fu Xiuheng and Ms. Dai Guiqing resigned as supervisors of the Company on 8 March 2010 due to expiration of term of office (please refer to the announcement dated 8 March 2010 for details).
- (4) Mr. Du Kai, upon the approval of the Board of Directors, resigned as an executive Director and other executive positions due to the change of work on 28 May 2010 with effect from 4 June 2010 (please refer to the announcement dated 4 June 2010 for details).

- (5) The Resolution on Appointment of Mr. Wang Yi as an Executive Director has been discussed and approved at the second EGM of 2010 on 22 July 2010. Mr. Wang Yi has been appointed as an executive director of the Company, and his term of office is the same as the Board until 7 March 2013 (please refer to the announcement dated 22 July 2010 for details).
- (6) Mr. Wang Yi resigned as an executive director and the concurrent positions as the Director, Chairman and General Manager of New Northeast Electric (Jinzhou) Power Capacitor Co., Ltd. due to the change of work on 10 December 2010 with effect from the date of the report on resignation (please refer to the announcement dated 13 December 2010 for details).

6. Interest of directors, supervisors and senior management

As at 31 December 2010, 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, any rights to subscribe for equity or debt securities of the Company and or associated corporations (within the meaning of the SFO), nor did they have any interest or short positions in the shares, underlying shares or debentures of the Company or its associated corporations which were required to be notified to the Company and The Stock Exchange of Hong Kong Limited pursuant to section 341 of the SFO or the Model Code for Securities Transactions by Directors of Listed Issuers.

(II) STAFF OF THE COMPANY AND REMUNERATION POLICY

Occupational structure of the Company's staff		Education level of company's staff	
Salesman	: 62	Bachelor degree or higher	: 154
Technical staff	: 90	College	: 165
Financial staff	: 19	Technical certificate	: 28
Administrative staff	: 110	Others	: 342
Production staff	: 331		
Others	: 77		
Total	: 689	Total	: 689

As at the end of the reporting period, the number of employees on the payroll of the Company was 689 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 the 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 general meeting of shareholders

The Company has strictly complied with the provision and requirement of Rule of Procedure of General 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 general meeting of shareholders. The Company's Board of Directors, Supervisory Committee 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 the 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 7 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 the 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 Supervisory Committee

The Company's Supervisory Committee has worked in light of relevant provisions of the Company Law, Articles of Association, and Rule of Procedure of Meeting of the Supervisory Committee, 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 the Administrative Measures for the Matters Regarding Information Disclosure and Investor Relations Management System, the Company has seriously fulfilled its information disclosure obligation. Securities Times 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 directors	Position of directors	Number of attendance required	Number of attendance in person	Number of attendance by communication	Number of attendance by proxy	Number of absence	Two
							consecutive absences in person
Wu Qicheng	Independent directors	8	4	3	1	0	No
Xiang Yongchun	Independent directors	8	5	3	0	0	No
Wang Yunxiao	Independent directors	7	4	3	0	0	No
Lin Wenbin (resigned)	Independent directors	1	1	0	0	0	No
Liang Jie (resigned)	Independent directors	1	1	0	0	0	No
Liu Hongguang (resigned)	Independent directors	1	1	0	0	0	No

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's 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. Assets of the Company have been absolutely independent from 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, Supervisory Committee 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's Internal Control

In strict accordance with provisions of the Company Law and Securities Law and other relevant laws and regulations of China Securities Regulatory Commission, the Company has further improved and normalized its organizing structure of internal control, ensured the normalized and effective operation of the general meeting of shareholders, the Board of Directors and the Supervisory Committee of the Company, and protected interests of investors and the Company.

At present, organizing structure of the Company's internal control is as follows:

- ① As the highest authority of the Company, the General Meeting of shareholders has reviewed and determined operating policies, investment programs, significant transactions, capital changes, and appointment and dismissal of directors and supervisors of the Company under its terms of reference as prescribed in the Company Law, Articles of Association, and related regulations and rules. The Company has formulated the Rule of Procedure of General Meeting of Shareholders to ensure fair treatment toward all shareholders and ensure that all the shareholders, especially minority shareholders and the full exercise of their own rights.
- ② As a regular decision-making organ of the Company, the Board of Directors is responsible to the general meeting of shareholders. With clear responsibility, the Board of Directors has performed its function and power and implemented resolutions of the General Meeting under its terms of reference authorized by the Company Law, Articles of Association, the Rule of Procedure of the Board Meeting, related regulations and rules, and the General Meeting.
- ③ As a supervisory organ of the Company, the Supervisory Committee is responsible to the general meeting of shareholder. With clear responsibility, the Supervisory Committee should supervise and review the Company's financial position, legal operation, implementation of the General Meeting's resolutions by the Board of Directors, and breach of laws and regulations by directors and senior management while performing their duties of the Company under the terms of reference of the Company Law, Articles of Association, Rule of Procedure of the Board Meeting, and related laws, regulations and rules. It should also issue independent opinions on significant events of the Company.

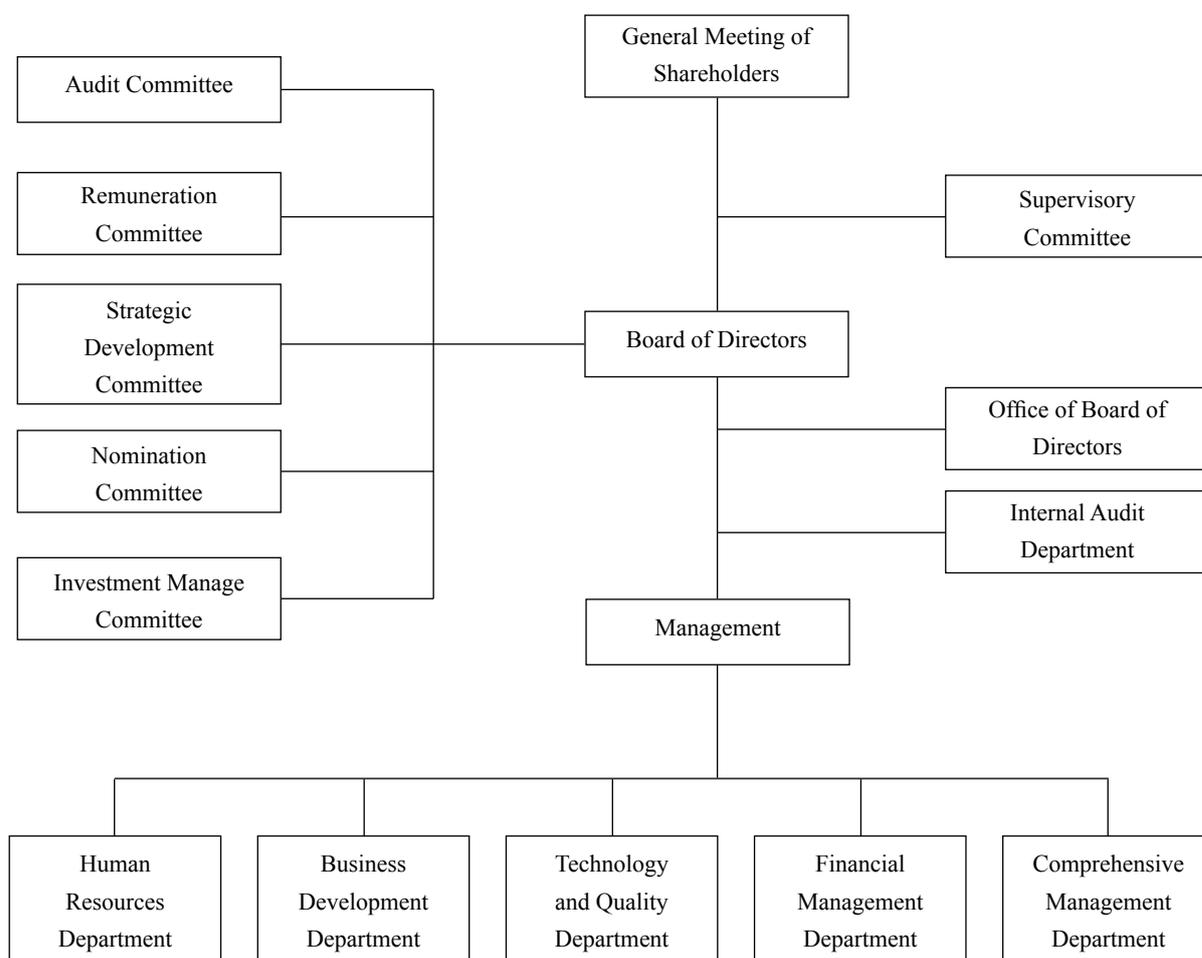
④ The Strategic Development Committee, Remuneration Committee, Nomination Committee, Investment Management Committee, and Audit Committee have been set up under the Board of Directors of the Company. Please refer to the Work System of Each Committee of the Board of Directors of Northeast of Northeast Electric Development Co., Ltd for their specific functions. Under the Audit Committee, the Company's internal audit department is responsible for supervision and examination of internal control and independent execution of audit supervision power. Professional accounting knowledge is required for internal auditors to ensure the effective operation of internal audit of the Company. 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.

⑤ Senior management and daily operating management and control

Pursuant to the Articles of Association and related regulations, the General Manager of the Company is in charge of the production and operation management, annual plan and investment programs of the Company, drawing up the structure of internal management organs, the fundamental management systems and formulating specific rules of the Company. Managers of the Company are entitled to full operating and management rights to ensure effective control over the daily production and operation of the Company; meanwhile, the Board of Directors and Supervisory Committee are able to impose effective supervision and restriction on managers without "control by insider". The senior management of the Company has always performed their fidelity duty and protected in the best interest of the Company and all the shareholders.

Pursuant to related operating systems and internal management rules, the Company has set up management departments (including business development department, financial management department, human resources department, technology and quality department and comprehensive management department) and positions in line with operation and management. There are rules to follow for the management of technology, sale, purchase, operation, human resource, information, finance and internal audit, which ensures the orderly operation of the Company and prevents operating risks.

© The organizing structure is as follows:



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

Pursuant to the latest requirements of relevant laws and regulations and regulatory documents issued by China Securities Regulatory Commission and Shenzhen Stock Exchange, as well as relevant provisions of the Basic Standard for Enterprise Internal Control, the Application Guidelines for Enterprise Internal Control and the Guidelines for Assessment of Enterprise Internal Control, the Company has established 18 items of internal control system, including Organizing Structure, Development Strategy, Human Resources, Social Responsibility, Corporate Culture, Fund Activities, Procurement Business, Asset Management, Sales Business, Research and Development, Construction Projects, Guarantee Business, Outsourcing, Financial Reports, Comprehensive Budgeting, Contract Management, Communication of Internal Information and Information System.

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.

2. Key Internal Control Activities of the Company
(1) Internal Control of 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) Co., Ltd	100%
5	Shenyang Kaiyi Electric Co., Ltd	100%
6	Shenyang Zhaolida Machinery Equipment Co., Ltd	100%
7	Shenyang Gaodongjia Desiccation Equipment Co., Ltd (In liquidation)	70%
8	Great Talent Technology Limited	100%
9	Jinzhou Jinrong Electric Co., Ltd	69.75%

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 Company formulated the Connected Transactions Management System, which clearly specifies the Company's principles of connected transaction, connected person and connected relation, decision-making procedures and disclosures of connected transaction. Connected transactions of the Company were executed in strict accordance with provisions of the Connected Transactions Management System. 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 External Guarantees

The Company established the Management System of Guarantee Business on the basis of the Management System of External Guarantee, which clearly specifies the basic principle of external guarantee, the examination procedure for the objectives of external guarantee, the approval procedure and management procedure for external guarantee. During the reporting period, the Company has not provided any external 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 the external guarantees have been proposed to the general meeting of shareholders for consideration upon approval of the Board of the Company. The Company has made a strict, full and effective internal control on its external 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.

(7) Setup of the Company's internal audit department, staffing and work

The Company set up the Audit Department as its internal audit department, which independently exercised its authorities of audit and supervision under guide of the Audit Committee of the Board of Directors and in accordance with relevant laws and regulations. Internal audit department of the Company conducted casual audit on its subsidiaries according to work requirements. The audit supervision included execution of financial budget on subsidiaries, final accounts, financial revenue and expenditure and other related economic activities, operating management and performance, and soundness, rationality and validity of internal control system of each unit. For any problems found in the process of examination and audit, internal audit department reported to the Audit Committee of the Board of Directors in time and make improvement suggestions to supervise rectification of relevant departments, ensuring effective implementation of the internal control system.

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

In accordance with relevant provisions of China Securities Regulatory Commission and Shenzhen Stock Exchange, the Guideline for Internal Control of Listed Companies and the Internal Control System, the Company has established comprehensive internal control management system, covering all aspects of management and operation of the Company.

With changes of the environment, operation development and raising requirements on management, the Company will continuously revise and perfect the internal control system to enhance risk management, promote management innovation and safeguard sustainable, sound and fast growth in the light of specific provisions of relevant laws and regulations.

- (1) 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.
- (2) Enhance trainings on internal control system for the staff, set up the consciousness of risk prevention, foster excellent enterprise spirit and internal control culture, and strengthen the consciousness of internal control normalization to implement the system more effectively.
- (3) Further underpin internal audit work, expand areas of internal control, enhance the supervision and examination on efficiency of internal control; report any defects of internal control in supervision and examination to the Audit Committee and make improvement suggestions; supervise rectification of relevant departments to normalize the internal control of the Company, promote operation and management and capability of risk prevention and foster the sustainable growth of the Company.

4. Overall Assessment of Internal Control

The existing internal control management system of the Company is complete, reasonable and valid in compliance with the requirements of management and development of the Company; ensured the truthfulness, accuracy and completeness of accounting data, the safety and completeness of property and materials. Thus, information can be disclosed truthfully, accurately, completely and timely in strict accordance with requirements of the content and format as specified by laws, regulations and the Articles of Association.

The Company will focus on further normalization and perfection of the internal control system and fully ensure its establishment, implementation and effective supervision. Centring on internal control on holding companies, connected transactions, external guarantee, the Company established and continued to improve the complete internal control system, the use of raised capital significant investments and information disclosure, and formed scientific decision-making, implementation and supervision mechanism under the provisions of the Company Law, Securities Law, the Rules Governing the Listing of Securities on Shenzhen Stock Exchange, the Guideline for Internal Control of Listed Companies, the Articles of Association and other provisions of relevant laws and regulations. The internal control system of the Company was effectively implemented. There was no material defects in the completeness, rationality and validity of the internal control system, which basically met requirements of relevant regulations and securities regulatory authorities. The internal control of the Company is normal, strict, full and effective in all respects, playing an important role in control and prevention.

Following the Basic Standard for Enterprise Internal Control, the Guidelines for Enterprise Internal Control of Listed Companies and other relevant laws and regulations in the light of requirement for corporate development, the Company constantly strengthened the establishment and management of internal control, enhanced execution of internal control, pinpointed weak links in time, effectively improved the capacity of risk prevention of the Company and fostered the steady and sound growth of the Company.

(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 Corporation Governance Practice as set out in Appendix 14 to the Listing Rules of Hong Kong Exchanges and Clearing 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 system is effective and sufficient and secured the achievement of the targets of the Company's operation and regulations.

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 three independent non-executive directors including one with financial management expertise.

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 enquires, 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 Board of Directors has 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 reporting period and have complied with the guidelines.

3. Board of Directors

The 6th session of the Board of Directors comprises 7 directors, including 4 executive directors, namely Mr. Su Weiguo, Mr. Wang Shouguan, Mr. Bi Jianzhong and Mr. Liu Qingmin, and 3 independent directors namely Mr. Wu Qicheng, Mr. Xiang Yongchun and Mr. Wang Yunxiao. For details about biography, please refer to the Report section 4 (1). The term of the Board of Directors will expire on 7 March 2013.

The Company has set up an Audit Committee, a 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 draw 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 2010, a total of 8 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 2010 totaled RMB905,000 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).

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 comprised three independent non-executive directors of the Company, namely Mr. Wang Yunxiao, Mr. Wu Qicheng, and Mr. Xiang Yongchun, and Wang Yunxiao as a professional accountant, was appointed as the presiding member.

The Committee convenes no less than two audit committee meetings every 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. In 2010, a total of four 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 three 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 2010 Annual Report of the Company, and negotiating with Shenzhen Pengcheng Certified Public Accountants Co., Ltd and Ting Ho Kwan & Chan Certified Public Accountants (Practising), the Company's domestic and international auditor respectively, on the plan, content and schedule of the audit of 2010;
- (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 2010 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 2010 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 has studied matters relating to auditing, internal controls and financial reporting. The Audit Committee has given its consent to the financial accounting principles, standards and methods adopted by the Company for the audited annual accounts for the year ended 31 December 2010.

At the Company's board meeting held on 21 March 2011, the audit committee of the Board reviewed and approved the 2010 annual financial records and results announcement.

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 2010, the committee convened one committee meetings all of which were attended by all members. Chief member of the Committee is Mr. Xiang Yongchun while other members include, Mr. Wang Shouguan and Mr. Wang Yunxiao.

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 2010 disclosed by the Company's directors, supervisors, and senior management and given the following opinions:

In 2010, in accordance with their main duties, their business results and their accomplishments of appraisal index in 2010, 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 2010. The remuneration committee consider that the compensations of the Company's directors, supervisors and senior management disclosed in the 2010 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.

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 and Mr. Wu Qicheng. In 2010, the committee convened one committee meeting all of which was attended by all members.

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, the chief member of the Committee is Mr. Su Weiguo while other members include Mr. Wang Shouguan, Mr. Xiang Yongchun, Mr. Bi Jianzhong and Mr. Liu Qingmin. In 2010, a total of 2 committee meetings were held, which were attended by all members of the committee.

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, the chief member of the Committee is Mr. Su Weiguo, while other members include Mr. Wang Shouguan, Mr. Xiang Yongchun and Mr. Bi Jianzhong. In 2010, a total of 2 committee meetings were held, which were attended by all members of the committee.

9. Supervisory Committee

The supervisory committee comprises 3 members including 1 supervisor, who is elected by staff, to represent company staff. The supervisory committee is responsible for supervising the board of directors and its members and senior management to prevent their abuse of power or infringement upon lawful interests of shareholders, the Company and company staff.

In 2010, a total of 6 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 "VI. 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 2010, 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 2009 Shareholder's General Meeting held on 7 May 2010 approved the re-appointment of Shenzhen Pengcheng Certified Public Accountants Co., Ltd as domestic auditor and the re-appointment of TING HO KWAN&CHAN Certified Public Accountants (Practising) as international auditor with a term of one year. Total remuneration paid to the domestic and international auditors of the Company was RMB1, 650,000.

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

The Company issued the notice on 22 March 2010 and convened the 2009 annual general meeting of shareholders on 7 May 2010 (please refer to the Announcements dated 22 March 2010 and 7 May 2010 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 2009 Annual Report;
2. To consider and approve the Proposal of 2009 Net Profit Distribution;
3. To consider and approve the Resolution on Reappointment of the Company's Domestic Auditor for the Year 2010;
4. To consider and approve the Resolution on Reappointment of the Company's International Auditor for the Year 2010;
5. To consider and approve Work Report of the Board of Directors for the Year 2009;
6. To consider and approve Work Report of the Supervisory Committee for the Year 2009.

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

1. The Company issued the notice on 22 January 2010 and convened the 1st EGM of 2010 on 8 March 2010. (For details, please refer to announcements dated 22 January 2010 and 8 March 2010).

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

- (1) To consider and approve Amendment of Articles of Association;
- (2) To consider and approve the Resolution on Nominating Candidates for the Members of the Sixth Session of the Board of Directors;
- (3) To consider and approve the Resolution on Nominating Candidates for the Members of the Sixth Session of the Supervisory Committee;
- (4) To consider and approve the Resolution on the Annual Remuneration of the Members of the Sixth Session of the Board of Directors;
- (5) To consider and approve the Resolution on the Annual Remuneration of the Members of the Sixth Session of the Supervisory Committee.

2. The Company issued the notice on 4 June 2010 and convened the 2nd EGM of 2010 on 22 July 2010. (For details, please refer to announcements dated 4 June 2010 and 22 July 2010).

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

To consider and approve the Resolution on Appointment of Mr. Wang Yi as an Executive Director of the Company.

3. The Company issued the notice on 16 November 2010 and convened the 3rd EGM of 2010 on 31 December 2010. (For details, please refer to announcements dated 16 November 2011 and 31 December 2010).

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

To consider and approve the Resolution on Transfer of 25.6% Equity Interest of New Northeast Electric (Shenyang) High-Voltage Isolators Switchgears Limited.

(I) DISCUSSION AND ANALYSIS OF THE SENIOR MANAGEMENT

2010 was a year of enormous pressure for the Company. Construction in power system and grid of the State slowed down before finalization of the “Twelfth Five-year” smart grid plan, and the investment in power industry plummeted compared with the same period last year. The production capacity expansion of the industry of the Company and the increasingly salient contradiction between supply and demand brought about the tough price competition. Meanwhile, upward tendency of the factor cost, including the raw material and energy, also influenced the production and operation of the Company. The above factors led up to the income from principal operations of the Company declined compared with the same period last year, together with the increasing pressure from production cost, and thus, profit from principal operations suffered severe squeeze.

Despite complicated situation and various challenges in 2010, the whole Company acted aggressively, closely monitored and analyzed global market to adjust its marketing strategies, strengthened the research and development for higher product grades. The Company also enhanced internal control to improve the product quality, promoted production management to ensure the steady, sustainable and sound growth of production and operation. In 2010, the Company achieved operating income of RMB348,450,000, representing a decrease of 17.77% compared with the same period last year; and net profit of RMB1,030,000, representing a decrease of RMB6,230,000 compared with the same period last year.

The production and operation of 2010 witnessed the following characteristics:

1. Promote management on production and organization to ensure the lead time of products

During the reporting period, the Company timely acquired production development to reasonably allocate production factors and enhance production order, meticulously organized production, implemented the tracking system on key contracts, and coordinated utilization of equipment and production. The above measures ensured all production tasks are completed successfully under such situations as the tight lead time, lack of fund and difficulty to collect raw materials.

2. Underpin capital operation and adjust assets structure

As impacted by economic restructuring of the industry and the price fluctuation of raw materials in recent years, the profitability of the Company plummeted. During the reporting period, upon approval of the General Meeting of Shareholders, the Company made a decision to transfer 25.6% equity interest in New Northeast Electric (Shenyang) High-voltage Isolators Switchgears Limited held by Northeast Electric (Hong Kong) Company Limited, a wholly-owned subsidiary of the Company, and the change of industrial and commercial registration procedures was completed on 17 February 2011. The Company reduced investment risk, optimized assets structure and improved asset quality by disposing of assets with lower return.

3. Strengthen technical innovation to further sharpen the Company's core competitive edge

During the reporting period, the Company intensified scientific research and development of new products, perfected product mix and optimized product design to diversify products, consolidate its comprehensive technology strength and ensure all-round, sustained and sound development. Of them: new products (1000kVar capacitors, series capacitors, fuseless capacitors, DC capacitor and so on) were smoothly under research, the gap of the same kind of products in the Company would be filled after completion; as for design and optimization of the product mix of transformers, trial production and commissioning of electric features had been completed, which reduced costs, lessened the size and further sharpened the competitive edges of products.

During the reporting period, the Company paid more attention to technical reform. The redesign and optimization as well as renovation of the production routing and process of transformers has made the routing more reasonable, therefore enhancing productive efficiency and further promoting productive capacity of transformers.

(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 RMB348,449,492.28, total profit of RMB5,148,739.58 and the net profit of RMB1,029,209.54.

Operating results in principal operations by business and product segment:

Unit: RMB0'000

By Business or Product	Operating income	Operating costs	Gross profit ratio (%)	Increase/	Increase /	Increase /
				decrease in	decrease in	decrease in
				operating	operating	gross profit
				income as	costs as	ratio as
				compared with	compared with	compared with
				last year (%)	last year (%)	last year (%)
Principal operations by business						
Electrical transmission and allocation and control facilities manufacturing	34,828.67	27,433.32	21.23	-17.59	-8.55	Decrease 7.79
Principal operations by products						
Power capacitor	16,580.15	11,511.34	30.57	-29.37	-18.63	Decrease 9.16
Enclosed busbars	5,646.78	4,004.22	29.09	-19.92	-18.88	Decrease 0.90
High-voltage isolator switchgears	12,601.74	11,917.76	5.43	7.37	9.20	Decrease 1.59
Total	34,828.67	27,433.32	21.23	-17.59	-8.55	Decrease 7.79

Principal operations by region segment:

Unit: RMB0'000

Region	Income from principal	Increase/decrease in income from
	operations	principal operations over last year (%)
Northeast China	6,294.49	28.23
North China (including Shandong)	15,066.39	-36.05
Central China	730.97	-72.11
East China	1,707.43	-77.50
South China	3,620.95	87.82
Southwest China	2,576.30	129.54
Northwest China	4,832.14	807.13
Total	34,828.67	-17.59

2. Operations and results of major controlling company and investee company

Unit: RMB0'000

Name	Principal operations	Registered capital	Percentage of share %	Total assets	Net assets	Income from principal operations	Net profit
Fuxin Enclosed Busbars Co., Ltd	Enclosed busbars	US\$8,500,000	100	24,106	7,850	5,647	98
New Northeast Electric (Jinzhou) Power Capacitors Co., Ltd	Power capacitors	US\$15,450,000	100	28,767	14,240	16,580	989
Jinzhou Jinrong Electric Co., Ltd	High-voltage capacitor	300	69.75	578	337	-	-68
Shenyang Gaodongjia Desiccation Equipment Co., Ltd	Desiccation equipment	US\$778,500	70	289	260	-	-150
Northeast Electric (Beijing) Co., Ltd	Sales of machinery equipment	200	100	15,911	-664	12,602	-476
Northeast Electric (Hong Kong) Limited	Investment holding and general trading	US\$20,000,000	100	31,853	15,813	-	-776
Great Talent Technology Limited	Investment holding and general trading	US\$1	100	8,935	-5	-	-0.6
Shenyang Kaiyi Electric Co., Ltd	High-voltage equipment	100	100	13,304	-25	-	-66
Shenyang Zhaolida Machinery Equipment Co., Ltd	Machinery equipment	10	100	-	-	-	-0.9
New Northeast Electric Group Ultra High-Voltage Equipment Co., Ltd	Manufacture of switches controlling equipment	US\$168,000,000	17.09	342,815	114,920	64,541	-3,692
New Northeast Electric (Shenyang) High-Voltage Isolators Switchgears Limited	Manufacture of isolator switchgears	US\$21,500,000	25.6	27,754	17,291	1,136	-557
Great Power Technology Limited	Investment holding and general trading	US\$12,626	20.8	20,055	20,049	-	-4

3. Major suppliers and customers

Total amount of purchase from the Company's top five suppliers	RMB169,875,000	Percentage to the Company's total amount of purchase	61.96%
Total amount of sales to the top five customers	RMB213,556,000	Percentage to the Company's total amount of sales	61.32%

(III) INVESTMENTS DURING THE REPORTING PERIOD

1. 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.

2. 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(ii) 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	2010	2009	Increase/decrease (±%)
1. Total assets	844,337,174.25	836,557,537.85	0.93
2. Shareholders' equity (excluding minority interests)	314,979,605.97	318,542,326.44	-1.12
3. Operating profit	-4,923,564.07	6,839,846.88	-
4. Net Profit	1,029,209.54	7,263,664.63	-85.83
5. Net increase in cash and cash equivalents	11,703,168.30	11,444,003.84	2.26

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			
Item	As at 31 December 2010	As at 31 December 2009	Change(±%)
Prepayments	25,262,242.01	2,625,985.65	862.01
Dividend receivables	8,146,517.15	15,756,938.72	-48.30
Inventories	97,011,521.94	68,983,251.92	40.63
Amortization of long-term deferred expenses	7,155,788.26	10,754,099.06	-33.46

Notes:

- (1) The ending balance of prepayments has risen by RMB22,636,256.36, an increase of 862.01% compared with the beginning balance. The main reason is that the advance payment accounts has increased;
- (2) The ending balance of dividend receivables has reduced by RMB7,610,421.57, a drop of 48.30% compared with the beginning balance. The main reason is that the dividend paid by New Northeast Electric Group Ultra High-Voltage Equipment Co., Ltd has been received;
- (3) The ending balance of inventories has risen by RMB28,028,270.02, an increase of 40.63% compared with the beginning balance. The main reason is that the inventory of Beijing subsidiary has increased;
- (4) The ending balance of amortization of long-term deferred expenses has reduced by RMB3,598,310.80, a drop of 33.46% compared with the beginning balance. The main reason is that the rent of houses, land and equipment has been amortised;

4. Analysis of liabilities with greater changes

Unit: RMB			
Item	As at 31 December 2010	As at 31 December 2009	Change (±%)
Short-term borrowings	34,000,000.00	25,350,000.00	34.12
Advances received	69,358,377.40	18,963,505.02	265.75
Salaries payable to employees	4,361,867.55	1,345,152.97	224.27
Taxes payable	2,349,683.53	13,848,713.11	-83.03
Other non-current liabilities	60,714,159.27	92,920,097.04	-34.66

Notes:

- (1) The ending balance of short-term borrowings has risen by RMB8,650,000, an increase of 34.12% compared with the beginning balance. The main reason is that the loan from banks has increased;
- (2) The ending balance of advances receivable has risen by RMB50,394,872.38, an increase of 265.75% compared with the beginning balance. The main reason is that the consideration in advance has increased;

- (3) The ending balance of salaries due employees has risen by RMB3,016,714.58, an increase of 224.27% compared with the beginning balance. The main reason is that the social security fee has not been paid;
- (4) The ending balance of taxes payable has reduced by RMB11,499,029.58, a drop of 83.03% compared with the beginning balance. The main reason is that the non-payment of value added tax and enterprise income tax has reduced;
- (5) The ending balance of other non-current liabilities has reduced by RMB32,205,937.77, a drop of 34.66% compared with the beginning balance. The main reason is that current accounts with Ultra High-Voltage have reduced.

5. Analysis of profit and loss with greater changes

Unit: RMB

Item	2010	2009	Change (±%)
Business tax and surcharges	464,714.15	98,501.08	371.79
Sales expense	23,785,964.90	42,639,130.79	-44.22
Financial expense	-5,874,723.51	1,516,583.34	-487.37
Loss for assets impairment	7,886,283.28	25,449,507.02	-69.01
Non-operating income	10,578,996.29	265,694.97	3,881.63
Non-operating expenses	506,692.64	259,474.13	95.28
Income tax expense	4,119,530.04	-417,596.91	1,086.48

Notes:

- (1) The ending balance of business tax and surcharges has risen by RMB366,213.07, an increase of 371.79% compared with the beginning balance. The main reason is that the tax on city maintenance and construction and education surtax has increased;
- (2) The ending balance of sales expense has reduced by RMB18,853,165.89, a drop of 44.22% compared with the beginning balance. The main reason is that income and sales expense has reduced accordingly;
- (3) The ending balance of financial expense has reduced by RMB7,391,306.85, a drop of 487.37% compared with the beginning balance. The main reason is that the measurement of non-current liabilities at fair value has generated profits and losses;
- (4) The ending balance of loss for assets impairment has reduced by RMB17,563,223.74, a drop of 69.01% compared with the beginning balance. The main reason is that provisions for bad debt in this period have reduced;
- (5) The ending balance of non-operating income has risen by RMB10,313,301.32, an increase of 3881.63% compared with the beginning balance. The main reason is that profits from debt restructuring have been recognised;
- (6) The ending balance of non-operating expenses has risen by RMB247,218.51, an increase of 95.28% compared with the beginning balance. The main reason is that the net loss on fixed asset has been disposed of;
- (7) The ending balance of income tax expense has reduced by RMB4,537,126.95, a drop of 1086.48% compared with the beginning balance. The main reason is that the deferred income tax has reduced.

(V) PROSPECT OF THE COMPANY'S FUTURE DEVELOPMENT**1. Analysis on industry trend**

It is expected that investment in electric power industry of the State will reach RMB5,300 billion and new installation will reach approximately 500 million KW during the period of the Twelfth Five-year plan. Of them, investment in power supply will be RMB2,750 billion approximately. In 2015, installed power-generating capacity of the State will reach approximately 1.437 billion KW, representing an average growth of 8.5%; and investment in power grid will reach approximately RMB2,550 billion. The period of the Twelfth Five-year Plan is a critical phase for the development of ultra high-voltage grid of the State. According to the grid plan of the State, more than RMB500 billion will be invested by the State in construction of the backbone ultra high-voltage AC grid of "Three Vertical and Three Horizontal" and eleven ultra high-voltage DC transmission project during the period of the Twelfth Five-year Plan. The investment amount is twice as large as the "Three Gorges Project", of which investment in AC ultra high-voltage approximately accounts for two thirds.

2011 is the first year to implement the "Twelfth Five-year Plan". The State will dynamically promote transformation of the economic development mode, adjust structure and expand domestic demand, accelerate development of low carbon economy to raise the proportion of new energy and carry out the new rural power transformation. The Company will also put efforts in construction in smart power grid, improve capacity for optimizing resource allocation of the large power grid and develop ultra high-voltage grid and distribution network. The industry of the Company has promising market prospects. Meanwhile, increasingly fierce market competition will pose greater challenges to the Company.

2. Operating plan for the new fiscal year

Under the overall operating ideas and requirements of 2011, the Company will promptly address market changes, adjust product mix, strengthen technical innovation, and optimize customer segments to procure stable operations and new growth opportunities.

The main ideas in 2011 are:

Firstly, to collect information for market research and customer analysis to boost sales and improve service quality; Secondly, to intensify scientific research and development of new products; as the roll-out of the national smart grid construction, to proactively develop new products adaptable to market demand; in the meantime, to sharpen the core competitive edge of the Company by continuously increasing investment in technical renovation; Thirdly, to promote the communication, coordination and connection among sales, customers and production in order to enhance responsiveness, product quality and production capacity; Fourthly, to reduce cost and save energy through fine management; to encourage various technical breakthrough and innovation to improve process, save resources and cut costs; Fifthly, to strictly perform internal control systems, reinforce financial supervision and budget management, and tap potentials in order to improve efficiency, secure cash flow, and prevent operating risks; Sixthly, to raise the overall management standards and promote the Company to develop in a harmonious, sustainable and sound manner.

3. Risks that the Company may be faced with and their countermeasures

(1) The risk of the industry policies

The industrial development of the Company is closely connected to macro-policies (such as macro-economic policies, energy policies, and environmental policies) of the State. In particular, changes in industrial policies may make an impact on the production and operation of the Company.

Countermeasure: The Company will further enhance research and prediction on policies for the industry of the Company, power industry and related industries to grasp the development of industrial policies. Based on judgment on the trends of industrial policies, the Company will make forward-looking decisions to strengthen its standing in the industry and stable growth and prevent operating risks posted by industrial policies.

(2) Operating risk

Due to the substantial production cost proportion main raw materials accounted for, the profitability of the Company will be directly impacted in case of the raw material price markup driven by domestic inflation. Moreover, uncertainties are presented on the prices of the Company's products against fierce market competition. Being subject to the combined pressure of the upstream and downstream of the industry, the Company may confront certain risks in product cost control.

Countermeasure: Starting with raw material supply management, the Company will pay close attention to market trends and changes in related economic data to catch firsthand data and stabilize purchase costs; on the other hand, the Company will strengthen technical innovation, research and development of new products to enhance added value of products, improving their profitability.

By order of the Board

Su Weiguo

Chairman

21 March 2011

(I) DAILY WORK OF THE BOARD OF DIRECTORS

During the reporting period, the Board of Directors has convened eight meetings, details of which are as follows:

1. The 22nd meeting of the 5th session of the Board of Directors was held on 22 January 2010 to consider and approve the Amendments to the Articles of Association of the Company, the Resolution on Nominating Candidates for the Members of the Sixth Session of the Board of Directors, the Resolution on Nominating Candidates for the Members of the Sixth Session of the Supervisory Committee, the Proposal on the Annual Remuneration of the Members of the Sixth Session of the Board of Directors, and the Proposal on the Annual Remuneration of the Members of the Sixth Session of the Supervisory Committee; the first Extraordinary General Meeting of Shareholders of 2010 was held for discussion of the above five motions by way of voting at the scene and Internet votes at 3:00 p.m. on 8 March 2010.
2. The 1st meeting of the 6th session of the Board of Directors was held on 8 March 2010 to consider and approve the Resolution on Election of Chairman and Vice Chairman, the Resolution on Establishment of Special Committees of the Board, the Resolution on Appointment of General Manager, the Resolution on Appointment of Assistant to General Manager, the Resolution on the Exercising of the Functions of Secretary to the Board by the Chairman of the Board, and the Resolution on Appointment of Securities Affairs Representative.
3. The 2nd meeting of the 6th session of the Board of Directors was held on 22 March 2010 to consider and approve the 2009 Annual Report, the Proposal of 2009 Net Profit Distribution, the Resolution on Reappointment of Domestic Auditor for the Year 2010, the Resolution on Reappointment of International Auditor for the Year 2010, the Work Report of the Board of Directors for the Year 2009, the Work Report of the General Manager for the Year 2009, the Self-assessment Report of the Company's Internal Control, the Information Insider Management System, the External Information User Management System, the Responsible System for Material Errors in Annual Report Information Disclosure, and the Application for Revoking Special Treatment of the "Delisting Risk Warning" on A Shares of the Company; the above-said resolutions I to V, together with the Work Report of the Supervisory Committee, have been submitted to the 2009 Annual General Meeting of Shareholders held on 7 May 2010 for review.
4. The 3rd meeting of the 6th session of the Board of Directors was held on 23 April 2010 to consider and approve the First Quarterly Report of 2010.
5. The 4th meeting of the sixth session of the Board of Directors was held on 4 June 2010 to consider and approve the Resolution on Acceptance of Mr. Du Kai' Resignation as an Executive Director and Other Executive Positions of the Company and the Resolution on the Proposal of Appointment of Mr. Wang Yi as a Candidate of the Executive Director of the Company; the above two resolutions have been submitted to the second Extraordinary General Meeting of shareholders held on 22 July 2010 for review.

6. The 5th meeting of the 6th session of the Board of Directors was held on 17 August 2010 to consider and approve the Interim Report for the Period of Six Months Ended 30 June 2010 and the Net Profit Distribution Plan for the Period of Six Months Ended 30 June 2010.
7. The 6th meeting of the 6th session of the Board of Directors was held on 25 October 2010 to consider and approve the Third Quarterly Report of 2010.
8. The 7th meeting of the 6th session of the Board of Directors was held on 15 November 2010 to consider and approve the Resolution on the Transfer of 25.6% Equity Interest in New Northeast Electric (Shenyang) High-Voltage Isolators Switchgears Limited; the third Extraordinary General Meeting of Shareholders of 2010 was held on 31 December 2010 for discussion of the equity transfer.

(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(vi) of this Annual Report.

(IV) FINANCIAL SUMMARIES

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

The material difference between PRC Accounting Rules and Regulations and the Accounting Principles Generally Accepted in Hong Kong is detailed in section 2(iv) 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. 34 “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. 34 did not impose significant impact on the Company’s financial status.

(IX) SHARE CAPITAL

Changes of share capital are detailed in section 3(i) 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 of “Taxation” 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 of the Company proposed to distribute profit ended on 31 December 2010 as follows:

During the reporting period, the Company recorded net profit distributable to shareholders of the listed company of RMB1,683,987.53, which was used for covering the deficit of the previous year; and the accrued profit distributable to shareholders at the end of the year was RMB-1,527,280,108.35. 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.

(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) Analysis of the Company's financial status under the Hong Kong Financial Reporting Standards

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

At the end of the year, the balance of monetary fund was RMB74,790,000.

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

The funds are mainly satisfied by: firstly, the cash flow from the Company's inflow of operating cash; secondly, the borrowings from financial institutions.

At the end of the year 2010, the Company had bank loans amounting to RMB34,000,000, representing 4.03% of the total assets. These bank loans bear fixed and floating interest rate.

The debt equity ratio of the Company was 10.73% (debt equity ratio= total bank loan/total share capital reserve * 100%).

At the end of the year 2010, the Company had fixed asset and land with net book value of RMB24,203,000 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 external guarantees of Listed Companies” (Zheng Jian Fa [2003] No.56), “Notice on Regulation of external 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 reporting 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, external 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

As at the end of the reporting period, the actual bank occupation of external guarantee amount provided by the Company totaled RMB100,070,000, so the real amount that the Company should assume responsibility for guarantee was RMB100,070,000. The total external guarantee amount represented 31.17% of the audited net assets of the Company for 2010. In addition, the guarantee of the Company for its holding subsidiaries and the guarantees between its subsidiaries totaled RMB17,000,000.

During the reporting period, the Company cautiously treated and handled the external guarantees matters and made complete information disclosure in accordance with relevant provisions of supervision departments, thus making full disclosure and effective control of external 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 external 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 Hong Kong TING HO KWAN & CHAN Certified Public Accountants (Practising) were appointed as the auditors for the Company's 2010 financial statements. According to their behaviors in auditing the Company's 2010 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 2011 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 has been operating legally and properly with respect to the financial conditions, transactions of 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.

6. Independent opinion on current profit appropriation proposal

During the reporting period, the Company recorded net profit distributable to shareholders of the listed company of RMB1,683,987.53, which was used for covering the deficit of the previous year; and the accrued profit distributable to shareholders at the end of the year was RMB-1,527,280,108.35. 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 2010 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.

Independent non-executive directors: Wu Qicheng, Xiang Yongchun and Wang Yunxiao

21 March 2011

(I) MEETING OF THE SUPERVISORY COMMITTEE

During the reporting period, the Supervisory Committee has convened six meetings, details of which are as follows:

1. The twentieth meeting of the fifth session of the Supervisory Committee was held on 22 January 2010, to consider and approve the Resolution on Nomination of Candidates for the Members of the Sixth Session of the Supervisory Committee and the Proposal on the Annual Remuneration of the Members of the Sixth Session of the Supervisory Committee.
2. The first meeting of the sixth session of the Supervisory Committee was held on 8 March 2010 to consider and approve the election of Mr. Dong Liansheng as chairman of the Supervisory Committee.
3. The second meeting of the sixth session of the Supervisory Committee was held on 22 March 2010 to consider and approve the 2009 Work Report of the Supervisory Committee, 2009 Annual Report, the Proposal of 2009 Net Profit Distribution, and the Report on Self-assessment of Internal Control.
4. The third meeting of the sixth session of the Supervisory Committee was held on 23 April 2010 to consider and approve the First Quarterly Report of 2010.
5. The fourth meeting of the sixth session of the Supervisory Committee was held on 17 August 2010 to consider and approve the 2010 Interim Report, 2010 Interim Work Report of the Supervisory Committee, and other resolutions of the Board of Directors.
6. The fifth meeting of the sixth session of the Supervisory Committee was held on 25 October 2010 to consider and approve the Third Quarterly Report of 2010.

(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 2010 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 in all material aspects, which truly reflects the Company's financial status and operating results in 2010.

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 2010 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 Exchange, 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 Exchange 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

21 March 2011

(I) MATERIAL LITIGATION AND ARBITRATION

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 RMB351,750,000 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. According to the civil written order (2009) Liao Min Er Chu Zi No.12) of the first instance judgement issued by Liaoning Higher Court, Shenyang High-voltage shall repay such liabilities including the principal of RMB351,750,000 and its interest of Great Wall, and reject Great Wall’s claim against the Company. Great Wall filed an appeal to the Supreme People’s Court for the first instance judgement made by Liaoning Higher Court.

Please refer to the announcements dated 12 August 2009 and 16 February 2011 for details.

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

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

Capital Increase in Fuxin Enclosed Busbars Company Limited

Upon the review and approval of the Board of Directors on 1 July 2010, Shenyang Kaiyi Electric Co., Ltd, a wholly-owned subsidiary of the Company, contributed a large sum (US\$5,700,000) in cash to purchase the whole newly increased capital of Fuxin Enclosed Busbars Company Limited, another wholly-owned subsidiary of the Company. On 10 August 2010, the industrial and commercial change registration was done.

(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:

During the reporting period, the Company had no new guarantees.

As at the end of the reporting period, the actual bank occupation of external guarantee amount provided by the Company totaled RMB100,070,000, so the real amount that the Company should assume responsibility for guarantee was RMB100,070,000. The total external guarantee amount represented 31.17% of the audited net assets of the Company for 2010. In addition, the guarantee of the Company for its holding subsidiaries and the guarantees between its subsidiaries totalled RMB17,000,000.

(1) External guarantees of the Company

By the end of 2010, the actual occupation of external guarantee amount was RMB100,070,000, including RMB23,020,000 for New Northeast Electric Group Ultra High-Voltage Equipment Co., Ltd; RMB52,900,000 for Jinzhou Power Capacitors Co., Ltd; RMB24,150,000 for Shenyang Kingdom Hotel Co., Ltd.

(2) Guarantees for the holding subsidiaries of the Company

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

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

As at 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 RMB52,900,000, accounting for 16.79% of the audited net assets of the Company for 2010, which was translated into liabilities in total in 2007.

(4) The Company hasn't any other guarantees for its shareholder, effective controller and other parties concerned.**(VIII) IMPLEMENTATION OF COMMITMENTS OF THE COMPANY, SHAREHOLDERS AND ACTUAL CONTROLLERS**

New Northeast Electric Investments 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 the stock exchange will not be less than RMB5 per share.

During the reporting period, New Northeast Electric Investment Co., Ltd has strictly fulfilled the above commitment.

In addition, the Company has held 17.09 % equity of New Northeast Electric Group Ultra High-Voltage Equipment Co., Limited, and promised not to recover the Company's debt of RMB39,964,097.04 within two years.

(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 2010

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.hkexnews.hk> (column on the latest information of listed company) and www.nee.hk (the Company's website) for details. The major information is disclosed as follows:

Publishing Date	Announcement Matters
2010-01-22	Announcement on Resolutions of the Board of Directors
2010-03-08	Announcement on the Voting Results of the First EGM for 2010
2010-03-15	Announcement on Progress of Litigation
2010-04-12	Annual Report for 2009
2010-04-26	First Quarterly Report of 2010
2010-05-07	Announcement on the Voting Results of the Annual General Meeting of Shareholders
2010-06-04	Announcement on the Resignation of Executive Director
2010-07-22	Announcement on the Voting Results of the Second EGM for 2010
2010-09-02	Interim Report 2010
2010-10-25	Third Quarterly Report of 2010
2010-11-16	Disclosable Transaction
2010-12-31	Announcement on the Voting Results of the Third EGM for 2010

(XV) SUBSEQUENT EVENTS

Transfer of 25.6% equity interest of New Northeast Electric (Shenyang) High-Voltage Isolators Switchgears Limited

Upon the consideration and approval of the third EGM of 2010 held on 31 December 2010, 25.6% equity interest in New Northeast Electric (Shenyang) High-Voltage Isolators Switchgears Limited held by Northeast Electric (Hong Kong) Limited, a wholly-owned subsidiary of the Company, was transferred to Sunyork International Limited (both such company and its ultimate beneficial owner are the independent third parties of the Company and its connected person) at the consideration of RMB52,800,000, and the change of industrial and commercial registration procedures was completed on 17 February 2011.



Notice is hereby given by Northeast Electric Development Company Limited (“the Company”) that the Annual General Meeting of Shareholders for 2010 (the “AGM”) will be held in the conference room of the Company, No.2 Xingshun Street, Tiexi District, Shenyang, the PRC, at 9:00 a.m., on 6 May 2011 for the following purposes:

(I) To approve the 2010 Annual Report;

(II) To approve the Proposal of 2010 Net Profit Distribution:

During the reporting period, the Company recorded net profit distributable to shareholders of the listed company of RMB1,683,987.53, which was used for covering the deficit of the previous year; and the accrued profit distributable to shareholders at the end of the year was RMB-1,527,280,108.35. Therefore the Board resolved not to make any profit distribution and not to transfer any capital reserve into share capital during the reporting period.

(III) To approve the Resolution in Relation to Reappointment of the Company’s Domestic Auditor for the year 2011:

It was proposed to reappoint Shenzhen Pengcheng Certified Public Accountants Co., Ltd as the domestic auditor of the Company for the year of 2011 for a term of one year, and authorized the Board to determine the remuneration.

(IV) To approve the Resolution in Relation to Reappointment of the Company’s International Auditor for the year 2011:

It was proposed to reappoint TING HO KWAN&CHAN Certified Public Accountants (Practising) as the international auditor of the Company for the year of 2011 for a term of one year, and authorized the Board to determine the remuneration.

(V) To approve the Work Report of the Board of Directors for the year 2010;

(VI) To approve the Work Report of the Supervisory Committee for the year 2010;

(VII) To approve the Resolution on Appointment of Mr. Liu Bing as the Executive Director of the Company.

According to the nomination of the Nomination Committee of the Board, Mr. Liu Bing was appointed as the candidate for the Executive Director and his term of office was the same as the Board until 7 March 2013.

(VIII) To approve the Proposal on Appointment of Mr. Liu Tongyan as the Executive Director of the Company

According to the nomination of the Nomination Committee of the Board, Mr. Liu Tongyan was appointed as a candidate for the Executive Director and his term of office was the same as the Board until 7 March 2013.

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 29 April 2011 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 6 April 2011 to 6 May 2011 (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 4 April 2011 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 16:30 p.m. on 4 April 2011.*
- 3. Shareholders who intend to attend the meeting shall lodge the reply slips for attending the meeting to the Company before 16 April 2011.*
- 4. Any shareholder entitled to attend and vote at the meeting is entitled to appoint one or more proxies (whether or not shareholder of the Company) to attend and vote at the meeting on his/her behalf.*
- 5. In order to be valid, the proxy forms of shareholders and other notarially certified documents (if any) should be deposited at the Company not less than 24 hours before the time for holding the meeting.*
- 6. The meeting is expected to last for half a day. Shareholders or their proxies attending the meeting shall bear their own travel and accommodation expenses.*

By order of the Board

Su Weiguo

Chairman



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 65 to 127, which comprise the consolidated balance sheet as at 31 December 2010, 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 information.

Directors' responsibility for the consolidated financial statements

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view 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, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. This report is made 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 requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit 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 of consolidated financial statements that give a true and fair view 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 the 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 2010 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, 21 March 2011

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2010 (Prepared in accordance with Hong Kong Financial Reporting Standards)

	Notes	2010	2009
		<i>Rmb '000</i>	<i>Rmb '000</i>
Turnover	5	348,449	423,743
Cost of sales		(274,522)	(300,958)
Gross profit		<u>73,927</u>	<u>122,785</u>
Other income and gain, net	7	11,511	2,033
Distribution costs		(23,786)	(42,639)
Administrative expenses		(52,883)	(72,091)
Operating profit		<u>8,769</u>	<u>10,088</u>
Finance costs	8	(2,143)	(1,509)
Share of results of associates		(1,432)	(1,676)
Profit before taxation	9	5,194	6,903
Taxation	10	(4,120)	417
Profit for the year		<u>1,074</u>	<u>7,320</u>
Attributable to:			
Equity holders of the Company		1,729	7,727
Non-controlling interests		(655)	(407)
		<u>1,074</u>	<u>7,320</u>
Earnings per share (in Rmb:Yuan)			
Basic	12	<u>0.002</u>	<u>0.01</u>
Diluted		<u>N/A</u>	<u>N/A</u>

The notes on pages 72 to 127 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2010 (Prepared in accordance with Hong Kong Financial Reporting Standards)

	2010	2009
	<i>Rmb'000</i>	<i>Rmb'000</i>
Profit for the year	1,074	7,320
Other comprehensive expense:		
Exchange differences arising from translation of foreign operations	(5,285)	(265)
Total comprehensive (expense)/income for the year	<u>(4,211)</u>	<u>7,055</u>
Attributable to:		
Equity holders of the Company	(3,556)	7,462
Non-controlling interests	(655)	(407)
	<u>(4,211)</u>	<u>7,055</u>

The notes on pages 72 to 127 are an integral part of these consolidated financial statements.

CONSOLIDATED BALANCE SHEET

As at 31 December 2010 (Prepared in accordance with Hong Kong Financial Reporting Standards)

	Notes	2010 <i>Rmb '000</i>	2009 <i>Rmb '000</i>
NON-CURRENT ASSETS			
Property, plant and equipment	13	75,456	81,126
Lease prepayments	14	4,742	4,878
Interests in associates	16	55,226	87,936
Available-for-sale investment	17	213,538	215,942
Trade and other receivables	20	3,999	6,831
Deferred tax assets	33	12,730	11,911
		<hr/> 365,691	<hr/> 408,624
CURRENT ASSETS			
Inventories	19	97,011	68,983
Trade and other receivables	20	278,463	293,690
Non-current assets held-for-sale	23	28,382	-
Pledged bank deposits	24	20,906	23,073
Cash and cash equivalents	25	53,884	42,181
		<hr/> 478,646	<hr/> 427,927
CURRENT LIABILITIES			
Amounts due to associates	21	9,670	9,594
Amount due to an investee company	22	9,252	9,252
Trade and other payables	26	317,355	249,490
Bank borrowings	27	34,000	25,350
Provision for loss on litigation	28	9,252	9,252
Obligations under financial guarantee contracts	29	84,722	115,716
Government grants	32	468	587
Current tax payable		2,127	3,402
		<hr/> 466,846	<hr/> 422,643

CONSOLIDATED BALANCE SHEET (Continued)

As at 31 December 2010 (Prepared in accordance with Hong Kong Financial Reporting Standards)

	Notes	2010 Rmb'000	2009 Rmb'000
NET CURRENT ASSETS		11,800	5,284
TOTAL ASSETS LESS CURRENT LIABILITIES		377,491	413,908
NON-CURRENT LIABILITIES			
Amount due to an investee company	22	39,964	92,920
Obligations under financial guarantee contracts	29	20,750	-
		60,714	92,920
NET ASSETS		316,777	320,988
CAPITAL AND RESERVES			
Share capital	30	873,370	873,370
Reserves	31	(558,389)	(554,833)
Equity attributable to equity holders of the Company		314,981	318,537
Non-controlling interests		1,796	2,451
TOTAL EQUITY		316,777	320,988

The consolidated financial statements were approved and authorised for issue by the Board of Directors on 21 March 2011 and are signed on its behalf by:


Chairman: Su Weiguo

Director: Bi Jianzhong

The notes on pages 72 to 127 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2010 (Prepared in accordance with Hong Kong Financial Reporting Standards)

Attributable to equity holders of the Company		Discretionary				Statutory		Translation		Accumulated		Non-	
Share	Capital	Capital	surplus	surplus	reserve	reserve	reserve	reserve	losses	Total	controlling	Total	Total equity
capital	reserve	contribution	reserve	reserve	reserve	reserve	reserve	reserve	losses	Rmb '000	interests	Rmb '000	Rmb '000
873,370	511,060	186,419	81,631	32,699	(17,657)	(1,356,447)	311,075	2,858	-	313,933	-	-	-
<i>(Note 30)</i>	<i>(Note 31)</i>												
At 1 January 2009	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 expense for the year	-	-	-	-	-	-	(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
and 1 January 2010	873,370	511,060	186,419	81,631	32,699	(17,922)	(1,348,720)	318,537	2,451	-	-	-	320,988
Profit for the year	-	-	-	-	-	1,729	-	1,729	-	(655)	-	-	1,074
Other comprehensive expense for the year	-	-	-	-	-	-	(5,285)	-	-	-	-	-	(5,285)
At 31 December 2010	873,370	511,060	186,419	81,631	32,699	(23,207)	(1,346,991)	314,981	1,796	-	-	-	316,777

The notes on pages 72 to 127 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2010 (Prepared in accordance with Hong Kong Financial Reporting Standards)

	Notes	2010 <i>Rmb'000</i>	2009 <i>Rmb'000</i>
OPERATING ACTIVITIES			
Profit before taxation		5,194	6,903
Adjustments for:			
Interest income	7	(568)	(156)
Reversal of allowance for impairment of trade and other receivables	7	(379)	(1,648)
Reversal of loss on financial guarantee obligations	7	(10,244)	-
Depreciation of property, plant and equipment	9	7,182	7,140
Amortisation of lease prepayments	9	136	135
Loss on disposal of property, plant and equipment	9	217	35
Property, plant and equipment written off	9	102	25
Allowance for impairment of trade and other receivables	9	8,247	27,097
Interest expense	8	2,143	1,509
Share of results of associates	16	1,432	1,676
		<hr/>	<hr/>
Operating profit before changes in working capital		13,462	42,716
Increase in inventories		(28,028)	(1,444)
Decrease in trade and other receivables		10,191	11,695
Decrease in non-current assets held-for-sale		-	1,300
Increase/(decrease) in trade and other payables		15,692	(38,353)
(Decrease)/increase in government grants		(119)	587
Increase in amounts due to associates		100	1,500
Increase in amount due to an investee company		-	7,000
		<hr/>	<hr/>
Cash generated from operations		11,298	25,001
Income tax paid		(6,214)	(3,873)
Interest paid		(2,143)	(1,509)
		<hr/>	<hr/>
NET CASH GENERATED FROM OPERATING ACTIVITIES		2,941	19,619
		<hr/>	<hr/>

CONSOLIDATED STATEMENT OF CASH FLOWS (Continued)

For the year ended 31 December 2010 (Prepared in accordance with Hong Kong Financial Reporting Standards)

	Note	2010	2009
		<i>Rmb '000</i>	<i>Rmb '000</i>
INVESTING ACTIVITIES			
Purchase of property, plant and equipment		(2,729)	(5,346)
Proceeds from disposal of property, plant and equipment		104	100
Decrease/(increase) in pledged bank deposits		2,167	(3,361)
Interest received		568	156
NET CASH GENERATED FROM/(USED IN) INVESTING ACTIVITIES		<u>110</u>	<u>(8,451)</u>
FINANCING ACTIVITIES			
New bank borrowings raised		34,000	40,350
Repayments of bank borrowings		(25,350)	(37,450)
Decrease in amount due to an associate		-	(32,176)
Increase in amount due to an investee company		-	30,093
NET CASH GENERATED FROM FINANCING ACTIVITIES		<u>8,650</u>	<u>817</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS		11,701	11,985
CASH AND CASH EQUIVALENTS AT 1 JANUARY		42,181	30,216
Effect of changes in foreign exchange rate		2	(20)
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	25	<u><u>53,884</u></u>	<u><u>42,181</u></u>

The notes on pages 72 to 127 are an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010 (Prepared in accordance with Hong Kong Financial Reporting Standards)

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 15. 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.

(b) Basis of preparation of the consolidated financial statements

The consolidated financial statements for the year ended 31st December, 2010 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 historical cost except that non-current assets held for sale are stated at the lower of carrying amount and fair value less costs to sell (see note 2(v)).

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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.

(c) Subsidiaries and non-controlling 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 from 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.

Non-controlling interests (previously known as “minority interests”) represent the equity in a subsidiary not attributable directly or indirectly to 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. For each business combination, the Group can elect to measure any non-controlling interests either at fair value or at their proportionate share of the subsidiary’s net identifiable assets.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**(c) Subsidiaries and non-controlling interests (Continued)**

Non-controlling interests are presented in the consolidated balance sheet within equity, separately from equity attributable to the equity shareholders of the Company. Non-controlling 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 non-controlling interests and the equity shareholders of the Company.

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see note 2(h)) or, when appropriate, the cost on initial recognition of an investment in an associate (see note 2(d)).

(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 associate's net assets and any impairment loss relating to the investment (see note 2(i)). Any acquisition-date excess over cost, 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Associates (Continued)

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.

(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 investment. 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 subsequently carried at amortised cost using the effective interest method. 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 investments

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 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. Available-for-sale investments are subsequently carried at fair value. Gain or loss on fair value changes of available-for-sale investment is recognised in other comprehensive income and accumulated separately in equity in the fair value reserve. 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. When the available-for-sale investment is derecognised, the cumulative gain or loss is reclassified from equity to profit or loss.

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

(1) Impairment of investments in equity securities and other receivables

Investments in equity securities (other than investments in subsidiaries) 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)(2). 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)(2).
- 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)****(1) 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 investment, 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 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.

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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) Impairment of assets (Continued)

(2) 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 (except for those classified as held for sale or included in a disposal group that is classified as held for sale) (see note 2(v)); 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.

- Calculation of recoverable amount

The recoverable amount of an asset is the greater of its fair value less costs to sell 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) Impairment of assets (Continued)

(2) Impairment of other assets (Continued)

- 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.

(j) Inventories

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

Cost is calculated using the weighted average cost 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 thereafter stated at amortised cost less 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)).

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(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.

(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 Group has an unconditional right to defer settlement of the liabilities for at least 12 months after balance sheet date.

(o) Employee benefits

Employee benefits are all forms of considerations given and other relevant expenditures incurred in exchange for services rendered by employees. Except for termination benefits, employee benefits are recognised as a liability in the period in which the associated services are rendered by employees, with a corresponding increase in cost of relevant assets or expenses in the current period.

(i) Pension benefits

Pursuant to the relevant laws and regulations of the PRC, the Group has joined a basic pension insurance for the employees arranged by local Labour and Social Security Bureaus. The Group makes contributions to the pension insurance at the applicable rates based on the amounts stipulated by the government organisation. The contributions are recognised as cost of assets or charged to profit or loss on an accrual basis. When employees retire, the local Labour and Social Security Bureaus are responsible for the payment of the basic pension benefits to the retired employees. The Group does not have any other obligations in this respect.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**(o) Employee benefits (Continued)****(ii) Housing fund and other social insurance**

Besides the pension benefits, pursuant to the relevant laws and regulations of the PRC, the Group has joined defined social security contributions for employees, such as a housing fund, basic medical insurance, unemployment insurance, injury insurance and maternity insurance. The Group makes contributions to the housing fund and other social insurances mentioned above at the applicable rates based on the employees' salaries. The contributions are recognised as cost of assets or charged to profit or loss on an accrual basis.

(iii) Termination benefits

When the Group terminates the employment relationship with employees before the employment contracts have expired, or provide compensation as an offer to encourage employees to accept voluntary redundancy, a provision for the termination benefits provided, is recognised in profit or loss when both of the following conditions have been satisfied:

- The Group has a formal plan for the termination of employment or has made an offer to employees for voluntary redundancy, which will be implemented shortly;
- The Group is not allowed to withdraw from termination plan or redundancy offer unilaterally.

(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 relate 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 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(p) Income tax (Continued)

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.

(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.

(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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(r) Revenue recognition (Continued)

(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.

(ii) Transactions and balances

Foreign currency transactions during the year are translated at the foreign exchange rates 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 ruling 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 an operation outside the PRC, the cumulative amount of the exchange difference relating to that foreign operation is reclassified from equity to profit or loss when the profit or loss on disposal is recognised.

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

(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.

When the Group is committed to a sale plan involving loss of control of a subsidiary or loss of significant influence over an associate, all the assets and liabilities of that subsidiary or associate are classified as held for sale when the above criteria for classification as held for sale are met, regardless of whether the Group will retain a non-controlling interest in the subsidiary or associate after the sale.

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.

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 noncurrent 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.

(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 certain new and revised HKFRSs 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 3 (revised), Business combinations
- Amendments to HKAS 27, Consolidated and separate financial statements
- Amendments to HKFRS 5, Non-current assets held for sale and discontinued operations – plan to sell the controlling interest in a subsidiary
- Amendment to HKAS 39, Financial instruments: Recognition and measurement – Eligible hedged items
- Improvements to HKFRSs (2009)
- HK(IFRIC) 17, Distributions of non-cash assets to owners
- HK (Int) 5, Presentation of financial statements – Classification by the borrower of a term loan that contains a repayment on demand clause

The amendment to HKAS 39 and the issuance of HK (Int) 5 have had no material impact on the Group's consolidated financial statements as the amendment and the Interpretation's conclusions were consistent with policies already adopted by the Group. The other developments resulted in changes in accounting policy but none of these changes in policy have a material impact on the current or comparative periods, for the following reasons:

- The impact of the majority of the revisions to HKFRS 3, HKAS 27, HKFRS 5 and HK(IFRIC) 17 have not yet had a material effect on the Group's consolidated financial statements as these changes will first be effective as and when the Group enters into a relevant transaction (for example, a business combination, a disposal of a subsidiary or a non-cash distribution) and there is no requirement to restate the amounts recorded in respect of previous such transactions.
- The impact of the amendments to HKFRS 3 (in respect of recognition of acquiree's deferred tax assets) and HKAS 27 (in respect of allocation of losses to non-controlling interests (previously known as minority interests) in excess of their equity interest) have had no material impact as there is no requirement to restate amounts recorded in previous periods and no such deferred tax assets or losses arose in the current period.

3 CHANGES IN ACCOUNTING POLICIES (Continued)

Further details of these changes in accounting policy are as follows:

- As a result of the adoption of HKFRS 3 (revised 2008), any business combination acquired on or after 1 January 2010 will be recognised in accordance with the new requirements and detailed guidance contained in HKFRS 3 (revised 2008). These include the following changes in accounting policies:
 - Transaction costs that the Group incurs in connection with a business combination, such as finder's fees, legal fees, due diligence fees, and other professional and consulting fees, will be expensed as incurred, whereas previously they were accounted for as part of the cost of the business combination and therefore impacted the amount of goodwill recognised.
 - If the Group holds interests in the acquiree immediately prior to obtaining control, these interests will be treated as if disposed of and re-acquired at fair value on the date of obtaining control. Previously, the step-up approach would have been applied, whereby goodwill was computed as if accumulated at each stage of the acquisition.
 - Contingent consideration will be measured at fair value at the acquisition date. Subsequent changes in the measurement of that contingent consideration unrelated to facts and circumstances that existed at the acquisition date will be recognised in profit or loss, whereas previously these changes were recognised as an adjustment to the cost of the business combination and therefore impacted the amount of goodwill recognised.
 - If the acquiree has accumulated tax losses or other temporary deductible differences and these fail to meet the recognition criteria for deferred tax assets at the date of acquisition, then any subsequent recognition of these assets will be recognised in profit or loss, rather than as an adjustment to goodwill as was previously the policy.
 - In addition to the Group's existing policy of measuring the non-controlling interests (previously known as the "minority interests") in the acquiree at the non-controlling interest's proportionate share of the acquiree's net identifiable assets, in future the Group may elect, on a transaction by transaction basis, to measure the non-controlling interest at fair value.

In accordance with the transitional provisions in HKFRS 3 (revised 2008), these new accounting policies will be applied prospectively to any business combinations in the current or future periods. The new policy in respect of recognition in the movement of deferred tax assets will also be applied prospectively to accumulated tax losses and other temporary deductible differences acquired in previous business combinations. No adjustments have been made to the carrying values of assets and liabilities that arose from business combinations whose acquisition dates preceded the application of this revised standard.

3 CHANGES IN ACCOUNTING POLICIES (Continued)

- As a result of the adoption of HKAS 27 (amended 2008), the following changes in policies will be applied as from 1 January 2010:
 - If the Group acquires an additional interest in a non-wholly owned subsidiary, the transaction will be accounted for as a transaction with equity shareholders (the non-controlling interests) in their capacity as owners and therefore no goodwill will be recognised as a result of such transactions. Similarly, if the Group disposes of part of its interest in a subsidiary but still retains control, this transaction will also be accounted for as a transaction with equity shareholders (the non-controlling interests) in their capacity as owners and therefore no profit or loss will be recognised as a result of such transactions. Previously the Group treated such transactions as step-up transactions and partial disposals, respectively.
 - If the Group loses control of a subsidiary, the transaction will be accounted for as a disposal of the entire interest in that subsidiary, with any remaining interest retained by the Group being recognised at fair value as if reacquired. In addition, as a result of the adoption of the amendment to HKFRS 5, if at the balance sheet date, the Group has the intention to dispose of a controlling interest in a subsidiary, the entire interest in that subsidiary will be classified as held for sale (assuming that the held for sale criteria in HKFRS 5 are met) irrespective of the extent to which the Group will retain an interest. Previously such transactions were treated as partial disposals.

In accordance with the transitional provisions in HKAS 27, these new accounting policies will be applied prospectively to transactions in current or future periods and therefore previous periods have not been restated.

- In order to be consistent with the above amendments to HKFRS 3 and HKAS 27, and as a result of amendments to HKAS 28, Investments in associates, and HKAS 31, Interests in joint ventures, the following policies will be applied as from 1 January 2010:
 - If the Group holds interests in the acquiree immediately prior to obtaining significant influence or joint control, these interests will be treated as if disposed of and reacquired at fair value on the date of obtaining significant influence or joint control. Previously, the step-up approach would have been applied, whereby goodwill was computed as if accumulated at each stage of the acquisition.
 - If the Group loses significant influence or joint control, the transaction will be accounted for as a disposal of the entire interest in that investee, with any remaining interest being recognised at fair value as if reacquired. Previously such transactions were treated as partial disposals.

Consistent with the transitional provisions in HKFRS 3 and HKAS 27, these new accounting policies will be applied prospectively to transactions in current or future periods and therefore previous periods have not been restated.

3 CHANGES IN ACCOUNTING POLICIES (Continued)

Other changes in accounting policies which are relevant to the Group's financial statements are as follows:

- As a result of the amendments to HKAS 27, as from 1 January 2010 any losses incurred by a non-wholly owned subsidiary will be allocated between the controlling and non-controlling interests in proportion to their interests in that entity, even if this results in a deficit balance within consolidated equity being attributed to the non-controlling interests. Previously, if the allocation of losses to the non-controlling interests would have resulted in a deficit balance, the losses were only allocated to the non-controlling interests if the non-controlling interests were under a binding obligation to make good the losses. In accordance with the transitional provisions in HKAS 27, this new accounting policy is being applied prospectively and therefore 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 40).

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The Group's management makes assumptions, estimates and judgements in the process of applying the Group's accounting policies that affect the assets, liabilities, income and expenses in the consolidated financial statements prepared in accordance with HKFRS. The assumptions, estimates and judgements are based on historical experience and other factors that are believed to be reasonable under the circumstances. While the management reviews their judgements, estimates and assumptions continuously, the actual results will seldom equal to the estimates.

Key assumption and other key sources of estimation uncertainty

Certain key assumptions and risk factors in respect of the financial risk management are set out in note 39. Other key sources of estimation uncertainty that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are set out as follows:

(a) Estimate of fair value of unlisted securities

Unlisted securities included in available-for-sale investment are stated at cost at the balance sheet date as the Group determines the fair value of such assets closely approximates to the cost.

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

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.

(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) Income tax and deferred tax

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.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

(e) Obligations under financial guarantee contracts

Based on the court ruling and legal advice obtained, an aggregate amount of Rmb105,472,000 was accounted for obligations under financial guarantee contracts up to 31 December 2010. Negotiations with certain creditors are still in progress and the final outcome, it may result in adjustment to the amount of financial guarantee contracts being accounted for.

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:

	2010	2009
	<i>Rmb'000</i>	<i>Rmb'000</i>
Sales of transmission machinery	348,449	423,743

6 SEGMENT 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 2010 (Prepared in accordance with Hong Kong Financial Reporting Standards)

7 OTHER INCOME AND GAIN, NET

	2010	2009
	<i>Rmb'000</i>	<i>Rmb'000</i>
Other income		
Interest income on bank deposits	568	156
Government grant income (note 32)	119	113
Sales of wastage	35	60
Reversal of allowance for impairment of trade and other receivables	379	1,648
Reversal of loss on financial guarantee obligations (note 29)	10,244	-
Others	110	56
	<u>11,455</u>	<u>2,033</u>
Gain, net		
Exchange gain	56	-
	<u>11,511</u>	<u>2,033</u>

8 FINANCE COSTS

	2010	2009
	<i>Rmb'000</i>	<i>Rmb'000</i>
Interest on bank borrowings wholly repayable within five years	<u>2,143</u>	<u>1,509</u>

9 PROFIT BEFORE TAXATION

	2010	2009
	<i>Rmb'000</i>	<i>Rmb'000</i>
Profit before taxation is arrived at after charging/(crediting):		
Staff costs:		
Directors' emoluments (note 11)	905	876
Other staff costs		
Salaries, wages and other benefits	17,388	17,265
Contributions to retirement benefit schemes	4,015	4,010
	22,308	22,151
Depreciation	7,182	7,140
Amortisation of lease prepayments	136	135
Loss on disposal of property, plant and equipment	217	35
Property, plant and equipment written off	102	25
Research and development costs	1,090	405
Auditors' remuneration	1,300	1,300
Allowance for impairment of trade and other receivables (included in administrative expenses)	8,247	27,097
Operating leases - office premises	2,916	3,287
Cost of inventories sold (note 19)	274,352	300,958
Share of associates' taxation charge/(credit)	304	(487)
	304	(487)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2010 (Prepared in accordance with Hong Kong Financial Reporting Standards)

10 TAXATION

The provision for the PRC income tax is calculated at 25% (2009: 25%) of the estimated assessable profits in accordance with the relevant income tax rules and regulations of the PRC. One (2009: Two) subsidiary located in the PRC is 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 subsidiary in the PRC commenced in 2006.

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 (2009: Nil).

	2010	2009
	<i>Rmb '000</i>	<i>Rmb '000</i>
The tax charge/(credit) comprises:		
Provision for PRC income tax for the year	4,939	6,374
Deferred tax (note 33)	(819)	(6,791)
	<u>4,120</u>	<u>(417)</u>

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

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

	2010	2009
	<i>Rmb '000</i>	<i>Rmb '000</i>
Profit before taxation	<u>5,194</u>	<u>6,903</u>
Tax at the statutory income tax rate of 25% (2009: 25%)	1,298	1,725
Tax effect of non-taxable income	(2,612)	(2)
Tax effect of non-deductible expenses	2,911	2,272
Tax effect of tax losses not recognised	2,602	1,914
Under-provision of income tax in previous years	259	-
Income tax on concessionary rate	(338)	(6,326)
Tax charge/(credit)	<u>4,120</u>	<u>(417)</u>

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 12 (2009: 11) directors were as follows:

2010	Wang Shouguan Rmb '000	Su Weiguo Rmb '000	Liu Qingmin Rmb '000	Bi Jianzhong Rmb '000	Du' Kai Rmb '000	Wong ⁵ Yi Rmb '000	Wu ¹ Qicheng Rmb '000	Xiang ¹ Yongchun Rmb '000	Liu ^{1&2} Hongguang Rmb '000	Lin ^{1&2} Wenbin Rmb '000	Liang ^{1&2} Jie Rmb '000	Wong ^{1&3} Yunxiao Rmb '000	Total Rmb '000
Fees	-	-	-	-	-	-	35	35	15	15	15	20	135
Salaries and other benefits	79	145	96	139	130	116	-	-	-	-	-	-	705
Contributions to retirement benefit schemes	-	19	13	19	5	9	-	-	-	-	-	-	65
Total	79	164	109	158	135	125	35	35	15	15	15	20	905

2009	Wang Shouguan Rmb '000	Liang Jie Rmb '000	Su Weiguo Rmb '000	Liu Hongguang Rmb '000	Liu Qingmin Rmb '000	Du Kai Rmb '000	Bi Jianzhong Rmb '000	Wu Qicheng Rmb '000	Lin Wenbin Rmb '000	Xiang Yongchun Rmb '000	Zhang Zhaozhang Rmb '000	Total Rmb '000
Fees	-	40	-	40	-	-	-	40	40	40	-	200
Salaries and other benefits	79	-	136	-	65	182	125	-	-	-	28	615
Contributions to retirement benefit schemes	-	-	17	-	12	11	17	-	-	-	4	61
Total	79	40	153	40	77	193	142	40	40	40	32	876

The amounts disclosed above include directors' fees of Rmb135,000 (2009: Rmb200,000) payable to independent non-executive directors.

During the year, no amount was paid or payable by the Group to the directors or any of the 5 highest paid individuals set out in note 11(b) as an inducement to join or upon joining the Group or as compensation for loss of office. There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

Note:

- (1) Independent non-executive directors
- (2) Resigned on 7 March 2010
- (3) Appointed on 8 March 2010
- (4) Resigned on 4 June 2010
- (5) Appointed on 22 July 2010 and resigned on 10 December 2010

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2010 (Prepared in accordance with Hong Kong Financial Reporting Standards)

11 DIRECTORS' EMOLUMENTS (Continued)

(b) Five highest-paid individuals

Of the five individuals with the highest emoluments, three (2009: three) are directors whose emoluments are disclosed in note 11(a). The aggregate of the emoluments in respect of the other two (2009: two) individuals are as follows:

	2010	2009
	<i>Rmb'000</i>	<i>Rmb'000</i>
Salaries and other benefits	343	211
Contributions to retirement benefit schemes	-	16
	<u>343</u>	<u>227</u>

The emoluments of the two (2009: two) individuals with the highest emoluments are within the following bands:

	2010	2009
	<i>Number</i>	<i>Number</i>
Nil – Rmb100,000	-	1
Rmb100,001 – Rmb150,000	1	1
Rmb150,001 – Rmb200,000	1	-
	<u>2</u>	<u>2</u>

12 EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit attributable to equity holders of the Company of Rmb1,729,000 (2009: Rmb7,727,000) and 873,370,000 (2009: 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 2010 and 31 December 2009.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2010 (Prepared in accordance with Hong Kong Financial Reporting Standards)

13 PROPERTY, PLANT AND EQUIPMENT

	Buildings	Plant, machinery and equipment	Motor vehicles and others	Construction in progress	Total
	<i>Rmb '000</i>	<i>Rmb '000</i>	<i>Rmb '000</i>	<i>Rmb '000</i>	<i>Rmb '000</i>
Cost					
At 1 January 2009	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
Additions	80	711	1,493	445	2,729
Disposals and written off	-	(1,014)	(1,600)	-	(2,614)
Exchange realignment	-	(1)	(23)	-	(24)
At 31 December 2010	48,386	76,567	24,763	445	150,161

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2010 (Prepared in accordance with Hong Kong Financial Reporting Standards)

13 PROPERTY, PLANT AND EQUIPMENT (Continued)

	Buildings	Plant, machinery and equipment	Motor vehicles and others	Construction in progress	Total
	<i>Rmb '000</i>	<i>Rmb '000</i>	<i>Rmb '000</i>	<i>Rmb '000</i>	<i>Rmb '000</i>
Accumulated depreciation and impairment losses					
At 1 January 2009	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
Charge for the year	859	4,129	2,194	-	7,182
Written back on disposals and write-off	-	(912)	(496)	-	(1,408)
Exchange realignment	-	-	(13)	-	(13)
At 31 December 2010	32,311	31,043	11,351	-	74,705
Net book value					
At 31 December 2010	16,075	45,524	13,412	445	75,456
At 31 December 2009	16,854	49,045	15,227	-	81,126

At 31 December 2010, the Group has pledged buildings and plant, machinery and equipment with net book value of approximately Rmb5,517,000 and Rmb13,944,000 (2009: Rmb5,319,000 and Rmb15,101,000) respectively to secure general banking facilities granted to the Group.

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

14 LEASE PREPAYMENTS

	2010	2009
	<i>Rmb '000</i>	<i>Rmb '000</i>
Carrying amount at the beginning of the year	4,878	5,013
Amortisation for the year	(136)	(135)
	4,742	4,878
Carrying amount at the end of the year	4,742	4,878

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

At 31 December 2010, the Group has pledged all its land use rights to the banks for securing banking facilities granted to the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2010 (Prepared in accordance with Hong Kong Financial Reporting Standards)

15 SUBSIDIARIES

Details of the subsidiaries at 31 December 2010 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	The PRC	US\$778,500	70%	-	Manufacture of desiccation equipment
Shenyang Kaiyi Electric Co., Limited	The PRC	Rmb1,000,000	10%	90%	Manufacture of high-voltage electrical equipment, switch and capacitor
Northeast Electric (Beijing) Co., Limited	The PRC	Rmb2,000,000	-	100%	Sales of machinery and electronic equipment
Great Talent Technology Limited	British Virgin Islands	US\$1	-	100%	Investment holding and general trading
Fuxin Enclosed Busbars Co., Limited	The PRC	US\$8,500,000	-	100%	Manufacture of enclosed busbars
New Northeast Electric (Jinzhou) Power Capacitors Co., Limited	The PRC	US\$15,450,000	-	100%	Manufacture of power capacitors
Jinzhou Jinrong Electric Co., Limited	The PRC	Rmb3,000,000	-	69.75%	Manufacture of high-voltage capacitors

Note: One of the subsidiaries namely Shenyang Zhaolida Machinery Equipment Co., Limited was deregistered on 21 January 2010.

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

16 INTERESTS IN ASSOCIATES

	2010	2009
	<i>Rmb '000</i>	<i>Rmb '000</i>
Unlisted shares, at cost		
At 1 January	76,086	76,227
Exchange realignment	(2,965)	(141)
Reclassified as non-current assets held for sale (note 23)	(31,776)	-
At 31 December	41,345	76,086
Share of post-acquisition results and reserves		
At 1 January	11,850	13,526
Share of associates' losses for the year	(1,432)	(1,676)
Exchange realignment	69	-
Reclassified as non-current assets held for sale (note 23)	3,394	-
At 31 December	13,881	11,850
	55,226	87,936

Details of the associates of the Group at 31 December 2010 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 and general trading
Smart Power Technology Limited	British Virgin Islands	US\$1	20.80%	Investment holding

Note: On 15 November 2010, the Group entered into a Sales and Purchases Agreement with Sunyork International Limited for the disposal of 25.6% equity interest in one of the Group's associates namely New Northeast Electric (Shenyang) High-Voltage Isolator Switchgears Co., Limited ("New High-Voltage Isolator"). The transaction was completed after the balance sheet date and therefore the carrying amount was reclassified as non-current assets held for sale (note 23).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2010 (Prepared in accordance with Hong Kong Financial Reporting Standards)

16 INTERESTS IN ASSOCIATES (Continued)

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

	2010	2009
	<i>Rmb'000</i>	<i>Rmb'000</i>
Total assets	200,546	522,415
Total liabilities	(52)	(52,264)
Net assets	<u>200,494</u>	<u>470,151</u>
Group's share of associates' net assets	<u>55,226</u>	<u>87,936</u>
Total revenues	<u>11,388</u>	<u>90,013</u>
Loss for the year	<u>(5,602)</u>	<u>(8,570)</u>
Group's share of associates' losses for the year	<u>(1,432)</u>	<u>(1,676)</u>

17 AVAILABLE-FOR-SALE INVESTMENT

	2010	2009
	<i>Rmb'000</i>	<i>Rmb'000</i>
Unlisted equity securities, at cost		
At 1 January	215,942	216,055
Exchange realignment	(2,404)	(113)
At 31 December	<u>213,538</u>	<u>215,942</u>

The available-for-sale investment represents 17.09% equity investment in New Northeast Electric Ultra High-Voltage Equipment Co., Limited ("New Ultra High-Voltage").

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.

18 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. Details disclosed in the 2009’s annual report.

- (i) According to the latest judgement for the debt of Rmb15,900,000, a civil judgement order ((2009) Liao Shen Min Zai Zi No. 40) made on 20 July 2009 by the Liaoning Province High People’s Court objected the Company’s appeal request and maintained the original judgement.
- (ii) Regarding to the remaining debt of Rmb60,190,000, the Company applied to the PRC Supreme People’s Court for retrial during the year. On 13 December 2010, civil judgement orders ((2010) Min Shen Zi No. 1144, 1145 and 1146) made by the PRC Supreme People’s Court rejected the Company’s retrial.
- (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 still considered necessary.

19 INVENTORIES

	2010	2009
	<i>Rmb’000</i>	<i>Rmb’000</i>
Raw materials and consumables	25,389	22,062
Work in progress	8,429	11,468
Finished goods	64,574	36,881
	98,392	70,411
Less: Write-down of inventories (net)	1,381	1,428
	97,011	68,983

The analysis of the amount of inventories recognised as an expense and included in profit or loss is as follows:

	2010	2009
	<i>Rmb’000</i>	<i>Rmb’000</i>
Carrying amount of inventories sold	274,399	300,965
Write down of inventories	19	-
Reversal of write-down of inventories	(66)	(7)
	274,352	300,958

The reversal of write-down of inventories made in previous years arose due to an increase in the estimated net realisable value of certain materials as a result of the fact that the materials had been used.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2010 (Prepared in accordance with Hong Kong Financial Reporting Standards)

20 TRADE AND OTHER RECEIVABLES

	2010	2009
	<i>Rmb '000</i>	<i>Rmb '000</i>
Trade and bills receivables	251,303	275,639
Less: allowance for impairment	24,660	17,463
	<u>226,643</u>	<u>258,176</u>
Receivable from Bengang Group (note 18)	76,090	76,090
Other receivables	43,819	41,102
	<u>119,909</u>	<u>117,192</u>
Less: allowance for impairment	104,655	103,984
	<u>15,254</u>	<u>13,208</u>
Purchase deposits to suppliers	25,051	1,454
Prepayments	7,367	11,926
Dividend receivables	8,147	15,757
	<u>40,565</u>	<u>29,137</u>
Prepayments - non-current portion	(3,999)	(6,831)
Net trade and other receivables	<u><u>278,463</u></u>	<u><u>293,690</u></u>

20 TRADE AND OTHER RECEIVABLES (Continued)

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:

	2010	2009
	<i>Rmb'000</i>	<i>Rmb'000</i>
Within 1 year	194,810	209,182
1 year to 2 years	19,701	36,296
2 years to 3 years	12,261	14,334
Over 3 years	24,531	15,827
	251,303	275,639

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.

At 31 December 2010, trade and other receivables of Rmb141,566,000 (2009: Rmb148,596,000) were impaired. The amount of the allowance was Rmb129,315,000 as at 31 December 2010 (2009: Rmb121,447,000). 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:

	2010	2009
	<i>Rmb'000</i>	<i>Rmb'000</i>
Within 1 year	-	3,384
1 year to 2 years	3,479	19,389
2 years to 3 years	24,171	5,283
Over 3 years	101,665	93,391
	129,315	121,447

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2010 (Prepared in accordance with Hong Kong Financial Reporting Standards)

20 TRADE AND OTHER RECEIVABLES (Continued)

Movements in the allowance for impairment are as follows:

	2010	2009
	<i>Rmb '000</i>	<i>Rmb '000</i>
At 1 January	121,447	95,998
Impairment loss recognised	8,247	27,097
Reversal of impairment	(379)	(1,648)
At 31 December	<u>129,315</u>	<u>121,447</u>

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

	2010	2009
	<i>'000</i>	<i>'000</i>
Hong Kong dollars	738	2,733
Euro	-	546
Japanese Yen	-	2,638
Swiss Franc	-	692
	<u>-</u>	<u>692</u>

21 AMOUNTS DUE TO ASSOCIATES

	2010	2009
	<i>Rmb '000</i>	<i>Rmb '000</i>
Amounts due to associates	<u>9,670</u>	<u>9,594</u>

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

22 AMOUNT DUE TO AN INVESTEE COMPANY

	2010	2009
	<i>Rmb '000</i>	<i>Rmb '000</i>
Current amount due to an investee company (note i)	9,252	9,252
Non-current amount due to an investee company (note ii)	39,964	92,920
	49,216	102,172
	49,216	102,172

Note:

- (i) The amount is unsecured, interest free and has no fixed repayment term.
- (ii) The amount is unsecured, interest bearing at 4% per annum and is not repayable before December 2012.

The directors consider that the carrying amount of amount due to an investee approximates to its fair value.

23 NON-CURRENT ASSETS HELD FOR SALE

New High-Voltage Isolator, a 25.60% owned associate of the Group, has been presented as held for sale following the approval of the Group's shareholders on 31 December 2010 to sell New High-Voltage Isolator in the PRC. The completion date for the transaction is 30 January 2011.

	2010	2009
	<i>Rmb '000</i>	<i>Rmb '000</i>
Unlisted shares, at cost		
At 1 January	33,305	-
Exchange realignment	(1,529)	-
At 31 December	31,776	-
Share of post-acquisition results and reserves		
At 1 January	(2,038)	-
Share of associates' losses for the year	(1,425)	-
Exchange realignment	69	-
At 31 December	(3,394)	-
	28,382	-

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2010 (Prepared in accordance with Hong Kong Financial Reporting Standards)

24 PLEDGED BANK DEPOSITS

	2010	2009
	<i>Rmb'000</i>	<i>Rmb'000</i>
Restricted bank deposits denominated in		
- Renminbi	20,906	23,073

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

The effective interest rate on restricted bank deposits, with maturities ranging from June 2010 to April 2014, was 5.4% (2009: 4.50% to 5.40%) per annum.

25 CASH AND CASH EQUIVALENTS

	2010	2009
	<i>Rmb'000</i>	<i>Rmb'000</i>
Cash at banks and on hand	53,884	42,181

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

	2010	2009
	<i>'000</i>	<i>'000</i>
United States Dollars	48	2
Euro	1	1
Hong Kong dollars	925	1,868

26 TRADE AND OTHER PAYABLES

	2010	2009
	<i>Rmb'000</i>	<i>Rmb'000</i>
Trade and bills payables	187,578	153,376
Deposits and other payables	129,777	96,114
	317,355	249,490

26 TRADE AND OTHER PAYABLES (Continued)

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

	2010	2009
	<i>Rmb '000</i>	<i>Rmb '000</i>
Within 1 year	169,725	133,938
1 year to 2 years	3,386	14,292
2 years to 3 years	10,103	2,419
Over 3 years	4,364	2,727
	<u>187,578</u>	<u>153,376</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 98% of trade and other payables are denominated in Renminbi.

27 BANK BORROWINGS

	2010	2009
	<i>Rmb '000</i>	<i>Rmb '000</i>
Rmb bank loans repayable within 1 year		
- secured	22,000	23,000
- unsecured	12,000	2,350
	<u>34,000</u>	<u>25,350</u>

The Group's bank borrowings are interest-bearing as follows:

- fixed rate borrowings	9,000	3,150
- floating rate borrowings	25,000	22,200
	<u>34,000</u>	<u>25,350</u>

The bank borrowings are secured by certain property, plant and equipment and land use rights of the Group as set out in notes 13 and 14 respectively. The Group's floating rate borrowings carry interest at a margin over prevailing rate quoted by the People's Bank of China.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2010 (Prepared in accordance with Hong Kong Financial Reporting Standards)

27 BANK BORROWINGS (Continued)

The ranges of effective interest rates on the Group's bank borrowings classified as current liabilities during the year are as follows:

	2010	2009
Effective interest rate:		
- fixed rate borrowings	6.37% ~ 9.03%	6.37%
- floating rate borrowings	5.31% ~ 5.81%	5.31%

28 PROVISION FOR LOSS ON LITIGATION

	2010	2009
	<i>Rmb'000</i>	<i>Rmb'000</i>
Provision for loss on litigation	9,252	9,252

In April 2004, Xian Shuangjia Insulator & Electric Co. Limited ("Shuangjia") commenced litigation to the Shaanxi Xian Intermediate People's Court against the Company's former subsidiary, Shenyang High-Voltage Switchgears Co., Limited ("Shenyang High-Voltage"), in relation to the disputes on payment of goods. Shuangjia requested Shenyang High-Voltage for the payment of the goods and the Company, a former shareholder of Shenyang High-Voltage, to be included as additional joint defendants after the Company had purchased eight properties from Shenyang High-Voltage. As claimed by Shuangjia that those properties should be used to repay the debts due to them.

On 30 May 2005, the Shaanxi Xian Intermediate People's Court ruled that the Company shall undertake the joint repayment liability for amount equivalent to the fair value of certain properties in question. However, the Company dissented the verdict and appealed to the Shaanxi Higher People's Court. On 18 October 2005, the Shaanxi Higher People's Court made the final judgement and maintained the original judgement. Accordingly, provision for loss of Rmb9,252,000 has been made during the year ended 31 December 2005. The Company has not yet settled the debt up to the date of this report.

29 OBLIGATIONS UNDER FINANCIAL GUARANTEE CONTRACTS

	2010	2009
	<i>Rmb '000</i>	<i>Rmb '000</i>
Financial guarantee given to:		
Northeast Electrical Transmission Group Corporation (“NET”) (note a)	20,750	30,994
Jinzhou Power Capacitors Limited (“Jinzhou Power”) (note b)	60,722	60,722
Shenyang Kingdom Hotel (“Kingdom Hotel”) (note c)	24,000	24,000
	105,472	115,716
Less: Non-current portion	20,750	-
	84,722	115,716

Note:

- (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 loss on guarantee of Rmb30,994,000 has been made during the year ended 31 December 2003.

On 14 July 2008, China Everbright Bank, China Everbright Bank Co., Ltd. (Beijing Branch) and China Great Wall Asset Management Corp. Beijing Office (“Great Wall Beijing”) joint announced the notice of debt assignment on “People’s Court Daily” for assigning the right to receive the loan principal amount of Rmb26,402,000 and the related interest accrued thereon to Great Wall Beijing. On 3 December 2009, Great Wall Beijing entered into a Debt Assignment Agreement with Liaoning Shun Loong Trading Limited (“Shun Loong Trading”), under which all of the debt assets were assigned to Great Wall who was entitled to claim the debt.

On 30 December 2010, the Company entered into a settlement agreement with Shun Loong Trading for settlement of its obligation under the financial guarantee contracts. According to the agreement, Shun Loong Trading allowed the Company to discharge all its obligation under financial guarantee contracts by two installments of Rmb10,000,000 and Rmb14,000,000 on or before 31 December 2012 and 31 December 2013 respectively as the full and final settlement.

As a result, previous provision has been reviewed by the Company’s directors at the balance sheet date and adjusted to reflect the current best estimate. A reversal of excessive provision of Rmb10,244,000 (note 7) was recognised in the current year’s consolidated income statement.

29 OBLIGATIONS UNDER FINANCIAL GUARANTEE CONTRACTS (Continued)

Note:

- (b) (i) 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 the Bank of China Jinzhou Branch. 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 judgement from the Jinzhou Intermediate People's Court which ruled that the Company be jointly liable for the repayment of the loan principal and interest accrued thereon. Accordingly, a loss on guarantee of Rmb14,465,000 has been made during the year ended 31 December 2005. On 23 June 2010, a judgement (2005) Jin zhi Yi Zi No.89 made by Jinzhou Intermediate People's Court to seize the inventories of high-voltage capacitors of Jinzhou Power. The Company has not yet settled the above-mentioned debts up to the date of this report.

- (ii) 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.

On 13 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, a loss on guarantee given of Rmb19,890,000 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.

- (iii) In December 2003, the Company acted as the guarantor for Rmb22,900,000 of a bank loan amounting to Rmb42,900,000 which was entered into by Jinzhou Power, a subsidiary at that time, and the Industrial and Commercial Bank of China Shenyang 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.

On 18 July 2007, the Jinzhou Intermediate People's Court ruled that the Company to be responsible for the guarantee amount of Rmb22,900,000 and interest accrued of Rmb3,467,000. Accordingly, a loss on guarantee of Rmb26,367,000 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.

29 OBLIGATIONS UNDER FINANCIAL GUARANTEE CONTRACTS (Continued)

Note:

- (c) The Company acted as the guarantor for a bank loan amounting to Rmb24,000,000 which was entered by Kingdom Hotel, a subsidiary at that time, and the 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. On 1 August 2003, the Shenyang Intermediate People's Court ruled that the Company to be liable for the guaranteed amount of Rmb24,000,000 and interest accrued thereon. After that, a loss on guarantee of Rmb24,000,000 has been made during the year ended 31 December 2007. On 29 October 2010, Kingdom Hotel was deregistered, the Industrial and Commercial Bank of China Shenyang Branch signed an agreement with China Great Wall Asset Management Corp. ("Great Wall") to assign the right to receive above-mentioned debt to Great Wall. The Company has not yet settled the above-mentioned debts up to the date of this report.

The directors consider that the carrying amounts of the above obligations under financial guarantee contracts approximate to their fair values.

30 SHARE CAPITAL

	2010	2009
	<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	6,230	218,256
- Listed "A" shares	609,190	397,164
	615,420	615,420
257,950,000 listed "H" shares of Rmb1 each	257,950	257,950
	873,370	873,370

Regarding to the application for release of 212,026,000 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 14 May 2010. After that, 212,026,000 restricted non-tradable shares was transferred to tradable "A" shares on 19 May 2010.

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.

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

	2010	2009
	<i>Rmb '000</i>	<i>Rmb '000</i>
At 1 January	587	-
Additions	-	700
Amount recognised as other income (note 7)	(119)	(113)
At 31 December	<u>468</u>	<u>587</u>

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 2009	5,120
Credited to the consolidated income statement (note 10)	6,791
At 31 December 2009	11,911
Credited to the consolidated income statement (note 10)	819
At 31 December 2010	12,730

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

	2010	2009
	<i>Rmb '000</i>	<i>Rmb '000</i>
Deductible temporary differences	315,535	315,535
Tax losses	247,100	258,882
	562,635	574,417

Deferred tax assets in respect of above items of Rmb562,635,000 (2009: Rmb574,417,000) have not been recognised due to the unpredictability of future profit streams. Unrecognised tax losses of Rmb247,100,000 (2009: Rmb258,882,000) will expire in 2015 (2009: 2014).

34 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 amounts of Rmb627,000 and Rmb156,000 (2009: Rmb1,260,000) were offset with trade and other payables and amount due to an investee company respectively. The net book value of the relevant plant, machinery and equipment amounted to Rmb940,000 (2009: Rmb1,218,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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35 CONTINGENT LIABILITIES

	2010	2009
	<i>Rmb'000</i>	<i>Rmb'000</i>
Guarantees given to banks in respect of banking facilities utilised by other entity:		
An investee company (note)	115,000	335,000

Note: At the balance sheet date, the Group provided the joint responsibility guarantees to Hua Xia Bank Shenyang Branch for a total integrated banking facilities granted to New High-Voltage approximately amounting to Rmb115,000,000 (2009: Rmb115,000,000).

During the year, the Group terminated the joint responsibility guarantees to Shanghai Pudong Development Bank Shenyang Branch for a total integrated banking facilities granted to New High-Voltage approximately amounting to Rmb220,000,000.

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 2010 and 31 December 2009.

36 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:

	2010	2009
	<i>Rmb'000</i>	<i>Rmb'000</i>
Within 1 year	3,459	4,879
1 year to 5 years	9,482	10,445
Over 5 years	7,879	8,728
	<u>20,820</u>	<u>24,052</u>

37 BALANCES WITH RELATED PARTIES

(a) 24.06% (2009: 24.28%) of the Company's shares is held by New Northeast Electric Investments Co., Limited, a company incorporated in the PRC, in which 95% (2009: 82.22%) of such company's shares is held by Ms. Tian Li. In the opinion 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 2010 are as follows:

	2010	2009
	<i>Rmb'000</i>	<i>Rmb'000</i>
Associates:		
Trade payables	8,123	8,123
Balances due from the Group	9,670	9,594

The balances are unsecured, interest free and repayable on demand.

(c) Key management remuneration of the Group

Remuneration for key management personnel of the Company, including amounts paid to the Company's directors as described in note 11, is as follows:

	2010	2009
	<i>Rmb'000</i>	<i>Rmb'000</i>
Salaries and other benefits	1,196	1,203
Contributions to retirement benefit schemes	114	87
	1,310	1,290
	1,310	1,290

Total remuneration is included in "staff costs" (see note 9).

38 LITIGATIONS

On 15 July 2005, the Industrial and Commercial Bank of China Liaoning Branch (the “Industrial Bank”) entered into a Debt Assignment Agreement with China Great Wall Asset Management Corp. Shenyang Office (“Great Wall Shenyang”), under which all of the debt assets were assigned to Great Wall Shenyang 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 Shenyang 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 Shenyang 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.

On 15 December 2010, a judgement (2009) Liao Min Er Chu Zi No.12 made by the Liao High Court, the claims of Great Wall Shenyang was rejected by the Court. If Great Wall Shenyang dissents from the judgment, Great Wall Shenyang is able to appeal to the Supreme People’s Court with appropriate reasons and related evidences. On 21 February 2011, Great Wall Shenyang has appealed to the Supreme People’s Court. The case is now being proceeded and has not been completed up to the date of this report.

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 Shenyang’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 its profit for the year.

39 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>
2010				
Available-for-sale investment	17	-	213,538	-
Trade and other receivables	20	250,044	-	-
Amounts due to associates	21	-	-	9,670
Amount due to an investee company	22	-	-	49,216
Pledged bank deposits	24	20,906	-	-
Cash and cash equivalents	25	53,884	-	-
Trade and other payables	26	-	-	264,827
Bank borrowings	27	-	-	34,000
		<u>324,834</u>	<u>213,538</u>	<u>357,713</u>
2009				
Available-for-sale investment	17	-	215,942	-
Trade and other receivables	20	287,141	-	-
Amounts due to associates	21	-	-	9,594
Amount due to an investee company	22	-	-	102,172
Pledged bank deposits	24	23,073	-	-
Cash and cash equivalents	25	42,181	-	-
Trade and other payables	26	-	-	249,490
Bank borrowings	27	-	-	25,350
		<u>352,395</u>	<u>215,942</u>	<u>386,606</u>

All of the above financial instruments are carried at amounts not materially different from their fair values as at 31 December 2010 and 2009.

39 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 currencies 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 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 24) and cash and cash equivalents (note 25), 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 the People's Bank of China's announced benchmark interest rate arising from the Group's borrowings denominated in Rmb.

39 FINANCIAL RISKS MANAGEMENT OBJECTIVES AND POLICIES (Continued)

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

(b) Interest rate risk (Continued)

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 27.

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 2010, it is estimated that a general increase/decrease of 50 basis points, with all other variables held constant, post-tax profit (2009: profit) for the year would have been approximately Rmb125,000 (2009: Rmb150,000) lower/higher (2009: lower/higher), 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 2009.

(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.

39 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 20.

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.

39 FINANCIAL RISKS MANAGEMENT OBJECTIVES AND POLICIES (Continued)

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

(e) Liquidity risk (Continued)

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.

	Less than 1 year	Between 1 year and 5 years	Total
	<i>Rmb '000</i>	<i>Rmb '000</i>	<i>Rmb '000</i>
2010			
Trade and other payables	264,827	-	264,827
Amounts due to associates	9,670	-	9,670
Amount due to an investee company	10,850	41,563	52,413
Bank borrowings	36,607	-	36,607
	<u>321,954</u>	<u>41,563</u>	<u>363,517</u>
2009			
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>

39 FINANCIAL RISKS MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(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 liabilities 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.

The total debts ratios at 31 December 2010 and 2009 are as follows:

	2010	2009
	<i>Rmb'000</i>	<i>Rmb'000</i>
Current liabilities	466,846	422,643
Non-current liabilities	60,714	92,920
Total liabilities	<u>527,560</u>	<u>515,563</u>
Total equity	<u>316,777</u>	<u>320,988</u>
Total capital	<u>844,337</u>	<u>836,551</u>
Total debts ratio	<u>62%</u>	<u>62%</u>

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

40 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2010

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 2010 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

	Effective for accounting periods beginning on or after
HKAS 24 (Revised), Related party disclosures	1 January 2011
HKAS 32 (Amendments), Classification of Rights Issues	1 February 2010
Improvements to HKFRSs (2010)	1 July 2010 or 1 January 2011
HKFRS 1 (Amendments), Limited exemption from comparative HKFRS 7 disclosures for first-time adopters	1 July 2010
HKFRS 9, Financial instruments	1 January 2013
HK (IFRIC) – Int 14, Prepayments of a minimum funding requirement	1 January 2011
HK (IFRIC) – Int 19, Extinguishing financial liabilities with equity instruments	1 July 2010

41 POST BALANCE SHEET EVENT

On 15 November 2010, the Group entered into a Sales and Purchases Agreement with Sunyork International Limited for the disposal of 25.6% equity interest in New High-Voltage Isolator at a consideration of approximately Rmb52,800,000, with a gain of approximately Rmb24,000,000. The transaction was completed after the balance sheet date.

42 COMPARATIVE FIGURES

Certain comparative figures have been adjusted to conform to current year's presentation and to provide comparative amounts in respect of items disclosed for the first time in 2010.

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 attributable to the Group prepared in accordance with the PRC Accounting Rules and Regulations and HKFRSs is summarised below:

	2010	2009
	<i>Rmb'000</i>	<i>Rmb'000</i>
Profit attributable to shareholders under the PRC Accounting Rules and Regulations	1,684	7,670
Difference:		
- Others	45	57
Profit attributable to equity holders of the Company under HKFRSs	<u>1,729</u>	<u>7,727</u>

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

	2010	2009
	<i>Rmb'000</i>	<i>Rmb'000</i>
Shareholders’ funds under the PRC Accounting Rules and Regulations	314,981	318,543
Difference:		
- Others	-	(6)
Equity attributable to equity holders of the Company under HKFRSs	<u>314,981</u>	<u>318,537</u>

Shareholders of Northeast Electric Development Co., Ltd.

We have audited the financial reports of Northeast Electric Development Co., Ltd. (hereinafter referred as "Northeast Electric") and its subsidiaries as of Dec. 31, 2010, including consolidated balance sheets and the related profit and loss, cash flow and change of equity for the year then ended, with notes ensued.

I. Responsibility of the managerial staff to the reports

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

II. Responsibility of the Certified Accountants

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

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

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

III. Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the company as of Dec. 31, 2010, 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, 2011

Certified Accountant of P.R.C.

Zhao Wei Qing

Certified Accountant of P.R.C.

Peng Xi

BALANCE SHEET (Consolidated)

For the year ended 31 December 2010 (Prepared in accordance with P.R.C. Accounting Rules and Regulations)

Date: Dec. 31, 2010

Company: Northeast Electric Development Co., Ltd.

In RMB Yuan

Items	Notes	Balance at end of period	Balance at beginning of period
Current assets:			
Cash and deposits	V.1	74,789,999.34	65,253,681.04
Settlement excess reserve		-	-
Funds offered in inter-bank markets		-	-
Tradable financial assets		-	-
Bills receivable	V.2	840,000.00	730,000.00
Accounts receivables	V.3	225,803,047.65	257,446,709.33
Prepayment	V.4	25,262,242.01	2,625,985.65
Premium payable		-	-
Reinsurance receivable		-	-
Reserve of reinsurance arrangement		-	-
Interest receivable		-	-
Dividends receivable	V.5	8,146,517.15	15,756,938.72
Other receivables	V.6	15,254,369.48	13,170,240.00
Purchase of buyback financial assets		-	-
Inventories	V.7	97,011,521.94	68,983,251.92
Non-current asset due within 1 year		-	-
other current assets		-	-
Total current assets		447,107,697.57	423,966,806.66
Non-current assets:			
Deposits and advances		-	-
Saleable financial assets		-	-
Investment held till due		-	-
Long term account receivables		-	-

BALANCE SHEET (CONSOLIDATED) (Continued)

For the year ended 31 December 2010 (Prepared in accordance with P.R.C. Accounting Rules and Regulations)

Date: Dec. 31, 2010

Company: Northeast Electric Development Co., Ltd.

In RMB Yuan

Items	Notes	Balance at end of period	Balance at beginning of period
Long term equity investment	V.9	297,145,797.61	303,877,580.46
Invested real estate		-	-
fixed assets	V.10	75,010,292.04	81,125,659.63
Construction in progress	V.11	445,633.81	-
Material of works		-	-
Liquidation of fixed assets		-	-
Producing bio-material assets		-	-
Assets of oil and gas		-	-
Intangible assets	V.12	4,742,149.69	4,922,639.81
Expenditures of development		-	-
Good will		-	-
Long-term deferred expenses	V.13	7,155,788.26	10,754,099.06
Deferred income tax assets	V.14	12,729,815.27	11,910,752.23
Other non-current assets		-	-
Total non-current assets		397,229,476.68	412,590,731.19
		-	-
Total assets		844,337,174.25	836,557,537.85
Current liabilities:			
Short-term borrowings	V.17	34,000,000.00	25,350,000.00
Borrowings fm central bank		-	-
Deposits received & by inter-banks		-	-
Funds received fm inter-bank markets		-	-
Transactional financial liabilities		-	-
Bills payable		-	-

BALANCE SHEET (CONSOLIDATED) (Continued)

For the year ended 31 December 2010 (Prepared in accordance with P.R.C. Accounting Rules and Regulations)

Date: Dec. 31, 2010

Company: Northeast Electric Development Co., Ltd.

In RMB Yuan

Items	Notes	Balance at end of period	Balance at beginning of period
Account payable	V.18	187,578,403.76	153,375,840.11
Advance	V.19	69,358,377.40	18,963,505.02
Buyback financial assets sold		-	-
Fees payable & commission		-	-
Salaries due employees	V.20	4,361,867.55	1,345,152.97
Taxes payable	V.21	2,349,683.53	13,848,713.11
Interest payable		-	-
Dividends payable		40,017.86	40,017.86
Other payables	V.22	74,715,315.30	84,164,434.70
Reinsurance payable		-	-
Reserve of reinsurance arrangement		-	-
Payments of entrusted purchase & selling stocks		-	-
Payments of entrusted underwriting stocks		-	-
Non-current liabilities due within 1 year		-	-
Other current liabilities	V.23	468,446.97	587,446.97
Total current liabilities		372,872,112.37	297,675,110.74
Non-current liabilities:			
Long-term borrowings		-	-
Bonds payable		-	-
Long-term account payables		-	-
Special payables		-	-
Estimated liabilities	V.24	93,973,938.25	124,967,867.25
Deferred income tax liabilities		-	-
Other non-current liabilities	V.25	60,714,159.27	92,920,097.04

BALANCE SHEET (CONSOLIDATED) (Continued)

For the year ended 31 December 2010 (Prepared in accordance with P.R.C. Accounting Rules and Regulations)

Date: Dec. 31, 2010

Company: Northeast Electric Development Co., Ltd.

In RMB Yuan

Items	Notes	Balance at end of period	Balance at beginning of period
Total non-current liabilities		154,688,097.52	217,887,964.29
Total liabilities		527,560,209.89	515,563,075.03
Shareholders' equity:			
Paid-up capital	V.26	873,370,000.00	873,370,000.00
Capital reserve	V.27	883,422,403.92	883,422,403.92
minus: shares in store		-	-
Special reserve		-	-
Reserve	V.28	108,587,124.40	108,587,124.40
normal risk provision		-	-
Retained profit	V.29	-1,527,280,108.35	-1,528,964,095.88
Difference of exchange of foreign-currency reports		-23,119,814.00	-17,873,106.00
Total interests due to parent company's shareholders		314,979,605.97	318,542,326.44
Minority interests		1,797,358.39	2,452,136.38
Total shareholders' equity interests		316,776,964.36	320,994,462.82
Total liabilities and shareholders' equity interests		844,337,174.25	836,557,537.85

BALANCE SHEET (PARENT COMPANY)

For the year ended 31 December 2010 (Prepared in accordance with P.R.C. Accounting Rules and Regulations)

Date: Dec. 31, 2010

Company: Northeast Electric Development Co., Ltd.

In RMB Yuan

Items	Notes	Balance at end of period	Balance at beginning of period
Current assets:			
Cash and deposits		38,486.92	35,497.71
Tradable financial assets		-	-
Bills receivable		-	-
Accounts receivables	XI.1	-	-
Prepayment		-	-
Interest receivable		-	-
Dividends receivable		-	-
Other receivables	XI.2	432,929,459.41	490,776,479.71
Inventories		-	-
Non-current asset due within 1 year		-	-
Other current assets		-	-
Total current assets		432,967,946.33	490,811,977.42
Non-current assets:			
Saleable financial assets		-	-
Investment held till due		-	-
Long term account receivables		-	-
Long term equity investment	XI.3	157,637,418.63	157,737,418.63
Invested real estate		-	-
Fixed assets		564,689.27	861,330.60
Construction in progress		-	-
Material of works		-	-
Liquidation of fixed assets		-	-
Producing bio-material assets		-	-

BALANCE SHEET (PARENT COMPANY) (Continued)

For the year ended 31 December 2010 (Prepared in accordance with P.R.C. Accounting Rules and Regulations)

Date: Dec. 31, 2010

Company: Northeast Electric Development Co., Ltd.

In RMB Yuan

Items	Notes	Balance at end of period	Balance at beginning of period
Assets of oil and gas		-	-
Intangible assets		-	-
Expenditures of development		-	-
Good will		-	-
Long-term deferred expenses		-	-
Deferred income tax assets		-	-
Other non-current assets		-	-
Total non-current assets		158,202,107.90	158,598,749.23
Total assets		591,170,054.23	649,410,726.65
Current liabilities:			
Short-term borrowings		-	-
Transactional financial liabilities		-	-
Bills payable		-	-
Account payable		-	-
Advances		665,000.00	665,000.00
Salaries due employees		40,092.79	39,188.90
Taxes payable		37,099.07	37,597.62
Interest payable		-	-
Dividends payable		-	-
Other payables		80,921,500.61	80,546,271.43
Non-current liabilities due within 1 year		-	-
Other current liabilities		-	-
Total current liabilities		81,663,692.47	81,288,057.95

BALANCE SHEET (PARENT COMPANY) (Continued)

For the year ended 31 December 2010 (Prepared in accordance with P.R.C. Accounting Rules and Regulations)

Date: Dec. 31, 2010

Company: Northeast Electric Development Co., Ltd.

In RMB Yuan

Items	Notes	Balance at end of period	Balance at beginning of period
Non-current liabilities:			
Long-term borrowings		-	-
Bonds payable		-	-
Long-term account payables		-	-
Special payables		-	-
Estimated liabilities		93,973,938.25	124,967,867.25
Deferred income tax liabilities		-	-
Other non-current liabilities		60,714,159.27	92,920,097.04
Total non-current liabilities		154,688,097.52	217,887,964.29
Total liabilities		236,351,789.99	299,176,022.24
Shareholders' equity:			
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		-1,606,353,648.61	-1,610,937,208.44
Total Shareholders' equity interests		354,818,264.24	350,234,704.41
Total liabilities and shareholders' equity interests		591,170,054.23	649,410,726.65

PROFIT AND LOSS (CONSOLIDATED)

For the year ended 31 December 2010 (Prepared in accordance with P.R.C. Accounting Rules and Regulations)

For the year ended 31 December 2010

Company: Northeast Electric Development Co., Ltd.

In RMB Yuan

Items	Notes	Amount of the period	Amount of the last period
I. Total income of sales		348,449,492.28	423,742,945.28
Inclu.: income of sales	V.30	348,449,492.28	423,742,945.28
Interest income		-	-
Premium earned		-	-
Charges and commissions		-	-
II. Total cost of sales		351,940,725.23	415,225,958.46
inclu.: Cost of sales	V.30	274,503,428.42	300,957,971.39
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.31	464,714.15	98,501.08
Expenses of sales	V.32	23,785,964.90	42,639,130.79
Administrative expenses	V.33	43,656,778.50	44,564,264.84
Financial expenses	V.34	1,643,555.98	1,516,583.34
Loss of assets diminution	V.35	7,886,283.28	25,449,507.02
plus: income of fair value variance			
(loss is posed as “—”)		-	-
Return on investments (loss is posed as “—”)	V.36	-1,432,331.12	-1,677,139.94
inclu.: return on investments to associates and related parties		-1,432,331.12	-1,677,139.94
Gain/loss of exchange (loss is posed as “—”)		-	-

PROFIT AND LOSS (CONSOLIDATED) (Continued)

For the year ended 31 December 2010 (Prepared in accordance with P.R.C. Accounting Rules and Regulations)

For the year ended 31 December 2010

Company: Northeast Electric Development Co., Ltd.

In RMB Yuan

Items	Notes	Amount of the period	Amount of the last period
III. Operational Profit (Total loss is posed as “—”)		-4,923,564.07	6,839,846.88
plus: Income of non-operational activities	V.37	10,578,996.29	265,694.97
minus: Expenses of non-operational activities	V.38	506,692.64	259,474.13
inclu.: loss of disposal of non-current assets		386,391.33	157,163.81
IV. Total Profit (Total loss is posed as “—”)		5,148,739.58	6,846,067.72
minus: Income tax expenses	V.39	4,119,530.04	-417,596.91
V. Net Profit		1,029,209.54	7,263,664.63
Net profit belong to parent company’s shareholders		1,683,987.53	7,670,166.70
Minority interests		-654,777.99	-406,502.07
VI. Earnings per share:		-	-
(A) Primary earnings per share	V.40	0.002	0.01
(B) Diluted earnings per share	V.40	0.002	0.01
VII. Other comprehensive income	V.41	-5,246,708.00	-264,873.46
VIII. Total comprehensive income		-4,217,498.46	6,998,791.17
Total comprehensive income due to parent company		-3,562,720.47	7,405,293.24
Total comprehensive income due to minority shareholders		-654,777.99	-406,502.07

PROFIT AND LOSS (PARENT COMPANY)

For the year ended 31 December 2010 (Prepared in accordance with P.R.C. Accounting Rules and Regulations)

For the year ended 31 December 2010

Company: Northeast Electric Development Co., Ltd.

In RMB Yuan

Items	Notes	Amount of the period	Amount of the last period
I. Total income of sales			2,803,418.81
Minus: cost of sales			2,038,808.56
Sales tax and surcharges		-	-
Expenses of sales			26,557.00
Administrative expenses		5,394,370.33	7,672,377.30
Financial expenses		-1,661.95	-15,887.47
Loss of asset devaluation		253,482.15	117,136.21
plus: income of fair value variance			
(loss is posed as “—”)		-	-
Return on investments (loss is posed as “—”)	XI.4	-11,593.68	-
includ.: return on investments to associates and related parties		-	-
II. Total profit (total loss is posed as “—”)		-5,657,784.21	-7,035,572.79
plus: income of non-operational activities		10,243,866.77	-
minus: expenses of non-operational activities		2,522.73	25,000.00
includ.: loss of disposal of non-current assets			25,000.00
III. Total profit		4,583,559.83	-7,060,572.79
minus: Income tax expenses		-	-
IV. Net profit (total loss is posed as “—”)		4,583,559.83	-7,060,572.79
V. Earnings per share:		-	-
(A) Primary earnings per share		-	-
(B) Diluted earnings per share		-	-
VI. Other comprehensive income		-	-
VII. Total comprehensive income		4,583,559.83	-7,060,572.79

CASH FLOW (CONSOLIDATED)

For the year ended 31 December 2010 (Prepared in accordance with P.R.C. Accounting Rules and Regulations)

For the year ended 31 December 2010

Company: Northeast Electric Development Co., Ltd.

In RMB Yuan

Items	Notes	Amount of the period	Amount of the last period
I. Cash flow generated in operational activities			
Cash from sales of goods, services provided		399,388,743.16	365,630,125.35
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
Cash received relating to operations	V.42(1)	29,024,945.92	116,771,415.48
Inflow of operational activity cash		428,413,689.08	482,553,104.73
Cash paid to purchase goods, received labor		286,046,872.00	238,671,134.17
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		24,077,502.50	27,544,867.43
Taxes paid		30,098,950.13	20,319,307.02
Other cash paid relating operations	V.42(2)	88,163,061.05	173,778,941.41
Sub-total of outflow of operating activity		428,386,385.68	460,314,250.03
Net amount of cash flow by operating activity		27,303.40	22,238,854.70

CASH FLOW (CONSOLIDATED) (Continued)

For the year ended 31 December 2010 (Prepared in accordance with P.R.C. Accounting Rules and Regulations)

For the year ended 31 December 2010

Company: Northeast Electric Development Co., Ltd.

In RMB Yuan

Items	Notes	Amount of the period	Amount of the last period
II. Cash flow generated in by investment activities			
Cash received by withdrawn investment		-	-
Cash of return on investment		7,291,750.08	4,309,753.97
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		103,886.40	100,000.00
Net amount of cash in disposing subsidiaries and other operating units		-	-
Cash paid to other investment-related activities		-	-
Sub-total of outflow of cash in investment activities		7,395,636.48	4,409,753.97
Cash paid in purchase/construction of fixed assets, intangible assets and other long-term assets		2,219,693.76	16,327,142.71
Cash paid to invest		-	-
Net increase of pledged loans		-	-
Net cash received from subsidiaries and other operational units		-	-
Cash from other financial-related activities		-	-
Sub-total of inflow of cash in financial activities		2,219,693.76	16,327,142.71
Total in/outflow of cash in investment activities		5,175,942.72	-11,917,388.74
III. Cash flow generated in financial activities:			
Cash received for new investment		-	-
Inclu.: subsidiaries receive cash from minority shareholders		-	-
Cash received from borrowing		34,000,000.00	13,000,000.00
Cash received by issuing bonds		-	-
Cash from other financial-related activities		-	-
Sub-total of inflow of cash in financial activities		34,000,000.00	13,000,000.00
Cash paid to repay loans		25,350,000.00	10,100,000.00
Cash paid to allocate dividends, profit or repay interests		2,102,956.29	1,509,296.27

CASH FLOW (CONSOLIDATED) (Continued)

For the year ended 31 December 2010 (Prepared in accordance with P.R.C. Accounting Rules and Regulations)

For the year ended 31 December 2010

Company: Northeast Electric Development Co., Ltd.

In RMB Yuan

Items	Notes	Amount of the period	Amount of the last period
Inclu.: subsidiaries' dividends, profits paid to minority shareholders		-	-
Cash paid to other financial-related activities		-	-
Sub-total of outflow of cash in financial activities		27,452,956.29	11,609,296.27
Net cash generated in financial activities		6,547,043.71	1,390,703.73
IV. Effect of change of foreign-currency rates on cash and cash equivalents		-47,121.53	-268,165.85
V. Net increase of cash and cash equivalents		11,703,168.30	11,444,003.84
Plus: balance of cash and cash equivalents at beginning of period		42,180,943.54	30,736,939.70
VI. Cash and cash equivalents at end of period		53,884,111.84	42,180,943.54

CASH FLOW (PARENT COMPANY)

For the year ended 31 December 2010 (Prepared in accordance with P.R.C. Accounting Rules and Regulations)

For the year ended 31 December 2010

Company: Northeast Electric Development Co., Ltd.

In RMB Yuan

Items	Notes	Amount of the period	Amount of the last period
I. Cash flow generated in operational activities:			
Cash from sales of goods, services provided		-	12,490,058.00
Refunds of taxes and expenses		-	-
Other cash from operation-related activities		22,184,801.22	117,513,292.78
Sub-total of inflow of cash in operational activities		22,184,801.22	130,003,350.78
Cash paid for goods and services		-	5,840,300.00
Cash paid to and for the employees		1,797,785.86	1,943,418.22
Taxes and expenses paid		28,365.54	711,627.26
Other cash paid to operation-related activities		20,443,203.24	124,257,671.22
Sub-total of outflow of cash in operational activities		22,269,354.64	132,753,016.70
Net in/outflow of cash generated in operational activities		-84,553.42	-2,749,665.92
II. Cash flow generated in investment activities:			
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		88,406.32	-
Other cash received from investment-related activities		-	-
Sub-total of inflow of cash in investment activities		88,406.32	-
Cash paid in purchase/construction of fixed assets, intangible assets and other long-term assets			5,690.00
Cash paid to invest		-	-
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
Total in/outflow of cash in investment activities		88,406.32	-5,690.00

CASH FLOW (PARENT COMPANY) (Continued)

For the year ended 31 December 2010 (Prepared in accordance with P.R.C. Accounting Rules and Regulations)

For the year ended 31 December 2010

Company: Northeast Electric Development Co., Ltd.

In RMB Yuan

Items	Notes	Amount of the period	Amount of the last period
III. Cash flow generated in financial activities:			
Cash received for new investment		-	-
Cash received from borrowing		-	-
Cash received from issuance of bonds			
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		-	-
IV. Effect of change of foreign-currency rates on cash and cash equivalents			
		-863.69	-
V. Net increase of cash and equivalents			
		2,989.21	-2,755,355.92
plus: Balance at beginning of period of cash and equivalents		35,497.71	2,790,853.63
VI. Balance of cash and equivalents by end of period			
		38,486.92	35,497.71

CHANGE OF EQUITY (CONSOLIDATED)

For the year ended 31 December 2010 (Prepared in accordance with P.R.C. Accounting Rules and Regulations)

For the year ended 31 December 2010
Company: Northeast Electric Development Co., Ltd.

In RMB Yuan

Items	Amount of the period							Total shareholders' equity		
	Paid-up capital	Capital reserve	Minus: stocks in store	Special reserve	Reserve	Normal risk reserve	Retained profit		Others	Minority interests
I. Balance of last year	873,370,000.00	883,422,403.92	-	-	108,587,124.40	-	-1,528,964,095.88	-17,873,106.00	2,452,136.38	320,994,462.82
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	-	-1,528,964,095.88	-17,873,106.00	2,452,136.38	320,994,462.82
III. Variations of the period (decrease posed as '-')										
i. net profit	-	-	-	-	-	-	1,683,987.53	-5,246,708.00	-654,777.99	-4,217,498.46
ii. other comprehensive income	-	-	-	-	-	-	1,683,987.53	-	-654,777.99	1,029,209.54
Sub-total of I and II.	-	-	-	-	-	-	-	-5,246,708.00	-	-5,246,708.00
iii. Shareholder's equity and Capital decreased	-	-	-	-	-	-	1,683,987.53	-5,246,708.00	-654,777.99	-4,217,498.46
1. Capital invested	-	-	-	-	-	-	-	-	-	-
2. Amount of shares taken as equity	-	-	-	-	108,587,124.40	-	-	-	-	-
3. Others	-	-	-	-	-	-	-	-	-	-
iv. Distribution of profit	-	-	-	-	-	-	-	-	-	-
1. Reserve	-	-	-	-	-	-	-	-	-	-
2. Normal risk reserve	-	-	-	-	-	-	-	-	-	-
3. Distribution to shareholders	-	-	-	-	-	-	-	-	-	-
4. Others	-	-	-	-	-	-	-	-	-	-
v. internal carried-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 the period	-	-	-	-	-	-	-	-	-	-
vii. others	-	-	-	-	-	-	-	-	-	-
IV. Balance by end of period	873,370,000.00	883,422,403.92	-	-	108,587,124.40	-	-1,527,280,108.35	-23,119,814.00	1,797,358.39	316,776,964.36

CHANGE OF EQUITY (CONSOLIDATED) (Continued)

For the year ended 31 December 2010 (Prepared in accordance with P.R.C. Accounting Rules and Regulations)

For the year ended 31 December 2010
Company: Northeast Electric Development Co., Ltd.

Items	Amount of last period							Total shareholders' equity		
	Shareholder's equity due to parent company									
	Paid-up capital	Capital reserve	Minus: stocks in store	Special reserve	Reserve	Normal risk reserve	Retained profit		Others	Minority interests
I. Balance of last year	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
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	-	-1,536,634,262.58	-17,608,232.54	2,858,638.45	313,995,671.65
III. Variations of the period (decrease as '-')										
i. Net profit	-	-	-	-	-	-	7,670,166.70	-264,873.46	-406,502.07	6,998,791.17
ii. Other comprehensive income	-	-	-	-	-	-	7,670,166.70	-	-406,502.07	7,263,664.63
Sub-total of I and II.	-	-	-	-	-	-	-	-264,873.46	-	-264,873.46
iii. Shareholder's equity and Capital decreased	-	-	-	-	-	-	7,670,166.70	-264,873.46	-406,502.07	6,998,791.17
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 carried-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	-	-	-	-	-	-	-	-	-	-
vii. Others	-	-	-	-	-	-	-	-	-	-
IV. Balance by end of period	873,370,000.00	883,422,403.92	-	-	108,587,124.40	-	-1,528,964,095.88	-17,873,106.00	2,452,136.38	320,994,462.82

In RMB Yuan

CHANGE OF EQUITY (PARENT COMPANY)

For the year ended 31 December 2010 (Prepared in accordance with P.R.C. Accounting Rules and Regulations)

For the year ended 31 December 2010
Company: Northeast Electric Development Co., Ltd.

In RMB Yuan

Items	Amount in this period						Total shareholder's equity	
	Paid-up capital	Capital reserve	Minus: stocks in store	Special reserve	Reserve	Normal risk reserve		Retained profit
I. Balance of last year	873,370,000.00	979,214,788.45	-	-	108,587,124.40	-	-1,610,937,208.44	350,234,704.41
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	-	-1,610,937,208.44	350,234,704.41
III. Variations of the period (decrease posed as '-')								
i. net profit	-	-	-	-	-	-	-	4,583,559.83
ii. other comprehensive income	-	-	-	-	-	-	-	4,583,559.83
Sub-total of I and II.	-	-	-	-	-	-	-	-
iii. Shareholder's equity and Capital decreased	-	-	-	-	-	-	-	4,583,559.83
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 carried-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 the period	-	-	-	-	-	-	-	-
vii. others	-	-	-	-	-	-	-	-
IV. Balance by end of period	873,370,000.00	979,214,788.45	-	-	108,587,124.40	-	-1,606,353,648.61	354,818,264.24

CHANGE OF EQUITY (PARENT COMPANY) (Continued)

For the year ended 31 December 2010 (Prepared in accordance with P.R.C. Accounting Rules and Regulations)

For the year ended 31 December 2010
Company: Northeast Electric Development Co., Ltd.

Items	Amount in last period						Total shareholder's equity	
	Paid-up capital	Capital reserve	Minus: stocks in store	Special reserve	Reserve	Normal risk reserve		Retained profit
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
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
III. Variations of the period (decrease posed as '-')								
i. net profit	-	-	-	-	-	-	-7,060,642.79	-7,060,642.79
ii. other comprehensive income	-	-	-	-	-	-	-	-
Sub-total of I and II.	-	-	-	-	-	-	-7,060,642.79	-7,060,642.79
iii. Shareholder's equity and Capital decreased	-	-	-	-	-	-	-	-
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 carried-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 the period	-	-	-	-	-	-	-	-
vii. others	-	-	-	-	-	-	-	-
IV. Balance by end of period	873,370,000.00	979,214,788.45	-	-	108,587,124.40	-	-1,610,937,208.44	350,234,704.41

In RMB Yuan

Notes to the Financial Reports

Year of 2010

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.2, Xing Shun Street, Tie Xi District, Shenyang, Liaoning Province, P. R. China. Legal Representative: Su Wei Guo.**
2. **The company engages 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. 21, 2011, during the 8th 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 2010 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. Difference between book value of net assets acquired and that of consolidated consideration (or total face value of shares issued) is adjusted to capital reserve. If the difference is less for the write-down, then retained profit is to be adjusted. Expenditures arise directly from consolidation, including fees of auditing, evaluation, legal services, are taken into Profit and Loss of the period. Parent company is to work out consolidated Balance Sheet, Profit and Loss and Cash & Flow of the merging day. Each item of Assets and Liabilities of the consolidated company should be taken by the book value. Book values after adjustments according to the Rules of the consolidated company due to different adaptation of accounting standards will be taken into consolidation. The Consolidated Profit and Loss includes 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.

II. Major Accounting Policies, Evaluation and Corrections of Previous periods (Continued)**5. Accounting of consolidation of companies under/or not under the same controlling party (Continued)****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. Scope of consolidation is recognized on the basis of the power of control. 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.

II. Major Accounting Policies, Evaluation and Corrections of Previous periods (Continued)

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

1. 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.

2. Exchange of foreign currency financial reports

Rules are adopted as follows when consolidating off-shore companies' financial reports:

- A. Items of assets and liabilities in the Balance Sheet will be exchanged at the spot rates of the Balance Sheet Date. Items except for Retained Profit are exchanged at the spot rates of transaction dates.
- B. Items of Income and Expenses in the Profit & Loss are exchanged at the spot rates of transaction dates or similar rates.

Differences occur by the above-mentioned methods will be listed exclusively under Item of Shareholder's Interests in the Balance Sheet.

II. Major Accounting Policies, Evaluation and Corrections of Previous periods (Continued)**9. Financial Instruments****(1) 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.

(2) 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. Followup computation of financial assets are by fair value principal, without deducting possible transaction expenses while disposing, but with the following exceptions:
 - a. Investments to be held till due and accounts receivable are measured at amortized costs using rules of real interest;
 - b. 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.

(3) 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.

(4) 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.

II. Major Accounting Policies, Evaluation and Corrections of Previous periods (Continued)

9. Financial Instruments (Continued)

(5) 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. Cash flow of a certain item of asset among a set of financial assets can not be recognized as reduced, yet estimated future cash flow are reduced since initial recognition which are measurable after overall evaluation according to data publicised.
- H. Serious or non-temporary declines of the fair value of equity instruments;
- I. Other solid evidence showing financial assets are depreciating

(6) Computation of financial assets depreciation loss

- A. No depreciation tests are exercised for financial assets that are recognized by fair value and differences are taken into profit and loss of the relative accounting period;
- B. For financial assets that are held till due, diminution provision are set at difference between predition of future cash value and current book value;

II. Major Accounting Policies, Evaluation and Corrections of Previous periods (Continued)

9. Financial Instruments (Continued)

(6) Computation of financial assets depreciation loss (Continued)

- 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) Account Receivables of large amount with exclusive provision:

Evidence or Standard of Amount of Single Item of large amount	The Company has set up 1 million yuan as the amount standard for Single large amount Account Receivable by its scale of operation, nature of business and status of customer settlements.
Method of provision of large amount Account Receivable with exclusive provision	Provisions are made, losses are recognized according to differences between their future cash flow and book values after evidence show value decrease occur during relative exclusive testing.

(2) Account Receivables provisioned by Units:

Standards for Units

Unit of Ages	Provisions for bad debts of Single insignificant amount Account Receivables will be set up along with Unit of Single Large Amount Accounts without value decrease after individual testing.
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Method of provision of provisions by Units (Aging Analysis of Accounts)

Aging Analysis of Accounts	Different provision percentages are adopted according to different ages of accounts.
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II. Major Accounting Policies, Evaluation and Corrections of Previous periods (Continued)

10. Account Receivables (Continued)

(2) Account Receivables provisioned by Units (Continued):

The following accounts in the unit are provisioned by Aging Analysis of Accounts:

Age of Accounts	Percentage of Provision	Percentage of Provision of Other Receivables
Within 2 years	-	-
2-3 years	40%	40%
3-4 years	60%	60%
Over 4 years	100%	100%

(3) Single insignificant amount but with exclusive provision Accounts

Reason for exclusive provision	Obvious evidence of unretrievable
Method of provision	According to the difference between the future cash flow and book value of such Account Receivable

11. Inventories

(1) Classifications of inventories

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

(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 determining its market price.

II. Major Accounting Policies, Evaluation and Corrections of Previous periods (Continued)**11. Inventories (Continued)****(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. 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, investment costs are recognized by the book value of shareholder equity interests on the date of consolidation. Differences between 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, 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 investment costs and total face value of issuance, then retained profit is adjusted accordingly if the difference is over capital reserve.

II. Major Accounting Policies, Evaluation and Corrections of Previous periods (Continued)

12. Long-term equity investment (Continued)

(1) Recognition of initial cost of investment (Continued)

A. Cost of investment of long-term equity investment by consolidation are recognized by the following (Continued):

- 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.

II. Major Accounting Policies, Evaluation and Corrections of Previous periods (Continued)**12. Long-term equity investment (Continued)****(2) Follow-up computation and profit & loss recognition**

- A. Method of Costs are is adopted when computing long-term equity investments in companies over which the Company has control, or those with no price offerings in open active markets and reliable fair values can not be measured, and the Company exercised no joint control or significant influence.

Long-term equity investment will be computed by its cost according to Method of Costs. Costs will be adjusted when superaddition or recovery of investment happens. Cash dividends or profits by the invested companies will be recognized as Return on Investments of the period minus those included in prices of acquisition or considerations already announced not yet allocated.

- B. Method of Equity is adopted when computing Long-term Equity Investment in companies over which the Company exercised joint control or has significant influence:

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 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. Net loss on equity investment is limited to book value of the relative Long-term Equity Investment and other long-term equity to the invested company reducing to 0, except those the Company undertakes obligations of extra loss. Shared profits are resumed to be recognized after makeup for the amount of loss to-be-recognized when the invested company realize net profits.

Shares of profit or loss of the invested company are to be recognized on the basis of recognizable fair values at time of acquisition, after net return on investment from the invested company is adjusted. Accounting Rules of the Company are to be adopted when adjusting financial reports of the invested company if different rules are used, and Return on Investment is to be recognized accordingly.

- C. Difference between book value and price actually paid is to be taken into Profit & Loss of the period when disposing long-term equity investment.

II. Major Accounting Policies, Evaluation and Corrections of Previous periods (Continued)

12. Long-term equity investment (Continued)

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

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.

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 investment

Real estate investment 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 investment 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 investment 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.

II. Major Accounting Policies, Evaluation and Corrections of Previous periods (Continued)

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. Initial measurement of a Fixed Asset is at its actual cost. A Fixed Asset will be recognized when economic interests related with it will probably benefit the Company, and its cost can be reliably measured.

(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) Testing 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. Depreciation of asset by leasing adopts same rules as those of fixed assets owned by the Company.

II. Major Accounting Policies, Evaluation and Corrections of Previous periods (Continued)**15. Work in progress****(1) 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.

(2) 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

- (1) 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;
- (2) 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.

II. Major Accounting Policies, Evaluation and Corrections of Previous periods (Continued)**17. Intangible assets**

- (1) 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.**
- (2) Intangible assets are calculated at real costs of acquisitions.**
- (3) 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.**
- (4) 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

- (1) All expenses with amortization term to be longer than 1 year are recognized as long term deferred expenses.
- (2) 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 operational fixed assets by leasing are amortized evenly at shorter period between usable period and leasing period. 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.

II. Major Accounting Policies, Evaluation and Corrections of Previous periods (Continued)**19. Estimated Liability**

- (1) 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.
- (2) 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. Income 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;

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.

II. Major Accounting Policies, Evaluation and Corrections of Previous periods (Continued)**22. Deferred income tax asset/Deferred income tax liability****(1) 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:
- a. Such transactions are not due to corporate consolidation;
 - b. Neither profit nor taxable income (or offsettable loss) will not be affected when transactions occur.
- 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:
- a. Temporary difference can be reversed in the predictable future;
 - b. 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.

(2) 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:
- a. Such transactions are not due to corporate consolidation;
 - b. Neither profit nor taxable income (or offsettable loss) will not be affected when transactions occur.

NOTES TO THE FINANCIAL REPORTS *(Continued)*

For the year ended 31 December 2010 (Prepared in accordance with P.R.C. Accounting Rules and Regulations)

II. Major Accounting Policies, Evaluation and Corrections of Previous periods *(Continued)*

22. Deferred income tax asset/Deferred income tax liability *(Continued)*

(2) Recognition of deferred income tax liability *(Continued)*

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:

- a. the investing company can control time of reverse of temporary difference;
- b. such temporary difference are probably not to be reversed in the predictable future.

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., New Northeast Electric (Jingzhou) Capacitor Co., Ltd. and Northeast Electric (Beijing) Co., Ltd. are 25%.
- (2) 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.
- (3) Northeast Electric (HK) Co., Ltd. is a wholly owned subsidiary of the company registered in HKSAR of P. R. China, its income rate is 16.5%.
- (4) 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.

NOTES TO THE FINANCIAL REPORTS (Continued)

For the year ended 31 December 2010 (Prepared in accordance with P.R.C. Accounting Rules and Regulations)

IV. Consolidation of the Company and Consolidated Financial Reports

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(%)	Minority interest	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
Northeast Electric (HK) Co., Ltd	Fully-owned	HK	Trade	USD20M	INVESTMENT, trade	USD20M	-	100	100	Y	-	-
Great Talent Technology Co., Ltd.	Fully-owned	BVI	Investment	USD1	Investment	USD1	-	100	100	Y	-	-
Northeast Electric (Beijing) Co., Ltd	Fully-owned	Beijing	Sales	RMB2M	Sales of machinery, electric equipment, hardwares	RMB2M	-	100	100	Y	-	-
Shenyang Kaiyi Electric Co., Ltd	Fully-owned	Shenyang	Manufacturing	RMB1M	Manufacturing high-voltageelectric equipment, switches system, electric capacitor	RMB1M	-	100	100	Y	-	-
Shenyang Zhaolida Machinery Co., Ltd	Fully-owned	Shenyang	Sales	RMB0.1M	Sales of machinery	RMB0.1M	-	100	100	Y	-	-
Fuxin Close Mother Cable Co., Ltd	Fully-owned	Fuxin	Manufacturing	USD8.5M	Manufacturing close mother cable	USD5.1287M	-	100	100	Y	-	-

Note 1: Shenyang Zhaolida Machinery Equipment Co., Ltd has registered to the Industrial and Commercial Bureau for cancellation on Jan. 21, 2010.

Note 2: Shenyang Kaiyi Electric Co., Ltd added its investment to Fuxin Close Mother Cable Co., Ltd in the period by USD5.7 million, and actually paid-up USD2.3287 million by end of period. Shares held by the Company indirectly in Fuxin Close Mother Cable Co., Ltd remains 100%.

IV. Consolidation of the Company and Consolidated Financial Reports (Continue)

1. Subsidiaries (Continue)

(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(%) consolidated	Minority interest	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
New Northeast Electric (Jinzhou) Electric Capacitor Co., Ltd	Fully-owned	Jinzhou	Manufacturing	USD15.45M	Manufacturing capacitor	USD15.45M	-	100	100	Y	-	-
Jinzhou Jinrong Capacitor Co., Ltd	Fully-owned	Jinzhou	Manufacturing	RMB3M	Dry high-voltage capacitor	RMB2.0925M	-	69.75	69.75	Y	1,018,504.39	-

(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(%) consolidated	Percentage of voting rights(%) consolidated	Minority interest	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
Shenyang GaoDong Jia Dessiccation Equipment Co., Ltd	controlling	Shenyang	Manufacturing	USD0.7785M	Metal Box and Drying Equipment manufacturing	USD0.54495M	-	70	70	Y	778,854.01	-

Notes 1: Shenyang GaoDong Jia Dessiccation Equipment Co., Ltd has begun liquidation since Oct. 2009, and relative process is underway in the period.

NOTES TO THE FINANCIAL REPORTS (Continued)

For the year ended 31 December 2010 (Prepared in accordance with P.R.C. Accounting Rules and Regulations)

IV. Consolidation of the Company and Consolidated Financial Reports (Continue)

2. No Special-purpose-vehicle or any entity entrusted to operate or gaining controlling power by way of accepting a lease

3. Notes to changes in scope of consolidation

Items excluded from consolidation

Shenyang Zhaolida Machinery Equipment Co., Ltd has registered to the Industrial and Commercial Bureau for cancellation on Jan. 21, 2010, so profit and loss of January 2010 is consolidated into the Consolidated Financial Reports of the Company.

4. New member of consolidation or member left out of consolidation in the period

(1) New member of consolidation in the period

None

(2) Members left out of consolidation in the period

In RMB Yuan

Name of the company	Net Assets at disposal date	Net profit from beginning of period till disposal date
Shenyang Zhaolida Machinery Equipment Co., Ltd	-	-8,988.35

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 Great Talent 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 2010 (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	Exchange	RMB	Amount in	Exchange	RMB
	foreign currency	rates		foreign currency	Exchange rates	
Cash:						
RMB	24,718.13	1.00	24,718.13	13,815.27	1.00	13,815.27
USD	1,162.34	6.6227	7,697.83	1,162.34	6.8282	7,936.69
Sub-total	-	-	32,415.96	-	-	21,751.96
Deposits:						
RMB	52,742,620.16	1.00	52,742,620.16	40,506,278.03	1.00	40,506,278.03
HKD	925,086.08	0.85093	787,183.50	1,868,247.52	0.8805	1,644,991.94
USD	46,479.60	6.6227	308,496.04	364.43	6.8282	2,502.22
EUR	563.03	8.9347	5,030.51	563.03	9.2452	5,205.32
JPY	255.00	0.0596	15.19	255.00	0.0616	15.71
CHF	33.13	5.7860	191.69	33.13	5.9873	198.36
Sub-total	-	-	53,843,537.09	-	-	42,159,191.58
Others:						
RMB	20,914,046.29	1.00	20,914,046.29	23,072,737.50	1.00	23,072,737.50
Sub-total	20,914,046.29	-	20,914,046.29	23,072,737.50	-	23,072,737.50
Total	-	-	74,789,999.34	-	-	65,253,681.04

Remarks:

1. By end of period, deposits under performance guarantees in the banks total RMB20,905,887.50.
2. Time limit of the above-mentioned deposits are all over 3 months.

NOTES TO THE FINANCIAL REPORTS (Continued)

For the year ended 31 December 2010 (Prepared in accordance with P.R.C. Accounting Rules and Regulations)

V. Notes to Consolidated Financial Reports (Continue)

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	840,000.00	730,000.00

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

(3) There's no Account Receivables changed from bills due to issuer's inability to honor.

(4) Undue Bills endorsed by the Company by end of period:

In RMB yuan

Issuing company	Issuing date	Due date	Amount	Remark
Chongqing Jia Xiang Industrial & Trade Co., Ltd.	2010.7.6	2011.1.6	15,782.50	Paid on due date
Wuxi Hua Mao Automation Complete Equipment Co., Ltd	2010.7.9	2011.1.9	30,000.00	Paid on due date
Chongqing Shan Lun Motors Sales Co., Ltd	2010.7.13	2011.1.13	20,000.00	Paid on due date
Chongqing Ju Xing Transport Machinery Co., Ltd	2010.7.15	2011.1.15	10,000.00	Paid on due date
Chongqing Heng Sheng Group Co., Ltd	2010.7.16	2011.1.16	30,000.00	Paid on due date
Chongqing Dong Feng Yu An Car Sales Co., Ltd	2010.7.20	2011.1.20	120,000.00	Paid on due date
Shijiazhuang City Xin Fa Electric Appliances Co., Ltd	2010.7.20	2011.1.20	50,000.00	Paid on due date
Chongqing Dong Feng Yu An Car Sales Co., Ltd	2010.7.20	2011.1.20	150,000.00	Paid on due date
Chongqing Xin Yuan Motors Incorporated Co., Ltd	2010.7.20	2011.1.20	150,000.00	Paid on due date
Chengdu Jiu Ding Technology (Group) Co., Ltd	2010.7.21	2011.1.21	100,000.00	Paid on due date
Chongqing Construction Industrial (Group) Co., Ltd	2010.7.21	2011.1.21	64,750.00	Paid on due date
China Chang'an Motors Group Co., Ltd Sichuan Jian'an Axle Branch Co	2010.7.21	2011.1.21	40,000.00	Paid on due date
China Chang'an Motors Group Co., Ltd Sichuan Jian'an Axle Branch Co	2010.7.21	2011.1.21	50,000.00	Paid on due date
Chongqing Construction Industrial (Group) Co., Ltd	2010.7.21	2011.1.21	300,000.00	Paid on due date
Chongqing Jian She Car Aircon Co., Ltd	2010.7.21	2011.1.21	49,225.44	Paid on due date
Xuzhou Huai Hai Pharmaceutical Co., Ltd	2010.7.22	2011.1.22	38,718.60	Paid on due date

V. Notes to Consolidated Financial Reports (Continue)

2. Bills Receivables (Continue)

(4) Undue Bills endorsed by the Company by end of period (Continue):

In RMB yuan

Issuing company	Issuing date	Due date	Amount	Remark
Shandong Hui Neng Electric Co., Ltd	2010.7.27	2011.1.27	129,130.00	Paid on due date
Chongqing Teng Xiang Industrial Co., Ltd	2010.7.29	2011.1.28	100,000.00	Paid on due date
Zhejiang Hua Wang Electric Co., Ltd	2010.7.29	2011.1.29	100,000.00	Paid on due date
Langfang City Hua Sheng Industrial Co., Ltd	2010.7.29	2011.1.29	100,000.00	Paid on due date
Chongqing Fu Huang Cement Concrete Co., Ltd	2010.8.4	2011.2.4	500,000.00	Paid on due date
Changshu City Hua Ling Grinding Wheel Co., Ltd	2010.8.11	2011.2.11	30,000.00	Paid on due date
Jiangsu Guo Ai Electric Co., Ltd	2010.8.12	2011.2.11	73,871.00	Paid on due date
WeiChai Power Yangzhou Diesel Engine Co., Ltd	2010.8.25	2011.2.24	60,000.00	Paid on due date
Henan Xin Xiang Hong Tai Papers Co., Ltd	2010.8.25	2011.2.25	50,000.00	Paid on due date
Foshan City Jia He Trade Co., Ltd	2010.8.26	2011.2.26	660,000.00	Paid on due date
Chongqing Dong Fang Textiles (Group) Co., Ltd	2010.8.27	2011.2.27	300,000.00	Paid on due date
Suzhou City Wu Tong Telecommunication Equipment Co., Ltd	2010.8.30	2011.2.27	10,660.00	Paid on due date
Chongqing Xin Yuan Motors Incorporated Co., Ltd	2010.8.27	2011.2.27	100,000.00	Paid on due date
Foshan City Jia He Trade Co., Ltd	2010.8.30	2011.2.28	60,000.00	Paid on due date
Yangzhong City Hai Teng Fluorin Products Co., Ltd	2010.9.2	2011.3.2	52,198.50	Paid on due date
Wuhu Ming Yuan Electricity Equipment Co., Ltd	2010.9.6	2011.3.6	50,000.00	Paid on due date
Fuzhou Yi Li Electricity Equipment Co., Ltd	2010.9.14	2011.3.14	300,000.00	Paid on due date
Chongqing City Di Ma Industrial Co., Ltd	2010.9.15	2011.3.15	330,814.00	Paid on due date
Tangshan San You Silicon Co., Ltd	2010.9.15	2011.3.15	10,000.00	Paid on due date
Jilin Electricity Incorporated Co., Ltd	2010.9.25	2011.3.25	200,000.00	
Foshan City Jia He Trade Co., Ltd	2010.9.27	2011.3.25	44,625.00	
Chongqing City Fu Feng Cement Group Fu Hua Cement Co., Ltd	2010.9.28	2011.3.28	30,000.00	
Chongqing Fu Huang Cement Concrete Co., Ltd	2010.10.14	2011.4.13	1,000,000.00	
Chongqing Chang Feng Chemical Industry Co., Ltd.	2010.11.5	2011.5.5	200,000.00	
Tianjin You Fa Steel Tubes Group Co., Ltd	2010.11.9	2011.5.9	2,000,000.00	
Nanjing Da Quan Electric Co., Ltd	2010.12.13	2011.6.13	100,000.00	
Total			7,809,775.04	

NOTES TO THE FINANCIAL REPORTS (Continued)

For the year ended 31 December 2010 (Prepared in accordance with P.R.C. Accounting Rules and Regulations)

V. Notes to Consolidated Financial Reports (Continue)

3. Account Receivables

(1) Disclosure of account receivables by types:

In RMB yuan

Types	Amount by end of period			
	Balance on books		Provision for Bad Debts	
	Amount	Percentage	Amount	Percentage
Single Account Receivables of large amount with exclusive provision for bad debts	-	-	-	-
Account Receivables with provisions for bad debts set up by unit				
Unit of Accounts of Ages	250,463,025.91	100.00%	24,659,978.26	9.85%
Sub-total	250,463,025.91	100.00%	24,659,978.26	9.85%
Single Account Receivable of insignificant amount with exclusive provision for bad debts	-	-	-	-
Total	250,463,025.91	100.00%	24,659,978.26	9.85%

In RMB yuan

Types	Amount at beginning of period			
	Balance on book		Provision for bad debts	
	Amount	percentage	Amount	percentage
Single Account Receivables of large amount with exclusive provision for bad debts	-	-	-	-
Account Receivables with provisions for bad debts set up by unit				
Unit of Accounts of Ages	274,909,510.24	100.00%	17,462,800.91	6.35%
Sub-total	274,909,510.24	100.00%	17,462,800.91	6.35%
Single Account Receivable of insignificant amount with exclusive provision for bad debts	-	-	-	-
Total	274,909,510.24	100.00%	17,462,800.91	6.35%

V. Notes to Consolidated Financial Reports (Continue)

3. Account Receivables (Continue)

(1) Disclosure of account receivables by types (Continue):

Remarks of Types of Account Receivable:

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.

Account with obvious evidence that recovery is difficult becomes Single Account Receivable of insignificant amount with exclusive provision for bad debts.

(2) Account Receivable with provisions for bad debts set up by Aging Analysis Method in the Unit

In RMB Yuan

Age	Amount by end of period			Amount at beginning of period		
	Balance on book		Provision for bad debts	Balance on book		Provision for bad debts
	Amount	Percentage		Amount	Percentage	
Within 1 year	193,969,508.01	77.43%	-	208,451,682.51	75.83%	-
1 – 2 years	19,701,578.20	7.87%	-	36,296,426.53	13.20%	-
2 – 3 years	12,260,623.00	4.90%	4,904,249.20	14,334,055.99	5.21%	4,958,503.34
3 – 4 years	11,938,969.09	4.77%	7,163,381.45	8,307,619.10	3.02%	4,984,571.46
Over 4 years	12,592,347.61	5.03%	12,592,347.61	7,519,726.11	2.74%	7,519,726.11
Total	250,463,025.91	100.00%	24,659,978.26	274,909,510.24	100.00%	17,462,800.91

(3) There's no Single Account Receivable of insignificant amount with exclusive provision for bad debts in the period

(4) There's no account receivables write-off.

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

NOTES TO THE FINANCIAL REPORTS (Continued)

For the year ended 31 December 2010 (Prepared in accordance with P.R.C. Accounting Rules and Regulations)

V. Notes to Consolidated Financial Reports (Continue)

3. Account Receivables (Continue)

(6) Top 5 of Account Receivables customers are:

In RMB Yuan

Name of company	Relationship	Amount	Age	Percentage
				in Total
Shanxi Provincial Power Co	Non-associate	72,167,610.00	Within 1 year	28.81%
State Power Co Grid Construction Branch Co	Non-associate	36,717,537.18	Within 1 year	14.66%
North China Power Grid Co., Ltd	Non-associate	13,573,600.00	Within 1 year	5.42%
Chongqing City Power Co (Chongqing Three Gorges Power Complete Equipment Co., Ltd.)	Non-associate	9,853,656.02	Within 1 year	3.93%
Guangdong Hong Hai Bay Electricity Generation Co., Ltd	Non-associate	8,143,000.00	Within 1 year	3.25%
Total		140,455,403.20		56.07%

(7) There's no receivables from associates during the period.

(8) 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	Percentage	Amount	Percentage
Within 1 year	24,897,876.17	98.56%	2,235,740.64	85.14%
1 – 2 years	6,490.40	0.03%	132,499.57	5.04%
2 – 3 years	100,130.00	0.40%	257,745.44	9.82%
Over 3 years	257,745.44	1.01%	-	-
Total	25,262,242.01	100.00%	2,625,985.65	100.00%

Remarks of Prepayment:

Large amount prepayments within 1 year are constituted mainly by prepayments of goods.

V. Notes to Consolidated Financial Reports (Continue)

4. Prepayments (Continue)

(2) Top 5 customers of Prepayment:

In RMB Yuan

Name of company	Relationship	Amount	Age	Reason for unsettlmentn
New Northeast Group Electric High-Voltage Equipment Co., Ltd.	Non-associate	21,358,230.00	Within 1 year	Prepayment for goods
Dandong Chang Xing Electrical Appliances Co., Ltd	Non-associate	1,321,115.40	Within 1 year	Prepayment for materials
Fuxin City Heating Co.,	Non-associate	587,654.50	Within 1 year	Prepaid expenses of heating
Shenyang Yi Feng Electrical Appliances Co., Ltd	Non-associate	300,411.54	Within 1 year	Prepayment for materials
Xingcheng City Jiu Jiu Copper Co., Ltd	Non-associate	112,978.43	Within 1 year	Prepayment for materials
Total		23,680,389.87		

Remarks of Prepayment:

1. Prepayments to New Northeast Group Electric High-Voltage Equipment Co., Ltd. are for goods
2. Prepayments to Fuxin City Heating Co are for expenses of heating for year of 2011.
3. Prepayments to other companies are for materials.

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

(4) Notes to Prepayments:

Increase of Prepayments by end of period is due to increase of goods prepaid.

NOTES TO THE FINANCIAL REPORTS (Continued)

For the year ended 31 December 2010 (Prepared in accordance with P.R.C. Accounting Rules and Regulations)

V. Notes to Consolidated Financial Reports (Continue)

5. Dividends Receivables

In RMB Yuan

Items	Amount at	Increase in	Decrease in	Amount by	Reason for	
	beginning of				the period	the period
	period				receivables	happens (Y/N)
Dividends over 1 year	-	-	-	-		
New Northeast Group Electric High-Voltage Equipment Co., Ltd.	8,124,340.59	-	7,354,094.56	770,246.03	To be distributed	N
Weida High-Voltage Electric Co., Ltd.	7,632,598.13	-	256,327.01	7,376,271.12	To be distributed	N
Total	15,756,938.72	-	7,610,421.57	8,146,517.15		

Remarks of Dividend Receivable:

Decrease of the item is due to dividends of RMB7,354,094.56 received from New Northeast Group Electric High-Voltage Equipment Co., Ltd., and exchange loss of RMB256,327.01 due to Weida High-Voltage Electric Co., Ltd.

6. Other Receivables

(1) Disclosures to Other Receivables by classification:

In RMB Yuan

Types	Amount by end of period			
	Balance on book		Provision for bad debts	
	Amount	Percentage	Amount	Percentage
Single Account Receivables of large amount with exclusive provision for bad debts	100,503,649.46	83.82%	100,503,649.46	100.00%
Account Receivables with provisions for bad debts set up by unit				
Unit of Accounts of Ages	19,405,254.56	16.18%	4,150,885.08	21.39%
Sub-total	19,405,254.56	16.18%	4,150,885.08	21.39%
Single Account Receivable of insignificant amount with exclusive provision for bad debts	-	-	-	-
Total	119,908,904.02	100.00%	104,654,534.54	

V. Notes to Consolidated Financial Reports (Continue)

6. Other Receivables (Continue)

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

In RMB Yuan

Types	Amount at beginning of period			
	Balance on book		Provision for bad debts	
	Amount	Percentage	Amount	percentage
Single Account Receivables of large amount with exclusive provision for bad debts	100,840,043.78	86.07%	100,840,043.78	100.00%
Account Receivables with provisions for bad debts set up by unit				
Unit of Accounts of Ages	16,314,569.03	13.93%	3,144,329.03	19.27%
Sub-total	16,314,569.03	13.93%	3,144,329.03	19.27%
Single Account Receivable of insignificant amount with exclusive provision for bad debts	-	-	-	-
Total	117,154,612.81	100.00%	103,984,372.81	-

Remarks of Other Receivable:

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.

Account with obvious evidence that recovery is difficult becomes Single Other Receivable of insignificant amount with exclusive provision for bad debts.

NOTES TO THE FINANCIAL REPORTS (Continued)

For the year ended 31 December 2010 (Prepared in accordance with P.R.C. Accounting Rules and Regulations)

V. Notes to Consolidated Financial Reports (Continue)

6. Other Receivables (Continue)

(2) Other Receivable with provisions for bad debts set up by Aging Analysis Method in the Unit

In RMB Yuan

Age	Amount by end of period			Age at beginning of period		
	Balance on book		Provision for bad debts	Balance on book		Provision for bad debts
	Amount	Percentage		Amount	Percentage	
Within 1 year	14,088,822.48	72.60%	-	10,943,267.71	67.08%	-
1 – 2 years	448,741.74	2.32%	-	863,272.20	5.29%	-
2 – 3 years	542,226.00	2.79%	216,040.00	1,271,585.93	7.79%	324,033.41
3 – 4 years	976,548.16	5.03%	585,928.90	1,055,806.44	6.47%	639,658.87
Over 4 years	3,348,916.18	17.26%	3,348,916.18	2,180,636.75	13.37%	2,180,636.75
Total	19,405,254.56	100.00%	4,150,885.08	16,314,569.03	100.00%	3,144,329.03

(3) Single Other Receivables of large amounts with exclusive provision for bad debts

In RMB Yuan

Content of Receivable	Balance on book	Amount	Percentage	Reason
		of bad debts	of provision	
Benxi Steel (Group) Co., Ltd.	76,090,000.00	76,090,000.00	100.00%	See Notes V.6(7)
Jinzhou Power Capacity Co., Ltd.	24,413,649.46	24,413,649.46	100.00%	See Notes V.6(7)
Total	100,503,649.46	100,503,649.46		

(4) There's no Single Other Receivables of large amounts with exclusive provision for bad debts by end of period.

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

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

V. Notes to Consolidated Financial Reports (Continue)**6. Other Receivables (Continue)****(7) Characteristics or contents of large amount other receivables:**

1. 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 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 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 214th, 215th, 216th of (2006) Liao Min Er Zhong Zi, revocating Rulings of 21rd, 23rd, 22nd 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. The Company objects the Ruling and appealed for retrial. The Supreme Court of the People made Civil Rulings Nos (2010) Min Shen Zi 1144, 1145 and 1146 on Dec. 13 2010, overruled retrial appeal of the Company. Currently the Company is working on appeal again to the Supreme Court of the People. Outcome of such appeal can not be estimated.

V. Notes to Consolidated Financial Reports (Continue)

6. Other Receivables (Continue)

(7) Characteristics or contents of large amount other receivables (Continue):

By Ruling No. (2007) Liao Li Min Jian Zi Di 56 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 2nd (2008) Liao Shen Min Zhong Zi, revocating rulings of 1st and 2nd 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 2nd [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 objects the Ruling and appealed for retrial. The Supremment Court of the People accepted the appeal on July 2010, up to now no result has come out. 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 RMB24,413,649.46. The Company has accrued bad debt provision over full amount of receivable due to adverse assets status and non-operating. of Jinzhou Power.

(8) Top 5 of Other Receivables customers:

<i>In RMB Yuan</i>				
Company	Relationship	Amount	Age	Ratio over total other (%)
Benxi Steel (Group) Co., Ltd.	Non-associate	76,090,000.00	Over 4 years	63.46%
Jinzhou Power Capacity Co., Ltd	Non-associate	24,413,649.46	Over 4 years	20.36%
China Electric Technology Int'l Bidding Co., Ltd.	Non-associate	2,645,444.00	Within 1 year	2.21%
Guizhou Power Grid Materials Supply Branch Co	Non-associate	1,149,000.00	Within 1 year	0.96%
Meng Qing Min	Non-associate	949,200.00	Within 1 year	0.78%
Total		105,247,293.46		87.77%

V. Notes to Consolidated Financial Reports (Continue)

6. Other Receivables (Continue)

(9) There's no Other Receivables due to associated companies during the period.

(10) 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		
	Provision for			Provision for		
	Balance	devaluation	Book value	Balance	devaluation	Book value
Raw Material	25,389,156.87	70,354.63	25,318,802.24	22,062,431.33	117,406.40	21,945,024.93
Goods in process	8,429,008.35	-	8,429,008.35	11,468,217.78	-	11,468,217.78
Finished Goods	64,574,352.52	1,310,641.17	63,263,711.35	36,880,650.38	1,310,641.17	35,570,009.21
Total	98,392,517.74	1,380,995.80	97,011,521.94	70,411,299.49	1,428,047.57	68,983,251.92

(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	117,406.40	
Finished Goods	1,310,641.17	-	-	-	1,310,641.17
Total	1,428,047.57	18,944.20	-	65,995.97	1,380,995.80

(3) Preparation for inventories devaluation

Items	Basis for devaluation provisions accrual	Reason for revert to	Ratio of reverted
		inventory devaluation	amount to total
		provision during the period	balance of inventory
Raw materials	Net worth recoverable lower than cost	-	-
Finished goods	Net worth recoverable lower than cost	-	-

Remarks:

Set-off of Inventory Devaluation Provision is due to usage of production.

NOTES TO THE FINANCIAL REPORTS (Continued)

For the year ended 31 December 2010 (Prepared in accordance with P.R.C. Accounting Rules and Regulations)

V. Notes to Consolidated Financial Reports (Continue)

8. Investments to Associates

Company invested	Percentage of		Total Asset by		Total Liabilities		Total Net Asset		Total Operating		Net Profit	
	controlling shares	of Voting	end of period	by end of period	by end of period	Income of the period	by end of period	of the period	of the period	of the period	of the period	
New Northeast Electric High-Voltage Isolator Switchgears Co., Ltd.	25.60%	25.60%	277,537,785.38	104,623,080.39	172,914,704.99	11,360,315.60	-5,565,887.92					
Great Power Technology Ltd.	20.80%	20.80%	200,546,323.81	51,765.48	200,494,558.33	-	-35,883.72					

9. Long term equity investment

(1) Long-term equity investments are listed as below:

Company invested	Method of accounting	Investment cost	Balance at beginning of period	Variation	Balance by end of period	Shares held of the invested company (%)	Percentage of Voting	Provision for devaluation during the period	Provision for devaluation during the period	Cash dividends during the period
New Northeast Electric (Shenyang) High-voltage Switches Co., Ltd.	Method of Equity	29,959,476.52	31,266,645.74	-2,884,764.45	28,381,881.29	25.60%	25.60%	-	-	-
Great Power Technology Ltd.	Method of Equity	42,847,035.48	56,669,308.72	-1,443,632.49	55,225,676.23	20.80%	20.80%	-	-	-
New Northeast Group Electric High-Voltage Equipment Co., Ltd.	Method of cost	216,055,412.40	215,941,626.00	-2,403,385.91	213,538,240.09	17.09%	17.09%	-	-	-
Total			303,877,580.46	-6,731,782.85	297,145,797.61					

Remarks:

- Variations to investment to New Northeast Electric (Shenyang) High-Voltage Switches Co., Ltd including Loss on Investment of RMB1,424,867.31 recognized by the company's Profit & Loss of 2010, and exchange loss of RMB1,459,897.14.
- Variations to investment to Wei Da High-Voltage Electric Co., Ltd including Return on Investment of RMB-7,463.81 recognized by the company's loss of 2010, and exchange loss of RMB1,436,168.68.
- For New Northeast Group Electric High-Voltage Equipment Co., Ltd, variation to investment is constituted by exchange loss.

V. Notes to Consolidated Financial Reports (Continue)

10. Fixed Assets

(1) Fixed Assets

In RMB yuan

Items	Balance at beginning of period	Increase during the period	Decrease during the period	Balance by end of period
I. Total fixed assets - cost	149,762,859.61	2,052,180.16	2,406,599.17	149,408,440.60
Inclu.: Buildings	48,306,289.57	80,000.00	-	48,386,289.57
Machinery	76,870,929.96	710,760.89	1,014,997.54	76,566,693.31
Motor Vehicles and others	24,585,640.08	1,261,419.27	1,391,601.63	24,455,457.72
		Increase during the period	Provisions of the period	
II. Aggregated Depreciation	66,615,875.58	- 7,179,193.49	1,418,244.91	72,376,824.16
Inclu.: Buildings	31,134,729.25	- 858,867.50	-	31,993,596.75
Machinery	26,194,704.85	- 4,129,449.27	912,776.25	29,411,377.87
Motor Vehicles and others	9,286,441.48	- 2,190,876.72	505,468.66	10,971,849.54
III. Total Net worth	83,146,984.03	-	-	77,031,616.44
Inclu.: Buildings	17,171,560.32	-	-	16,392,692.82
Machinery	50,676,225.11	-	-	47,155,315.44
Motor Vehicles and others	15,299,198.60	-	-	13,483,608.18
IV. Total provision for devaluation	2,021,324.40	-	-	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	71,880.00	-	-	71,880.00
V. Total Book Value	81,125,659.63	-	-	75,010,292.04
Inclu.: Buildings	16,853,915.53	-	-	16,075,048.03
Machinery	49,044,425.50	-	-	45,523,515.83
Motor vehicles and others	15,227,318.60	-	-	13,411,728.18

Depreciation during the period totaled RMB7,179,193.49.

Work-in-progress changed to Fixed Assets at cost totaled 0.

NOTES TO THE FINANCIAL REPORTS (Continued)

For the year ended 31 December 2010 (Prepared in accordance with P.R.C. Accounting Rules and Regulations)

V. Notes to Consolidated Financial Reports (Continue)

10. Fixed Assets (Continue)

- (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 RMB5,517,217.66 by net worth for loan of RMB7 million.
2. Machinery pledged to Guangdong Development Bank, Dalian Branch for bank loan of RMB15 million has total net worth of RMB13,943,525.22.

11. Work in Progress

In RMB Yuan

Items	Amount by end of period			Amount at beginning of period		
	Book Value	Provision for devaluation	Net Book Value	Book Value	Provision for devaluation	Net Book Value
Reconstruction of Mutual						
Inductor Plant	445,633.81	-	445,633.81	-	-	-

Remarks:

Work in Progress of the period is contributed by expenses of reconstruction of Mutual Inductor Air-con Purifying Plant.

V. Notes to Consolidated Financial Reports (Continue)

12. Intangible Assets

(1) Intangible Assets

In RMB yuan

Items	Balance at beginning of period	Increase during the period	Decrease during the period	Balance by end of period
I. Total Intangible Assets - costs	7,431,501.05	-	-	7,431,501.05
Utility 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
II. Total Aggregate Amortization	2,508,861.24	180,490.12	-	2,689,351.36
Utility Model Patents	405,000.20	44,999.80	-	450,000.00
Softwares	207,000.00	-	-	207,000.00
Land-use Rights	1,896,861.04	135,490.32	-	2,032,351.36
III. Total Net Worth	4,922,639.81	-	-	4,742,149.69
Utility Model Patents	44,999.80	-	-	-
Softwares	-	-	-	-
Land-use Rights	4,877,640.01	-	-	4,742,149.69
IV. Total Provisions for Devaluation	-	-	-	-
Utility Model Patents	-	-	-	-
Softwares	-	-	-	-
Land-use Rights	-	-	-	-
V. Total Book Value of Intangible Assets	4,922,639.81	-	-	4,742,149.69
Utility Model Patents	44,999.80	-	-	-
Softwares	-	-	-	-
Land-use Rights	4,877,640.01	-	-	4,742,149.69

Amortization during the period is RMB180,490.12.

NOTES TO THE FINANCIAL REPORTS (Continued)

For the year ended 31 December 2010 (Prepared in accordance with P.R.C. Accounting Rules and Regulations)

V. Notes to Consolidated Financial Reports (Continue)

12. Intangible Assets (Continue)

(1) Intangible Assets (Continue)

Remarks:

1. 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 RMB4,742,149.69 for loan of RMB7 million.
2. During the period Utility Model Patents has been fully amortized, rest of months to amortized for Land-use rights is 420 months.

13. Long-term Deferred Expenses

In RMB yuan

Items	Amount at beginning of period	Increase during the period	Amortization	Other decrease	Amount by end of period	Reasons for other decrease
Rents for buildings	2,092,450.45	-	738,760.20	-	1,353,690.25	-
Rents for lands	540,833.33	-	110,000.04	-	430,833.29	-
Rents for machinery	5,250,000.00	-	1,800,000.00	-	3,450,000.00	-
Improvement expenditures for fixed assets rented	2,870,815.28	342,575.00	1,292,125.56	-	1,921,264.72	-
Total	10,754,099.06	342,575.00	3,940,885.80	-	7,155,788.26	-

Remarks:

1. Total rents paid for buildings, lands and machinery is RMB2,648,760.24.
2. Improvement Expenditures for fixed assets rented is for manufacturing plants rented.

V. Notes to Consolidated Financial Reports (Continue)

14. Deferred Tax Assets

(1) Deferred Tax Assets and Deferred Liabilities recognized

<i>In RMB yuan</i>		
Items	Amount by end of period	Amount at beginning of period
Deferred tax assets:		
Provision devaluation for fixed assets	12,729,815.27	11,910,752.23
Sub-total	12,729,815.27	11,910,752.23
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

<i>In RMB yuan</i>	
Items	Amount of Temporary Difference
Bad debt provision	47,682,479.14
Provision of devaluation of inventories	1,380,995.80
Provision for fixed assets devaluation	1,855,786.12
Total	50,919,261.06

NOTES TO THE FINANCIAL REPORTS (Continued)

For the year ended 31 December 2010 (Prepared in accordance with P.R.C. Accounting Rules and Regulations)

V. Notes to Consolidated Financial Reports (Continue)**15. Details of Provisions for Assets Devaluation***In RMB Yuan*

Items	Balance at beginning of period	Increase during the period	Decrease during the period		Balance by end of period
			Revert	Set-off	
I. Bad debt provision	121,447,173.72	8,246,740.20	379,401.12	-	129,314,512.80
II. Provision for devaluation of inventories	1,428,047.57	18,944.20	-	65,995.97	1,380,995.80
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	2,021,324.40	-	-	-	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	124,896,545.69	8,265,684.40	379,401.12	65,995.97	132,716,833.00

Remarks:

Reverted amount of inventories devaluation provision is due to change to cost of production while usage of raw material.

V. Notes to Consolidated Financial Reports (Continue)

16. Assets with limited ownership

(1) Reasons for limited ownership of assets

The Company has pledged some assets to banks for bank loans.

(2) Assets with limited ownership

<i>In RMB Yuan</i>				
Types of assets with limited ownership	Book Value at beginning of period	Increase during the period	Decrease during the period	Book Value by end of period
I. Assets for guarantees				
Land rights	4,877,640.01	-	135,490.32	4,742,149.69
Buildings	5,319,005.43	198,212.23	-	5,517,217.66
Machinery	15,100,513.55	-	1,156,988.33	13,943,525.22
Total	25,297,158.99	198,212.23	1,292,478.65	24,202,892.57

17. Short-term Borrowings

(1) Classification of short-term borrowings

<i>In RMB Yuan</i>		
Items	Amount by end of period	Amount at beginning of period
Borrowings with pledge	7,000,000.00	8,000,000.00
Borrowings with pledge and guarantee	15,000,000.00	15,000,000.00
Guaranteed Borrowings	12,000,000.00	2,350,000.00
Total	34,000,000.00	25,350,000.00

Remarks:

Short-term borrowings are classified as hypothecated borrowings, pledged borrowings and guaranteed borrowings.

NOTES TO THE FINANCIAL REPORTS (Continued)

For the year ended 31 December 2010 (Prepared in accordance with P.R.C. Accounting Rules and Regulations)

V. Notes to Consolidated Financial Reports (Continue)

17. Short-term Borrowings (Continued)

(1) Classification of short-term borrowings (Continued)

Notes to Short-term Borrowings:

1. Pledges made to Bank of China Fuxin Branch for bank loan of RMB7 million by subsidiary Fuxin Closed Mother Cable Company Limited see Notes V. 10 and Notes V. 12. The loan is granted in different lots, terms of which is between July 22, 2010 till Dec. 1, 2011.
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. 10, 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. The loan is granted in different lots, terms of the loan is between Nov. 9, 2010 till Oct. 17, 2011.
3. Bank loan of RMB10 million by Shenzhen Development Bank Dalian Branch to subsidiary New Northeast Electric (Jinzhou) Power Capacity Co., Ltd is guaranteed by New Northeast Group Electric High-voltage Equipment Co., Ltd. Terms of loan is between Mar. 5, 2010 till Mar. 4, 2011.
4. 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 million from Bank of Jinzhou, Jinzhong Sub-branch. Term of the loan is between Mar. 16, 2010 till Mar. 15, 2011.

18. Account Payable

(1) Age of Account Payables

Items	In RMB Yuan	
	Amount by end of period	Amount at beginning of period
Within 1 year	169,725,351.80	133,938,192.16
1-2 years	3,385,602.11	14,292,230.97
2-3 years	10,103,050.22	2,418,787.93
Over 3 years	4,364,399.63	2,726,629.05
Total	187,578,403.76	153,375,840.11

V. Notes to Consolidated Financial Reports (Continue)

18. Account Payable (Continue)

- (2) There's no account payable to company holding 5% or over voting shares of the company
- (3) Accounts Payable to Associates see Notes VI.5.
- (4) Remarks of Large amount Account Payables over 1 year:

Large amount Account Payables over 1 year are mainly payment of goods to be paid.

19. Advances

(1) Ages of Advances

Items	<i>In RMB Yuan</i>	
	Amount by end of period	Amount at beginning of period
Within 1 year	67,463,163.40	11,303,452.50
1-2 years	1,230,214.00	6,905,000.00
Over 3 years	665,000.00	755,052.52
Total	69,358,377.40	18,963,505.02

- (2) There's no prepayment from company holding 5% or over voting shares of the company.
- (3) Remarks of large amount Advances over 1 year:

Large amount Advances over 1 year are mainly payments of sales received in advance yet not up to recognition standard.

NOTES TO THE FINANCIAL REPORTS (Continued)

For the year ended 31 December 2010 (Prepared in accordance with P.R.C. Accounting Rules and Regulations)

V. Notes to Consolidated Financial Reports (Continue)**20. 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	-	17,760,367.60	17,760,367.60	-
II. Benefits	62,636.11	1,088,282.08	1,088,282.08	62,636.11
III. Social Securities	217,267.80	6,462,120.45	3,889,260.19	2,790,128.06
Inclu.: 1. Medicare	8,006.35	1,657,214.66	1,656,415.56	8,830.85
2. basic endowment insurance	174,547.91	4,022,382.96	1,693,661.86	2,503,269.00
3. Industrial injury insurance	13,253.48	235,801.04	242,241.48	6,787.64
4. birth insurance	2,505.90	127,740.59	127,740.59	2,505.90
5. unemployment insurance	18,954.16	418,981.20	169,200.70	268,734.67
IV. Housing provident funds	467,472.21	1,625,414.84	1,663,550.00	429,337.05
V. Funds for labor union and education of employees	597,776.85	615,310.94	401,286.98	811,800.81
VI. Others	-	271,983.52	4,018.00	267,965.52
Total	1,345,152.97	27,823,479.43	24,806,764.85	4,361,867.55

There's no behind payable salaries to employees.

21. Tax payable*In RMB yuan*

Items	Amount by end of period	Amount at beginning of period
Value-added tax	-368,752.91	10,152,568.14
Income tax -enterprise	2,126,791.06	3,402,229.00
Income tax - person	129,140.10	152,411.48
Tax on land use rights	31,609.50	-
Tax on buildings' ownership	9,507.65	17,598.76
Municipal maintenance and construction tax	235,452.28	-
Education	108,945.62	2,770.19
Others	76,990.23	121,135.54
Total	2,349,683.53	13,848,713.11

V. Notes to Consolidated Financial Reports (Continue)

22. Other Payables

(1) Ages of Other Payables

Items	<i>In RMB yuan</i>	
	Amount by end of period	Amount at beginning of period
Within 1 year	10,955,950.37	30,607,461.98
1-2 years	16,627,284.60	8,308,658.73
2-3 years	5,512,639.73	11,502,178.54
Over 3 years	41,619,440.60	33,746,135.45
Total	74,715,315.30	84,164,434.70

(2) There's no other payables to company holding 5% or over voting shares of the company.

(3) Other Payables to Associates see Note VI. 5.

(4) Remarks to large amount Other Payable over 1 year

Large amount Other Payable over 1 year are mainly unpaid intra-group payments.

(5) Remarks to large amount Other Payable

Large amount Other Payable are mainly unpaid intra-group payments.

NOTES TO THE FINANCIAL REPORTS (Continued)

For the year ended 31 December 2010 (Prepared in accordance with P.R.C. Accounting Rules and Regulations)

V. Notes to Consolidated Financial Reports (Continue)

23 Other current liabilities

In RMB Yuan

Items	Balance by end of period	Balance at beginning of period
Deferred Income	468,446.97	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 research of <±800KV Direct Current Electricity Transmitting Power Capacity and Complete Equipment>. The fund was received on May 5, 2009, expenditure under this item is RMB119,000.00 during the period, totalling RMB231,553.03 has been paid, balance of the fund is RMB268,446.97 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.

24. 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	-	30,993,929.00	84,721,078.25
Others	9,252,860.00	-	-	9,252,860.00
Total	124,967,867.25	-	30,993,929.00	93,973,938.25

V. Notes to Consolidated Financial Reports (Continue)**24. Estimated Liabilities (Continue)****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 RMB 30,000,000.00, and the company therefore undertake obligation of joint guarantee. In 2001 China Ever Bright Bank Co., Ltd has filed a lawsuit against “NET” to the 1st District Court of Beijing City, and requesting the debtor to repay principal of RMB26,402,000.00 and overdue interests of RMB4,591,929.00, and for the company to undertake joint obligation to repay. The Court has ruled on Apr. 19, 2002 that the company should undertake joint obligation of repayment of the above-mentioned principal and overdue interest. The company has appealed to the Higher People’s Court of Beijing City on Aug. 15, 2002. On May 13, 2003, the Higher People’s Court of Beijing City has made final judgement the 1st sentence should be carried on. The company has estimated liabilities of RMB30,993,929.00. On Jul. 14, 2008 China Everbright Bank, China Everbright Bank Co., Ltd. Beijing Branch made joint declaration of equity transfer on People’s Court Daily with China Great Wall Asset Management Corporation Beijing Representative Office (hereunder referred to as ‘Great Wall Asset Beijing Rep Office’), transferring creditor’s rights worth of RMB26,402,000.00 to the latter. On Dec. 3, 2009, Great Wall Asset Beijing Rep Office signed Creditor’s Rights Transfer Agreement with Liaoning Shun Long Commercial & Trade Co., Ltd. (hereunder referred to as ‘Shun Long Comm Trade’), transferring the above-mentioned rights to ‘NET’ to Shun Long Comm Trade at the price of RMB10,750,000.00, leaving the latter to recover such rights. Shun Long Comm Trade sent a Communication Letter to the Company on Nov. 29, 2010, asking for repayment of the above-mentioned debts including principal of RMB26,402,000.00, and interest accrued of RMB30,505,683.26. On Dec. 31, 2010 the Company has signed Repayment Agreement with Shun Long Comm Trade, stipulating repayment of RMB10,000,000.00 before Dec. 31, 2012 by the Company, and repayment of RMB14,000,000.00 before Dec. 31, 2013, then the rest of the principal, interest and relative interest penalties are to be exempted. The Company therefore will be exempted from obligations of guarantee to China Everbright Bank, and own right of claim to the Borrower - ‘NET’. The Company carries forward estimated liability of RMB30,993,929.00 according to the above-mentioned agreement.
2. The company has provided guarantee for the bank loan of RMB 13,000,000.00 between Bank of China Jinzhou Branch and the company’s subsidiary – “Jinrong”, and thus undertake obligation of joint guarantee. Bank of China Jinzhou Branch has filed a lawsuit in Feb. 2005 to the District Court of Jinzhou City Liaoning Province, asking for “Jinrong”’s repayment of RMB13,000,000.00 and the relative interests, along with request that the company undertake joint obligation of repayment. The subject District Court has ruled in May 2005 that the company should undertake the joint obligation of repayment of the captioned loan principal and interests. The company has not filed for appeal, and the Ruling has been effective. Intermediate Court of Liaoning Province Jinzhou City has issued Enforcement Notice No. (2005) Jin Zhi Zi 89 in Sep., 2005. And on Jun. 23, 2010 the Court has made Enforcement Ruling No. (2005) Jin Zhi Yi Zi 89, sealing up High-voltage parallel connection Capacitors owned by Jinrong, including 35 boxes of 140 sets of BFM6.61-299IW, 24 boxes totalling 96 sets of BFM2.11.5J3-300IW, 65 boxes of 240 sets of BFM3.11.5J3-300IW. The company 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.

V. Notes to Consolidated Financial Reports (Continue)**24. Estimated Liabilities (Continue)****Remarks (Continue):**

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. On Nov. 1 2010, the Intermediate Court of Xi’an City has ruled by Enforcement Ruling No. (2008) Xi Zhi Min Zi 260-6, maintained seal-up of the above-mentioned 8 houses till Oct. 31, 2011.
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 RMB2,890,000.00, 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 RMB2,890,000.00 by Ruling no. (2007) Jin Min San Chu Zi 00049 in Jun. 2007, which has come into effectiveness for the company has not appealed. The company therefore estimate liability of RMB19,890,000.00. Up to 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 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 160. Jindu Hotel’s license was revoked on Oct. 29, 2010, and China Industrial & Commercial Bank of China Shenyang City Yinxin Sub-branch has signed Creditor’s Rights Transfer Agreement with China Great Wall Asset Management Corporation (hereunder referred to as ‘Great Wall Asset Corp’), transferring the above-mentioned rights to the latter. 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 RMB3,466,578.25, 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 and relative interest RMB3,466,578.25. Therefore the company has estimated liability of RMB26,366,578.25. The company has not paid the above mentioned debt by end of reporting date.

V. Notes to Consolidated Financial Reports (Continue)

25. Other non-current liabilities

In RMB Yuan

Items	Balance by end of period	Balance at beginning of period
Other Non-current Liabilities	60,714,159.27	92,920,097.04

Remarks:

- (1) RMB39,964,097.04 is payable to New Northeast Group Electric High-Voltage Equipment Co., Ltd.(hereunder referred to as 'High-Voltage'). High-Voltage sent out letter on Dec. 15, 2010 promising not to recover such funds within 2 years.
- (2) On Dec. 31, 2010 the Company has signed Repayment Agreement with Shun Long Comm Trade, stipulating repayment of RMB10,000,000.00 before Dec. 31, 2012 by the Company, and repayment of RMB14,000,000.00 before Dec. 31, 2013, then the rest of the principal, interest and relative interest penalties are to be exempted. By end of period the Company recognized Payable to Shun Long Comm Trade of RMB20,750,062.23 according to future cash flow.

26. Capital

In RMB Yuan

	No. At beginning of period	Increase/Decrease (+, -)					No. By end of period
		New shares issued	Stock Dividend	Reserve to Equity	Others	Sub-total	
Total Shares	-		-	-	-		-

NOTES TO THE FINANCIAL REPORTS (Continued)

For the year ended 31 December 2010 (Prepared in accordance with P.R.C. Accounting Rules and Regulations)

V. Notes to Consolidated Financial Reports (Continue)

26. Capital (Continue)

Items	Amount at beginning of period	Changes during the period (+, -)					Sub-total	Amount by end of period
		Allotment of shares	Bonus	Capitalization of surplus reserves	Others			
I. Shares with limited selling conditions								
1. State shares	-	-	-	-	-	-	-	-
2. Legal person shares	218,255,650.00	-	-	-	-212,025,650.00	-212,025,650.00	-212,025,650.00	6,230,000.00
Inclu.: legal person shares-domestic	218,255,650.00	-	-	-	-212,025,650.00	-212,025,650.00	-212,025,650.00	6,230,000.00
Sub- Total	218,255,650.00	-	-	-	-212,025,650.00	-212,025,650.00	-212,025,650.00	6,230,000.00
II. Shares with unlimited selling conditions								
1. Common RMB shares (A share)	397,164,350.00	-	-	-	212,025,650.00	212,025,650.00	212,025,650.00	609,190,000.00
2. Foreign shares listed abroad (H share)	257,950,000.00	-	-	-	-	-	-	257,950,000.00
Sub-Total:	655,114,350.00	-	-	-	212,025,650.00	212,025,650.00	212,025,650.00	867,140,000.00
III. Total shares	873,370,000.00	-	-	-	-	-	-	873,370,000.00

Remarks:

A Share of 212,025,650 shares with limited selling condition was changed to A Share without selling conditions.

27. Capital Reserve

Items	Amount at beginning of period	In RMB Yuan		Amount by end of period
		Increase during the period	Decrease during the 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.

V. Notes to Consolidated Financial Reports (Continue)

28. Reserve

<i>In RMB Yuan</i>				
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.

29. Retained Profit

<i>In RMB Yuan</i>		
Items	Amount	Ratio of Withdrawal or Distribution
Before adjustment retained profit of last period	-1,528,964,095.88	-
Adjustment Retained Profit at beginning of year (Increase+, decrease-)	-	-
After Adjustment Retained Profit at beginning of year	-1,528,964,095.88	-
Plus: Net Profit to Parent Company of the period	1,683,987.53	-
Minus: Legal Reserve	-	-
Random Reserve	-	-
Common Risk Reserve	-	-
Dividends due Common Shares	-	-
Common Shares change to Equity	-	-
Retained Profit at end of period	-1,527,280,108.35	-

NOTES TO THE FINANCIAL REPORTS (Continued)

For the year ended 31 December 2010 (Prepared in accordance with P.R.C. Accounting Rules and Regulations)

V. Notes to Consolidated Financial Reports (Continue)**30. Income and cost of sales****(1) Income and cost of sales***In RMB Yuan*

Item	Transaction Amount this Year	Transaction Amount last Year
Major Income of Sales	348,286,699.09	422,623,294.25
Other Income of Sales	162,793.19	1,119,651.03
Cost of Sales	274,503,428.42	300,957,971.39

(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	56,467,862.22	40,042,224.69	70,513,434.27	49,364,335.49
Power capacitor	165,801,459.22	115,113,471.89	234,737,138.27	141,463,378.94
High-voltage switches	126,017,377.65	119,177,594.63	117,372,721.71	109,138,440.17
Others	-	-	-	-
Total	348,286,699.09	274,333,291.21	422,623,294.25	299,966,154.60

(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	62,944,861.09	46,910,588.36	49,088,025.89	34,107,381.32
Central North	150,663,907.85	135,745,881.00	235,598,818.24	178,890,868.60
Central	7,309,692.60	5,583,111.61	26,212,065.77	16,566,786.77
Central East	17,074,316.21	14,201,764.18	75,894,709.02	47,469,235.17
Central South	36,209,487.17	32,414,159.58	19,279,061.62	12,256,644.24
Southwest	25,763,025.94	16,278,411.63	11,223,777.79	6,942,915.73
Northwest	48,321,408.23	23,199,374.85	5,326,835.92	3,732,322.77
Total	348,286,699.09	274,333,291.21	422,623,294.25	299,966,154.60

V. Notes to Consolidated Financial Reports (Continue)

30. Income and cost of sales (Continued)

(4) Top 5 customers of Income of Sales

In RMB Yuan

Customers	Income of sales	Percentage of total Income of sales
Shanxi Provincial Power Grid Co	64,961,196.50	18.64%
State Power Grid Co. Construction Branch	57,237,241.03	16.43%
Central North Power Grid Co., Ltd	52,945,726.41	15.19%
Hua Neng Yi Min Coal & Electricity Power Co., Ltd	20,130,256.41	5.78%
Chongqing City Power Co	18,281,794.87	5.25%
Total	213,556,215.22	61.29%

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.
- Decrease in income is due to sales decline of the period.

31. Sales tax and surtax

In RMB Yuan

Items	Amount of the period	Amount of last period	Ratio of tax
Sales tax	-	-	5%
Tax on City maintenance and construction	301,754.68	65,364.99	7%
Education Surtax	162,959.47	28,013.57	3%
Other taxes	-	5,122.52	-
Total	464,714.15	98,501.08	

Remarks:

- Tax and surtax of the period are constituted mainly by City Maintenance and Construction Tax and Education Surtax calculated by value-added amount.
- Increase of tax of the period than last period is mainly due to payment of City Maintenance and Construction Tax and Education Surtax starting from Dec. 2010, by Regulation No. Guo Shui Han [2010] 587.

NOTES TO THE FINANCIAL REPORTS (Continued)

For the year ended 31 December 2010 (Prepared in accordance with P.R.C. Accounting Rules and Regulations)

V. Notes to Consolidated Financial Reports (Continue)

32. Sales Expenses

<i>In RMB Yuan</i>		
Items	Amount of the period	Amount of last period
Transportation	7,838,674.17	9,883,812.33
Contracting expenses	3,859,400.00	5,650,403.00
Travelling	3,315,584.39	3,382,651.73
Counselling	3,209,615.00	11,062,834.06
Salaries & benefits of employees	1,802,604.92	1,443,852.84
Entertainment	1,031,123.53	1,272,407.54
Bidding	801,290.31	2,440,561.43
Office expenses	764,663.68	730,684.76
Sale service expenses	436,027.26	532,127.00
Material consumption	350,191.47	279,138.88
Rents & leases	74,504.00	129,480.00
Exhibition	63,106.80	50,000.00
Meeting	43,480.00	72,237.00
Fixtures	29,963.77	452,669.92
Assemble & unassemble expenses	25,590.78	726,100.00
Advertisements	10,300.00	3,817,500.00
Others	129,844.82	712,670.30
Total	23,785,964.90	42,639,130.79

V. Notes to Consolidated Financial Reports (Continue)

33. Administrative Expenses

Items	<i>In RMB Yuan</i>	
	Amount of the period	Amount of last period
Salaries & Benefits of employees	16,539,232.66	16,137,010.21
Rents & Leases	4,998,316.42	5,492,180.16
Office Expenses	4,440,443.63	4,877,966.84
Entertainment	2,990,583.21	3,682,780.10
Depreciation Expenses	2,798,355.40	3,400,122.11
Heating Expenses	2,154,583.17	1,450,546.06
Travelling	1,873,849.58	1,825,522.88
Audit, Evaluation, Consulting Expenses	1,637,045.00	2,831,188.70
Long-term Deferred Payment Amortization	1,530,152.93	311,263.96
IPO Expenses	1,431,785.36	1,106,941.09
R & D of new products	1,090,099.46	404,638.17
Material Consumption	837,160.91	718,366.78
Taxes	649,526.53	881,980.68
Lawsuit	300,000.00	79,576.00
Intangible Assets Amortization	180,490.12	298,823.56
Legal Counselling	75,000.00	150,000.00
Others	130,154.12	915,357.54
Total	43,656,778.50	44,564,264.84

NOTES TO THE FINANCIAL REPORTS (Continued)

For the year ended 31 December 2010 (Prepared in accordance with P.R.C. Accounting Rules and Regulations)

V. Notes to Consolidated Financial Reports (Continue)

34. Financial Expenses

<i>In RMB Yuan</i>		
Items	Amount of the period	Amount of last period
Interest Expenses	2,142,810.89	1,509,296.27
Minus: Interest Income	568,233.99	155,784.80
Gain/Loss on Exchange	-56,166.74	38,410.11
Bank Commission/Charges	125,145.82	124,661.76
Total	1,643,555.98	1,516,583.34

35. Loss from Diminution of Assets

<i>In RMB Yuan</i>		
Items	Amount of the period	Amount of last period
I. Bad debt loss	7,867,339.08	25,449,507.02
II. Inventory devaluation loss	18,944.20	-
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	7,886,283.28	25,449,507.02

V. Notes to Consolidated Financial Reports (Continue)

36. Return on Investment

(1) Details of Return on Investment

<i>In RMB Yuan</i>		
Items	Amount of the period	Amount of last period
Return on long-term equity investment by method of cost	-	-
Return on long-term equity investment by method of equity	-1,432,331.12	-1,677,139.94
Return by disposal of long-term equity investment	-	-
Total	-1,432,331.12	-1,677,139.94

(2) Return on Long-term Equity Investment by Method of Equity:

<i>In RMB Yuan</i>			
Company invested	Amount of the period	Amount of last period	Change from last period
New Northeast Electric (Shenyang) High-Voltage Isolator Switchgears Co., Ltd.	-1,424,867.31	561,802.60	Loss by Associate of the period
Great Power Technology Ltd.	-7,463.81	-2,238,942.54	Loss by Associate of the period
Total	-1,432,331.12	-1,677,139.94	

Remarks:

Amount under this item is Return on Investment recognized by Equity Method.

NOTES TO THE FINANCIAL REPORTS (Continued)

For the year ended 31 December 2010 (Prepared in accordance with P.R.C. Accounting Rules and Regulations)

V. Notes to Consolidated Financial Reports (Continue)

37. Non-operating Revenue

In RMB Yuan

Items	Amount of the period	Amount of last period	Amount taken into
			Non-operating profit & loss of the period
Total revenue by disposing non-current assets	67,904.17	24,403.72	-
Inclu.: revenue by disposing fixed assets	67,904.17	24,403.72	67,904.17
Revenue by disposing intangible assets	-	-	-
Gain on debt restructuring	10,243,866.77	-	10,243,866.77
Government subsidy	119,000.00	112,553.03	119,000.00
Incomes of fine	-	24,035.00	-
Others	148,225.35	104,703.22	148,225.35
Total	10,578,996.29	265,694.97	10,578,996.29

Government Subsidy

In RMB Yuan

Item	Amount of the period	Amount of last period	Note
Research on ±800KV Direct Current Electricity Transmitting Power Capacity and Complete Equipment	119,000.00	112,553.03	Grants by Liaoning Committee of Economy and Information, Liaoning Department of Finance

Remarks:

1. Increase of the period is mainly due to debt restructuring of the Company agreeing to pay back Liaoning Shun Long Commercial & Trade Co., Ltd with amount less than book value of relative payables, by Repayment Agreement between the two parties.
2. Notes of government subsidy see Note V. 23 under Item of other current liabilities.

V. Notes to Consolidated Financial Reports (Continue)

38. Non-operating expenses

In RMB Yuan

Items	Amount of the period	Amount of last period	Amount taken into Non-operating profit & loss of the period
Total loss of disposal of non-current assets	386,391.33	157,163.81	-
Inclu.: loss of disposal of fixed assets	386,391.33	157,163.81	386,391.33
Loss of disposal of intangible assets	-	-	-
Expenses of fine	5.97	14,627.79	5.97
Compensation expenses	-	-	-
Overdue fine	-	-	-
Others	120,295.34	87,682.53	120,295.34
Total	506,692.64	259,474.13	506,692.64

Remarks:

Loss on fixed assets disposal of the period is mainly loss of disposal of vehicles by New Northeast Electric (Jinzhou) Power Capacitor Co., Ltd, and loss of discarding equipments by Shenyang Gaodong Jia Dessication Equipment Co., Ltd.

39. Income Tax Expenses

In RMB Yuan

Item	Amount of the period	Amount of last period
Income tax of the period by law of tax and relative regulations	4,938,593.08	6,373,653.43
Adjustments to deferred income tax	-819,063.04	-6,791,250.34
Total	4,119,530.04	-417,596.91

NOTES TO THE FINANCIAL REPORTS (Continued)

For the year ended 31 December 2010 (Prepared in accordance with P.R.C. Accounting Rules and Regulations)

V. Notes to Consolidated Financial Reports (Continue)

40. 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	1,683,987.53	7,670,166.70
Non-operational profit & loss to common shareholders of the company	F	7,558,383.74	-268.06
Net profit to common shareholders of the company after deduction of non-operational profit & loss	$P0'=P0-F$	-5,874,396.21	7,670,434.76
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	$P1=P0+V$	1,683,987.53	7,670,166.70
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	$P1'=P0'+V'$	-5,874,396.21	7,670,434.76
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	-	-
Increase of shares due to issuance of new shares or debts to equity 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

V. Notes to Consolidated Financial Reports (Continue)

40. Calculations of Primary Earnings Per Share and Diluted Earnings Per Share (Continue)

<i>In RMB Yuan</i>			
Items	Calculation	Amount of the period	Amount of last period
Accumulated no of months from next month of increasing shares till end of reporting period	M_i	-	-
Accumulated no of months from next month of decreasing shares till end of reporting period	M_j	-	-
Weighted average common shares issued abroad	$S=S_0+S_1+Si \times Mi$ $\div M_0-Sj \times Mj \div M_0-Sk$	873,370,000.00	873,370,000.00
Plus: weighted average common shares supposing potential dilutional common shares changed to common shares	X_1	-	-
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	$EPS_0=P_0 \div S$	0.002	0.01
Primary earnings per share due to common shareholders after deduction of extraordinary profit & loss	$EPS_0'=P_0' \div S$	-0.007	0.01
Diluted earnings per share due to common shareholders	$EPS_1=P_1 \div X_2$	0.002	0.01
Diluted earnings per share due to common shareholders after deduction of extraordinary profit & loss	$EPS_1'=P_1' \div X_2$	-0.007	0.01

NOTES TO THE FINANCIAL REPORTS (Continued)

For the year ended 31 December 2010 (Prepared in accordance with P.R.C. Accounting Rules and Regulations)

V. Notes to Consolidated Financial Reports (Continue)

41. Other comprehensive revenues

<i>In RMB Yuan</i>		
Items	Amount of the period	Amount of last period
1. Amount of profit (loss) by sellable financial assets	-	-
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	-	-
2. Proportion of other comprehensive revenues of companies invested enjoyed by the method of equity	-	-
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	-	-
3. Profit (loss) by cash flow hedging	-	-
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	-	-
4. Exchange difference of foreign currency reports	-5,246,708.00	-264,873.46
Minus: Net amount taken into profit & loss disposing offshore operations	-	-
Sub-total	-5,246,708.00	-264,873.46
5. Others	-	-
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	-	-
Total	-5,246,708.00	-264,873.46

Remarks:

The item reports differences on exchange from consolidation of foreign-currency financial reports of Northeast Electric (Hong Kong) Ltd and Great Talent Technology Ltd.

V. Notes to Consolidated Financial Reports (Continue)

42. Notes to cash flow

(1) Cash received from other operational activities

	<i>In RMB Yuan</i>
Items	Amount
Intra-group transactions	405,579.06
Deposits	27,945,703.76
Income of interest	568,243.42
Others	105,419.68
Total	29,024,945.92

Remarks on cash received from other operating activities:

Deposits are bidding deposits received from suppliers by subsidiary – Fuxin Close Mother Cable Co., Ltd and New Jin Cap.

NOTES TO THE FINANCIAL REPORTS (Continued)

For the year ended 31 December 2010 (Prepared in accordance with P.R.C. Accounting Rules and Regulations)

V. Notes to Consolidated Financial Reports (Continue)

42. Notes to cash flow (Continued)

(2) Cash paid to operational activities

	<i>In RMB Yuan</i>
Items	Amount
Intra-group transactions	24,906,833.13
Deposits	20,120,350.00
Transportation	6,717,210.17
Consultance	5,360,929.06
Office expenses	5,248,465.91
Travelling	5,184,643.97
Rents and leases	4,096,814.64
Entertainment	3,903,322.38
Contracting	3,859,400.00
Heating expenses	2,154,583.17
Auditing	1,332,620.00
Material consumption	1,186,488.69
R & D on new products	1,090,099.46
IPO expenses	885,518.43
Bidding	819,206.31
Sales service expenses	436,027.26
Lawsuits	300,000.00
Exhibition	63,106.80
Meeting	43,480.00
Fixtures	29,963.77
Assemble & unassemble expenses	25,590.78
Advertisement	10,300.00
Other expenses	388,107.12
Total	88,163,061.05

Remarks:

1. Intra-group transaction are repayments mainly.
2. Bidding deposits paid to customer by subsidiary – fuxin close mother cable and new jin cap.

V. Notes to Consolidated Financial Reports (Continue)

43. Supplementary information to cash flow

(1) Supplementary information to cash flow

	<i>In RMB Yuan</i>	
Supplementary Information	Amount of the period	Amount of last period
1. Operational activity cash flow adjusted by net profit		
Net profit	1,029,209.54	7,263,664.63
Plus: Provisions for assets diminution	7,886,283.28	25,449,507.02
Depreciation of fixed assets, depreciation of oil and gas assets, depreciation of production bio-assets	7,179,193.49	7,093,574.30
Amortization of intangible assets	180,490.12	191,823.56
Amortization of long term expenses payable	3,940,885.80	1,315,166.52
Loss on disposal of fixed assets, intangible assets and other long term assets (gain is shown as “-”)	217,105.39	132,760.09
Loss on discarding fixed assets (gain is shown as “-”)	101,381.77	-
Fair value variance loss (gain is shown as “-”)	-	-
Financial expenses (gain is shown as “-”)	2,150,077.82	1,509,296.27
Loss on investments (gain is shown as “-”)	1,432,331.12	1,677,139.94
Decrease of deferred income tax assets (increase is shown as “-”)	-819,063.04	-6,791,250.34
Increase of deferred income tax liabilities (decrease is shown as “-”)	-	-
Decrease of inventories (increase is shown as “-”)	-28,047,214.22	-1,444,569.66
Decrease of operational account receivables (increase is shown as “-”)	1,429,487.47	-24,651,702.82
Increase of operational account payables (decrease is shown as “-”)	3,347,134.86	10,493,445.19
Others	-	-
Net in/out flows generated from operational activities	27,303.40	22,238,854.70
2. Major investment and financing activities not affecting cash:	-	-
Debts changed as capital	-	-
Tradeable company bonds due within 1 year	-	-
Lease financing fixed assets	-	-
3. Changes of cash and equivalents:	-	-
Cash at end of period	53,884,111.84	42,180,943.54
Minus: cash at beginning of period	42,180,943.54	30,736,939.70
Plus: cash equivalents at end of period	-	-
Minus: cash equivalents at beginning of period	-	-
Net increase of cash and equivalents	11,703,168.30	11,444,003.84

NOTES TO THE FINANCIAL REPORTS (Continued)

For the year ended 31 December 2010 (Prepared in accordance with P.R.C. Accounting Rules and Regulations)

V. Notes to Consolidated Financial Reports (Continue)

43. Supplementary information to cash flow (Continued)

(2) Composure of cash and equivalents

<i>In RMB Yuan</i>		
Items	Amount by end of period	Amount at beginning of period
I. Cash	53,884,111.84	42,180,943.54
Inclu.: Cash on hand	32,415.96	21,751.96
Bank deposits ready to pay	53,843,537.09	42,159,191.58
Other cash assets ready to pay	8,158.79	-
Deposits with central bank ready to pay	-	-
Deposits with other banks	-	-
Inter-bank lending	-	-
II. Cash equivalents	-	-
Inclu.: Bonds investment due within 3 months	-	-
III. Balance of cash and equivalents by end of period	53,884,111.84	42,180,943.54

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

VI. Associates and relative transactions

1. Parent company of the company

In RMB Yuan

Parent company	Relationship	Type	Place of		Registered Business capital	Percentage of shares	Voting shares	Ultimate	Organization code
			registration	Legal rep.		held by parent company(%)	ratio held by parent Co(%)	controlling party of the company	
New Northeast Electric Investment Co., Ltd	Parent Company	Limited	Ying Kou	Dai Bing	Investment 13,500	24.06%	24.06%	Tian Li	73465110-1

Remarks of parent company

- Percentage of shares held by New Northeast Electric Investment Co., Ltd of the Company is changed to 24.06% in the period.
- Of the shares held by New Northeast Electric Investment Co., Ltd of the Company, 170 million shares are pledged.

NOTES TO THE FINANCIAL REPORTS (Continued)

For the year ended 31 December 2010 (Prepared in accordance with P.R.C. Accounting Rules and Regulations)

VI. Associates and relative transactions (Continue)

2. Subsidiaries of the company

Full names of subsidiary	Relationship	Type	Place of Registration	Legal Rep.	Business	Registered Capital	Percentage of shares held by the		Organization Code
							Company	Voting shares held by Parent Co	
Northeast Electric (HK) Ltd	Fully-owned subsidiary	Limited	HK	Tian Jiang	Investment, Trade	USD20 million	100%	100%	-
Great Talent Technology 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-voltage electric equipment	RMB1 MILLION	100%	100%	79846962-4
Shenyang Zhaolida Machinery Equipment Co., Ltd	Fully-owned subsidiary	Limited	Shenyang	Chen Guo Ye	Sales of machinery	RMB0.1 MILLION	100%	100%	67950970-X
Fuxin Enclosed Busbars Company Limited	Fully-owned subsidiary	Limited	Fuxin	Liu Qing Min	Production and sales of close mother cable	USD8.5 MILLION	100%	100%	70168064-3
New Northeast (Jinzhou) Electric Capacitor Co., Ltd.	Fully-owned subsidiary	Limited	Jinzhou	Wang Yi	Production of Power Capacitor	USD15.45 MILLION	100%	100%	75278947-0
Jinzhou Jinrong Electric Co., Ltd.	Controlling subsidiary	Limited	Jinzhou	Li Hong Liang	Dry high-voltage Capacitors	RMB2.0925MILLION	69.75%	69.75%	24203413-1
Shenyang Gaodongjia Dessiccation Equipment Co., Ltd.	Controlling subsidiary	Limited	Shenyang	Wang Hai Yang	Metal box and desiccation equipment	USD0.54495 MILLION	70%	70%	60460565-X

3. Associates and Joint Ventures

Company	Type	Registration	Legal Rep.	Business	Percentage of shares held by the		Registered Capital	Total Assets by end of period	Total Liabilities by end of period	Total Income of sales of the period	Net Profit of the period	Relationship	Organization code	
					Parent Company(%)	Voting shares held by Parent Co(%)								
I. Associates														
New Northeast Electric (Shenyang) High-Voltage Isolator Switchgears Co., Ltd.	Limited	Shenyang	Liu Bing	Development and designing of high-voltage transmitting and transforming electricity	25.60%	25.60%	USD21.50 MILLION	277,537,785.38	104,623,080.39	172,914,704.99	11,360,315.60	-5,565,887.92	Associate	75553376-1
Great Power Technology Ltd	Limited	BVI	Lo Yuet	investment	20.80%	20.80%	USD12,626	200,546,323.81	51,765.48	200,494,558.33	-	-35,883.72	Associate	-

In RMB Yuan

VI. Associates and relative transactions (Continue)

4. Account Receivable/Payable fm/to Associates

In RMB Yuan

Items	Associate	End of period		Beginning of period	
		Balance on book	Bad debt prov.	Balance on book	Bad debt prov.
Dividends receivable	Great Power Technology Ltd.	7,376,271.12	-	7,632,598.13	-

5. Payables to associates by the listed company

In RMB Yuan

Items	Associate	End of period		Beginning of period	
		Balance on book	Bad debt prov.	Balance on book	Bad debt prov.
Account payable	New Northeast Electric (Shenyang) High-Voltage Isolator Switchgears Co., Ltd.		8,123,400.00		8,123,400.00
Other payable	New Northeast Electric (Shenyang) High-Voltage Isolator Switchgears Co., Ltd.		8,988,909.56		8,888,909.56
Other payable	Great Power Technology Ltd.		680,744.00		704,400.00

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 RMB351.75million. 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 RMB351.75million 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. Civil Ruling of No. (2009) Liao Min Er Chu Zi Di12 by Supreme Court of Liaoning Province rejected Great Wall Asset's lawsuit appeal. If Great Wall Asset objects to this ruling, they may appeal for retrial by providing facts, evidence and relative ground. On Feb. 11, 2011, Great Wall Asset appealed to the Supreme Court of the People. At present, the case is being tried 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) Total loan balance guaranteed by the Company is RMB23,016,949.20 by end of Dec. 31, 2010.
- (2) Other contingent liabilities by providing guarantees, see Note V. 24.

VII. Events of Contingency (Continued)**3. Other contingent liabilities and impact on financial reports:**

- (1) Up to Dec. 31, 2010, RMB7,809,775.04 of undue bank accepted bills has been endorsed by the Company, including RMB4,235,150.04 of them paid, details see Note V.2 (4) under Item of Bills Receivable.
- (2) By end of Dec. 31, 2010, the Company has issued Performance Bonds of RMB6,050,460.00 through Bank of China Fuxin Branch and Bank of China Liaoning Provincial Branch.

VIII. Commitment

There's no major commitment during the period.

IX. Post Balance Sheet events**Other post Balance Sheet events:**

On Nov. 15, 2010, the Company signed Equity Transfer Agreement with Xin Xu International Co., Ltd (Hereinafter referred to as 'Xin Xu Intl') and New Northeast Electric High-Voltage Equipment Co., Ltd (hereinafter referred to as 'High-Voltage'), transferring 25.60% of shares held of New Northeast Electric (Shenyang) High-Voltage Switches Co., Ltd to Xin Xu Intl with price of RMB52.80 million. On Jan. 30, 2011 Shenyang High Tech Industry Development Zone Administrative Commission approved such transfer by Approval No. Shen Gao Xin Wai Zi [2011] 14. Procedures of registration of change are completed on Feb. 17, 2011.

X. Other Major events

There's no Other Major Events in the period.

NOTES TO THE FINANCIAL REPORTS (Continued)

For the year ended 31 December 2010 (Prepared in accordance with P.R.C. Accounting Rules and Regulations)

XI. Major Notes to Parent Company's Financial Reports

1. Account Receivable

(1) Account Receivable by Types

In RMB Yuan

Types	Amount by end of period			
	Balance on book		Bad debt provision	
	Amount	Percentage	Amount	Percentage
Single account receivables of large amount with exclusive provision for bad debts	-	-	-	-
Account receivables with provisions for bad debts set up by unit				
Unit of accounts of ages	179,400.00	100.00%	179,400.00	100.00%
Sub-total	179,400.00	100.00%	179,400.00	100.00%
Single account receivable of insignificant amount with exclusive provision for bad debts	-	-	-	-
Total	179,400.00	100.00%	179,400.00	100.00%

Types	Amount at beginning of period			
	Balance on book		Bad debt provision	
	Amount	Percentage	Amount	Percentage
Single account receivables of large amount with exclusive provision for bad debts	-	-	-	-
Account receivables with provisions for bad debts set up by unit				
Unit of accounts of ages	179,400.00	100.00%	179,400.00	100.00%
Sub-total	179,400.00	100.00%	179,400.00	100.00%
Single account receivable of insignificant amount with exclusive provision for bad debts	-	-	-	-
Total	179,400.00	100.00%	179,400.00	100.00%

Remarks of account receivable types:

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 status of customers' settlement.

Account with obvious evidence that recovery is difficult becomes Single Account Receivable of insignificant amount with exclusive provision for bad debts.

XI. Major Notes to Parent Company's Financial Reports (Continued)**1. Account Receivable (Continued)****(2) Account Receivable with provisions for bad debts set up by Aging Analysis Method in the Unit***In RMB Yuan*

Age	Amount by end of period			Amount at beginning of period		
	Balance on book		Bad debt provision	Balance on book		Bad debt provision
	Amount	Percentage		Amount	Percentage	
Over 4 years	179,400.00	100.00%	179,400.00	179,400.00	100.00%	179,400.00
Total	179,400.00	100.00%	179,400.00	179,400.00	100.00%	179,400.00

- (3) There's no single account receivable of insignificant amount with exclusive provision for bad debts in the period.
- (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.

NOTES TO THE FINANCIAL REPORTS (Continued)

For the year ended 31 December 2010 (Prepared in accordance with P.R.C. Accounting Rules and Regulations)

XI. Major Notes to Parent Company's Financial Reports (Continued)

2. Other Receivables

(1) Disclosures to other receivables by classification:

In RMB Yuan

Types	Amount by end of period			
	Balance on book		Bad debt provision	
	Amount	Percentage	Amount	percentage
Single account receivables of large amount with exclusive provision for bad debts	-	-	-	-
Account receivables with provisions for bad debts set up by unit				
Unit of accounts of ages	510,091,540.06	100.00%	77,162,080.65	15.13%
Sub-total	510,091,540.06	100.00%	77,162,080.65	15.13%
Single account receivable of insignificant amount with exclusive provision for bad debts	-	-	-	-
Total	510,091,540.06	100.00%	77,162,080.65	15.13%

Types	Amount at beginning of period			
	Balance on book		Bad debt provision	
	Amount	Percentage	Amount	Percentage
Single account receivables of large amount with exclusive provision for bad debts	-	-	-	-
Account receivables with provisions for bad debts set up by unit				
Unit of accounts of ages	567,685,078.21	100.00%	76,908,598.50	13.54%
Sub-total	567,685,078.21	100.00%	76,908,598.50	13.54%
Single account Receivable of insignificant amount with exclusive provision for bad debts	-	-	-	-
Total	567,685,078.21	100.00%	76,908,598.50	13.54%

Remarks of other receivable:

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.

Account with obvious evidence that recovery is difficult becomes Single Other Receivable of insignificant amount with exclusive provision for bad debts.

XI. Major Notes to Parent Company's Financial Reports (Continued)**2. Other Receivables (Continued)****(2) Other receivable with provisions for bad debts set up by aging analysis method in the unit***In RMB Yuan*

Age	Amount by end of period			Amount at beginning of period		
	Balance on book		Bad debt provision	Balance on book		Bad debt provision
	Amount	Percentage		Amount	Percentage	
Within 1 year	17,420,103.14	3.42%	-	72,959,113.53	12.85%	-
1 – 2 years	72,675,812.26	14.25%	-	7,255.34	0.01%	-
2 – 3 years	7,255.34	0.01%	-	417,616,688.67	73.56%	23,200.00
3 – 4 years	342,909,488.67	67.21%	83,200.00	553,475.44	0.10%	336,853.27
Over 4 years	77,078,880.65	15.11%	77,078,880.65	76,548,545.23	13.48%	76,548,545.23
Total	510,091,540.06	100.00%	77,162,080.65	567,685,078.21	100.00%	76,908,598.50

- (3) There's no single other receivables of large amounts with exclusive provision for bad debts by end of period.
- (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) Nature 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 V.6.(7).

NOTES TO THE FINANCIAL REPORTS (Continued)

For the year ended 31 December 2010 (Prepared in accordance with P.R.C. Accounting Rules and Regulations)

XI. Major Notes to Parent Company's Financial Reports (Continued)

2. Other Receivables (Continued)

(7) Top 5 Customers of Other Receivables

In RMB Yuan

Company	Relationship	Amount	Age	Ratio over total other receivables (%)
Northeast Electric (HK) Co., Ltd	Fully-owned subsidiary	123,166,166.77	3-4 years	24.15%
Shenyang Kaiyi Electric Co., Ltd	Fully-owned subsidiary	118,089,315.42	3-4 years	23.15%
Fuxin Close Mother Cable Co., Ltd	Fully-owned subsidiary	117,328,679.35	3-4 years	23.00%
Benxi Steep (Group) Co., Ltd.	Non-associate	76,090,000.00	Over 4 years	14.92%
Northeast Electric (Beijing) Co., Ltd	Fully-owned subsidiary	39,976,696.84	1-2 years	7.84%
Total		474,650,858.38		93.06%

(8) There's no receivables from associates in this reporting period.

(9) There's no other receivables not complied with conditions of termination of recognition during the period.

XI. Major Notes to Parent Company's Financial Reports (Continued)

3. Long-term Equity Investment

Company	Method of calculation	Cost of investment	Balance at beginning of period	Variation	Balance by end of period	Percentage of shares held in co invested	Percentage of voting shares held in co invested	Reason for difference between percentages of voting shares held and voting shares	Provision for devaluation	Provision during the period	Cash dividends	In RMB Yuan
Northeast Electric (HK) Co., Ltd	Method of Cost	156,699,451.63	156,699,451.63	-	156,699,451.63	100%	100%	-	-	-	-	
Shenyang Gaodongjia Desiccation Equipment 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	-100,000.00	157,637,418.63	-	-	-	-	-	-	

Remarks:

1. Decrease in Long-term Equity Investment in the period is due to adjustment to Long-term Investment Costs, as a result of Shenyang Zhaolida Machinery Co., Ltd.'s completion of license cancellation registration procedures with the State Commercial & Industrial Bureau.
2. Amount in this item are investments to subsidiaries by Method of Equity

NOTES TO THE FINANCIAL REPORTS (Continued)

For the year ended 31 December 2010 (Prepared in accordance with P.R.C. Accounting Rules and Regulations)

XI. Major Notes to Parent Company's Financial Reports (Continued)

4. Return on Investment

(1) Detailed return on investment

<i>In RMB Yuan</i>		
Items	Transaction amount of the period	Transaction amount of last period
Return on long-term equity investment by method of cost	-	-
Return on long-term equity investment by method of equity	-	-
Return on investment by disposal of long-term equity investments	-11,593.68	-
Return on investment from transactional financial assets	-	-
Return on investment from investments held till due during yielding period	-	-
Return on investment from saleable financial assets in hold	-	-
Return on investment by disposal of transactional financial assets	-	-
Return on investment from investments held till due	-	-
Return on investment from saleable financial assets	-	-
Others	-	-
Total	-11,593.68	-

XI. Major Notes to Parent Company's Financial Reports (Continued)

5. Supplementary Information to Cash Flow

	<i>In RMB Yuan</i>	
Supplementary information	Amount of the period	Amount of last period
1. Operational Activity Cash Flow adjusted by Net Profit		
Net profit	4,583,559.83	-7,060,572.79
Plus: Provisions for assets diminution	253,482.15	117,136.21
Depreciation of fixed assets, depreciation of oil and gas assets, depreciation of production bio-assets	140,641.33	163,580.87
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 "-")	863.69	-
Loss on investments (gain is shown as "-")	11,593.68	-
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
Decrease of operational account receivables (increase is shown as "-")	57,749,538.15	82,776,373.09
Increase of operational account payables (decrease is shown as "-")	-62,824,232.25	-80,809,991.86
Others	-	-
Net in/out flows generated from operational activities	-84,553.42	-2,749,665.92
2. Major investment and financing activities not affecting cash:		
Debts changed as capital	-	-
Tradeable company bonds due within 1 year	-	-
Lease financing fixed assets	-	-
3. Changes of cash and equivalents:		
Cash at end of period	38,486.92	35,497.71
Minus: cash at beginning of period	35,497.71	2,790,853.63
Plus: cash equivalents at end of period	-	-
Minus: cash equivalents at beginning of period	-	-
Net increase of cash and equivalents	2,989.21	-2,755,355.92

NOTES TO THE FINANCIAL REPORTS (Continued)

For the year ended 31 December 2010 (Prepared in accordance with P.R.C. Accounting Rules and Regulations)

XII. Supplementary Information

1. Details of current extraordinary profit & loss

Items	Amount	Note
Profit & loss of disposal of non-current asset	-318,487.16	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)	119,000.00	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 on debt restructuring	10,243,866.77	Gains on debt restructuring
Expenses of reorganization of enterprise, such as accomodation 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, saleable 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	27,924.04	-
Other items complied with definitions of non-operational profit & loss	-	-
Amount of impact on income tax	-2,568,566.04	-
Impact on minority Interests (after tax)	54,646.13	-
Total	7,558,383.74	-

XII. Supplementary Information (Continued)

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	1,029,209.54	7,263,664.63	316,776,964.36	320,994,462.82
Adjusted items and amounts by HK financial reports standards				
Intangible assets-utility model and software amortization	44,999.80	56,333.48	-	-6,659.07
By HK accounting standards	1,074,209.34	7,319,998.11	316,776,964.36	320,987,803.75

(2) Remarks:

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

Profit in the period	Weighted average earnings over net assets (%)	Earnings per share	
		Primary earnings per share	Primary earnings per share
Net profit due common shareholders	0.53%	0.002	0.002
Net profit due common shareholders after deduction of extraordinary incomes	-1.85%	-0.007	-0.007

NOTES TO THE FINANCIAL REPORTS (Continued)

For the year ended 31 December 2010 (Prepared in accordance with P.R.C. Accounting Rules and Regulations)

XII. Supplementary Information (Continued)

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	Notes
Prepayment	22,636,256.36	862.01%	Increase mainly due to rise of goods payment
Dividend receivable	-7,610,421.57	-48.30%	Mainly contributed by dividends of New Northeast Electric Group High Voltage Equipment Co., Ltd
Inventories	28,028,270.02	40.63%	Due mainly to inventory increase by Beijing subsidiary
Long-term deferred payment Expenses	-3,598,310.80	-33.46%	Consists chiefly of amortizations of buildings, lands and rents of machinery
Short-term loan	8,650,000.00	34.12%	By increase of Bank Loans
Advances	50,394,872.38	265.75%	Advances of Equity Payments lead to increase of this Item
Salaries & benefits due employees	3,016,714.58	224.27%	Mainly due to unpaid social security expenses
Tax expenses payable	-11,499,029.58	-83.03%	Mainly as a result of decrease of value-added tax payable and Income Tax
Other non-current liabilities	-32,205,937.77	-34.66%	Due to decrease of intra-group accounts – High Voltage
Sales taxes & surtaxes	366,213.07	371.79%	Increase mainly as Tax of City Maintenance & Construction and Education Surtax increase
Sales expenses	-18,853,165.89	-44.22%	Less Income contributes to corresponding less Sales Expenses
Loss of assets devaluation	-17,563,223.74	-69.01%	Mainly by decrease of Bad Debt Provision set up in the period
Extraordinary income	10,313,301.32	3881.63%	By recognition of Gains on Debts Restructuring
Extraordinary expenses	247,218.51	95.28%	Due to loss on disposal of Fixed Assets in the period
Income tax expenses	4,537,126.95	1086.48%	Mainly due to decrease of Deferred Income Tax

Legal representative: Mr. Su Weiguo

Chief financial officer: Mr. Bi Jianzhong

Chief accounting officer: Ms. Wang Hongling

Date: 21 March 2011



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

地址：中國瀋陽市鐵西區興順街2號
網址：www.nee.com.cn
電郵：nee@nee.com.cn
電話：(024) 2350 1976 2352 7083
傳真：(024) 2352 7081
郵編：110023

Address: No.2 Xingshun Street, Tiexi District, Shenyang, the PRC
Website: www.nee.com.cn
E-mail: nee@nee.com.cn
Tel: (024) 2350 1976 2352 7083
Fax: (024) 2352 7081
Zip: 110023