



**NEE**

ANNUAL REPORT 2016 年報

輸送光明和动力的桥梁



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

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- (I) The Board of Directors, Supervisory Committee, directors, supervisors and senior management of the Company 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. None of the directors, supervisors and senior management fails to guarantee the truthfulness, accuracy and completeness of the contents of this report.**
- (II) The Company’s Chairman, Su Jianghua, Chief Financial Officer, Feng Xiaoyu and Head of Financial Section, Qian Kouming represent: guaranteeing the truthfulness and integrity of the financial report of the Annual Report.**
- (III) This report is considered and approved by the 11th meeting of the eighth session of the board held on 27 March 2017.**
- (IV) The forward-looking description involved in the report such as the future plan and development strategy does not constitute any substantial commitment of the Company to investors. Wide investors need to be aware of risks attached to investment.**
- (V) The risks that may be faced and countermeasures to be adopted by the Company are described in PROSPECT OF THE COMPANY’S FUTURE DEVELOPMENT” of “ 4 REPORT OF THE DIRECTORS in this report and can be referenced by wide investors.**
- (VI) The Company proposes not to distribute cash dividend, issue bonus share, or capitalise from capital reserves.**
- (VII) The Company’s annual financial report is prepared under the PRC GAAP and is audited by Crowe Horwath China CPAs (special general partner) and it issued a standard unqualified audit report.**
- (VIII) This report is published in both Chinese and English. If there are any inconsistencies in content, the Chinese version shall prevail in all aspects.**
- (IX) Unless otherwise stated, Renminbi is the only monetary unit in this report.**

## BASIC INFORMATION OF THE COMPANY

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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 Jianghua
3. Directors : Su Jianghua, Su Weiguo, Wang Zheng, Liu Jun, Li Min, Feng Xiaoyu
4. Independent non-executive directors : Zhang Luyang, Jin Wenhong, Qian Fengsheng
5. Supervisors : Wu Junyun, Li Dong, Qiu Yongjian
6. Secretary to the Board : Su Weiguo  
Representative for securities affairs : Zhu Xinguang  
Joint Company Secretary and authorized representative  
for receipt of summons and notices : Chen Yiping  
Business address and address for receipt of summons  
and notice in Hong Kong : Room 801 & 803, 8th Floor, Beverly House, No 93-107 Lockhart  
Road, Wanchai, Hong Kong
7. Registered and office address : Floor 23, Building 4, No.9 East Taihu Road, Xinbei District,  
Changzhou City, Jiangsu Province, the PRC  
Correspondence address : Floor 23, Building E, No.9 East Taihu Road, Xinbei District,  
Changzhou City, Jiangsu Province, the PRC  
Postal Code : 213022  
Tel : 0519-69818116  
Fax : 0519-69818115  
Website : www.nee.com.cn  
E-mail address : nee@nee.com.cn nemm585@sina.com
8. PRC newspapers for information disclosure : “Securities Times”  
Website containing the annual report : www.cninfo.com.cn  
www.hkexnews.hk  
www.nee.com.cn  
Place for inspection of annual report : Office of the Board of Directors



9. Place of listing, stock names and codes

H Share:		A Share:	
Hong Kong Stock Exchange		Shenzhen Stock Exchange	
Stock Name	: Northeast Electric	Stock Name	: Northeast Electric
Stock code	: 0042	Stock code	: 000585

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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 : 5 July 2016
- Place of registration : Floor 23, Building 4, No.9 East Taihu Road, Xinbei District, Changzhou City, Jiangsu Province, the PRC
- Unified social credit code : 91210000243437397T
- 11 Auditing institutions
- Auditing institutions : Ruihua CPAs (special general partner)
- Office address : 4th Floor of Tower 2, No.16 Xisihuanzhong Road, Haidian District, Beijing

## SUMMARY OF ACCOUNTING DATA AND FINANCIAL INDICATORS

### (I) Principal accounting data and financial indicators in the past five years prepared under the PRC GAAP

#### 1. Principal accounting data and financial indicators

*Unit: RMB*

	Increase/decrease of the year over			2014	2013	2012
	2016	2015	last year (%)			
Operating revenues (RMB)	63,514,424.29	151,740,484.82	-58.14%	197,439,030.24	195,974,125.82	217,220,841.81
Net profit attributable to shareholders of listed company (RMB)	-99,493,754.11	4,933,337.50	-2,116.76%	6,169,105.14	9,886,802.75	11,140,994.81
Net profit attributable to shareholders of listed company after extraordinary items (RMB)	-99,613,423.79	-775,922.03	-12,738.07%	4,390,358.73	3,229,217.03	680,708.05
Net cash flow arising from operating activities (RMB)	-29,891,482.85	-18,237,185.20	63.90%	26,805,591.07	31,448,167.32	-3,353,695.97
Basic earnings per share (RMB/Share)	-0.1139	0.0056	-2,133.93%	0.01	0.01	0.01
Diluted earnings per share (RMB/Share)	-0.1139	0.0056	-2,133.93%	0.01	0.01	0.01
Earnings/net assets ratio (%)	-39.40%	1.68%	decrease 41.08 percentage	2.18%	3.60%	4.18%
		<b>As at the end of 2015</b>		<b>As at the end of 2014</b>	<b>As at the end of 2013</b>	<b>As at the end of 2012</b>
Total assets (RMB)	401,830,329.21	483,445,718.25	-16.88%	482,595,791.02	462,731,004.91	498,205,496.54
Net assets attributable to shareholders of listed company (Shareholders' fund attributable to shareholders of listed company) (RMB)	202,789,879.48	296,987,112.46	-31.72%	286,188,311.72	279,693,302.29	271,782,480.71

**2. Differences in figures by domestic and foreign accounting standards**

(1) Differences in net profits and net assets prepared under international accounting standards and PRC GAAP

Applicable       Not applicable

There are no differences in net profits and net assets prepared under international accounting standards and PRC GAAP in the reporting period of the Company.

(2) Difference in net profits and net assets prepared under foreign accounting standards and PRC GAAP

None

**3. Major financial indexes by quarter**

*Unit: RMB*

	The first quarter	The second quarter	The third quarter	The fourth quarter
Operating revenues	17,984,374.39	16,517,655.72	14,460,783.86	14,551,610.32
Net profit attributable to shareholders of listed company	-4,664,568.84	-8,495,405.09	-10,204,108.35	-76,129,671.83
Net profit attributable to shareholders of listed company after extraordinary items	-4,714,175.72	-8,652,077.97	-9,758,941.84	-76,488,228.26
Net cash flow arising from operating activities	-20,743,776.04	-10,927,514.03	-4,513,870.51	6,293,677.73

Great differences exist between the above financial indexes or their sums and the related financial indexes in the quarter reports and semi-annual reports disclosed by the Company

Yes       No

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

**4. Extraordinary items and the related amount**

*Unit: RMB*

Item	2016	2015	2014	Remarks
Profit and loss on disposal of non-current assets (including the part of provision for assets impairment being written off)	-291,209.88	15,994.18	139,391.69	Net income from disposal of fixed assets
Government subsidy Included in the current profits and losses (closely related to business of the enterprise, excluding the government subsidy enjoyed fully or quantitatively according to uniform standards of the country)		106,670.00		
Gains/losses from fair value changes of trading financial assets and trading financial liabilities, and investment income from disposal of trading financial assets, trading financial liabilities and available-for-sale financial assets, except effective hedging activities related to the Company's normal operations	367,369.30	867,706.84	574,069.12	Income from purchase of capital-guaranteed financing products
Reversal of account receivable provision by single devaluation test		6,310,527.55	1,226,648.28	
Other non-operating income and expense other than the above items	43,510.26	21,347.38	-106,416.11	accounts payable that do not need to be paid, etc.
Less: Effect of income tax		1,612,986.42	54,946.57	
<b>Total</b>	<b>119,669.68</b>	<b>5,709,259.53</b>	<b>1,778,746.41</b>	<b>--</b>

**(I) MANAGEMENT DISCUSSION AND ANALYSIS**

In the reporting period, the downward pressure continued to increase at home, and the operating difficulties of manufacturing industry and market downturn have become a new normal state. The contradiction of relative surplus production capacity has become increasingly prominent in the industry of the Company, and the Company is confronted with an operating pressure increased day by day due to the fierce market competition in the industry. Facing the grim situation, the business management level of the Company actively recognized and adapted itself to the business environment in front of it, analyzed the market situation carefully, coped with various unfavorable situations energetically and properly, and laid a solid foundation for sustained and stable development of the Company through active, conscious and continuous operation complying with regulations.

In the reporting period, the operating incomes of Company amounted to RMB63.51 million, with a decrease of RMB88.23 million compared with the same period last year; the net profits was RMB-99.59 million, with a year-on-year decrease of RMB104.45 million.

**Main work in the reporting period:****1. Significant assets reorganization**

On 28 November 2015, the Company released the stock trading suspension announcement related to planning of significant assets reorganization and confirmed the first major shareholder to negotiate about equity transfer, Tsing Chuang Group and its concerted action party planned to exchange out all or part of the existing transmission and distribution businesses of the Company through assets replacement and exchange new businesses into the Company. On 28 April 2016, the third meeting of the eighth session of the Board of Directors of the Company approved the Proposal on Major Assets Sale Plan through deliberation, and planned to sell 100% of the equity of New Northeast Electric (Jinzhou) Power Capacitors Co., Ltd., a wholly owned subsidiary.

**2. Terminating the mergers and acquisition project**

On 9 May 2016, the Company received a decision letter from the Stock Exchange of Hong Kong Limited (hereinafter referred to as the "SEHK"). The decision letter held that this transaction constitutes very-significant asset sale under the main board listing rules of SEHK and should be approved beforehand by the SEHK; while the listed company will be unable to maintain the sufficient business operation or assets required for the listing status at the SEHK after this very-significant asset sale. Therefore, the SEHK will not approve this very-significant asset sale transaction. According to the decision letter received from the SEHK and based on the consensus reached by the transaction parties through negotiation, the Board of Directors of the Company decided to terminate this very-significant asset sale on 16 May 2016.

Although the mergers and acquisition project has been terminated, the Company will still promote the implementation of assets reorganization constantly, optimize the corporate asset structure, and actively seek an industry with good prospects for development to invest in mergers and acquisition.

**3. Share transfer of the first major shareholder and change to the actual controller**

On 27 November 2015, NNEI and Tsing Chuang Group reached a share transfer intention, and NNEI planned to transfer its held 81,494,850 nonrestricted negotiable A-shares (accounting for 9.33% of the total equity of the Company) of the Company to Tsing Chuang Group through agreement. On 21 December, 2015, the two parties signed the Agreement on Share Transfer of Northeast Electric Development Co., Ltd. (hereinafter referred to as the "Share Transfer Agreement"). This share transfer was registered and confirmed through Shenzhen Branch of China Securities Depository and Clearing Corporation Limited on 22 January 2016, the first major shareholder of the Company changed to Tsing Chuang Group, and the actual controller changed to Liu Jun.

On 23 January 2017, Tsing Chuang Group and Beijing Haihongyuan signed the Agreement on Share Transfer of Northeast Electric Development Co., Ltd., and Tsing Chuang Group planned to transfer its held 81,494,850 nonrestricted negotiable A-shares (accounting for 9.33% of the total equity of the Company) of the Company to Beijing Haihongyuan through agreement. This share transfer was registered and confirmed through Shenzhen Branch of China Securities Depository and Clearing Corporation Limited on 13 February 2017, the first major shareholder of the Company changed to Beijing Haihongyuan, and the actual controller changed to Hainan Province Cihang Foundation.

**4. Equity sale and acquisition**

To achieve the Company's long-term strategic development goals, enhance the profitability of the Company and inject new momentum to the future development of the Company, Shenyang Kaiyi Electric Co., Ltd., a wholly owned subsidiary of the Company, transferred its held 100% of the equity of Northeast Electric (Beijing) Limited to Beijing Yaoxin Technology Co., Ltd. at the price of RMB1 million under approval of the board meeting on 30 September 2016; under approval of the board meeting on 1 December 2016, the Company used its own fund RMB5.1 million to buy 51% of the equity of Sichuan Chenxi Electric Power Engineering Design Co. Ltd. (which has been renamed to "Northeast Electric (Chengdu) Electric Power Engineering Design Co. Ltd.") from Chi Lin Polytron Technologies Inc.

## 5. Production and operation situation of the Company

### 1. Completion of operating income, product gross margin, period expense, and net profit

- (1) The operating income was reduced by RMB88.23 million as compared with the same period last year, indicating a rate of decline of 58.14%, and the operating profit was reduced by RMB23.56 million accordingly due to decrease in the operating income.

The year-on-year decrease of the operating income was mainly attributable to the factors such as fierce market competition, substantial decline in contracts implemented for high voltage apparatus products in the reporting period, delayed delivery for some contracts due to reasons on the part of customers.

- (2) The consolidated gross margin of products dropped by 11.64% as compared with the same period last year, mainly attributable to significant decrease in the sales of oil immersed capacitors from which the Company can get higher gross margin. Meanwhile, the contradiction of relative surplus production capacity has become increasingly prominent in the industry of the Company, the market competition in the industry is fierce, and all manufacturers still scramble for sales orders at low prices even though raw material prices continue to rise. The operating profit was reduced by RMB7.39 million accordingly due to decrease in the consolidated gross margin of products.
- (3) The three major expenses increased by RMB5.87 million in the reporting period because the workshop shutdown losses of some products of subsidiaries were included in management expenses.
- (4) The operating profit was reduced accordingly by RMB62.59 million due to the substantial year-on-year increase in the assets impairment losses such as provision for bad debts, inventory falling price reserves, fixed assets depreciation reserves, and impairment for long-term equity investment in the reporting period.
- (5) Revenue reduction in purchase of principal and interest-guaranteed banking products led to year-on-year decrease in the return on investment, and the decline in operating income led to year-on-year decrease in the business taxes and surcharges, resulting in reduction of the operating profit by RMB430,000 in total.
- (6) The non-operating income increased by RMB210,000 as compared with the same period last year, attributable to the profit on disposal of non-current assets; the non-operating expense increased by RMB670,000 as compared with the same period last year, attributable to the loss on disposal of non-current assets.
- (7) The income tax expenses indicated a year-on-year decrease of RMB4.15 million. The income tax expenses of current year focused on reversal of deferred income tax assets confirmed in the previous year.

Based on the above factors, the net profits of current year amounted to RMB-99.59 million, including the net profits of RMB-99.49 million distributable to shareholders of the parent company, indicating a year-on-year drop of RMB104.45 million in the net profits.

2. Accelerating implementation of the technical transformation project

In the reporting period, the Company reviewed and approved the new plant construction project of Fuxin Enclosed Busbar Co., Ltd., a wholly owned subsidiary, based on offsite relocation and investment. All the work items of the project are being promoted in an orderly manner now. The land use examination and approval authority of Liaoning Province has issued the approval, the work such as geological survey, construction design, environmental impact assessment report, equipment tendering, and civil engineering foundation has been completed, and the steel structure frame of production workshop is being installed. The project implementation helps to enhance the overall equipment level and manufacturing capacity of the listed company, promote the transformation and upgrade of products and technologies, and realize strategy and industrial structure adjustment. The Company will accelerate the construction implementation progress of this project and ensure early production and early benefit producing of the project.

3. Intensifying R&D efforts of new products, enhancing product competitiveness and making greater efforts to explore markets

The Company carried out development of power capacitors with high field intensity and high voltage in the reporting period, and has completed the withstand voltage test of components, product demonstration of units, solution design, and trial manufacturing of prototypes. Developing this product can improve the ratio characteristic and field intensity of power capacitors, reduce the volume, and cut down the product cost. Meanwhile, the Company organized the design preparation work of reactive power compensation devices for wind farms actively to respond to the currently active wind power market and expand product varieties; it also started research into series compensation devices for lines to fix the voltage quality problem at the load terminal arising from long distance transmission, especially the voltage fluctuation problem caused by start/stop of a heavy load.

In addition, the Company carried out the R&D work of micro positive pressure device of three phase shunt control with a smart touch screen for busbar products in the reporting period. It was predicted to complete prototype trial for this device in 2017 to implement smart control on the micro positive pressure device for auxiliary equipment of busbar products and boost the product competitiveness.

4. Further strengthening payment of the accounts receivable and other receivables to prevent financial risks

In the reporting period, the company strengthened internal financial management and monitoring, focused on the follow-up work of key products, and worked out reasonable goals and specific measures pertinently, actively preventing financial risks and improving business performance.



**(II) Operation of the Company during the reporting period**

**1. Scope of principal operations and its operation**

(1) The Company has been dedicated to R&D, design, production and sales businesses of products related to power transmission and transformation equipment in recent years. Main products offered by the Company include power capacitors, enclosed busbars, etc. Products of the Company apply to the power system field and are used to improve voltage quality of the power system, enhance transmission capacity of the power transmission line and support transmission of the high power electric energy. These devices play an important role in the power system.

(2) Operational results for the year

The Company recorded operating revenue of RMB63,514,424.29, total profit of RMB-92,631,656.29 and the net profit of RMB-99,588,553.13.

## 2. Analysis of major controlling company and investee company

Unit: RMB

Name	Type of company	Major products	Registered capital	Total assets (RMB)	Net assets (RMB)	Operating revenues (RMB)	Operating profit (RMB)	Net profit (RMB)
Northeast Electric Development (Hong Kong) Limited								
	Subsidiary	Trading	USD20,000,000	50,457,010.12	35,344,310.28	0.00	-38,469,167.67	-38,559,048.96
Great Talent Technology Limited								
	Subsidiary	Investments	USD1	86,303,079.48	6,594,537.26	0.00	6,393,707.65	6,393,707.65
Shenyang Kaiyi Electric Co., Ltd.								
	Subsidiary	Electronic equipment	RMB1,000,000	164,859,135.59	-10,967,356.75	0.00	-3,435,353.01	-3,525,489.03
Fuxin Enclosed Busbars Co., Ltd.								
	Subsidiary	Enclosed busbars	USD8,500,000	104,524,328.92	53,589,388.14	34,205,750.78	-11,594,064.94	-11,595,358.69
New Northeast Electric (Jinzhou) Power Capacitors Co., Ltd.								
	Subsidiary	Power capacitor	USD15,450,000	165,353,260.44	127,416,431.79	29,095,559.95	-35,700,263.22	-35,831,762.58
Jinzhou Jinrong Electric Co., Ltd.								
	Subsidiary	Dry-type capacitor	RMB3,000,000	2,713,220.00	854,287.80	0.00	-313,385.19	-313,385.19
Shanghai KaiXin Internet Technology Development Co., Ltd								
	Subsidiary	Internet technology	RMB10,000,000	6,562,532.68	-1,967.32	0.00	-1,967.32	-1,967.32
Northeast Electric (Chengdu) Power Engineering Design Co., Ltd								
	Subsidiary	Power Engineering	RMB10,000,000	9,971,854.03	9,858,633.03	0.00	0.00	0.00

**3. Acquiring and disposing subsidiaries during the reporting period**

 ✓ **Applicable** □ **Not applicable**
*Unit: RMB*

Company name	Subsidiary acquiring and disposing methods in the reporting period	Impact on the overall production, operation and performance
Northeast Electric (Beijing) Limited	Selling 100% of the equity of Northeast Electric (Beijing) Limited under approval by the sixth meeting of the eighth session of the Board of Directors through deliberation on 29 September 2016 (for details, see the Announcement of Selling 100% of Equity of Northeast Electric (Beijing) Limited released by the Company on 30 September 2016). The registration was changed with the administrative authorities of industry and commerce on 16 November 2016.	Northeast Electric (Beijing) Limited will not be included in the consolidation scope of the listed company's financial statements after the completion of the sale. Besides, the equity sale transaction does not significantly affect the listed company's overall production, operation and performance basically.
Northeast Electric (Chengdu) Power Engineering Design Co., Ltd.	Acquiring 51% of the equity of Northeast Electric (Chengdu) Power Engineering Design Co., Ltd. under approval by the eighth meeting of the eighth session of the Board of Directors through deliberation on 29 November 2016 (for details, see the Announcement on Board Resolution of Northeast Electric Development Co., Ltd. issued by the Company on 1 December 2016). The registration was changed with the administrative authorities of industry and commerce on 9 December 2016.	Acquisition of Northeast Electric (Chengdu) Power Engineering Design Co., Ltd. is conducive to sound development of the Company's overall operation, laying a solid foundation for the company to achieve the long term planning and business development goals. After acquisition of the project, the Company's industrial layout can be reinforced effectively through measures such as resource integration, talent enriching, and management strengthening, thus increasing the shareholder value and further enhancing the Company's brand influence and core competitiveness.
Shanghai KaiXin Internet Technology Development Co., Ltd	The subsidiaries Shenyang Kaiyi Electric Co., Ltd. and Fuxin Enclosed Busbar Co., Ltd. of the Company subscribed the capital contribution of RMB9.5 million and RMB500,000 respectively to establish Shanghai KaiXin Internet Technology Development Co., Ltd. through joint investment on 29 April 2016.	The joint investment is helpful to sound development of the Company's overall operation, and provides a good platform for the Company to achieve long-term planning and business development goals.

**(III) Analysis of principal businesses**
**1. Summary**

The Company has been dedicated to R&D, design, production and sales businesses of products related to power transmission and transformation equipment in recent years.

Main products offered by the Company include power capacitors, enclosed busbars, etc. Products of the Company apply to the power system field and are used to improve voltage quality of the power system, enhance transmission capacity of the power transmission line and support transmission of the high power electric energy. These devices play an important role in the power system.

There were no material changes in the principal business of the Company in the reporting period.

2. Incomes and Costs

(1) Composition of operating incomes

*Unit: RMB*

	2016		2015		Year-on-year increase/ decrease (%)
	Amount	As a percentage of operating costs (%)	Amount	As a percentage of operating costs (%)	
Total cost of sales	63,514,424.29	100%	151,740,484.82	100%	-58.14%
By industry					
Electrical machinery and equipment manufacturing	63,327,513.55	99.71%	151,639,578.32	99.93%	-58.24%
Others	186,910.74	0.29%	100,906.50	0.07%	85.23%
By product					
Enclosed busbars	34,193,870.44	54.00%	47,369,246.56	31.24%	-27.81%
Power capacitor	28,730,053.36	45.37%	102,568,451.47	67.64%	-71.99%
High-voltage switches	403,589.75	0.64%	1,701,880.29	1.12%	-76.29%
Others	186,910.74	0.29%	100,906.50	0.07%	85.23%
By regions					
Northeast	33,324,282.80	52.47%	90,656,059.05	59.74%	-63.24%
Central north	8,180,683.59	12.88%	2,452,145.25	1.62%	233.61%
Central	8,434,885.87	13.28%	9,136,254.41	6.02%	-7.68%
Central east	12,196,554.38	19.20%	22,637,008.30	14.92%	-46.12%
Central south	980,599.66	1.54%	3,475,577.43	2.29%	-71.79%
Southwest	301,241.03	0.47%	11,307,975.75	7.45%	-97.34%
Northwest	96,176.96	0.15%	12,075,464.63	7.96%	-99.20%

(2) Is the revenues from the physical goods of the Company more than the revenue from the provision of labor services?

Applicable  Not applicable

(3) Fulfillment status of the Company's signed significant sales contracts as at the end of the reporting period

Applicable  Not applicable

(4) Composition of operating costs

Unit: RMB

By product	Items	2016		2015		Year-on-year increase/ decrease (%)
		Amount	As a percentage of operating costs (%)	Amount	As a percentage of operating costs (%)	
Enclosed busbars	Direct material	25,776,052.82	88.20%	29,302,878.61	87.11%	-12.04%
Enclosed busbars	Direct labor	1,902,518.18	6.51%	2,216,805.99	6.59%	-14.18%
	Manufacture					
Enclosed busbars	expense	1,545,978.68	5.29%	2,119,253.07	6.30%	-27.05%
Power capacitor	Direct material	19,949,827.75	82.10%	60,425,500.24	79.30%	-66.98%
Power capacitor	Direct labor	855,339.75	3.52%	2,064,982.42	2.71%	-58.58%
	Manufacture					
Power capacitor	expense	3,494,257.28	14.38%	13,639,551.76	17.90%	-74.38%
High-voltage switches	Direct material	292,612.82	82.10%	1,051,884.00	79.30%	-72.18%
High-voltage switches	Direct labor	12,545.64	3.52%	35,947.11	2.71%	-65.10%
	Manufacture					
High-voltage switches	expense	51,251.79	14.38%	237,436.62	17.90%	-78.41%

- (5) Change to the consolidation scope in the reporting period

Applicable  Not applicable

The subsidiaries Shenyang Kaiyi Electric Co., Ltd. and Fuxin Enclosed Busbar Co., Ltd. of the Company subscribed the capital contribution of RMB9.5 million and RMB500,000 respectively to establish Shanghai KaiXin Internet Technology Development Co., Ltd. through joint investment on 29 April 2016. Shanghai KaiXin Internet Technology Development Co., Ltd. was included in the consolidated statement scope of the Company.

The 100% of equity of Northeast Electric (Beijing) Limited was sold under approval of the sixth meeting of the eighth session of the Board of Directors through deliberation on 29 September 2016 (for details, see the Announcement of Northeast Electric Development Co., Ltd. on Selling 100% of Equity of Northeast Electric (Beijing) Limited released by the Company on 30 September 2016). The registration was changed with the administrative authorities of industry and commerce on 16 November 2016, and Northeast Electric (Beijing) Limited was not included in the consolidated statement scope of the Company anymore.

The Company purchased 51% of the equity of Northeast Electric (Chengdu) Power Engineering Design Co., Ltd. under approval by the eighth meeting of the eighth session of the Board of Directors through deliberation on 29 November 2016 (for details, see the Announcement on Board Resolution of Northeast Electric Development Co., Ltd. issued by the Company on 1 December 2016). The registration was changed with the administrative authorities of industry and commerce on 9 December 2016, and Northeast Electric (Chengdu) Power Engineering Design Co., Ltd. was included in the consolidated statement scope of the Company.

- (6) Information related to significant changes or adjustment of businesses, products or services of the Company in the reporting period

Applicable  Not applicable

- (7) Information of businesses, products or services of the Company in the reporting period

**Major customers**

<b>Total sales of the top five customers (RMB)</b>	35,801,119.83
<b>Proportion of total sales of the top five customers over total sales for the year (%)</b>	56.37%
<b>Proportion of sales of connected parties in the top five customers over total sales for the year (%)</b>	0.00%

**The top five customers**

No.	Name	Sales (RMB)	Percentage over the annual total amount of sales (%)
1	Yingkou Chongzheng Electric Equipment Co., Ltd.	15,458,261.87	24.34%
2	Shenyang Kaidi Insulation Technology Co., Ltd.	7,288,315.38	11.48%
3	Yingkou Hongyue Machinery Co., Ltd.	4,793,824.61	7.55%
4	Chifeng New Town Thermal Power Branch of Inner Mongolia Xilinguole Baiyinhua Coal Electric Co., Ltd.	4,401,709.40	6.93%
5	Datang Linqing Thermal Power Co., Ltd.	3,859,008.57	6.08%
<b>Total</b>	--	35,801,119.83	56.37%

**Major suppliers**

<b>Total purchases attributable to the top five suppliers (RMB)</b>	19,348,072.08
<b>Proportion of total purchases attributable to the top five suppliers over total purchases for the year (%)</b>	48.27%
<b>Proportion of purchases of connected parties in the top five suppliers over total purchases for the year (%)</b>	0.00%

**The top five suppliers**

No.	Name	Purchase (RMB)	Percentage over the annual total purchase (%)
1	Shenyang Taihua Copper Co., Ltd.	8,884,622.79	22.17%
2	Shenyang Xinhuaao Aluminum Co. Ltd.	4,173,982.28	10.41%
3	Shenyang Haqingdong Aluminum Co., Ltd.	2,946,046.07	7.35%
4	Ningbo Great Southeast Wan-Xiang Science & Technology Co., Ltd.	2,437,809.14	6.08%
5	Fuxin Xiandao Electric Wire Factory	905,611.79	2.26%
<b>Total</b>	--	19,348,072.08	48.27%

## 3. Expenses

Unit: RMB

	2016	2015	Changes(%)	Reasons for changes
Sales expenses	10,002,737.76	14,538,306.66	-31.20%	Reduced due to the decrease of income The sum of the loss due to downtime of some production plants of subsidiaries, the wages of the staff, and the fee paid to intermediaries for asset restructuring has increased by RMB10.4 million.
Administrative expenses	35,493,767.80	25,465,615.48	39.38%	
Financial expenses	534,886.47	160,020.04	234.26%	The loan increased

## 4. R&amp;D expenditure

Intensifying R&D efforts of new products and enhancing product competitiveness

The Company carried out development of power capacitors with high field intensity and high voltage in the reporting period, and has completed the withstand voltage test of components, product demonstration of units, solution design, and trial manufacturing of prototypes. Developing this product can improve the ratio characteristic and field intensity of power capacitors, reduce the volume, and cut down the product cost. Meanwhile, the Company organized the design preparation work of reactive power compensation devices for wind farms actively to respond to the currently active wind power market and expand product varieties; it also started research into series compensation devices for lines to fix the voltage quality problem at the load terminal arising from long distance transmission, especially the voltage fluctuation problem caused by start/stop of a heavy load.

In addition, the Company carried out the R&D work of micro positive pressure device of three phase shunt control with a smart touch screen for busbar products in the reporting period. It was predicted to complete prototype trial for this device in 2017 to implement smart control on the micro positive pressure device for auxiliary equipment of busbar products and boost the product competitiveness.

The R&D expenditure of this year is RMB447,130.84. It accounts for 0.70% of the audited income of the last period.

**5. Cash flows**
*Unit: RMB*

Item	2016	2015	Year-on-year increase/ decrease (%)
Subtotal of cash inflows from operating activities	90,893,827.23	157,880,087.19	-42.43%
Subtotal of cash outflows from operating activities	120,785,310.08	176,117,272.39	-31.42%
Net cash flows from operating activities (Note 1)	-29,891,482.85	-18,237,185.20	63.90%
Subtotal of cash inflows from investment activities	91,999,287.39	70,874,940.84	29.81%
Subtotal of cash outflows from investment activities	160,444,587.51	72,777,385.33	120.46%
Net cash flows from investment activities (Note 2)	-68,445,300.12	-1,902,444.49	-3,497.76%
Subtotal of cash inflows from financing activities	29,000,000.00	9,000,000.00	222.22%
Subtotal of cash outflows from financing activities	9,803,581.43	9,662,688.68	1.46%
Net cash flows from financing activities (Note 3)	19,196,418.57	-662,688.68	-2,996.75%
Net increase in cash and cash equivalents	-79,114,095.48	-20,791,653.67	-280.51%

Note: Reasons for a year-on-year change for the relevant amounts:

- (1) The sales revenue dropped substantially, the receivables was reduced, and the purchase payment fund was reduced as compared with the same period last year;
- (2) The equity transfer price received for selling the equity of the subsidiary Northeast Electric (Beijing) Limited was less than the cash balance held by the subsidiary on the disposal date; the land price was paid because the subsidiary Fuxin Enclosed Company was relocated and purchased land according to the plan;
- (3) A new loan of RMB20 million was added this year.

Cause description of great differences between the net cash flows generated from operating activities of the Company in the reporting period and the net profits of current year

Applicable       Not applicable

RMB55.14 million was reserved for provision for asset impairment.

(IV) Analysis of non-principal business

Applicable       Not applicable

(V) Analysis of Assets and Liability

1. Significant changes in assets

Unit: RMB

	End of 2016		End of 2015		Increase/ decrease (%)	Explanation for significant change
	As a percentage of total assets		As a percentage of total assets			
	Amount	(%)	Amount	(%)		
Monetary assets	27,600,371.44	6.87%	123,417,163.19	25.53%	-18.66%	Operating losses led to the cash flow reduction of operating activities, and the net cash received from disposal of subsidiaries was also reduced.
Account receivables	136,074,792.34	33.86%	134,014,154.00	27.72%	6.14%	
Inventories	14,991,583.86	3.73%	28,181,314.33	5.83%	-2.10%	Provision for impairment of RMB9 million
Investment properties		0.00%		0.00%	0.00%	
Long-term equity investments	25,000,000.00	6.22%	41,020,089.96	8.48%	-2.26%	Provision for impairment of RMB17.97 million
Fixed assets	41,844,623.66	10.41%	58,783,415.15	12.16%	-1.75%	
Construction in progress	6,415,346.77	1.60%	6,070,928.55	1.26%	0.34%	
Short-term borrowings	29,000,000.00	7.22%	9,000,000.00	1.86%	5.36%	Loan increase RMB20 million

2. Assets and liabilities accounted by fair value

Applicable       Not applicable

**3. Assets right limitation status as at the end of the reporting period**
*Unit: RMB*

Item	Opening Balance	Increase in Current Year	Decrease in Current Year	Closing Balance
Intangible assets-Land use right	4,064,699.21		135,490.08	3,929,209.13
Notes receivable - Banker's acceptance bill	0	1,900,000.00	0	1,900,000.00
Fixed assets-Houses and buildings	4,128,188.10		260,762.88	3,867,425.22
Monetary funds-Other monetary funds	21,814,137.50	6,746,291.25	25,753,278.75	2,807,150.00
Monetary funds-Bank deposits		2,304,291.23		2,304,291.23
Total	30,007,024.81	10,950,582.48	26,149,531.71	14,808,075.58

Notes:

- (1) Among the bank deposits of the subsidiary New Jinrong Company, RMB2,304,291.23 was frozen by the court because the expired debt was not repaid in time, and the freezing limit of this account is RMB5,080,750.00.
- (2) As of 31 December 2016, the house with a book value of RMB3,867,425.22 was restricted because Fuxin Enclosed Busbar Co., Ltd., a subsidiary of the Company, mortgaged the house and land to get a loan of RMB9 million from Fuxin Branch of Bank of China Limited.
- (3) As of 31 December 2016, the land with a book value of RMB3,929,209.13 was restricted because Fuxin Enclosed Busbar Co., Ltd., a subsidiary of the Company, mortgaged the land and house to get a loan of RMB9 million from Fuxin Branch of Bank of China Limited.

**(VI) Investment Situation**
**1. General situation**

Investment amount (RMB) of the reporting period	Investment amount (RMB) of the same period last year	Change range
55,100,000.00	0.00	0.00%

## 2. Significant equity investment achieved in the reporting period

Unit: RMB

Name of investee company	Main business	Investment mode	Investment amount	Shareholding ratio of funds	Source of funds	Partner	Term of investment	Product type	Progress as of the balance sheet date	Expected income	Investment		
											profit and loss of current period	Involved in a lawsuit	Date of Disclosure index (if any)
Northeast Electric (Chengdu) Power Engineering Design Co., Ltd.	Power engineering	Acquisition	5,100,000.00	51.00%	Own funds	Tian Hongrong, Qianhai Tai An Ge (Shenzhen) Asset Management Co., Ltd.	Long term	Power engineering	Equity transfer completed	0.00	No	December 2016	cninf
<b>Total</b>			<b>5,100,000.00</b>							<b>0.00</b>			

**3. Significant non-equity investment ongoing in the reporting period**
*Unit: RMB*

Project name	Investment mode	Investment in fixed assets	Involved industry of investment project	Investment amount of the reporting period	Cumulative amount of actual investment at the end of the reporting period	Source of funds	Project progress	Expected income	Cumulative realized return at the end of the reporting period	Cause of failing to achieve the schedule plan and expected income (if any)	Date of disclosure (if any)	Disclosure index (if any)
New plant construction project of Fuxin Enclosed Busbar Co., Ltd., a wholly owned subsidiary, based on	Self construction	Yes	Enclosed busbar	50,000,000.00	50,000,000.00	1) Acquisition compensation for the north plant at No.77 of Dongfeng Road; 2) the insufficient amount will be provided by Xihe District People's Government of Fuxin using the enterprise development fund.	--	0.00	0.00	Not applicable	26 January 2016	cninf
				50,000,000.00	50,000,000.00			0.00	0.00			
<b>Total</b>	--	--	--	<b>50,000,000.00</b>	<b>50,000,000.00</b>	--	--	<b>0.00</b>	<b>0.00</b>	--	--	--

**(VII) Significant Asset and Equity Sales**
**1. Sale of significant assets**
 Applicable  Not applicable

The Company did not sell any significant assets in the reporting period.

## 2. Sale of significant equity

Unit: RMB

Counterparty	Sold equity	Sale date	Transaction price (ten thousand Yuan)	Net profit (ten thousand Yuan) contributed by the equity to the listed company from the beginning of the period to the sale date	Influence on the Company by the sale	Proportion of the net profit contributed by the equity sale to the listed company to the total net profit	Pricing principle of equity sale	Connected transaction	Relationship with the counterparty	The involved equity has been transferred completely	Whether the schedule plan has been implemented; if not, describe the reason and the measures adopted by the Company	Date of disclosure	Disclosure index
Beijing Yaoxin Technology Co., Ltd.	100% of the equity of Northeast Electric	(Beijing) 29 September 2016	100	-52.7	<p>Northeast Electric (Beijing) Limited will not be included in the consolidation scope of the listed company's financial statements after the completion of the sale. Besides, the equity sale transaction does not affect the listed company's financial indicators of assets and liabilities basically.</p> <p>The determined transfer price is RMB1 million by referencing the book net assets of Northeast Electric (Beijing) Limited as of 31 December 2015</p>	-	No	An independent third party without any relationship with the Company and its subsidiaries	Yes	Implemented a treaty as scheduled	30 September 2016	cnmf	

## (VIII) REASONS ON SIGNIFICANT CHANGE IN PROFIT CONSTITUENTS, PRINCIPAL BUSINESS AND ITS STRUCTURE AND PROFITABILITY OF THE PRINCIPAL BUSINESS COMPARED TO THE PREVIOUS REPORTING PERIOD

**Long-term equity investment:**

In view of changes in the major shareholder and actual controller of the Company and the market economic situation, the Company was urged to consider adjusting the asset structure and planned to transfer the 20.8% participating equity of Weida High-Voltage Electric Co., Ltd. According to the preliminary market inquiry results, the provision for impairment was reserved according to the difference RMB17,974,823.40 between the ending book value of this equity and the recoverable amount of sale. For details about the long-term equity investment, refer to section 9 in Note 6 to the Financial Statements.

**Available-for-sale financial assets:**

At the end of the reporting period, the Company conducted an impairment test on the 6.9% participating equity of Shenyang Zhaoli High-voltage Electric Equipment Co., Ltd., and reserved the provision for impairment according to the difference RMB17,816,275.70 between the end value of this equity and the present value determined for the expected future cash flow discount because this equity was not provided with market quotation. For details about the available-for-sale financial assets, refer to section 8 in Note 6 to the Financial Statements.

**(IX) INVESTMENTS BY RAISED CAPITAL DURING THE REPORTING PERIOD**

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

**(X) PROSPECT OF THE COMPANY'S FUTURE DEVELOPMENT****1. Industry development trend and competition pattern**

Due to impact by the macroeconomic situation, China's economic growth is expected to slow down, and the domestic power demand growth and investment will also become slow. Along with deepening of electric power system reformation and power structure adjustment, the focus of power grid construction shifted to construction of UHV transmission line and smart power grid, the power generation ratio of clean energy increased continuously, and thermal power units evolved towards the direction of large capacity, high parameters and environmental protection type. It is predicted that the situation with excess production capacity and intense price competition will not change for electric transmission and transformation equipment manufacturing enterprises in 2017, and the status of high yield, high cost and low benefit will be maintained continuously.

**2. Corporate development strategy**

The Company will achieve innovation driven development in the critical year of 2017. The Company will continue to regard brand building as a key strategy according to requirements of the Board of Directors, and rely on its resource integration capability to carry out strategic industrial layout. The Company will boost the status of its products in the core competitiveness of market and reinforce the business foundation by centering on quality improvement, led by market development, driven by technological innovation and guaranteed by team building and talent cultivation; energetically promote the Company's asset structure adjustment and rebuild the Company's industrial structure.

### 3. Business plan for the new year

In 2017, the Company plans to improve the enterprise operation efficiency by perfecting the internal control system, rely on the brand reputation to enhance the core competitiveness, strive to continue to achieve a breakthrough at the operating level, and reverse the situation of performance decline. We will make great efforts to seize the opportunity, make full use of the capital market platform, adjust and change the main business and business strategy, enhance the sustainable profitability and comprehensive competition strength of listed company, promote development of listed company, and protect the interests of all shareholders, especially minority shareholders, to the maximum extent.

In 2017, the Company will put an emphasis on work in the following aspects:

- (1) Improve the corporate governance structure further, drive the management team to shift in thinking, make exploration and innovation, broaden sources of income and reduce expenditure actively, stimulate vitality, energy and creativity of the management team, and promote and boost the development and innovation capabilities of the Company.
- (2) Under support of the new major shareholder, the Company will change the business development idea positively, create conditions to adjust the industrial structure gradually, promote industrial upgrade, improve the Company's sustained operation capacity, profitability and asset quality, and strengthen the Company's risk resistance ability and core competitiveness.
- (3) The Company will constantly improve the working standards and perfect the internal control system according to the standard operation requirements of listed companies, establish a sound enterprise operation organization mechanism, perfect all the internal control systems constantly, reinforce risk control measures, and reduce business risks of the Company. Moreover, the Company will make its internal control systems operable, put an end to situations damaging the interests of listed company and shareholders, and ensure fulfillment of the Company's business objectives.

To ensure constant improvement of the Company's production and operation management, the Company will adjust and perfect all the basic management systems and staffing. Meanwhile, it will strengthen the management ability of the management team, continuously improve the enterprise business management level, and lay a solid foundation for subsequent corporate development.

- (4) Cope with the complicated external environment brought by macroeconomic downward and prevailing operating pressures and risks in the industry actively, make greater efforts to explore markets, change the marketing strategies, adjust and optimize the customer group, cultivate the traditional bidding market deeply, and spare no effort to develop industry users and enterprise users. Assisted by the assessment incentive policy, strive to achieve breakthroughs in some new fields and enhance the profitability of leading products. Meanwhile, the Company will reinforce management in the contract performance capacity, product quality and after-sales service, stabilize the market share and discourse power of leading products, and enhance the Company's image.

- (5) Speed up the construction implementation progress of the new plant project of Fuxin Enclosed Busbar Co., Ltd., a wholly owned subsidiary, based on offsite relocation and investment, strengthen capital and project management, and control the engineering quality and schedule to ensure the Company's continuous production and business activities. Moreover, carry out technical transformation of production equipment in conjunction with this overall relocation project, with a view to improving the manufacturing process level, product quality, production efficiency and productivity of busbar products, and boosting the corporate image and comprehensive competitiveness.

The Company's above outlook for future development does not constitute any substantial commitment of the Company to investors. Wide investors need to be aware of risks attached to investment.

#### 4. Financial status

In 2017, The Company will actively expand financing channels to ensure smooth sources of funding, and further improve the financing structure to reduce the financial cost.

#### 5. Risks in front of the Company and countermeasures

- (1) Risk of strategic transformation

To ensure sustainable development of the Company in the medium and long terms, the Company is seeking strategic transformation, and deploying industries showing good prospects for development. If the Company fails to implement countermeasures due to various reasons, the Company may be confronted with the risk of slowdown in the strategic transformation process or even failure. The Company will energetically promote the related work, look for related businesses, and adopt reliable means to realize strategic transformation gradually.

- (2) Market risks coming along with macroeconomic environment

China will maintain stable economic growth in 2017. The power equipment industry has passed the peak growth period and entered a smooth transition stage, and some sub-industries will still decline later, which will become a new normal state for some time to come. The Company falls into the electric transmission and transformation equipment manufacturing industry and is closely related to the demand of power equipment industry, and the prosperity degree of product industry is also directly related to the national economy and affects the corporate performance greatly. The Company will continue to pay attention to the impact on the industry by the national macro economy and global economy. Meanwhile, it will adjust the product structure and industrial structure to cope with the impact by objective economic changes.

- (3) Market competition risks

The power capacitors and enclosed busbar products produced by the Company are the main sources of the Company's primary businesses, but the average profit level of the industry is affected adversely due to the growing market competition. As a result, the Company's product gross margin level and profitability were reduced. The Company will continually enhance the technical level, strengthen the innovation capacity, expand the market scale, improve the business management efficiency, and boost the market competition ability to stabilize the profitability.

(XI) Social responsibilities

1. Performance of the social responsibility for targeted poverty alleviation

Applicable  Not applicable

2. Performance of other social responsibilities

The Company attaches importance to social responsibilities and constantly improves corporate governance. In practice, it pursues harmonious development between the enterprise and the employees, society and nature, pays back the community through concrete actions, and creates a harmonious corporate development environment. The most fundamental social responsibility of the Company is to guarantee the interests of shareholders, especially minority stockholders.

The Company defines the shareholders' meeting convening, holding and voting procedures in strict accordance with provisions and requirements of the Articles of Association and the Rules of Procedure of Shareholders' Meeting, and adopts a legitimate and effective manner to enable more shareholders to attend the shareholders' meeting and to ensure shareholders' information, participation and voting rights regarding major issues of the Company. The Company seriously performs the obligation of information disclosure and treats all the investors in line with the principles of fairness, justice and openness.

The Company reinforces investor relations management in accordance with the Regulations on Investor Relations Management, specifying that the board secretary of the Company is the person responsible for investor relations management and shall organize and carry out routine management of investor relations. During the reporting period, the Company strengthens communications with investors by using the interaction platform of investor relations and receiving calls, and promotes sustainable and healthy development of the Company jointly.

Do the listed company and its subsidiaries fall into the badly polluted industry defined by the environmental protection authority of the state: None.

Any administrative penalty received by the Company during the reporting period: None.

During the reporting period, the Company and its subsidiaries have not been included in the list of polluting enterprises released by environment protection department. There is no material environmental protection issues or other social security issues in the Company.

**(XII) 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 RMB27,600,371.44.

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 2016, the Company had bank loans amounting to RMB29,000,000, representing 7.22% of the total assets. These bank loans bear floating interest rate.

The debt equity ratio of the Company was 3.32% (debt equity ratio= total bank loan/total share capital reserve \* 100%).

At the end of the year 2016, the Company had fixed asset and land with net book value of RMB7,796,634.35 as security.

Please refer to Notes to the Consolidated Financial Statements for contingencies.

To improve its financial management, the Company and its subsidiaries (collectively as "the Group") has established a strict system for internal control on cash and fund management. Financial liquidity and debt paying ability of the Group are in good state.

Significant investment, acquisition or asset disposal during the reporting period are detailed in "Investment of the Company" of this section.

The classification of the Group's results was detailed in "Operation of the Company during the reporting period" of this section.

The prediction about the investment plan of the Group for the following year was detailed in "Subsequent Events".

The effects of exchange rate risk on the Group were less as it chose RMB as its functional currency in assets and liabilities. The Group took the following measures to reduce the risk of currency fluctuation. First, it raised the prices of export products. Second, when signing export contracts involving more money, it agreed with its partners in advance to jointly bear the exchange risks that were beyond their established limit of currency punctuation. Third, it made full efforts to sign forward settlement agreement with financial institutions so as to focus the exchange rate and avoid the risk.

**(XIII) 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.

**(XIV) 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 VIII(vii) of this Annual Report.

**(XV) Financial summaries**

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

There is no material difference between PRC GAAP and Hong Kong Financial Reporting Standards.

**(XVI) Reserve**

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

**(XVII) Bank loans and other loans**

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

**(XVIII) Fixed assets**

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

**(XIX) Retirement welfare**

During the year, the Company adopted PRC GAAP No. 9 “employee’s salary”, 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. 9 did not impose significant impact on the Company’s financial status.

**(XX) Share capital**

Changes of share capital are detailed in section 6(i) of this Annual Report.

**(XXI) Pre-emptive right**

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

**(XXII) Impact of medical insurance scheme reform on the results of the Company**

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

**(XXIII) Income tax: during the reporting period, the applicable income tax rate of the Company is 25%, and there is no assessable profit in Hong Kong. Please refer to the Notes of "Taxation" to the Financial Statements for details.**
**(XXIV) 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

**(xxv) Resolution on the current year's profit distribution or the conversion of reserve into share capital**

The Board of the Company proposed to distribute profit ended on 31 December 2016 as follows:

During the reporting period, the Company recorded net profit distributable to shareholders of the listed company of RMB-99,493,754.11; and the accrued profit distributable to shareholders at the end of the year was RMB-1,637,084,660.40. 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 did not declare any cash dividends in the past three years.

*Unit: RMB*

Year	Net profit attributable to shareholders of listed company in consolidated financial statements		Ratio of the cash dividends to the net profit attributable to shareholders of listed company in consolidated financial statements (%)
	Amount (tax included)		
2016	0.00	-99,493,754.11	0
2015	0.00	4,933,337.50	0
2014	0.00	6,169,105.14	0

**(XXVI) 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.

**(XXVII) Independent directors' special representation and independent opinion**

As current independent directors of the Eighth Session of the Board of Northeast Electric Development Co., Ltd (the "Company"), Zhang Luyang, Jin Wenhong and Qian Fengsheng have, in accordance with the relevant requirements set out in "Guidance Opinions on the Establishment of Independent Director System by Listed Companies", "Notice of Certain Issues in relation to the Regulation on Capital Flow between Listed Companies and its Connected Parties and External Guarantee of Listed Companies" (Zheng Jian Fa [2003]No. 56), "Notice on Regulation of External Guarantee Acts of Listed Companies" (Zheng Jian Fa [2005] No. 120) and based on the relevant information available by the Board to the Company, issued the following specific explanations and independent views after reviewing the information provided in a pragmatic manner on the basis that the information available are true, accurate and complete:

**1. Independent directors' opinion on self-assessment report of internal control of the Company**

During the reporting period, the board of the Company revised, considered and adopted a series of management systems 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, debt restructuring 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 report 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 external guarantees**

As at the end of the reporting period, the actual bank loan of external guarantee provided by the Company totaled RMB53,050,000, and so the real amount that the Company should assume responsibility for guarantee was RMB53,050,000, accounting for 26.16% of the audited net assets of the Company for 2016. During the reporting period, the Company cautiously treated and handled the external guarantee matters and made complete information disclosure in accordance with relevant provisions of supervision departments, thus making full disclosure and effective control of external guarantee risks. It hasn't made any guarantee for its shareholders, effective controller as well as the connected parties. From now on, the Company will continue to strictly execute the provisions of the Articles of Association to enhance management on external guarantee and to properly solve the problems of the guarantees provided.

**3. Independent opinion on connected transactions**

In accordance with the regulations on internal audit review of risk management and internal control system in clause C.2.5 of the new code provisions in Appendix 14 of the Main Board Listing Rules, the personnel at the Internal Audit Department of the Company needs to audit the connected transaction and related internal control procedures, submit the results to the independent directors, and help them to carry out annual audit.

The independent directors believe that there are no insider dealings between the Company and its associates or connected transactions that damage the interests of some of the shareholders or the Company existed. The Company has been operating legally and properly, and its financial conditions, transactions of asset acquisition and disposal and connected transactions are without problem.

#### **4. Independent opinions on Fund Occupation of Connected Parties of the Company**

During the reporting period, there is no appropriation of funds by the shareholders or their subsidiaries for non-operating purposes. At end of the reporting period, the connected party occupied the capital of the Company mainly for daily operations, and relevant affairs have fulfilled necessary decision-making process and obligation of information disclosure.

Independent directors will continuously keep an eye on capital flow between the Company, its shareholders and other connected parties as well as the external guarantees provided by the Company, and urge the Company to prevent and control risks to earnestly protect all shareholders' interest.

#### **5. Independent opinion on Asset acquisition and disposal**

For the external investment, equity acquisition, and asset acquisition and sale matters of the Company in the reporting period, the independent directors should consider such a transaction based on the following principles:

- (a) Whether the related transaction is carried out according to the general commercial terms or better terms, whether it complies with the agreement for regulating such transactions, and whether the terms are fair and reasonable and accord with the interests of the issuer; and
- (b) Whether the internal control procedures set by the issuer are sufficient and effective.

In the opinion of the independent directors, all the transactions have been prepared based on the general commercial terms and according to the normal way, and the pricing terms are fair and reasonable; the independent directors agree with the resolution of the Board of Directors; all the transactions are fair and reasonable to all the shareholders and do not damage the legitimate interests of minority shareholders.

#### **6. Independent opinion on the Proposal of Profit Distribution**

During the reporting period, the Company recorded net profit distributable to shareholders of the listed company of RMB-99,493,754.11, and the accrued profit distributable to shareholders at the end of the year was RMB-1,637,084,660.40. 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 Board that there would be no profit distribution in 2016 is reasonable, and no declaration 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 General Meeting for consideration.

#### 7. Independent directors' independent opinions on this provision for impairment of assets

According to the related provisions of the Guidance Opinions on the Establishment of Independent Director System by Listed Companies, Company Law, Articles of Association, and Several Provisions on Strengthening Protection of Rights and Interests of Social Public Stock Shareholders issued by the CSRC, the independent directors published the following independent opinions on the Company's provision for impairment of assets:

- (1) Based on the principle of prudence, the Company reserved RMB55,143,110.42 in total for provision for asset impairment, including the total provision of RMB1,602,045.05 for bad debts, the total provision of RMB9,009,175.23 for all inventory depreciation items, the total provision of RMB17,816,275.70 for impairment of financial assets available for sale, the total provision of RMB17,974,823.40 for impairment of long term equity investment, the total provision of RMB8,710,888.13 for impairment of fixed assets, and the total provision of RMB29,902.91 for impairment of construction in progress. In our opinion, the matter complies with the related provisions of the Accounting Standards for Business Enterprises and the Company's accounting policies and accounting estimates, the provision basis and reason are reasonable and sufficient and comply with the actual situation of the Company, and the amount reserved for the provision for impairment fully takes into account the market factors, reflects the Company's assets fairly, accords with the interests of the Company and all shareholders, and does not damage the legitimate interests of the Company and minority shareholders.
- (2) The decision-making process of this provision for impairment of assets complies with the provisions of the related laws and regulations such as the Company Law, Securities Law and the Rules of Shenzhen Stock Exchange for the Listing of Stocks, as well as the Articles of Association.
- (3) When the Board of Directors considered this provision for impairment of assets, the Audit Committee issued the special opinions on this provision for impairment of assets; when the Board of Directors voted on this provision for impairment of assets, the voting procedure complied with the provisions of the relevant laws and regulations.

We agree with the Company's provision for impairment of assets this time.

**(XXVIII) Whether the Company prepared and disclosed the profit forecast for the coming year: No.**

By order of the Board

**Su Jianghua**

*Chairman*

27 March 2017

**(I) Material litigation and arbitration**

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

**(II) During the reporting period, there is acquisition or disposal of assets in the Company.****(1) Acquisition of assets in the reporting period**

The Company acquired 51% of the equity of Northeast Electric (Chengdu) Power Engineering Design Co., Ltd. under approval by the eighth meeting of the eighth session of the Board of Directors through deliberation on 29 November 2016 (for details, see the Announcement on Board Resolution of Northeast Electric Development Co., Ltd. issued by the Company on 1 December 2016). The Company signed an equity transfer agreement on 1 December 2016 to use its own fund RMB5.1 million to acquire 51% of the equity of Northeast Electric (Chengdu) Power Engineering Design Co., Ltd. This equity transfer has been registered as of the balance sheet date.

**(2) Sales of assets in the reporting period**

The Company sold 100% of the equity of Northeast Electric (Beijing) Limited under the approval of the sixth meeting of the eighth session of the Board of Directors through deliberation on 29 September 2016 (for details, see the Announcement of Northeast Electric Development Co., Ltd. on Selling 100% of Equity of Northeast Electric (Beijing) Limited released by the Company on 30 September 2016). The Company signed an equity transfer agreement on 29 September 2016 to sell 100% of the equity of Northeast Electric (Beijing) Limited at a price of RMB1 million, and the equity transfer has been registered as of the balance sheet date.

**(III) During the reporting period, the Company has no investment in securities****(IV) During the reporting period, no shares of other listed companies or pre-public companies or equities of commercial banks, securities companies, insurance companies, trust companies and futures companies was held by the Company.****(V) Connected transactions**

During the reporting period, there were no connected transactions nor claims and debts between the Company and the connected parties.

**(VI) Use of capital for connected parties**

Shareholders did not use any capital during the reporting period. Please see note “Relation and Transaction of Connected Parties” to the Financial Statements for details on use of capital for other connected parties.

**(VII) Significant contracts and their execution**

1. During the reporting period, the Company did not enter into any material 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. There was no entrusted loan.

2. Guarantees:

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

As at the end of the reporting period, the actual bank loan of external guarantee provided by the Company totalled RMB53,050,000, and so the real amount that the Company should assume responsibility for guarantee was RMB53,050,000, accounting for 26.16% of the audited net assets of the Company for 2016.

(1) External guarantees of the Company

As at the end of the reporting period, the Company has provided guarantee of RMB 52,900,000.00 for loans granted to Jinzhou Power Capacitor Co., Ltd., RMB 150,000 for loans granted to Shenyang Kingdom Hotel.

(2) Guarantees for the holding subsidiaries of the Company Nil.

(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 26.09% of the audited net assets of the Company for 2016, which was translated into liabilities in total in 2007.

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

**(VIII) Implementation of commitments of the Company, major shareholders and actual controllers**

To implement the Share Reform Scheme of the Company smoothly, NNEI, the actual controller of the Company made a special undertaking that it will not sell or transfer the shares of Northeast Electric Development Co., Ltd on Shenzhen Stock Exchange within 36 months from the date for implementation of the Share Reform Scheme. Following the expiry of the said 36 months, the original Non-circulating Shares which are publicly sold on Shenzhen Stock Exchange will not be less than RMB5 per share.

During the reporting period, NNEI has strictly fulfilled the above commitments.

Tsing Chuang Group made a special undertaking in the acquisition report or equity change report: it will avoid horizontal competition with the Listed Company; not buy or sell stocks of the Listed Company within 6 first months after signing of the Share Transfer Agreement; ensure independence of the Listed Company; strictly observe related regulations of CSRC on reduction of shares by major shareholders of listed companies.

During the reporting period, Tsing Chuang Group has strictly fulfilled the above commitments.

Beijing Haihongyuan made the following commitments in the acquisition report or equity change report: Avoid horizontal competition with the listed company; reduce and normalize the connected transactions with the listed company; maintain independence of the listed company after the acquisition; strictly abide by the CSRC's related regulations on reduction of shares held by major shareholders of listed companies.

During the reporting period, Beijing Haihongyuan has strictly fulfilled the above commitments.

**(IX) The Company has not issued any equity incentive plans**

**(X) During the reporting period, the Company, the Board of Directors and the directors has 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 management were not subject to any compulsory procedures.**

**(XI) No other significant events as listed in section 67 of the Securities Law and section 30 of Details for Administration on Information Disclosure of Listed Companies was happened during the reporting period.**

**(XII) Reception to the activities of field survey, communication and interview during the reporting period**

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

**(XIII) Modification to the Articles of Association**

The general meeting of shareholders of 2015 of the Company held on 3 May 2016 approved the proposal on modification to the Articles of Association through deliberation. The modification to the Articles of Association complies with the relevant provisions of the Articles of Association of the Company, and the related laws, administrative regulations and normative documents of China, as well as the provisions of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited.

**(XIII) Subsequent events**

Share transfer of the first major shareholder and change to the actual controller

On 23 January 2017, Tsing Chuang Group, the first major shareholder of the Company, and Beijing Haihongyuan Investment Management Co., Ltd. (hereinafter referred to as “Beijing Haihongyuan”) signed the Agreement on Share Transfer of Northeast Electric Development Co., Ltd., and Tsing Chuang Group planned to transfer its held 81,494,850 non-restricted negotiable A-shares (accounting for 9.33% of the total equity of the Company) of the Company to Beijing Haihongyuan through agreement. The two parties completed the share transfer registration formalities on 13 February 2017. The first major shareholder of the Company changed to Beijing Haihongyuan, and the actual controller changed to Hainan Province Cihang Foundation. (For details, see the announcements issued by the Company on 23 January 2017 and 14 February 2017)

**(I) Table of changes in share capital**
*Unit: share*

<b>Class</b>	<b>Shares</b>	<b>Beginning of the year</b>	<b>Change (+/-)</b>	<b>End of the year</b>
1	Shares subject to trading moratorium	5,999,022	0	5,999,022
	State-owned legal person shares	0	0	0
	Public legal person shares	5,999,022	0	5,999,022
2	Shares not subject to trading moratorium	867,370,978	0	867,370,978
	Domestic listed A Shares	609,420,978	0	609,420,978
	Overseas listed H Shares	257,950,000	0	257,950,000
3	Total shares	873,370,000	0	873,370,000

**CHANGES IN SHARE CAPITAL AND INFORMATION OF SHAREHOLDERS (Continued)**

**(II) Table of shareholdings of the top ten shareholders**

Total number of shareholders at the end of the reporting period was 75,817.

**Shareholdings of the top ten shareholders**

*Unit: share*

Name of shareholders	Nature of shareholder	Percentage	Number of shares	Changes in the reporting period	Number of tradeable shares	Number of untradeable shares	Shares pledged or frozen	
							Status of shares	Number
HKSCC Nominees Limited	Overseas legal person	29.43%	256,999,999					
Suzhou Tsing Chuang Trading Group Co., Ltd	Domestic non-state-owned legal person	9.33%	81,494,850					
Taida Hongli Funds-CMBC-TEDA Manulife Strategy Rating No. 31 Assets Management Plan	Fund	2.55%	22,314,561					
Tian Ya	Domestic natural person	1.41%	12,338,400					
Xu Kaidong	Domestic natural person	0.92%	8,000,000					
Shen Suying	Domestic natural person	0.63%	5,500,000					
Wu Meiqing	Domestic natural person	0.48%	4,181,492					
Cheng Wei	Domestic natural person	0.45%	3,900,000					
Shenzhen Zhongda Software Development Ltd	Domestic non-state-owned legal person	0.41%	3,550,000		3,550,000			-
Shi Yubo	Domestic natural person	0.38%	3,281,900					

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”. Based on the final practicable date before the Third Quarterly Report and the publicly available information of the Company, the Company confirms that the number of public shares is sufficient.

Connections and concerted actions between the above shareholders:

**Note:**

- 1) *So far as the Company is aware, there is no connected relationship among the top ten shareholders or are parties acting in concert as required in “Methods of Information Disclosure of Shareholding Changes of Listed Companies”.*
- 2) *Based on the information that is publicly available to the Company as at the latest practicable date prior to the printing of this annual report and within the knowledge of the Directors, there was sufficient public float of the Company’s shares.*
- 3) *Save as disclosed above, Directors were not aware of any person (not being a Director or chief executive of the Company) having 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.*

- 4) *Purchase, sale or redemption of the Company’s listed shares*

*During the reporting period, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company’s shares.*

- 5) *Pre-emptive rights*

*There is no provision of pre-emptive rights in accordance with the laws of the PRC and the Articles of Association of the Company.*

- 6) *Convertibles, options, warrants or other similar rights*

*As of 31 December 2016, the Company did not issue any convertible securities, options, warrants or any other similar right.*

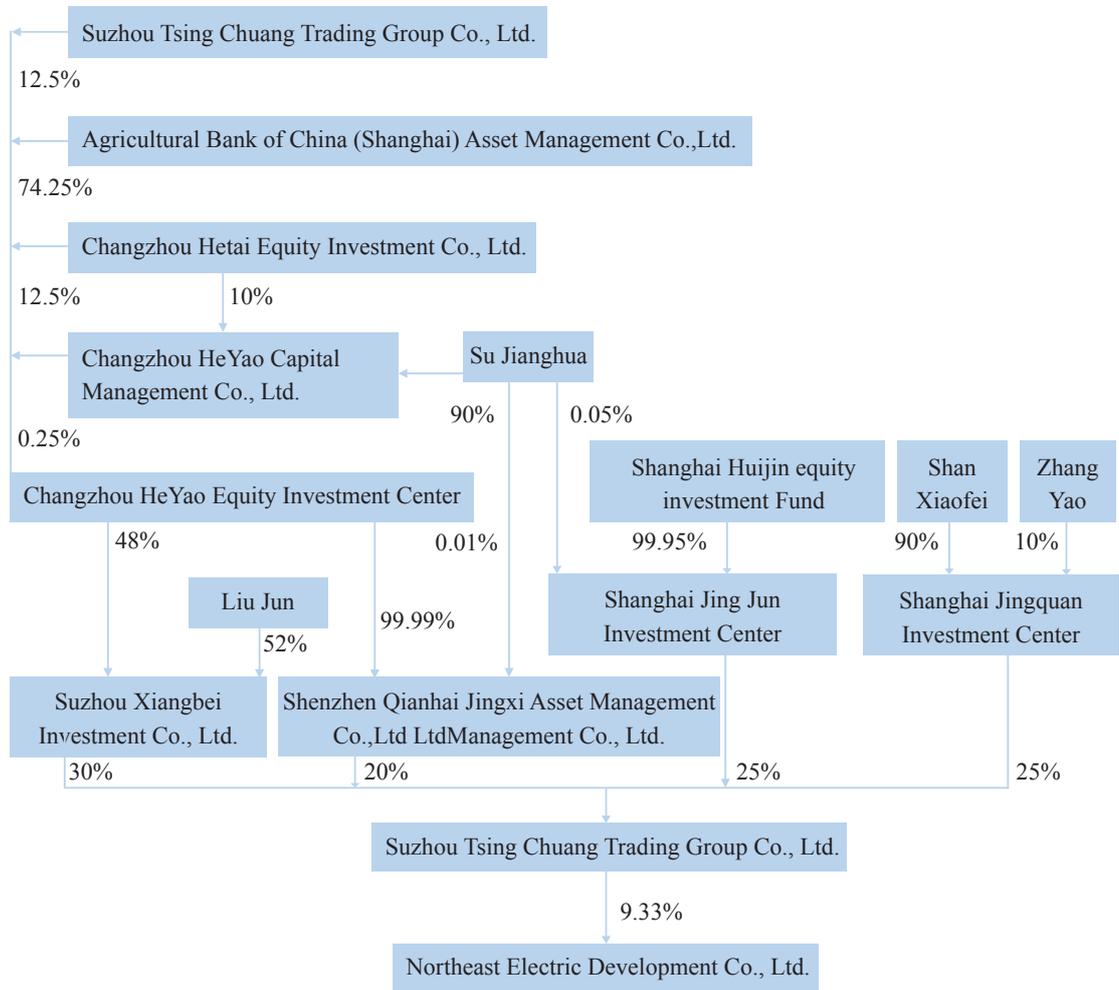
**(III) Information on the major shareholder and the actual controller (As of the disclosure date of the annual report)**

Name of the controlling shareholder	: Beijing Haihongyuan Investment Management Co., Ltd.
Legal representative	: Li Qiang
Incorporation date	: 11 July 2012
Registered capital	: RMB20 million
Scope of business	: Investment management; asset management; project investment. (The enterprise should select business items and carry out operating activities independently according to law; for the above items subject to administrative approval according to law, an approval must be obtained from the related authorities prior to operating activities; the enterprise cannot deal with the operating activities of items prohibited or restricted by the industrial policy of the city.)
Equity structure	: HNA Tourism Group Co., Ltd. contributed RMB20,000,000, representing 100% of the registered capital.

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

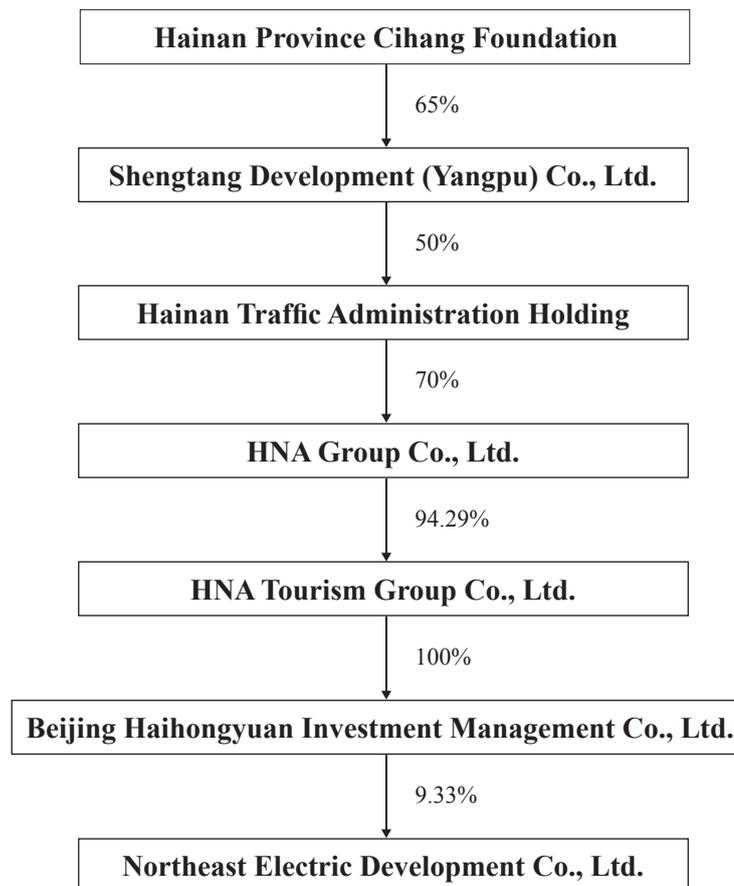
**1. Change to the actual controller in the reporting period of the Company:**

On 21 December 2015, New Northeast Electric Investments Co., Ltd. (hereinafter referred to as "NNEI"), the first major shareholder of the Company, and Suzhou Tsing Chuang Trading Group Co., Ltd. (which has been renamed to "Changzhou Tsing Chuang Industrial Investment Group Limited", hereinafter referred to as "Tsing Chuang Group") signed the Agreement on Share Transfer of Northeast Electric Development Co., Ltd. (hereinafter referred to as the "Share Transfer Agreement"), and NNEI planned to transfer its held 81,494,850 nonrestricted negotiable A-shares (accounting for 9.331% of the total equity of the Company) of the Company to Tsing Chuang Group through agreement. This share transfer was registered and confirmed through Shenzhen Branch of China Securities Depository and Clearing Corporation Limited on 22 January 2016, the first major shareholder of the Company changed to Tsing Chuang Group, and the actual controller changed to Liu Jun. The block diagram of property rights and control relationships between companies and the actual controller at the end of the reporting period is as follows according to the first major shareholder's announcement on share changes of shareholders on 4 August 2016:



**2. Share transfer that occurred before the annual report disclosure date and changes to the first major shareholder and the actual controller**

On 23 January 2017, Tsing Chuang Group, the first major shareholder of the Company, and Beijing Haihongyuan Investment Management Co., Ltd. (hereinafter referred to as "Beijing Haihongyuan") signed the Share Transfer Agreement, and Tsing Chuang Group planned to transfer its held 81,494,850 nonrestricted negotiable A-shares (accounting for 9.33% of the total equity of the Company) of the Company to Beijing Haihongyuan through agreement. The two parties completed the share transfer registration formalities on 13 February 2017. The first major shareholder of the Company changed to Beijing Haihongyuan, and the actual controller changed to Hainan Province Cihang Foundation. The block diagram of property rights and control relationships between companies and the actual controller:



**(V) Introduction to other corporate shareholders holding over 5% of the Company's shares:**

During the reporting period, there have been no corporate shareholders holding over 5% of the Company's shares in the Company.

**(I) Profile of directors, supervisors, senior management**
**1. Basic information**

Name	Sex	Age	Position	Start date	End date	Number of	Number of	Remuneration (RMB0'000)
				of the term of office	of the term of office	shares held at the beginning of the year	shares held at the end of the year	
Su Jianghua	M	43	Chairman	2016/03/11	2019/03/10	0	0	60
			Vice Chairman, vice general manager,					
Su Weiguo	M	55	Board Secretary	11/03/2016	10/03/2019	0	0	71.52
Wang Zheng	M	43	Director	2016/03/11	2019/03/10/	0	0	45
Liu Jun	M	33	Director, General manager	11/03/2016	10/03/2019	0	0	45
Li Min	M	47	Director	11/03/2016	10/03/2019	0	0	10
			Director, vice general manager, financial administrator					
Feng Xiaoyu	M	44		10/03/2016	10/03/2019	0	0	65.5
Zhang Luyang	M	60	Independent Director	11/03/2016	10/03/2019	0	0	12
Jin Wenhong	M	67	Independent Director	11/03/2016	10/03/2019	0	0	12
Qian Fengsheng	M	53	Independent Director	11/03/2016	10/03/2019	0	0	12
			Chairman of the Supervisory Board					
Wu Junyun	F	39		11/03/2016	10/03/2019	0	0	8
Li Dong	M	55	Supervisor	11/03/2016	10/03/2019	0	0	8
Qiu Yongjian	M	53	Supervisor	17/04/2014	10/03/2019	0	0	26.47
Wang Shouguan	M	73	Vice Chairman, General manager	07/03/2007	10/03/2016	0	0	6.38
Liu Qingmin	M	54	Director	27/09/2004	10/03/2016	0	0	11.47
Jiao Liyuan	F	54	Director	17/04/2014	10/03/2016	0	0	5.4
Wang Yunxiao	M	71	Independent Director	08/03/2010	10/03/2016	0	0	0
Liang Jie	F	56	Independent Director	11/03/2013	10/03/2016	0	0	0
Liu Hongguang	M	50	Independent Director	11/03/2013	10/03/2016	0	0	0
			Chairman of the Supervisory Board					
Liu Xuehou	M	61		08/03/2010	10/03/2016	0	0	11.25
Zhu Xinguang	M	47	Supervisor	04/05/2015	10/03/2016	0	0	13.5

**Note:**

- 1) *The remuneration of these staff includes all kinds of insurance and accumulation fund paid in accordance with the state and local policies. The total remuneration of top five persons amounts to RMB2,870,200.*
- 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 2016.*
- 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.*

*Save as disclosed above, none of the directors, supervisors and senior management or any of their associates, as at 31 December 2016, 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 2016, 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. Information about the directors and supervisors serving the shareholders' company**

Name of person in office	Name of shareholders' company	Position at the shareholders' company	Start date of the term of office	End date of the term of office	Receive compensation and allowance from the shareholders' company
Liu Jun	Suzhou Tsing Chuang Trading Group Co., Ltd.	Legal representative	2 December 2015	23 December 2016	Yes
Su Jianghua	Suzhou Tsing Chuang Trading Group Co., Ltd.	Legal representative	23 December 2016		Yes

**3. Main work experience of the directors, supervisors and senior management in recent five years in the reporting period**
**(1) Directors**

**Mr. Su Jianghua**, born in 1974, with Chinese nationality but without the right of permanent residence abroad, is a holder of Master's degree majored in Business Administration and graduated from Xi'an Jiaotong University and Nanjing University of Science and Technology. He was formerly the deputy secretary and town mayor of Caoqiao Town in Wujin District of Changzhou City, a member of Standing Committee of Wujin District, Chief of Administrative Committee, Secretary of Party Working Committee of Gaoxin District of Changzhou City, Deputy Secretary of Municipal Party Committee and Mayor of Liyang City in Jiangsu Province. He is now the President of Golden Concord Holdings Limited, Chairman of Tsing Chuang Trading Group, and Chairman of Northeast Electric Development Co., Ltd. Mr. Su Jianghua does not hold any shares of the Company, and has relationships with Tsing Chuang Trading Group and its concerted action person, but no relationships with New Northeast Electric Investments Co., Ltd. and Beijing Haihongyuan Investment Management Co., Ltd. and its final actual controller; he has never been punished by China Securities Regulatory Commission and other authorities concerned or disciplined by any stock exchanges. He has had corresponding qualifications and quality to exercise his functions and powers without any actions prohibited by laws and regulations such as the Company Law and the Articles of Association.

**Mr. Su Weiguo ("Mr. Su")**, 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 was the section chief of the Business Management Department, deputy general manager, secretary of the Board of Directors, general manager and chairman of Northeast Electric Development Co., Ltd., and the section chief of Business Management Department, assistant president and deputy general manager of Northeast Electric Power Transmission and Transformation Equipment Group, and the general manager of Tieling Copper Industry Co., Ltd., and the chairman of Shenyang Furukawa Cable Co., Ltd., which is a Sino-Japanese joint venture. He is currently the vice chairman, vice general manager, board secretary of the Company. Mr. Su has no any equity interest in the Company or related party relationships with New Northeast Electric Investments Co., Ltd., Tsing Chuang Trading Group and its concerted action person, and Beijing Haihongyuan Investment Management Co., Ltd. and its final actual controller. He has never been punished by China Securities Regulatory Commission and other authorities concerned or disciplined by any stock exchanges. He has had corresponding qualifications and quality to exercise his functions and powers without any actions prohibited by laws and regulations such as the Company Law and the Articles of Association.

**Mr. Wang Zheng**, born in 1974, with Chinese nationality but without the right of permanent residence abroad, studied EMBA at Shandong University and Cheung Kong Graduate School of Business respectively, received a Bachelor's degree and now is studying for a master's degree. He was the executive director of Shanghai Prosperity Fund Inc. and the chairman of Shanghai Puyi Investment Management Co., Ltd. He is currently the executive director of Shenzhen Qianhai Jingxi Assets Management Co., Ltd. Mr. Wang Zheng holds 236,900 A shares (bought on 25 January 2017) of the Company, and has relationships with Tsing Chuang Trading Group and its concerted action person, but no relationships with New Northeast Electric Investments Co., Ltd. and Beijing Haihongyuan Investment Management Co., Ltd. and its final actual controller; he has never been punished by China Securities Regulatory Commission and other authorities concerned or disciplined by any stock exchanges. He has had corresponding qualifications and quality to exercise his functions and powers without any actions prohibited by laws and regulations such as the Company Law and the Articles of Association.

**Mr. Liu Jun**, born in 1984, with Chinese nationality but without the right of permanent residence abroad, once worked as the operations director of Yiban Development Center of Shanghai Distance Education Group, general manager of Shanghai Xijin Culture Communication Co., Ltd., executive director of Tsing Chuang Trading Group, executive director of Suzhou Xiangbei Investment Co. Ltd., and general manager of Suzhou Fuulink Network Technology Co. Ltd., etc. He is currently the chairman and general manager of Northeast Electric Development Co., Ltd. Mr. Liu Jun does not hold any shares of the Company, and has relationships with Tsing Chuang Trading Group and its concerted action person, but no relationships with New Northeast Electric Investments Co., Ltd. and Beijing Haihongyuan Investment Management Co., Ltd. and its final actual controller; he has never been punished by China Securities Regulatory Commission and other authorities concerned or disciplined by any stock exchanges. He has had corresponding qualifications and quality to exercise his functions and powers without any actions prohibited by laws and regulations such as the Company Law and the Articles of Association.

**Mr. Li Min**, born in 1970, is a certified public accountant, lawyer, auditor, and Chief Financial Officer of Shanghai National Accounting Institute. He studied British and American literature at Beijing Foreign Studies University, Financial Management at the Chinese University of Hong Kong University, MBA at Australian La Trobe University, and Nankai University, and received bachelor's degree, master's degree and Financial Ph.D. He was a clerk of Agriculture Bank of China Zhejiang Branch, the financial manager and finance and investment manager of Pudong Development Group Pudong State-owned Assets Company, a government sponsored student to Australia (sponsored by Shanghai Municipal Organization Department), the business director of Union Finance Strategic Management Center, the executing director of Hong Kong Dazhen (Holdings) Company, and a practicing lawyer of Shanghai Zhenghan Law Firm. At present, he is the chief financial officer of Zhongtai Trust Co., Ltd. Mr. Li Min does not hold any shares of the Company, and does not have any relationships with New Northeast Electric Investments Co., Ltd., Tsing Chuang Trading Group and its concerted action person, and Beijing Haihongyuan Investment Management Co., Ltd. and its final actual controller; he has never been punished by China Securities Regulatory Commission and other authorities concerned or disciplined by any stock exchanges. He has had corresponding qualifications and quality to exercise his functions and powers without any actions prohibited by laws and regulations such as the Company Law and the Articles of Association.

**Mr. Feng Xiaoyu**, born in 1973, studied Technology Economics at School of Management in Xi'an Jiaotong University

and MBA at Business School in Nanjing University, and received bachelor and master's degree. He ever worked as the general manager of Government & Enterprise Department of China Mobile Jiangsu Co., Ltd. Changzhou Branch. He is currently the chairman, deputy general manager and finance chief of Northeast Electric Development Co., Ltd. Mr. Feng Xiaoyu does not hold any shares of the Company, and has relationships with Tsing Chuang Trading Group and its concerted action person, but no relationships with New Northeast Electric Investments Co., Ltd. and Beijing Haihongyuan Investment Management Co., Ltd. and its final actual controller; he has never been punished by China Securities Regulatory Commission and other authorities concerned or disciplined by any stock exchanges. He has had corresponding qualifications and quality to exercise his functions and powers without any actions prohibited by laws and regulations such as the Company Law and the Articles of Association.

## (2) Independent directors

**Mr. Zhang Luyang**, born in 1957, is a professor with Chinese nationality but without the right of permanent residence abroad, studied Materials Science and Engineering and Management Science and Engineering at Harbin Institute of Technology successively, and received the bachelor's degree, double-master's degree, and Ph.D. He was the League Secretary of the Students' Union in Harbin Institute of Technology, an engineer of Nanjing Chenguang Machinery Plant, a postdoctoral fellow of the Finance Department of Nanjing University, and a postdoctoral fellow of the International Finance Department of Fudan University. At present, he is a professor in the International Finance Department of Fudan University and chairman of Shanghai Fudan Forward Science & Technology Co., Ltd., and a specialist member of the governance committee of Shanghai Stock Exchange, a distinguished consultant of Chengdu municipal people's government, a distinguished instructor of Shanghai Entrepreneurship Center, and a special part-time doctoral tutor in the University of Tokyo. Mr. Zhang Luyang does not hold any shares of the Company, and does not have any relationships with New Northeast Electric Investments Co., Ltd., Tsing Chuang Trading Group and its concerted action person, and Beijing Haihongyuan Investment Management Co., Ltd. and its final actual controller; he has never been punished by China Securities Regulatory Commission and other authorities concerned or disciplined by any stock exchanges. He has had corresponding qualifications and quality to exercise his functions and powers without any actions prohibited by laws and regulations such as the Company Law and the Articles of Association.

**Mr. Jin Wenhong**, born in 1950, with Chinese nationality but without the right of permanent residence abroad, studied Life Science and Aquatic Ecology in Dalian Ocean University and Management Science in Fudan University, and received Bachelor and Master's degree. He was a deputy office director in Shanghai Municipal Bureau of Aquatic Products, the deputy division director of Overseas Economic Cooperation Division in Finance and Trade Office, the general manager of International Department in China Pacific Life Insurance Company, the deputy managing director of China Pacific Life Insurance Company, general manager and chairman of China Pacific Life Insurance Company Limited, vice president of the Insurance Association of China, and senior consultant of Pacific Assets Management Company. He is now retired. At present, he is the chairman of CITIC-Prudential Life Insurance Company Ltd. and the independent director of Shanghai Lonyer Fuels Co., Ltd. Mr. Jin Wenhong does not hold any shares of the Company, and does not have any relationships with New Northeast Electric Investments Co., Ltd., Tsing Chuang Trading Group and its concerted action person, and Beijing Haihongyuan Investment Management Co., Ltd. and its final actual controller; he has never been punished by China Securities Regulatory Commission and other authorities concerned or disciplined by any stock exchanges. He has had corresponding qualifications and quality to exercise his functions and powers without any actions prohibited by laws and regulations such as the Company Law and the Articles of Association.

**Mr. Qian Fengsheng**, born in 1964, with Chinese nationality but without the right of permanent residence abroad, was graduated from Accounting major in Shanghai University of Finance and Economics in 1986 and received Ph.D. in Management (Accounting) in 1999. At present, he is an associate professor of the School of Accounting in Shanghai University of Finance and Economics, a consultant expert of accounting standard in the Ministry of Finance, and member of the Accounting Basic Theory Special Committee in the Ministry of Finance. He was the director of the MPACC Center in Shanghai University of Finance and Economics. Mr. Qian Fengsheng does not hold any shares of the Company, and does not have any relationships with New Northeast Electric Investments Co., Ltd., Tsing Chuang Trading Group and its concerted action person, and Beijing Haihongyuan Investment Management Co., Ltd. and its final actual controller; he has never been punished by China Securities Regulatory Commission and other authorities concerned or disciplined by any stock exchanges. He has had corresponding qualifications and quality to exercise his functions and powers without any actions prohibited by laws and regulations such as the Company Law and the Articles of Association.

**(3) Shareholder representative supervisors**

**Ms. Wu Junyun**, born in 1978, with Chinese nationality but without the right of permanent residence abroad, holds a Bachelor's degree and is studying EMBA in Hunan University; she is a certified tax agent with a title of accountant; she was employed as the financial manager of the Baker Tilly International Accounting Firm and Hunan Huitong Industrial Development Co., Ltd. She is currently the chief financial officer and deputy general manager of Happy Shopping Co., Ltd., and is quite experienced in financial management and auditing, and operation management for listed companies. Ms. Wu Junyun does not hold any shares of the Company, and does not have any relationships with New Northeast Electric Investments Co., Ltd., Tsing Chuang Trading Group, and Beijing Haihongyuan Investment Management Co., Ltd. and its final actual controller; she has never been punished by China Securities Regulatory Commission and other authorities concerned or disciplined by any stock exchanges. She has had corresponding qualifications and quality to exercise her functions and powers without any actions prohibited by laws and regulations such as the Company Law and the Articles of Association.

**Mr. Li Dong**, born in 1961, with Chinese nationality but without the right of permanent residence abroad, is a Doctor of Management majored in Business Management of Renmin University of China and is a professor. He studied power engineering in Harbin Engineering University, Industrial Economics and Business Management in Renmin University of China, and received Bachelor's degree, Master's degree, and Ph.D. in Management. He was an assistant engineer of the Bureau of Geophysical Exploration in Ministry of Petroleum Industry, and engineer of Jinling Petrochemical Company. He is currently a professor and doctoral supervisor of the School of Economics and Management in Southeast University. Mr. Li Dong does not hold any shares of the Company, and does not have any relationships with New Northeast Electric Investments Co., Ltd., Tsing Chuang Trading Group and its concerted action person, and Beijing Haihongyuan Investment Management Co., Ltd. and its final actual controller; he has never been punished by China Securities Regulatory Commission and other authorities concerned or disciplined by any stock exchanges. He has had corresponding qualifications and quality to exercise his functions and powers without any actions prohibited by laws and regulations such as the Company Law and the Articles of Association.

**(4) Supervisor Representing Staff**

**Mr. Qiu Yongjian (“Mr. Qiu”)**, born in 1964, with Chinese nationality but without the right of permanent residence abroad, senior engineer, graduated from Shenyang University of Technology in high-voltage electrical apparatus with a bachelor degree. He has successively served as a technician in the design division, the design team leader, and the chief in the technology division of Fuxin Enclosed Busbar Co., Ltd. Currently, he is the director, deputy general manager and chief engineer of Fuxin Enclosed Busbar Co., Ltd. and the supervisor of the Company. Mr. Qiu has not any equity interest in the Company and has not had any relationship with any the first major shareholder of the Company. He has never been punished by China Securities Regulatory Commission and other authorities concerned or disciplined by any stock exchanges. He has had corresponding qualifications and quality to exercise his functions and powers without any actions prohibited by laws and regulations such as the Company Law and the Articles of Association.

**(5) Representative for securities affairs**

**Mr. Zhu Xinguang (“Mr. Zhu”)**, born in 1970, with Chinese nationality but without the right of permanent residence abroad, a senior engineer, graduated from Shenyang University of Technology in high-voltage electrical apparatus of electric engineering with a bachelor of engineering in 1992. He has successively served as a technician in the design division of Shenyang High Voltage Switchgear Co., Ltd and the secretary, deputy director, and director to the GM office of the Company. Currently, he is the assistant of general manager, office director of the Board and representative for securities affairs of the Company. Mr. Zhu has been recognized for his enterprise management skills and professional qualifications of more than 20 years. Mr. Zhu has not any equity interest in the Company and has not had any relationship with any the first major shareholder of the Company. He has never been punished by China Securities Regulatory Commission and other authorities concerned or disciplined by any stock exchanges. He has had corresponding qualifications and quality to exercise his functions and powers without any actions prohibited by laws and regulations such as the Company Law and the Articles of Association.

**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 directors’ remuneration was not over RMB700, 000 per annum; each supervisor’s not over RMB80, 000; all independent directors’ remuneration was not over RMB120, 000 per annum.
- (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. Re-election and resignation of directors, supervisors and senior management during the reporting period**

Name	Position	Type	Date	Reason
Su Jianghua	Chairman	Elected	11 March 2016	Election at expiration of office term by the Board of Directors
Su Weiguo	Vice chairman, deputy general manager, board secretary	Elected	11 March 2016	Election at expiration of office term by the Board of Directors
Wang Zheng	Director	Elected	11 March 2016	Election at expiration of office term by the Board of Directors
Liu Jun	Director, general manager	Elected	11 March 2016	Election at expiration of office term by the Board of Directors
Li Min	Director	Elected	11 March 2016	Election at expiration of office term by the Board of Directors
Feng Xiaoyu	Director, deputy general manager, finance chief	Elected	11 March 2016	Election at expiration of office term by the Board of Directors
Zhang Luyang	Independent director	Elected	11 March 2016	Election at expiration of office term by the Board of Directors
Jin Wenhong	Independent director	Elected	11 March 2016	Election at expiration of office term by the Board of Directors
Qian Fengsheng	Independent director	Elected	11 March 2016	Election at expiration of office term by the Board of Directors
Wu Junyun	Supervisory board chairman	Elected	11 March 2016	Election at expiration of office term by the Board of Supervisors
Li Dong	Supervisor	Elected	11 March 2016	Election at expiration of office term by the Board of Supervisors
Wang Shouguan	Vice chairman, general manager	Departure at full term in office	10 March 2016	Departure at the expiration of term in office
Liu Qingmin	Director	Departure at full term in office	10 March 2016	Departure at the expiration of term in office
Jiao Liyuan	Director	Departure at full term in office	10 March 2016	Departure at the expiration of term in office
Wang Yunxiao	Independent director	Departure at full term in office	10 March 2016	Departure at the expiration of term in office
Liang Jie	Independent director	Departure at full term in office	10 March 2016	Departure at the expiration of term in office
Liu Hongguang	Independent director	Departure at full term in office	10 March 2016	Departure at the expiration of term in office
Liu Xuehou	Independent director	Departure at full term in office	10 March 2016	Departure at the expiration of term in office
Zhu Xinguang	Supervisor	Departure at full term in office	10 March 2016	Departure at the expiration of term in office

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

As at 31 December 2016, 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**

Number (person) of employees on the payroll of the parent company	12
Number (person) of employees on the payroll of the main subsidiaries	528
Total number (person) of employees on the payroll	540
Total number (person) of employees receiving remuneration in the current period	540
Number (person) of retired employees for whom the parent company and main subsidiaries need to pay expenses	0
Occupational structure	
Occupational structure category	Number of persons of occupational structure
Production staff	311
Salesman	48
Technical staff	33
Financial staff	15
Administrative staff	133
Total	540
Education level	
Education level category	Number (person)
Bachelor degree	96
College	114
Senior high school and below	330
<b>Total</b>	<b>540</b>

As at the end of the reporting period, the number of employees on the payroll of the Company was 540. 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 the Company Law of the People's Republic of China, Articles of Association and 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 major shareholders and the listed company**

The Company's major shareholders have strictly complied with the Company Law of the People's Republic of China, Articles of Association and Code of Conduct of the Major Shareholder 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 the Company Law of the People's Republic of China, Articles of Association and 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 9 directors, of whom 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 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 Information Management Rules 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**

In accordance with Information Management Rules, the Company has strengthened the confidential work of internal information, prevented insiders misusing the right of information, revealing inside information and executing insider dealings. 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.

Whether there is difference between corporate governance and the requirements of the Company Law and relevant provisions of China Securities Regulatory Commission.

Yes  No

There is no difference between corporate governance and the requirements of the Company Law and relevant provisions of China Securities Regulatory Commission.

**(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**

Board meetings attendance of independent directors							
Name of independent director	Number of attendance required in the reporting period	Number of attendance in person	Number of attendance by communication	Number of attendance by proxy	Number of absence	Two consecutive absences in person	
Wang Yunxiao	3	1	2	0	0	No	
Liang Jie	3	1	2	0	0	No	
Liu Hongguang	3	1	1	1	0	No	
Zhang Luyang	9	2	5	2	0	No	
Jin Wenhong	9	2	7	0	0	No	
Qian Fengsheng	9	2	7	0	0	No	
Number of attendance in the general meeting of shareholders by independent directors							4

**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.

**4. Other remarks on execution of duties by independent directors**

Acceptance of Company-related recommendations made by independent directors

Yes       No

Description of accepted or unaccepted Company-related recommendations made by independent directors

The Company's independent directors, strictly in accordance with provisions of Articles of Association and Work System of Independent Directors and other laws and regulations, kept an eye on the standard operation of the Company, independently implemented duties, presented their professional advice on such matters as the improvement of the Company's system and its daily operation and decision making, issued independent and fair opinions about the engagement of annual report auditor, directors and supervisors and the election of senior management during the reporting period, thus playing their due role in improving the Company's supervision mechanism and safeguarding the legal rights and interests of the Company and its shareholders.

**(III) Independence of business, personnel, assets, organizational structure, and finance among the company and its major shareholders**

The Company operated independently from its major 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 major 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. Senior management and the chairman are all fulltime 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. None of the Company's capital, assets or other resources has been utilized without payment by any major 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 major shareholders. The Board of Directors, Supervisory Committee and general manager have operated independently, having no affiliation with the function department of any major 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) Industry competitiveness**

Applicable       Not applicable

**(V) Assessment and incentive mechanism for senior management**

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. The Company's remuneration committee, in accordance with remuneration management system and annual performance appraisal, has established remuneration standard based on positions and duties of directors, supervisors and senior management.

**(VI) Relationship between general meeting and investors****1. During the reporting period, the company held one annual general meeting and three EGM of shareholders:****(1) Annual general meeting For 2015**

The Company issued the notice on 18 March 2016 and convened the 2015 annual general meeting of shareholders on 3 May 2016 (please refer to the Announcements dated 18 March 2016 and 3 May 2016 for details).

(2) Three Extraordinary General Meeting

The first EGM for 2016

The Company issued the notice on 11 January 2016 and convened the first extraordinary general meeting for 2016 of shareholders on 26 February 2016 (please refer to the Announcements dated 11 January 2016 and 26 February 2016 for details).

The second EGM for 2016

The Company issued the notice on 25 January 2016 and convened the second extraordinary general meeting for 2016 of shareholders on 10 March 2016 (please refer to the Announcements dated 25 January 2016 and 10 March 2016 for details).

The third EGM for 2016

The Company issued the notice on 30 September 2016 and convened the third extraordinary general meeting for 2016 of shareholders on 15 November 2016 (please refer to the Announcements dated 30 September 2016 and 15 November 2016 for details).

**2. Relationship between investors and market value management**

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 2016, market value of Company H shares was HK\$2,279,000,000. For details about categories of shareholders and their shareholdings, please refer to section 6 (2) of this Annual Report.

**(VII) 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. According to the requirement of Rule C. 1.3 of Corporate Governance Code, all of the directors have their responsibility for preparing the accounts.

The Company observes the Listing Rules strictly and uses all the principles listed in the rules as its policies on corporate governance. In terms of corporate governance, the Board of Directors shall assume the following responsibilities:

- (1) Develop and review the Company's policies and practices on corporate governance and make recommendations to the Board;
- (2) Review and monitor the training and continuous professional development of directors and senior management;
- (3) Review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;
- (4) Develop, review and monitor the code of conduct and compliance code applicable to employees and directors; and
- (5) Review the Company's compliance with the code.

**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. Zhang Luyang, Mr. Jin Wenhong and Mr. Qian Fengsheng 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 60 days 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. Liability insurance and continuous professional development of directors

The requirement of “the issuer shall cover appropriate director liability insurance for directors” in Rule A.1.8 of Corporate Governance Code is changed from “the recommended best practice” to “Articles of the Code”. The Company is keeping a close eye on markets investigation and assessing feasible operation plans. Additionally, according to the requirement of Rule A. 6.5 of Corporate Governance Code, all of the directors are actively engaging in continuous profession development to develop and refresh their knowledge and skills so as to ensure that their contribution to the Board remains informed and relevant. The Company is also committed to arranging and funding suitable training to all directors and emphasizes the role, function and responsibility of director in listed company.

### 4. Diversification policy of the Board of Directors

The Board of Directors adopted the diversification policy of its members in the reporting period and aimed to list it as the policy adopted to achieve member diversification of the Board of Directors. The Company acknowledges and believes the benefits brought by member diversification of the Board of Directors and is devoted to ensuring that the directors should possess the appropriate skills, experience and diversification perspective by the business of the Company. All appointments of directors should follow the principle of designating persons with both ability and political integrity and fully consider the benefits brought by member diversification of the Board of Directors. The screening of personnel will adopt a series of diversified categories as criteria, including, but not limited to: business experience, professional skills and other experience, race, international background, gender and age, compliance with supervision regulations; interest conflicts that may be involved, and contributions that can be made to the Board of Directors.

### 5. Board of Directors

As of the announcement of this Annual Report, the 8th session of the Board of Directors comprises 9 directors, including 6 directors, namely Mr. Su Jianghua, Mr. Su Weiguo, Mr. Wang Zheng, Mr. Liu Jun, Mr. Li Min, and Mr. Feng Xiaoyu and 3 independent directors namely Mr. Zhang Luyang, Mr. Jin Wenhong and Mr. Qian Fengsheng. The term of the Board of Directors will expire on 10 March 2019.

The Company has set up Audit Committee, Strategic Development Committee, Remuneration Committee, Nomination Committee and Investment Management Committee pursuant to the Listing Rules. Work of all committees was carried out orderly in accordance with the rules of work. The functions of those committees includes but not limited to following aspects:

- (a) develop and review an issuer’s policies and practices on corporate governance and make recommendations to the Board;
- (b) review and monitor the training and continuous professional development of directors and senior management;
- (c) review and monitor an issuer’s policies and practices on compliance with legal and regulatory requirements;

- (d) develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and directors; and
- (e) review an issuer's compliance with the code and disclosure in the Corporate Governance Report;

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 and General Manager

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. The Chairman shall convene meetings of the Board of Directors, make sure that the behavior of Board of Directors is in line with the best interests of the Company, and ensure effective operation and responsibility fulfillment of the Board of Directors. Meanwhile, the Chairman shall consider all the matters presented by the other directors so as to list them in the meeting agenda of the Board of Directors.

The General Manager is responsible for routine business management and business performance of the Company.

Mr. Su Jianghua is the Chairman of the Company; Mr. Liu Jun is the General Manager of the Company.

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.

Notices on board meetings were ensured to be sent in advance. 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 2016 totaled RMB 3,330,200 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 7 (1).

## **6. Meeting of the Board of Directors**

During the reporting period, a total of 12 regular board meetings were held, with full attendance by all directors or their proxies on their behalf:

- (1) The 15th meeting of the 7th session of Board of Directors convened on 11 January 2016 considered and approved the Proposal on Application for Continuing Trading Suspension upon Expiry of the Trading Suspension Period of the Significant Asset Reorganization and the Proposal on Request for Holding the Second Extraordinary General Meeting of 2016.
- (2) The 16th meeting of the 7th session of Board of Directors convened on 25 January 2016 considered and approved the Proposal on Director Candidate Nomination for the 8th Session of Board of Directors, Proposal on Independent Director Candidate Nomination for the 8th Session of Board of Directors, Amendments to the Articles of Association, Proposal on Adding Directors, Annual Remuneration Plan for Members of the 8th Session of Board of Directors, Annual Remuneration Plan for Members of the 8th Session of Board of Supervisors, and Proposal on Offsite Relocation of North Plant and Government's Relocation Compensation of Fuxin Enclosed Co., Ltd., and requested convening the second extraordinary general meeting of 2016 on 10 March 2016.
- (3) The 17th meeting of the 7th session of Board of Directors convened on 19 February 2016 considered and approved the Performance Report of 2015, Profit Distribution Plan of 2015, Work Report of the Board of Directors of 2015, Work Report of the General Manager of 2015, and the Internal Control Self-assessment Report.
- (4) The 1st meeting of the 8th session of Board of Directors convened on 11 March 2016 considered and approved the Proposal on Election of Chairman and Vice Chairman, Proposal on Forming Each Special Committee of Board of Directors, Proposal on Appointment of the General Manager and Deputy General Manager, Proposal on Appointment of Secretary to the Board of Directors, Proposal on Appointment of Joint Company Secretary, Proposal on Appointment of Representative for Securities Affairs, and Proposal on Establishing a Wholly Owned Subsidiary in Shanghai.

- (5) The 2nd meeting of the 8th session of Board of Directors convened on 18 March 2016 considered and approved the Proposal on Changing Registered Address of the Company, Amendments to the Articles of Association, Proposal on Granting the Board of Directors the General Authorization of Additionally Issuing Hong Kong Listed H-shares of the Company, and the Proposal on Convening the Annual General Meeting of 2015.
- (6) The 3rd meeting of the 8th session of Board of Directors convened on 28 April 2016 considered and approved the Proposal on Compliance of this Significant Asset Reorganization of the Company with Relevant Laws and Regulations, Proposal on the Company's Plan of Significant Asset Purchase and Significant Asset Sale, Proposal on Not Constituting Connected Transaction by the Significant Asset Reorganization, Proposal on Not Constituting Backdoor Listing Proposal Specified in Article 13 of <Administrative Measures on Significant Asset Reorganization of Listed Companies> by the Significant Asset Reorganization, Proposal on Compliance of the Significant Asset Reorganization with Provisions in Article 4 of <Provisions on Several Issues Concerning Regulating the Material Asset Restructurings of Listed Companies>, Proposal on <Significant Asset Purchase and Significant Asset Sale Plan of Northeast Electric Development Co., Ltd. and Its Summary>, Proposal on the Signing Equity Acquisition Agreement that Takes Effect when Meeting Attached Conditions, Proposal on the Signing Equity Sale Agreement that Takes Effect when Meeting Attached Conditions, Proposal on Inviting Relevant Intermediary Agency of the Transaction, Description on Completeness and Compliance of Statutory Procedures Fulfilled for the Significant Asset Reorganization and Effectiveness of Submitted Legal Documents, Proposal on Requesting the General Meeting of Shareholders to Authorize the Board of Directors to Handle Related Matters of the Significant Asset Reorganization with Full Power, Proposal on Not Convening an Extraordinary General Meeting of the Company Temporarily, and the Proposal on Continuing trading suspension of Shares. Moreover, the meeting recommended Ms. Lin Bin at the home office of the Company to serve as the head of the Internal Audit Department set under the Audit Committee of the Board of Directors.
- (7) The 4th meeting of the 8th session of Board of Directors convened on 16 May 2016 considered and approved the Proposal on the Matter of Significant Asset Reorganization and Sale.
- (8) The 5th meeting of the 8th session of Board of Directors convened on 18 August 2016 considered and approved the Unaudited Interim Results for the Half Year Ended 30 June 2016, Profit Distribution Plan for the Half Year Ended 30 June 2016, Proposal on Terminating Acquisition of 55% of Equity of Godin Network Space Security Technology Co., Ltd., and Personnel Change: Adjusting Head of the Internal Audit Department Set under the Audit Committee of the Board of Directors.
- (9) The 6th meeting of the 8th session of Board of Directors convened on 29 September 2016 considered and approved the Proposal on Selling 100% of Equity Investment of Northeast Electric (Beijing) Limited.
- (10) The 7th meeting of the 8th session of Board of Directors convened on 26 October 2016 considered and approved the Third Quarter Results Report of 2016.

- (11) The 8th meeting of the 8th session of Board of Directors convened on 29 November 2016 considered and approved the Proposal on Purchasing 51% of Equity Investment of Sichuan Chenxi Electric Power Engineering Design Co. Ltd.
- (12) The 9th meeting of the 8th session of Board of Directors convened on 7 December 2016 considered and approved the Proposal on Adjusting the External Investment and Organizational Structure and Rationalizing Overseas Assets Investment Relationships.

#### **7. Strategic Development Committee**

Duties and major work of the Committee include scrutiny and assessment of the Company's development, financial budget, and investment and business operations. By the end of this report, the chief member of the Committee is Mr. Wang Zheng, while other members include Mr. Su Weiguo, and Mr. Jin Wenhong. In 2016, the committee convened one committee meeting, which was attended by all members of the committee.

#### **8. 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, to review regularly the framework, membership and work of the board of directors. By the end of this report, the chief member of the Committee is Mr. Su Jianghua, while other members include Mr. Zhang Luyang and Mr. Qian Fengsheng. In 2016, the committee convened one committee meeting, which was attended by all members of the committee.

#### **9. 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 2016, the committee convened one committee meetings all of which were attended by all members. Chief member of the Committee is Mr. Jin Wenhong, while other members include, Mr. Su Jianghua, Mr. Zhang Luyang and Mr. Qian Fengsheng.

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 relevant laws and regulations of China Securities Regulatory Commission and Shenzhen Stock Exchange, Company's internal control system, and relevant provisions made by the Company, has reviewed the remunerations disclosed by the Company's directors, supervisors and senior management and given the following review opinions:

For this year, the remuneration committee has assessed the performance of the Company's directors, supervisors and senior management on the basis of the major scope of duties of the Company's directors, supervisors and senior management, annual operating incomes of the Company in 2016 and the realization of indicators for performance appraisal, to determine the rates of remuneration for the salaried directors, supervisors and senior management for this year in the Company. The remuneration committee opines that the remuneration of directors, supervisors and senior management disclosed in the Company's Annual Report 2016 complies with the provisions of relevant national laws and regulations as well as the Company's Remuneration Management System. The Company had no breach of laws and regulations or inconsistencies with the Contract on Assessing Management Responsibilities.

## 10 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. By the end of this report, Chief member of the Committee is Mr. Zhang Luyang, while other members include, Mr. Jin Wenhong, Mr. Qian Fengsheng and Mr. Feng Xiaoyu .

The committee convenes four meetings a year at least. Together with the management, it shall review the accounting principles, internal control systems and other financial affairs to ensure the integrity, justice and accuracy of the Financial statements and other related materials. In 2016, the committee convened four meetings to audit the Annual Report, Interim Financial Report and the First and Third Quarterly Reports respectively, with three independent directors, debriefing the internal control, and issuing relevant auditors' report and opinion. Especially in the annual report audit period, the Audit Committee deeply communicated with the audit institution, including discussion about key audit matters, continuous operation problem, and other important events or transactions that occurred in the period.

The audit committee, in accordance with the relevant provisions of listing rules and the Company, has performed the following duties earnestly and diligently:

- (1) Negotiating with the auditor of the Company on the plan, content and schedule of the audit of 2016 and establishing audit procedure of the 2016 Annual Report of the Company;
- (2) Thoroughly reviewing the Company's primary financial statement and giving its own audit opinions before the auditor enters;
- (3) Communicating and exchanging 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 when the auditor enters;
- (4) Reviewing the 2016 financial statements of the Company again and giving written audit opinions after the auditor gives its primary audit opinions.

The audit committee has, together with the management, reviewed the accounting principles, accounting standards and methods adopted by the Company and have studied matters relating to auditing, internal controls and financial reporting. The audit committee has given its consent to the financial accounting principles, standards and methods adopted by the Company for the audited annual accounts.

In addition, the Audit Committee reviewed and approved the audited financial accounts and results announcement of 2016 in the board meeting of the Company on 27 March 2017.

### 11. Investment Management Committee

Duties and major work of the Committee include scrutiny and assessment of the Company's strategic plans on annual investment return. By the end of this report, the chief member of the Committee is Mr. Liu Jun, while other members include Mr. Zhang Luyang, Mr. Jin Wenhong, Mr. Qian Fengsheng and Mr. Feng Xiaoyu. In 2016, the committee convened one committee meeting, which was attended by all members of the committee.

### 12. Remunerations of Auditors

Considered and approved through the annual general meeting of shareholders of 2015 convened on 3 May 2016 appoint Ruihua CPAs (special general partner) as the auditors of the Company, with total remuneration of RMB800,000.

### 13. Shareholder's rights

- (a) Shareholders' rights to convene an extraordinary general meeting:

Pursuant to the Article 69 of the Articles of Association, shareholders holding more than 10% (including 10%) of the outstanding shares with voting right of the Company may demand in writing to convene an extraordinary general meeting.

- (b) Shareholders may propose to the Board of Directors procedures for making enquiries and the Company provides adequate information to ensure such enquiries be properly resolved. The Company enhanced its investor relations management in accordance with Management System of Investor Relations, and designated the secretary of the Board being responsible for the management of investor relations to conduct day-to-day investor relations management work. During the reporting period, the Company strengthened communication with investors and promoted continuous and healthy development of the Company in way of interactive investors' platform, phone call and etc.

- (c) Shareholders' right to put forward proposed procedures and adequate contact information at the shareholders' general meetings:

Pursuant to the Article 73 of the Articles of Association, at the shareholders' general meeting of the Company, shareholders holding more than 3% (including 3%) of the total voting shares of the Company are entitled to put forward new proposals in written form. The Company shall include those matters which are within the scope of duties of the shareholders' general meeting into the agenda.

The original copies of all company documents and announcements which have been disclosed are kept in the office of the secretary of the Board for inspection.

In conclusion, during the reporting period, the Company has strictly complied with the provisions in Corporate Governance Code and Section VIII "Shareholders' Rights and Obligations" of the Articles of Association.

- (d) Communication mode with shareholders and investors: By phone and email.

**(VIII) Meeting of the 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 2016, the Supervisory Committee reviewed the Company's financial status and 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. During the reporting period, the supervisory committee has convened four meetings with full attendance, details of which are as follows:

1. The 13th meeting of the 7th session of Supervisory Committee convened on 25 January 2016 considered and approved the Proposal on Nomination of Shareholder Representative Supervisor Candidates for the 8th Session of Board of Supervisors.
2. The 14th meeting of the 7th session of Supervisory Committee convened on 19 February 2016 considered and approved the Work Report of the Board of Supervisors for 2015, Annual Performance Report of 2015, and the Internal Control Self-assessment Report.
3. The 1st meeting of the 8th session of Supervisory Committee convened on 11 March 2016 considered and approved the Proposal on Electing Chairman of the Board of Supervisors.
4. The 2nd meeting of the 8th session of Supervisory Committee convened on 28 April 2016 considered and approved the Proposal on Considering <First Quarter Results Report of 2016>, Proposal on Signing Equity Acquisition Framework Agreement that Takes Effect when Meeting Attached Conditions, Proposal on the Company's Significant Asset Sale Plan, etc.
5. The 3rd meeting of the 8th session of Supervisory Committee convened on 18 August 2016 considered and approved the Interim Results for the Half Year Ended 30 June 2016, Work Report of the Board of Supervisors, and Written Confirmation Opinions of the Semi-annual Report of 2016 and Its Summary.
6. The 4th meeting of the 8th session of Supervisory Committee convened on 26 October 2016 considered and approved the Third Quarter Results Report of 2016.

**(VIV) 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 2016 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 2016.

**3. Asset acquisitions and disposals**

The external investment, equity acquisition, and asset acquisition and sale matters of the Company in the reporting period were all prepared based on the general commercial terms and according to the normal way, and the pricing terms are fair and reasonable; the directors agree with the resolution of the Board of Directors; all the transactions are fair and reasonable to all the shareholders and do not damage the legitimate interests of minority shareholders.

**4. Connected transaction**

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. Self-assessment of the Company's internal control**

According to related regulations of the Internal Control Guidance for Listed Companies, the Board of Supervisors of the Company published the following opinions on internal control of the Company:

- (1) In accordance with relevant provisions of China Securities Regulatory Commission and Shenzhen Stock Exchange, the Company, under the basic 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.

**6. The insider management rules established by the Company**

During the reporting period, the Information Management Rules were considered and approved by the Board of Directors. In strict accordance with the rules, the Company established the Insider Archives for directors, supervisors, senior management members and insiders regarding inside information to ensure that the inside information of the Company was kept and disclosed in a fair, open and impartial way so as to prevent insider trading and other illegal actions.

**7. The Company's External Guarantee**

As at the end of the reporting period, the actual bank occupation of external guarantee amount provided by the Company totaled RMB53,050,000, so the real amount that the Company should assume responsibility for guarantee was RMB53,050,000, representing 26.16% of the audited net assets of the Company for 2016. During the reporting period, the Company cautiously treated and handled the external guarantee matters and made complete information disclosure in accordance with relevant provisions of supervision departments, thus making full disclosure and effective control of external guarantee. It hasn't made any guarantee for its shareholders, De Facto controller as well as the parties connected. From now on, the Company will continue to strictly execute the provisions of the Articles of Association to enhance management on external guarantee and to properly solve the guarantees provided.

**8. Description of Fund Occupation of Connected Parties of the Company**

During the reporting period, there is no appropriation of funds by the shareholders or their subsidiaries for non-operating purposes. At end of the reporting period, the connected party occupied the capital of the Company mainly for daily operations, and relevant affairs have fulfilled necessary decision-making process and obligation of information disclosure.

The Supervisory Committee will continuously keep an eye on capital flow between the Company, its shareholders and other connected parties as well as the external guarantees provided by the Company, and urge the Company to prevent and control risks to earnestly protect all shareholders' interest.

By order of the Supervisory Board

**Wu Junyun**

*Chairman of the Supervisory Committee*

27 March 2017

**(I) Establishment and improvement of the company's internal control system**

Pursuant to the requirements of the Company Law, Securities Law, Listed Company Governing Rules, Basic Code of Corporate Internal Control and other relevant national laws and regulations, as well as the Application Guidelines on Corporate Internal Control issued by five ministries including Ministry of Finance, the Company has fulfilled relevant obligations in the light the actual operating situation. Report of Corporate Internal control for 2016 is as follows:

**1. Master plan for the establishment of internal control**

Pursuant to the requirements of the Company Law, Securities Law, Basic Code of Corporate Internal Control, and Internal Control Guidance for Listed Companies, the Company has formulated and improved the internal control system and enhanced the business management level and risk prevention abilities. The fundamental objectives of internal control are:

- (1) To set up and perfect the internal organizational structure to meet the requirements of modern management, form a scientific decision-making mechanism, implementation mechanism and supervision mechanism, and ensure the achievement of company operation and management goals;
- (2) To establish effective risk control systems, strengthen risk management, and guarantee the healthy operation of the business activities of the company;
- (3) To establish favorable corporate internal economic environment, prevent and timely discover and correct all errors, fraud, and ensure the safety and integrity of the company's property;
- (4) To standardize the Company's accounting behavior, ensure the truthfulness and integrity of accounting information and improve the quality of accounting information;
- (5) To ensure the implementation of national relevant laws and regulations and the Company's internal control system.

**2. Work plans on the establishment of a sound internal control system and its implementation**

During the reporting period, under the guidance of the Board, the Company has formulated detailed work plans of internal control in the light of business and features and actual situation of the Company. It has take pertinent measures for risk assessment and carried out relevant decisions, fully mobilizing the enthusiasm of each function, emphasizing on the importance of internal control on the management, and systematically combing the existing management system and workflow. It supplements and perfects the production, technology and comprehensive quality management system, and clarifies responsibilities and authorities, and improves the corresponding authorization and accountability systems, to ensure the corporate management organization is clearly divided in terms of responsibilities, with sound functions.

**3. The status of the setup of the internal control inspection and supervision department**

The audit department of the Company is responsible for financial auditing and the implementation of process execution of the subordinate departments and subsidiaries to ensure the quality of internal control execution. The audit committee of the Board of the Company audits regularly or irregularly conducts risk review in key areas, and will report important risks to management or the board of directors to urge the improvement and perfection. It has effectively prevented the risk of business decision-making and management to guarantee the standardized operation and healthy development of the Company.

**4. The status on implementation of Self-evaluation work on internal supervision and internal control**

The audit department of the Company is responsible for organizing and coordinating the establishment and implementation of internal control system, internal supervision and assessment, strengthening communication supervision and inspection work between the audit committee of the board and effectively implementing internal control self assessment review and supervision responsibilities, including internal control review, financial revenue, economic benefit, economic responsibility, special audit and risk monitoring. It regularly or irregularly conducts internal controls auditing assessment of the Company and subordinate units. According to the Company's arrangement, it will carry out spot check on relevant units without notice, and effectively monitor the entire operating risk of the Company. For details, please refer to the Report of Internal Control Self-assessment.

**5. The Board's arrangements for internal control work**

The Board has an audit committee which is responsible for the communication supervision and review between domestic and overseas auditing, the inspection and supervision of effective implementation and self-assessment of internal control, hear the implementation status of each system and process in the Company on a irregular basis, and irregularly organize the domestic audit institution to check the implementation of internal control.

**6. Perfection of internal control system on financial accounting to financial statements**

In accordance with the laws and regulations of the Accounting Standards for Corporate and Internal Control Guidance for Listed Companies, the Company has established and improved the internal control system relating to the financial report and enhanced budget management, contract management, and basic accounting and performance assessment. The Company and its subsidiaries have implemented the unified financial management system, improved and strengthened the accounting and financial management functions and authorities, and revised certain financial management system according to the related regulations.

**(II) The Board's representation about the responsibilities for internal control**

According to the internal control system, it is the responsibility of the Board of the Company to set up and effectively implement internal control, assess its effectiveness and truthfully disclose assessment report of internal control. The Supervisory Committee is responsible for monitoring the establishment and implementation of the internal control system by the Board. The management bears the responsibility of organizing and leading the daily operation of corporate internal control. The Board of Directors, Supervisory Committee, directors, supervisors and senior management of the Company hereby warrant that there are no false representations, misleading statements or material omissions contained in this report, and severally and jointly accept full responsibility for the truthfulness, accuracy and completeness of its content.

The goals of corporate internal control is to ensure the legal and compliance operation, safeguarding the safety of assets, the truthfulness and completeness of the financial report and relevant information, and to perk up the operation efficiency and results of the Company and promote the materialization of the development strategies of the Company. Due to the inherent constraints of internal control, only reasonable guarantees could be offered in respect of the above targets. In addition, as the changes of situations might lead to inappropriate internal control or less compliance with control policies or procedures, there is risk to speculate the effectiveness of future internal control based on internal control assessment result.

The directors opine, operation of the internal control system of the Company has been effective from 1 January 2016 to the end of the reporting period. The Company will constantly comply with the requirements of the Basic Standard for Enterprise Internal Control, the Guidelines for Enterprise Internal Control, and the Guidelines for Enterprise Internal Control Assessment and other relevant laws and regulations and take the actual demand of corporate development into consideration, to strengthen the establishment and management of internal control, enhance the execution of internal control, pinpoint weak links in time, effectively improve the capacity of risk prevention of the Company and foster the steady and sound growth of the Company.

**(III) Basis of establishing internal control of financial reports**

In accordance with the laws and regulations of the Accounting Standards for Corporate and Internal Control Guidance for Listed Companies, the Company has established and improved the internal control system relating to the financial report and enhanced budget management, contract management, and basic accounting and performance assessment. The Company and its subsidiaries have implemented the unified financial management system, improved and strengthened the accounting and financial management functions and authorities, and developed a series of financial management system according to the related regulations.

Relevant Reports on Internal Control Disclosed by the Company:

- (1) Disclosure of the self-assessment report on internal control: Yes
- (2) Disclosure of the audit report on internal control over financial reporting issued by auditors: Yes
- (3) Disclosure of corporate social responsibility report: Yes

The aforesaid reports are made available on the specified information disclosure website for the Company.

**(IV) Self-Assessment Report of Internal Control**

1. Significant deficiency in internal control found by self-assessment report of internal control during the reporting period:  
There is no significant deficiency in internal control of the Company during the reporting period.
2. Disclosure date of the full self-assessment report of internal control: 27 March 2017
3. Disclosure index of the full self-assessment report on internal control: For details, please refer to the 2016 Self-assessment Report of Internal Control disclosed on 27 March 2017.

**(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) 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.

**(VII) The responsible system for material errors in annual report information disclosure established by the company**

The responsible system for material errors in annual report information disclosure has been implemented, by the system, the confirmation of responsibility and investigation of annual report information disclosure has been cleared. During the reporting period, there are no correction of material accounting errors, addition of omitted material information and revision of results forecast.

**(VIII) The insider management rules established by the Company**

During the reporting period, according to the Information Management Rules, the Company inform relevant insiders (including controlling shareholder) of filling out Insider Archives, including, without limitation, name, title, ID card number, securities account, working unit, time of accessing to inside information, particulars of inside information, stage of inside information, registering time, registrar and non-disclosure terms. Also such information is reported to CSRC Liaoning Bureau and Shenzhen Stock Exchange for filing, to ensure that the inside information of the Company was kept and disclosed in a fair, open and impartial way so as to prevent insider trading and other illegal actions.

Within 60 days before the disclosure of regular reports, the Company will inform relevant persons of prohibition from dealing in securities of the Company by way of letters on the Reminder of dealing in shares of the Company by the Directors, Supervisors, Senior Management Personnel and their relative 60 days within the price-sensitive period before the results announcement, Also, the board office, finance department, the internal auditors, and the external auditors and other related personnel are trained and reminded, and asked to fill in the Insider Archives, to maintain fair information disclosure.

After self-check by the Company, there were no insiders traded the shares of the Company before the disclosure of the significant price-sensitive internal information during the reporting period.

Notice is hereby given by the Board of Directors (the “Board”) of Northeast Electric Development Company Limited (the “Company”) that the Annual General Meeting of Shareholders for 2016 (the “AGM”) will be held in the conference room of the Company, Floor 23, Building E, No.9 East Taihu Road, Xinbei District, Changzhou City, Jiangsu Province, the PRC at 14:00 pm on 11 May 2017 for the following purposes:

Resolution No. 1 To consider 2016 Annual Report( audited).

Resolution No. 2 To consider the Proposal of 2016 Profit Distribution.

During the reporting period, the Company recorded net profit distributable to shareholders of the listed company of RMB-99,493,754.11 ; and the accrued profit distributable to shareholders at the end of the period was RMB-1,637,084,660.40. Therefore, the Board resolved not to make any profit distribution and not to transfer any capital reserve into share capital during the reporting period.

Resolution No. 3 To consider the Work Report of the Board of Directors for the year 2016.

Resolution No. 4 To consider the Work Report of the Supervisory Committee for the year 2016.

Resolution No. 5 To consider the Proposal of Making Provisions for the Impairment of Assets

For details, please refer to the announcement of the Company published on the designated information disclosure website regarding the provision for the impairment of assets.

Resolution No. 6 To consider the Proposal of Amending the Rules of Procedures of Shareholders’ General Meeting

The revised terms of the Rules of Procedures of Shareholders’ General Meeting subject to consideration by the Shareholders’ General Meeting are set out below:

1. Article 22 states that “Shareholders individually or jointly holding no less than 3% of shares in the Company may make extraordinary proposals ten days prior to the convening of the annual general meeting and notify the convener in writing. The convener shall, upon the receipt of such proposal, give supplementary notice for the annual general meeting, and announce the content of the extraordinary proposal.

Save as provided in the preceding paragraph, upon issuance of the notice for the general meeting, the convener shall not amend any proposals which are set out in the notice for the general meeting or add new proposals at the extraordinary general meeting.”

The amendment is as follows:

“Shareholders individually or jointly holding no less than 3% of shares in the Company may make extraordinary proposals ten days prior to the convening of the general meeting and notify the convener in writing. The convener shall, upon the receipt of such proposal, give supplementary notice for the general meeting, and announce the content of the extraordinary proposal.

Save as provided in the preceding paragraph, upon issuance of the notice for the general meeting, the convener shall not amend any proposals which are set out in the notice for the general meeting or add new proposals.”

Notes:

- (1) Any shareholder 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 4 May 2017 is entitled to attend the Meeting.
- (2) In order to confirm the list of shareholder of H shares who are entitled to attend the meeting, the register of shareholders of the Company will be closed from 11 April 2017 to 11 May 2017(both days inclusive), during which period no transfer of shares will be registered. The shareholders whose names appear on the register by the close of business on 10 April 2017 are entitled to attend the meeting and vote at the meeting.
- (3) Shareholders of H shares who intend to attend the meeting shall deposit the transfer documents and relevant share certificates at the Company’s H shares registrar, Boardroom Share Registrars (HK) Limited, 31th Floor, 148 Electric Road, North Point Hong Kong not later than 16:30 pm on 10 April 2017.
- (4) Shareholders of H shares who intend to attend the annual general meeting shall mail or fax the written reply for attending the meeting to the Company before 10 April 2017.
- (5) 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.
- (6) In order to be valid, the proxy forms of shareholders and other notarial certified documents (if any) should be deposited at the Company no later than 24 hours before the time appointed holding the annual general meeting.
- (7) The annual general 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 Jianghua**

*Chairman*

27 March 2017

**Ruihua Certified Public Accountants**

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## Auditor's Report

Ruihua Shen Zi [2017] No.48170007

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

#### I. Opinion

We have audited the accompanying Financial Statements of Northeast Electric Development Company Limited (“the Company”), which comprise the consolidated and Company Balance Sheet as of 31 December 2016, the Consolidated and Company Income Statement, the Consolidated and Company Cash Flows Statement and the Consolidated and Company Statements of Changes in Equity for the year then ended, and Notes to the Financial Statements.

In our opinion, the Financial Statements have been prepared in accordance with Accounting Standards for Business Enterprises and present fairly, in all material respects, the consolidated and company financial positions as at 31 December 2016 and the consolidated and company results of operations and cash flows for the year ended 31 December 2016.

#### II. Basis for forming opinion

We conducted our audit in accordance with China Standards on Auditing for Certified Public Accountants. “Auditors’ responsibilities to the Auditors’ Reports” further elucidates our duties under these standards. We are independent of the Company, and performed other duties other than ethical ones under the regulations of China CPA Professional Ethics Principals. We believe that what we have acquired from the Company were adequate and appropriate and formed reasonable basis for our opinion.

#### III. Critical audit matters

Critical audit matters are critical matters for Financial Statements of the period according to our professional judgments. Responses to these matters are based on audit as a whole to the Financial Statements and opinion formed, we don't give individual opinion as to these matters. The following matters are critical audit matters that needed to communicate individually during auditing:

**(1) Description of matter****1. Recognition of Income**

As stated in the attached Consolidated Financial Reports, operating income for Year2016 of Northeast Electric was RMB63.3275 million(as of Consolidated reports, same as hereafter figures), which decreased RMB88.3121 million from RMB151.6396 million of Year2015, a 58% drop. The Company received all its income from sales of domestic goods, and recognized income after customers received goods and confirmed goods acceptable.

**2. Response to auditing**

- A. We understand and evaluate the Company's policies of Income recognition by checking the Company's documents and discussions with the Management and those charged with governance.
- B. By inquiring the Management, we evaluate their integrity and risks of fraud.
- C. We ascertain the relative internal controls reliable by understanding and testing such controls.
- D. Analytical proceeding includes: Analysis income/costs/variation of gross profit of the period, income of the period/costs of the period/gross profit rate compared to last period of main products, etc.
- E. Checking authenticity of recognized income with combined proceedings of mail confirmation and selective examination of relative documents.
- F. We conducted tailor-made auditing procedures for possible risks of completeness, including but not limited to: on the basis of tests on completeness samples, we conducted cut-off tests on recognized incomes before or after Balance Sheet Date, evaluated if incomes were recognized during appropriate period and whether there were any cut-off problems; added samples examined ratio of goods accounted in book when checking inventories, in order to confirm if there were any unaccounted shipped goods.

**(2) Recognition and measurements of Loss on Equity Investment****1. Description of matters**

As reported in Note XIV.1, shareholder that holds most shares of the Company has changed, the Company planned to sell part of its invested equity. The Management conducted Test of Value Decrease on invested equities with signs of decreased value after observation. Total decreased value of saleable financial assets were RMB17.8163 million for the period, as per Note.VI.8; and total loss of decreased value of Long term equity were RMB17.9748 million.

Reserve for decrease of value has been calculated on difference of amount lower than book value of such equity investments, with retrievable amount were net value of fair value minus disposal expenses and net worth predicted by future cash flow, whichever is higher. The Management of the Company decided that whichever was higher – net worth predicted by future cash flow and biddings by potential buyer of each individual investment (the latter being fair value minus disposal expenses), was to be the retrievable value of such investment.

**2. Response to audit**

Audit Procedures aimed at Loss of Decrease of value of Equity Investments of the Company included mainly (but not limited):

- A. We acquired and double-checked information the Managed based for their judgment of existence of decrease of value of their equity investments, and took into consideration of appropriateness and completeness of their judgments.
- B. For the invested equities with signs of decreasing value, we acquired relative information on retrievable amounts estimates from the Management, and examined relative calculating models, future cash flow estimated data and depreciation rates, and tested on the accuracy of calculation of retrievable amounts.
- C. Discussed with the Management and those charged with governance on basis and results of Reserve on Decrease value of investment.
- D. Examined information reporting and disposal in the Financial Reports regarding Decreased Asset.

**IV. Supplementary information**

The Management of Northeast Electric (“the Management”) take full responsibility for supplementary information, which include information stated in the Company’s Report for the Year2016, but excluding Financial Reports and Audit Reports.

Our Audit opinion doesn’t cover Supplementary information, and either do we express any conclusion on such information.

Our responsibility regarding supplementary information was to peruse, and during the course of which considered whether there were any significant difference or major misrepresentation of Financial Reports.

We were to report facts regarding any supplementary information should we were sure that there were major misrepresentation based on our work on such information before Statement date. There were none that require our reporting in such aspect.

**V. Responsibilities to the Financial Reports of Management and Those charged for Governance of the Company**

Management of the Company prepared Financial Reports according to regulations and rules of Enterprise Accounting Standards, to ensure the reports reflect fairly of the Company. Moreover they design, implement and maintain necessary internal control to avoid any major misrepresentations due to frauds or mistakes.

In preparing Financial Reports, the Management evaluated continuous operating capability of the Company, disclosed matters regarding continues operations, and formed judgments based on continuous operations presumptions unless the Management decided to liquidize the Company, or to terminate the Company’s operation or any other realistic choice.

Those charged with governance supervised procedures of the Company’s Financial Reports reporting.

**VI. Chartered Accountants' responsibility to Financial Reports**

Our goal was to achieve reasonable assurances that there were no major representations of Financial Reports due to fraud or mistake, and issued Auditor's Report with opinion. There are no guarantee that every single major representation can be disclosed during auditing while reasonable assurances are high-level. Any misrepresentation can be due to fraud or mistake, if by reasonable prediction any misrepresentation(s) could affect economic decision either individually or collectively, such misrepresentation(s) were to be deemed major ones.

During course of auditing, we used our professional judgments, and maintain reasonable professional doubts. Meanwhile, we conducted the following:

- (1) To discern and evaluate risks of major misrepresentation due to fraud or mistake; to acquire adequate and appropriate audit evidences by designing and implementing audit procedures to cope with such risks, and formed opinion based on such evidences. As fraud could involve collusion, forgery, intentional omission, false statements or overriding internal controls, thus risks of inability to discover major misrepresentation are more severe than risks of inability to spot misrepresentation due to mistake.
- (2) To understand and design relative internal control, to design appropriate auditing procedures.
- (3) To evaluate appropriateness of the Management choosing Accounting Policies, and their accounting estimates and relative disclosures.
- (4) To conclude on the appropriateness of the Management's presumption on continuous operations. Meanwhile, according to acquired audit evidences, to make conclusion on whether there were significant uncertainty regarding the Company's continuous operations. We are required to report such major uncertainty if we reached such conclusion; and we were to issued Qualified Opinion if disclosure were inadequate. Our conclusions were based on information acquired up to reporting date of Financial Reports. However, future events or situations may cause the Company to cease continuous operations.
- (5) To comment on overall reporting, structures and contents (including disclosures) of Financial Reports, and on whether the Reports reflected fairly of relative transactions and matters.
- (6) To acquire adequate and appropriate audit evidences of the Company's financial information on its activities, and comment on such financial reports. We instructed, supervised and implemented the Group's auditing, and take full responsibility to Auditor's Report's opinion.

We communicated with the Management regarding matters such as auditing scopes, arrangement of time and major discoveries, and also regarding notable internal control defects discerned during auditing.

We issued statement to those charged with governance of the Company on our compliance professional ethical codes and independence, and communicated with such people on all matters that may reasonably thought to be influencing our independence, and relevant precaution solutions (if applicable).

We formed critical audit matter by deciding on which matters were most significant to auditing of Financial Reports of the period from those discussed with those charged with governance of the Company. We stated such matters in our Auditor's Report unless there were legal ban on disclosing, or under extreme rare situation, negative effects should surpass those of benefits to the public interests, we would not disclose such matter in the report.

Ruihua Certified Public Accountants

Certified Accountant of PRC

Renzhi, Liu

Beijing, P.R.C

Certified Accountant of PRC

Zihua, Xin

March 27, 2017

## Consolidated Balance Sheet (2016)

For the year ended 31 December 2016 (Prepared in accordance with P.R.C. Accounting Rules and Regulations)

December 31, 2016

Northeast Electric Development Co., Ltd.

*Unit: RMB*

Items	Note VI	2016.12.31	2015.12.31
<b>Current Assets:</b>			
Cash and deposits	1	27,600,371.44	123,417,163.19
Financial asset designated to be measured by fair value and which change is recorded in current incomes		-	-
Trading financial assets		-	-
Notes Receivable	2	2,618,650.00	2,109,500.00
Accounts Receivable	3	136,074,792.34	134,014,154.00
Prepayment	4	543,352.21	385,450.80
Interest Receivable		0.00	-
Dividend		-	-
Other Receivable	5	71,024,930.24	7,059,843.56
Inventory	6	14,991,583.86	28,181,314.33
Assets held for sale		-	-
Non-current asset due within 1 year		0.00	16,960.00
Other current asset	7	2,410,131.45	1,042,604.52
<b>Total current assets</b>		<b>255,263,811.54</b>	<b>296,226,990.40</b>
<b>Non-current Assets:</b>			
Financial assets available for sale	8	55,074,754.24	69,446,681.85
Held-to-maturity investments		-	-
Long-term receivables		-	-

**Consolidated Balance Sheet (2016) (Continued)**

For the year ended 31 December 2016 (Prepared in accordance with P.R.C. Accounting Rules and Regulations)

December 31, 2016

Northeast Electric Development Co., Ltd.

*Unit: RMB*

Items	Note VI	2016.12.31	2015.12.31
Long-term equity investments	9	25,000,000.00	41,020,089.96
Investment in real estate		-	-
Fixed Assets	10	41,844,623.66	58,783,415.15
Construction in progress	11	6,415,346.77	6,070,928.55
Material - construction		-	-
Liquidation of fixed assets	12	629,668.46	-
Productive biological assets		-	-
Oil and gas assets		-	-
Intangible Assets	13	17,063,511.60	4,064,699.21
Development expenditures		-	-
Goodwill	14	72,097.15	-
Long-term deferred expenses	15	466,515.79	490,645.27
Deferred tax assets	16	0.00	7,342,267.86
Other non-current assets		-	-
<b>Total non-current assets</b>		<b>146,566,517.67</b>	<b>187,218,727.85</b>
<b>Total Assets</b>		<b>401,830,329.21</b>	<b>483,445,718.25</b>
<b>Liabilities and owners' equity (shareholders' equity)</b>		<b>-</b>	<b>-</b>
Current Liabilities:		-	-
Short-term Borrowings	17	29,000,000.00	9,000,000.00
Financial Liabilities designated to be measured by fair value and which change is recorded in current incomes		-	-
Trading financial liabilities		-	-
Notes Payable	18	1,845,000.00	20,508,400.00

**Consolidated Balance Sheet (2016) (Continued)**

For the year ended 31 December 2016 (Prepared in accordance with P.R.C. Accounting Rules and Regulations)

December 31, 2016

Northeast Electric Development Co., Ltd.

*Unit: RMB*

Items	Note VI	2016.12.31	2015.12.31
Accounts Payable	19	34,672,564.45	37,336,706.17
Receipts in advance	20	7,654,564.12	7,738,572.04
Employee compensation	21	3,199,858.76	2,628,964.40
Taxes Payable	22	794,793.64	1,984,295.27
Interest Payable		42,777.77	0.00
Dividends		40,017.86	40,017.86
Other Payables	23	45,371,142.65	45,647,350.73
Liabilities held for sale		-	-
Non-current liabilities due within 1 year		-	-
Other Liabilities		-	-
<b>Total current liabilities</b>		<b>122,620,719.25</b>	<b>124,884,306.47</b>
<b>Non-current liabilities:</b>		-	-
Long-term Borrowings		-	-
Bonds Payable		-	-
Incl: Premium		-	-
Perpetual		-	-
Long-term Payables		-	-
Long-term Payable - Salaries&Benefits		-	-
Special Payables	24	10,609,500.00	500,000.00
Estimated Liabilities	25	60,721,078.25	60,721,078.25
Deferred Revenue		-	-

**Consolidated Balance Sheet (2016) (Continued)**

For the year ended 31 December 2016 (Prepared in accordance with P.R.C. Accounting Rules and Regulations)

December 31, 2016

Northeast Electric Development Co., Ltd.

*Unit: RMB*

Items	Note VI	2016.12.31	2015.12.31
Deferred Liabilities - Income Tax		-	-
Other Non-Current Liabilities		-	-
<b>Total Non-Current Liabilities</b>		<b>71,330,578.25</b>	<b>61,221,078.25</b>
<b>Total Liabilities</b>		<b>193,951,297.50</b>	<b>186,105,384.72</b>
<b>Shareholders' Equity:</b>		-	-
Share Capital	26	873,370,000.00	873,370,000.00
Other Equity Instruments		-	-
Incl: Premium		-	-
Perpetual		-	-
Capital reserve	27	883,422,403.92	883,422,403.92
Less: Treasury Stock		-	-
Other Comprehensive Income	28	-25,504,988.44	-30,801,509.57
Special Reserve		-	-
Surplus Reserve	29	108,587,124.40	108,587,124.40
Provision for general risk		-	-
Accumulated losses	30	-1,637,084,660.4	-1,537,590,906.29
Total equity attributable to the equity holders of the Company		202,789,879.48	296,987,112.46
Minority interests		5,089,152.23	353,221.07
<b>Total shareholders' equity</b>		<b>207,879,031.71</b>	<b>297,340,333.53</b>
<b>Total liabilities and shareholders' equity</b>		<b>401,830,329.21</b>	<b>483,445,718.25</b>

Legal Representative: Su Jianghua Chief Financial Officer: Feng Xiaoyu Chief Accounting Officer: Qian Kouming




## Consolidated Income Statement (2016)

For the year ended 31 December 2016 (Prepared in accordance with P.R.C. Accounting Rules and Regulations)

December 31, 2016

Northeast Electric Development Co., Ltd.

Unit: RMB

Items	Note VI	Year 2016	Year 2015
<b>I. Total Operating Income</b>	31	<b>63,514,424.29</b>	<b>151,740,484.82</b>
Incl.: Sales	31	63,514,424.29	151,740,484.82
<b>II. Total Operating Cost</b>		<b>156,257,563.75</b>	<b>145,080,656.61</b>
Incl.: Cost of Sales	31	53,950,131.49	111,227,611.19
Taxes & Surcharges	32	1,132,929.81	1,137,825.47
Expenses of Sales	33	10,002,737.76	14,538,306.66
Administrative expenses	34	35,493,767.80	25,465,615.48
Finance expenses	35	534,886.47	160,020.04
Assets Impairment loss	36	55,143,110.42	-7,448,722.23
Plus: Income of fair value variance (loss is posed as "-")		0.00	-
Return on investments (loss is posed as "-")	37	427,114.97	859,139.58
Including: return on investments to associates and related parties		-8,186.51	-8,567.26
Exchange gains (loss is posed as "-")		-	-
<b>III. Operational Profit (Loss is posed as "-")</b>		<b>-92,316,024.49</b>	<b>7,518,967.79</b>
Plus: Non-operating income	38	443,507.39	237,736.07
Including: income of disposal of non-current assets		398,576.16	65,365.76
Less: Non-operating expenses	39	759,139.19	93,724.51
Including: loss of disposal of non-current assets		757,718.22	49,371.58

December 31, 2016

Northeast Electric Development Co., Ltd.

Unit: RMB

Items	Note VI	Year 2016	Year 2015
<b>IV. Total Profit (Total loss is posed as "-")</b>		<b>-92,631,656.29</b>	<b>7,662,979.35</b>
Less: Income tax expenses	40	6,956,896.84	2,805,492.17
<b>V. Net Profit (Net loss is posed as "-")</b>		<b>-99,588,553.13</b>	<b>4,857,487.18</b>
Net profit attributable to equity holders of the Company		-99,493,754.11	4,933,337.50
Minority interests		-94,799.02	-75,850.32
<b>VI. Net Other Comprehensive Income after Tax</b>		<b>5,296,521.13</b>	<b>5,865,463.24</b>
Total Comprehensive Income Attributable to the Equity Holders of the Company		5,296,521.13	5,865,463.24
(I) Other Comprehensive Income not to be re-categorized into Profit & Loss		-	-
1. Remeasurement of Net Liabilities/Assets Variance of Defined Benefit Plans		-	-
2. Shares of Other Comprehensive Income not to be re-categorized into Profit & Loss from invested Parties by Equity Methods		-	-
(II) Other Comprehensive Income to be re-categorized into Profit & Loss		5,296,521.13	5,865,463.24
1. Shares of Other Comprehensive Income to be re-categorized into Profit & Loss from invested Parties by Equity Methods		-	-
2. Profit/Loss in fair value of available-for-sale financial assets		-	-
3. Profit/Loss of held-to-maturity investments in re-categorized available-for-sale financial assets		-	-

**Consolidated Income Statement (2016) (Continued)**

For the year ended 31 December 2016 (Prepared in accordance with P.R.C. Accounting Rules and Regulations)

December 31, 2016

Northeast Electric Development Co., Ltd.

*Unit: RMB*

Items	Note VI	Year 2016	Year 2015
4. Effective portion of Profit/Loss from Cash Flow Hedge		-	-
5. Differences of Exchange for Foreign Currency Report		5,296,521.13	5,865,463.24
6. Others		-	-
Net After-tax Comprehensive Income Attributable to Minority Interests		-	-
<b>VII. Total Comprehensive Income</b>		<b>-94,292,032.00</b>	<b>10,722,950.42</b>
Total Comprehensive Income Attributable to the Equity Holders of the Company		-94,197,232.98	10,798,800.74
Total Comprehensive Income Attributable to the Minority Interests of the Company		-94,799.02	-75,850.32
<b>VIII. Earnings per share</b>		-	-
(I) Basic earnings per share		-0.1139	0.0056
(II) Diluted earnings per share		-0.1139	0.0056

Legal Representative: Su Jianghua Chief Financial Officer: Feng Xiaoyu Chief Accounting Officer: Qian Kouming



## Consolidated Cash Flow Statement (2016)

For the year ended 31 December 2016 (Prepared in accordance with P.R.C. Accounting Rules and Regulations)

December 31, 2016

Northeast Electric Development Co., Ltd.

*Unit: RMB*

Items	Note VI	Year 2016	Year 2015
<b>I. Cash flow from operating activities</b>		-	-
Cash received from sales of goods or rendering of services		59,920,025.54	154,671,795.24
Tax refunds received		-	-
Cash received from other operating activities	41 (1)	30,973,801.69	3,208,291.95
Sub-total of cash inflows from operating activities		90,893,827.23	157,880,087.19
Cash paid to goods purchased and labor service received		41,045,693.61	97,455,140.38
Cash paid to and for employees		27,359,908.32	28,146,741.17
Payments of taxes and surcharges		8,132,380.21	11,555,573.73
Cash payments to other operating activities	41 (2)	44,247,327.94	38,959,817.11
Sub-total of cash outflows for operating activities		120,785,310.08	176,117,272.39
Net Cash Flow from operating activities		-29,891,482.85	-18,237,185.20
<b>II. Cash flow from investing activities</b>		-	-
Cash from disinvestments		90,800,000.00	70,000,000.00
Cash received from return of investments		367,369.30	867,706.84
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		831,918.09	7,234.00
Net cash received in disposing subsidiaries and other operating units		-	-

**Consolidated Cash Flow Statement (2016) (Continued)**

For the year ended 31 December 2016 (Prepared in accordance with P.R.C. Accounting Rules and Regulations)

December 31, 2016

Northeast Electric Development Co., Ltd.

*Unit: RMB*

Items	Note VI	Year 2016	Year 2015
Cash received relating to other investing activities		-	-
Sub-total of cash inflows from investing activities		91,999,287.39	70,874,940.84
Cash paid in purchase/construction of fixed assets, intangible assets and other long-term assets		13,472,160.24	2,777,385.33
Cash paid for investment		90,800,000.00	70,000,000.00
Net increase in pledge loans		-	-
Net cash paid for subsidiaries and other operating units		2,450,917.47	-
Cash paid relating to other investing activities		53,721,509.80	-
Sub-total of cash outflows		160,444,587.51	72,777,385.33
Net Cash Flow from investing activities		-68,445,300.12	-1,902,444.49
<b>III. Cash flow from financing activities</b>		-	-
Cash received by absorbing investment		-	-
Incl: cash received by subsidiaries from minority shareholders		-	-
Cash received from borrowings		29,000,000.00	9,000,000.00
Cash received from bond issued		-	-
Cash received relating to other financing activities		-	-
Sub-total of cash inflows		29,000,000.00	9,000,000.00

**Consolidated Cash Flow Statement (2016) (Continued)**

For the year ended 31 December 2016 (Prepared in accordance with P.R.C. Accounting Rules and Regulations)

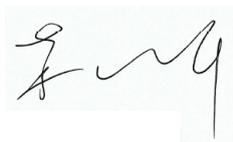
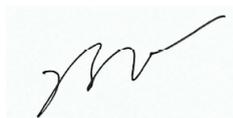
December 31, 2016

Northeast Electric Development Co., Ltd.

*Unit: RMB*

Items	Note VI	Year 2016	Year 2015
Cash paid for repayments of debts		9,000,000.00	9,000,000.00
Cash paid for distribution of dividends, profits and interest		803,581.43	662,688.68
Incl: cash paid by subsidiaries to minority shareholders		-	-
Cash paid relating to other financing activities		-	-
Sub-total of cash outflows		9,803,581.43	9,662,688.68
Net Cash Flow from financing activities		19,196,418.57	-662,688.68
<b>IV. Effect of change of foreign currency rates on cash and cash equivalents</b>		<b>26,268.92</b>	<b>10,664.70</b>
<b>V. Net increase of cash and equivalent</b>		<b>-79,114,095.48</b>	<b>-20,791,653.67</b>
Plus: Balance of cash and equivalent at beginning of period		101,603,025.69	124,218,516.86
<b>VI. Balance of Cash and equivalent by end of period</b>		<b>22,488,930.21</b>	<b>103,426,863.19</b>

Legal Representative: Su Jianghua Chief Financial Officer: Feng Xiaoyu Chief Accounting Officer: Qian Kouming

# Consolidated Statement of Changes in Equity (2016)

For the year ended 31 December 2016 (Prepared in accordance with P.R.C. Accounting Rules and Regulations)

December 31, 2016

Northeast Electric Development Co., Ltd.

Unit: RMB

Item	Year 2016											Total Shareholder' Equity	
	Shareholders' Equity attributable to shareholders of Parent Company										Minority Interests		
	Share Capital	Other Equity Instruments	Less: Treasury Stock	Comprehensive Income	Other Income	Special Reserve	Surplus Reserve	Provision for general risk	Accumulated Losses	Others			
<b>I. Balance from last year</b>	873,370,000.00	-	-	883,422,403.92	-	-30,801,509.57	108,587,124.40	-	-1,537,590,906.29	-	-	353,221.07	297,340,333.53
Plus: Changes in accounting policies	-	-	-	-	-	-	-	-	-	-	-	-	-
Corrections to previous errors	-	-	-	-	-	-	-	-	-	-	-	-	-
Others	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>II. Balance at beginning of year</b>	873,370,000.00	-	-	883,422,403.92	-	-30,801,509.57	108,587,124.40	-	-1,537,590,906.29	-	-	353,221.07	297,340,333.53
<b>III. Changes in the year (loss is "-")</b>	-	-	-	-	-	5,296,521.13	-	-	-99,493,754.11	-	-	-4,735,931.16	-89,461,301.82
(I) Total Comprehensive Income	-	-	-	-	-	5,296,521.13	-	-	-99,493,754.11	-	-	-94,799.02	-94,292,032.00
<b>(II) Increase/Decrease of Capital from Shareholders</b>	-	-	-	-	-	-	-	-	-	-	-	-4,830,730.18	4,830,730.18
1. Common Shares	-	-	-	-	-	-	-	-	-	-	-	-	-
2. Other Equity Instrument	-	-	-	-	-	-	-	-	-	-	-	-	-
3. Shares paid taken into Shareholder's Equity	-	-	-	-	-	-	-	-	-	-	-	-	-
4. Others	-	-	-	-	-	-	-	-	-	-	-	-4,830,730.18	4,830,730.18
<b>(III) Distribution of profit</b>	-	-	-	-	-	-	-	-	-	-	-	-	-
1. Extraction of surplus reserves	-	-	-	-	-	-	-	-	-	-	-	-	-

# Consolidated Statement of Changes in Equity (2016) (Continued)

For the year ended 31 December 2016 (Prepared in accordance with P.R.C. Accounting Rules and Regulations)

December 31, 2016

Northeast Electric Development Co., Ltd.

Unit: RMB

Item	Shareholders' Equity attributable to shareholders of Parent Company											Total Shareholder' Equity				
	Other Equity Instruments		Less: Treasury Stock			Other Comprehensive Income		Special Reserve		Surplus Reserve			Provision for general risk	Accumulated Losses	Others	Minority Interests
	Share Capital	Premium	Perpetual	Others	Capital Reserve	Stock	Comprehensive Income	Other	Reserve	Surplus Reserve						
2. Extraction provision for general risk	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
3. Distribution to shareholders	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
4. Others	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>(IV) Transfer within equity</b>	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
1. Transfer-in from capital reserves	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2. Transfer-in from surplus reserves	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
3. Loss covered by surplus reserves	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
4. Other	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>(V) Special reserves</b>	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
1. Extraction of the special reserves	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2. Usage of the special reserves	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>(VI) Others</b>	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>IV. Balance at end of Period</b>	873,370,000.00	-	-	-	883,422,403.92	-	-25,504,988.43	108,587,124.40	-	-1,637,084,660.40	-	-	5,089,152.23	-	207,879,031.72	

Legal Representative: Su Jianghua Chief Financial Officer: Feng Xiaoyu Chief Accounting Officer: Qian Kouming




# Consolidated Statement of Changes in Equity (2016) (Continued)

For the year ended 31 December 2016 (Prepared in accordance with P.R.C. Accounting Rules and Regulations)

December 31, 2016

Northeast Electric Development Co., Ltd.

Unit: RMBB

Item	Year 2015										Total Shareholder' Equity		
	Share Capital	Other Equity Instruments			Less: Treasury Stock			Shareholders' Equity attributable to shareholders of Parent Company				Minority Interests	
	Premium	Perpetual	Others	Capital Reserve	Comprehensive Income	Other Income	Special Reserve	Surplus Reserve	Provision for general-risk	Accumulated Losses	Others		
<b>I. Balance from last year</b>	873,370,000.00	-	-	-	883,422,403.92	-	-36,666,972.81	108,587,124.40	-1,542,524,243.79	-	-	429,071.39	286,617,383.11
Plus: Changes in accounting policies	-	-	-	-	-	-	-	-	-	-	-	-	-
Corrections to previous errors	-	-	-	-	-	-	-	-	-	-	-	-	-
Others	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>II. Balance at beginning of year</b>	873,370,000.00	-	-	-	883,422,403.92	-	-36,666,972.81	108,587,124.40	-1,542,524,243.79	-	-	429,071.39	286,617,383.11
<b>III. Changes in the year (loss is " - ")</b>	-	-	-	-	-	-	5,865,463.24	-	4,933,337.50	-	-	-75,850.32	10,722,950.42
(I) Total Comprehensive Income	-	-	-	-	-	-	5,865,463.24	-	4,933,337.50	-	-	-75,850.32	10,722,950.42
(II) Increase/Decrease of Capital from Shareholders	-	-	-	-	-	-	-	-	-	-	-	-	-
1. Common Shares	-	-	-	-	-	-	-	-	-	-	-	-	-
2. Other Equity Instrument	-	-	-	-	-	-	-	-	-	-	-	-	-
3. Shares paid taken into Shareholder's Equity	-	-	-	-	-	-	-	-	-	-	-	-	-
4. Others	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>(III) Distribution of profit</b>	-	-	-	-	-	-	-	-	-	-	-	-	-
1. Extraction of surplus reserves	-	-	-	-	-	-	-	-	-	-	-	-	-

**Consolidated Statement of Changes in Equity (2016) (Continued)**

For the year ended 31 December 2016 (Prepared in accordance with P.R.C. Accounting Rules and Regulations)

December 31, 2016

Northeast Electric Development Co., Ltd.

Unit: RMB

Item	Year 2015											Total Shareholder' Equity				
	Shareholders' Equity attributable to shareholders of Parent Company															
	Share Capital	Premium	Perpetual	Other Equity Instruments	Capital Reserve	Less: Treasury Stock	Comprehensive Income	Other Income	Special Reserve	Surplus Reserve	Provision for general risk		Accumulated Losses	Others	Minority Interests	
2. Extraction provision for general risk	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
3. Distribution to shareholders	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
4. Others	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>(IV) Transfer within equity</b>	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
1. Transfer-in from capital reserves	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2. Transfer-in from surplus reserves	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
3. Loss covered by surplus reserves	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
4. Other	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>(V) Special reserves</b>	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
1. Extraction of the special reserves	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2. Usage of the special reserves	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>(VI) Others</b>	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>IV. Balance at end of Period</b>	873,370,000.00	-	-	-	883,422,403.92	-	-30,801,509.57	108,587,124.40	-1,537,590,906.29	-	-	-	353,221.07	-	297,340,333.53	

Legal Representative: Su Jianghua Chief Financial Officer: Feng Xiaoyu Chief Accounting Officer: Qian Kouming




## Company Balance Sheet (2016)

For the year ended 31 December 2016 (Prepared in accordance with P.R.C. Accounting Rules and Regulations)

December 31, 2016

Northeast Electric Development Co., Ltd.

*Unit: RM*

<b>Item</b>	<b>Note XV</b>	<b>2016.12.31</b>	<b>2015.12.31</b>
<b>Current Assets:</b>		-	-
Cash and deposits		49,760.27	2,658.47
Financial asset designated to be measured by fair value and which change is recorded in current incomes		-	-
Trading financial assets		-	-
Notes Receivable		-	-
Accounts Receivable	1	746,707.07	1,244,511.79
Prepayment		-	-
Interest Receivable		-	-
Dividend		-	-
Other Receivable	2	307,399,040.24	342,198,702.69
Inventory		-	-
Assets held for sale		-	-
Non-current asset due within 1 year		-	-
Other current asset		94,711.67	-
<b>Total current assets</b>		<b>308,290,219.25</b>	<b>343,445,872.95</b>
<b>Non-current Assets:</b>		-	-
Financial assets available for sale		-	-
Held-to-maturity investments		-	-
Long-term receivables		-	-

December 31, 2016

Northeast Electric Development Co., Ltd.

*Unit: RMB*

Item	Note XV	2016.12.31	2015.12.31
Long-term equity investments	3	106,919,936.99	90,413,551.10
Investment in real estate		-	-
Fixed Assets		47,828.87	23,528.65
Construction in progress		-	-
Material - construction		-	-
Liquidation of fixed assets		-	-
Productive biological assets		-	-
Oil and gas assets		-	-
Intangible Assets		-	-
Development expenditures		-	-
Goodwill		-	-
Long-term deferred expenses		-	-
Deferred tax assets		-	-
Other non-current assets		-	-
<b>Total non-current assets</b>		<b>106,967,765.86</b>	<b>90,437,079.75</b>
<b>Total Assets</b>		<b>415,257,985.11</b>	<b>433,882,952.70</b>
<b>Liabilities and owners' equity (shareholders' equity)</b>		-	-
<b>Current Liabilities:</b>		-	-
Short-term Borrowings		20,000,000.00	
Financial Liabilities designated to be measured by fair value and which change is recorded in current incomes		-	-

**Company Balance Sheet (2016) (Continued)**

For the year ended 31 December 2016 (Prepared in accordance with P.R.C. Accounting Rules and Regulations)

December 31, 2016

Northeast Electric Development Co., Ltd.

*Unit: RMB*

Item	Note XV	2016.12.31	2015.12.31
Trading financial liabilities		-	-
Notes Payable		-	-
Accounts Payable		-	-
Receipts in advance		581,743.59	665,000.00
Employee Compensation		161,013.22	8,576.52
Taxes Payable		97,119.68	31,456.26
Interest Payable		42,777.77	-
Dividends		-	-
Other Payables		31,978,918.05	78,156,633.29
Liabilities held for sale		-	-
Non-current liabilities due within 1 year		-	-
Other Liabilities		-	-
<b>Total current liabilities</b>		<b>52,861,572.31</b>	<b>78,861,666.07</b>
Non-current liabilities:		-	-
Long-term Borrowings		-	-
Bonds Payable		-	-
Incl: Premium		-	-
Perpetual		-	-
Long-term Payables		-	-
Special Payables		-	-
Estimated Liabilities		60,721,078.25	60,721,078.25

December 31, 2016

Northeast Electric Development Co., Ltd.

Unit: RMB

Item	Note XV	2016.12.31	2015.12.31
Deferred Revenue		-	-
Deferred Liabilities - Income Tax		-	-
Other Non-Current Liabilities		-	-
Total Non-Current Liabilities		60,721,078.25	60,721,078.25
Total Liabilities		113,582,650.56	139,582,744.32
Shareholders' equity		-	-
Share capital		873,370,000.00	873,370,000.00
Other Equity Instruments		-	-
Incl: Premium		-	-
Perpetual		-	-
Capital reserve		995,721,167.46	979,214,788.45
Less: Treasury Stock		-	-
Other Comprehensive Income		-	-
Special Reserve		-	-
Surplus Reserve		108,587,124.40	108,587,124.40
Provision for general risk		-	-
Accumulated losses		-1,676,002,957.31	-1,666,871,704.47
<b>Total shareholders' equity</b>		<b>301,675,334.55</b>	<b>294,300,208.38</b>
<b>Total liabilities and shareholders' equity</b>		<b>415,257,985.11</b>	<b>433,882,952.70</b>

Legal Representative: Su Jianghua Chief Financial Officer: Feng Xiaoyu Chief Accounting Officer: Qian Kouming




## Company Income Statement (2016)

For the year ended 31 December 2016 (Prepared in accordance with P.R.C. Accounting Rules and Regulations)

December 31, 2016

Northeast Electric Development Co., Ltd.

Unit: RMB

Item	Note XV	Year 2016	Year 2015
<b>I. Total Operating Income</b>	4	-	<b>9,016,765.76</b>
Less: Cost of Sales	4	-	8,193,422.21
Taxes & Surcharges		8,538.42	11,314.76
Expenses of Sales		-	-
Administrative expenses		8,284,388.22	2,382,891.89
Finance expenses		319,840.71	638.37
Assets Impairment loss		515,469.93	-
Plus: Income of fair value variance (loss is posed as "-")		-	-
Return on investments (loss is posed as "-")		-	-
Including: return on investments to associates and related parties		-	-
<b>II. Operational Profit (Loss is posed as "-")</b>		<b>-9,128,237.28</b>	<b>-1,571,501.47</b>
Plus: Non-operating income		-	-
Less: Non-operating expenses		3,015.56	48,723.75
Incl: loss of disposal of non-current assets		3,015.56	48,723.75
<b>III. Total Profit (Total loss is posed as "-")</b>		<b>-9,131,252.84</b>	<b>-1,620,225.22</b>
Less: Income tax expenses		-	-
<b>IV. Net Profit (Net loss is posed as "-")</b>		<b>-9,131,252.84</b>	<b>-1,620,225.22</b>
<b>V. Net Other Comprehensive Income after tax</b>		-	-
(I) Other Comprehensive Income not to be re-categorized into Profit & Loss		-	-

December 31, 2016

Northeast Electric Development Co., Ltd.

Unit: RMB

Item	Note XV	Year 2016	Year 2015
1. Remeasurement of Net Liabilities/Assets			
Variance of Defined Benefit Plans		-	-
2. Shares of Other Comprehensive Income not to be re-categorized into Profit & Loss from invested Parties by Equity Methods		-	-
(II) Other Comprehensive Income to be re-categorized into Profit & Loss		-	-
1. Shares of Other Comprehensive Income to be re-categorized into Profit & Loss from invested Parties by Equity Methods		-	-
2. Profit/Loss in fair value of available-for-sale financial assets		-	-
3. Profit/Loss of held-to-maturity investments in re-categorized available-for-sale financial assets		-	-
4. Effective portion of Profit/Loss from Cash Flow Hedge		-	-
5. Differences of Exchange for Foreign Currency Report		-	-
6. Others		-	-
<b>VI. Total Comprehensive Income</b>		<b>-9,131,252.84</b>	<b>-1,620,225.22</b>

Legal Representative: Su Jianghua Chief Financial Officer: Feng Xiaoyu Chief Accounting Officer: Qian Kouming



## Company Cash Flow Statement (2016)

For the year ended 31 December 2016 (Prepared in accordance with P.R.C. Accounting Rules and Regulations)

December 31, 2016

Northeast Electric Development Co., Ltd.

*Unit: RMB*

<b>Item</b>	<b>Note XV</b>	<b>Year 2016</b>	<b>Year 2015</b>
<b>I. Cash flow from operating activities</b>		-	-
Cash received from sales of goods or rendering of services		-	7,630,000.00
Tax refunds received		-	-
Cash received from other operating activities		6,942,164.33	9,193,914.50
Sub-total of cash inflows from operating activities		6,942,164.33	16,823,914.50
Cash paid in purchase/construction of fixed assets, intangible assets and other long-term assets		-	6,890,368.91
Cash paid to and for employees		4,221,651.58	1,127,836.21
Payments of taxes and surcharges		17,178.97	287,114.78
Cash paid relating to other operating activities		17,234,381.38	8,530,668.30
Sub-total of cash outflows for operating activities		21,473,211.93	16,835,988.20
<b>Net Cash Flow from operating activities</b>		<b>-14,531,047.60</b>	<b>-12,073.70</b>
<b>II. Cash flow from investing activities</b>		-	-
Cash from disinvestments		-	-
Cash received from return of investments		-	-
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		-	-
Net cash received in disposing subsidiaries and other operating units		-	-

December 31, 2016

Northeast Electric Development Co., Ltd.

Unit: RMB

Item	Note XV	Year 2016	Year 2015
Cash received relating to other investing activities		-	-
Sub-total of cash inflows from investing activities		-	-
Cash paid in purchase/construction of fixed assets, intangible assets and other long-term assets		48,016.94	6,800.00
Cash paid for investment		-	-
Net cash paid for subsidiaries and other operating units		5,100,000.00	-
Cash paid relating to other investing activities		-	-
<b>Sub-total of cash outflows</b>		<b>5,148,016.94</b>	<b>6,800.00</b>
<b>Net Cash Flow from investing activities</b>		<b>-5,148,016.94</b>	<b>-6,800.00</b>
<b>III. Cash flow from financing activities</b>		-	-
Cash received by absorbing investment		-	-
Cash received from borrowings		20,000,000.00	-
Cash received from bond issued		-	-
Cash received relating to other financing activities		-	-
Sub-total of cash inflows		20,000,000.00	-
Cash paid for repayments of debts		-	-

## Company Cash Flow Statement (2016) (Continued)

For the year ended 31 December 2016 (Prepared in accordance with P.R.C. Accounting Rules and Regulations)

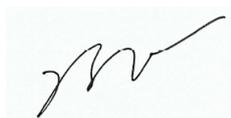
December 31, 2016

Northeast Electric Development Co., Ltd.

Unit: RMB

Item	Note XV	Year 2016	Year 2015
Cash paid for distribution of dividends, profits and interest		273,833.66	-
Cash paid relating to other financing activities		-	-
<b>Sub-total of cash outflows from financing activities</b>		<b>273,833.66</b>	-
<b>Net Cash Flow from financing activities</b>		<b>19,726,166.34</b>	-
<b>IV. Effect of change of foreign currency rates on cash and cash equivalents</b>		-	-
<b>V. Net increase of cash and equivalent</b>		<b>47,101.80</b>	<b>-18,873.70</b>
Plus: Balance of cash and equivalent at beginning of period		2,658.47	21,532.17
<b>VI. Balance of Cash and equivalent by end of period</b>		<b>49,760.27</b>	<b>2,658.47</b>

Legal Representative: Su Jianghua Chief Financial Officer: Feng Xiaoyu Chief Accounting Officer: Qian Kouming



December 31, 2016

Northeast Electric Development Co., Ltd.

Unit: RMB

Item	Year 2016							Total Shareholders' Equity		
	Capital	Other Equity Instruments	Less: Treasury Stock	Other Comprehensive Income	Special Reserve	Surplus Reserve	Provision for general risk		Accumulated Losses	
<b>I. Balance carried from last year</b>	873,370,000.00	-	-	979,214,788.45	-	108,587,124.40	-	-1,666,871,704.47	-	294,300,208.38
Plus: Changes in accounting policies	-	-	-	-	-	-	-	-	-	-
Corrections to previous errors	-	-	-	-	-	-	-	-	-	-
Others	-	-	-	-	-	-	-	-	-	-
<b>II. Balance at beginning of year</b>	<b>873,370,000.00</b>	-	-	<b>979,214,788.45</b>	-	<b>108,587,124.40</b>	-	<b>-1,666,871,704.47</b>	-	<b>294,300,208.38</b>
<b>III. Changes in the year (loss is "+")</b>	-	-	-	<b>16,506,379.01</b>	-	-	-	<b>-9,131,252.84</b>	-	<b>-7,375,126.17</b>
<b>(I) Total Comprehensive Income</b>	-	-	-	-	-	-	-	<b>-9,131,252.84</b>	-	<b>-9,131,252.84</b>
<b>(II) Increase/Decrease of Capital from Shareholders</b>	-	-	-	<b>16,506,379.01</b>	-	-	-	-	-	-
1. Common Shares	-	-	-	16,506,379.01	-	-	-	-	-	-
2. Other Equity Instrument	-	-	-	-	-	-	-	-	-	-
3. Shares paid taken into Shareholder's Equity	-	-	-	-	-	-	-	-	-	-
4. Others	-	-	-	-	-	-	-	-	-	-
<b>(III) Distribution of profit</b>	-	-	-	-	-	-	-	-	-	-
1. Extraction of surplus reserves	-	-	-	-	-	-	-	-	-	-
2. Extraction provision for general risk	-	-	-	-	-	-	-	-	-	-

**Company Statement of Changes in Equity (2016) (Continued)**

For the year ended 31 December 2016 (Prepared in accordance with P.R.C. Accounting Rules and Regulations)

December 31, 2016

Northeast Electric Development Co., Ltd.

Unit: RMB

Item	Year 2016										Total Shareholders' Equity
	Other Equity Instruments			Less: Treasury Stock	Other Comprehensive Income	Special Reserve	Surplus Reserve	Provision for general risk	Accumulated Losses	Total Shareholders' Equity	
	Capital	Premium	Others								
3. Distribution to shareholders	-	-	-	-	-	-	-	-	-	-	-
4. Others	-	-	-	-	-	-	-	-	-	-	-
<b>(IV) Transfer within equity</b>	-	-	-	-	-	-	-	-	-	-	-
1. Transfer-in from capital reserves	-	-	-	-	-	-	-	-	-	-	-
2. Transfer-in from surplus reserves	-	-	-	-	-	-	-	-	-	-	-
3. Loss covered by surplus reserves	-	-	-	-	-	-	-	-	-	-	-
4. Other	-	-	-	-	-	-	-	-	-	-	-
<b>(V) Special reserves</b>	-	-	-	-	-	-	-	-	-	-	-
1. Extraction of the special reserves	-	-	-	-	-	-	-	-	-	-	-
2. Usage of the special reserves	-	-	-	-	-	-	-	-	-	-	-
<b>(VI) Others</b>	-	-	-	-	-	-	-	-	-	-	-
<b>IV. Balance at end of Period</b>	<b>873,370,000.00</b>	-	-	-	<b>995,721,167.46</b>	-	<b>108,587,124.40</b>	-	<b>-1,676,002,957.31</b>	-	<b>301,675,334.55</b>

Legal Representative: Su Jianghua Chief Financial Officer: Feng Xiaoyu Chief Accounting Officer: Qian Kouming






**Company Statement of Changes in Equity (2016) (Continued)**

For the year ended 31 December 2016 (Prepared in accordance with P.R.C. Accounting Rules and Regulations)

December 31, 2016

Northeast Electric Development Co., Ltd.

Unit: RMB

Item	Other Equity Instruments			Year 2015			Special Reserve	Surplus Reserve	Provision for general risk	Accumulated Losses	Shareholders' Equity	Total Shareholders' Equity
	Capital	Premium	Others	Less: Treasury Stock	Other Comprehensive Income	Other						
3-Distribution to shareholders	-	-	-	-	-	-	-	-	-	-	-	-
4. Others	-	-	-	-	-	-	-	-	-	-	-	-
<b>(IV) Transfer within equity</b>	-	-	-	-	-	-	-	-	-	-	-	-
1. Transfer-in from capital reserves	-	-	-	-	-	-	-	-	-	-	-	-
2. Transfer-in from surplus reserves	-	-	-	-	-	-	-	-	-	-	-	-
3. Loss covered by surplus reserves	-	-	-	-	-	-	-	-	-	-	-	-
4. Other	-	-	-	-	-	-	-	-	-	-	-	-
<b>(V) Special reserves</b>	-	-	-	-	-	-	-	-	-	-	-	-
1. Extraction of the special reserves	-	-	-	-	-	-	-	-	-	-	-	-
2. Usage of the special reserves	-	-	-	-	-	-	-	-	-	-	-	-
<b>(VI) Others</b>	-	-	-	-	-	-	-	-	-	-	-	-
<b>IV. Balance at end of Period</b>	873,370,000.00	-	-	979,214,788.45	-	-	108,587,124.40	-	-1,666,871,704.47	-	-	294,300,208.38

Legal Representative: Su Jianghua Chief Financial Officer: Feng Xiaoyu Chief Accounting Officer: Qian Kouming




**Northeast Electric Development Co., Ltd.****For the year ended 31 December 2016**

(All amounts expressed in RMB unless otherwise specified)

**I. Company Overview****1. History of the Company**

Northeast Electric Development Co., Ltd. (formerly known as Northeast Electricity Transmitting & Transformation Machinery Manufacturing Ltd.) (“the Company” or “Company”) is a company limited by shares established by directed placement initiated by the Northeast Electrical Transmission and Transformation Equipment Company Corporation Limited (“NET”), which approved by the Shenyang Corporate System Reformation Committee under approval: Shen Ti Gai Fa [1992] 81. The company was officially founded on 18 February 1993 with 824.54 million shares which were adjusted to 585.42 million shares in 1995. In 1995, the company issued 257.95 million of H-shares in Hong Kong and was listed on the Hong Kong Stock Exchange on 6 July 1995. In the same year the company issued 30 million of A-shares in a public offering and was listed on the Shenzhen Stock Exchange on 13 December 1995.

Unified Social Credit Code of the Company is: 91210000243437397T; Registered capital: RMB 873,370,000.00; Legal representative: Su Jiang Hua; Business address: 23/F., Block 4, 9 Taihu East Road, Xinbei District, Changzhou, Jiangsu Province.

**2. Principal Industry**

Electrical machinery and equipment manufacturing industry.

**3. Business scope**

The company engages in production and sales of power transmission equipment and related accessories, provision of relevant after-sale services, and provision of power transmission technology developing, consulting, transferring and testing services.

**4. Main products**

Main products of the company are power capacitor, enclosed busbar and other system protection and transmission equipment.

**I. Company Overview (Continued)**

**5. Shareholders with most shares of the Company**

The ultimate shareholder which owns most of shares of the Company is Suzhou Tsing Chuang Trading Group Co., Ltd., changed name to Changzhou Tsing Chuang Industrial Investment Group Limited in January.

**6. The financial statements are approved on March 27 in the 11th meeting of the 8th board of directors.**

**7. The results of 8 subsidiaries of the Company have been consolidated in the Financial Statements of Year 2016. Details please see Note VIII “Disclosures of equity in other entities”. Changes of consolidation please see Note VII “Change of Consolidation”.**

**II. Basics of preparation of financial statements**

The financial statements of the company have been prepared based on the actual transactions and events on a going concern basis in accordance with the requirements of “Accounting Standards for Business Enterprises – Basic Standards” - issued by Decree No.33 of the Ministry of Finance, amended by Decree No.28 of the Ministry of Finance - and 41 Specific Accounting Standards issued by the Ministry of Finance on 15 February 2006, and application guidelines, explanations and other relevant regulations which announced subsequently (together the “Accounting Standards for Business Enterprises”), and the disclosure requirements in accordance with the “Disclosure Requirement on Listed Issuers No.15- General Requirements on Financial Statements (2010 amendments)” issued by China Securities Regulatory Commission.

The Company has prepared its financial accounting by Accrual Basis, according to the regulations of the relative Accounting Standards. Except for some financial instruments, the Financial Statements are valued at historical cost. Impairment of Assets Reserves is allocated once such impairment happens.

**III. Statement of compliance with the Accounting Standards for Business Enterprises**

The financial statements of the company for the year ended 31 December 2014 are in compliance with the Accounting Standards for Business Enterprises, and truly and completely present the financial position of the Company as at 31 December 2014 and of its operating results, cash flows and other information for the year then ended. In addition, all material aspects of the financial statements of the company are complied with the requirements of “Disclosure Requirement on Listed Issuers No.15- General Requirements on Financial Statements (2014 amendments)” issued by China Securities Regulatory Commission in relation to the disclosure requirements on financial statements and its accompanying notes.

#### IV. Significant accounting policies and accounting estimates

##### 1. Accounting period

The accounting period of the company is divided into annual and interim, interim accounting period represents a reporting period which is shorter than an annual accounting period. The annual accounting period of the company commences on 1st January and ends on 31st December each year.

##### 2. Recording currency

The recording currency of the Company and the subsidiaries incorporated and operated in mainland China is Renminbi (RMB), which is the currency of the primary economic environment in which they operate. The recording currency of the subsidiaries incorporated outside mainland China is Hong Kong Dollar (HKD), which is the currency of the primary economic environment in which they operate. The financial statement of the company is represented in RMB.

##### 3. Operating Cycle

A normal operating cycle starts from purchasing assets used to produce, and ends when cash or equivalent is realized. It's the Company's practice to set an operating cycle as 12 months, which is also the standard classification criteria for status of liquidity of both assets and liabilities.

##### 4. Accounting treatment for business Combinations

Business combinations represent the consolidation of the transactions and events of two or more individual enterprises. Business combinations can be classified as business combination under common control and business combination not under common control.

###### (1) Business combination under common control

A business combination under common control is a business combination in which all of the combining entities are ultimately controlled by the same party or parties both before and after the combination, and that control is not transitory. For business combination under common control, the party obtains the control of the other parties at the combination date is the acquiring party, other parties involve in the business combination are the parties being acquired. The combination date is the date on which the acquiring party effectively obtains control of the party being acquired.

Assets and liabilities that are obtained by the acquirer in a business combination shall be measured at their carrying amounts at the combination date as recorded by the party being acquired. The difference between the carrying amount of the net assets obtained and the carrying amount of the consideration paid for the combination (or the aggregate face value of shares issued as consideration) shall be adjusted to share premium under capital reserve (or capital premium). If the share premium under capital reserve (or capital premium) is not sufficient to absorb the difference, any excess shall be adjusted against retained earnings.

Expenses that are directly attributable to business combination are expense in the profit and loss at the period incurred.

**IV. Significant accounting policies and accounting estimates (Continued)**

**4. Accounting treatment for business Combinations (Continued)**

**(2) Business combination not under common control**

A business combination not under common control is a business combination in which all of the combining entities are not ultimately controlled by the same party or parties both before and after the combination. For business combination not under common control, the party obtains the control of the other parties at the combination date is the acquirer, other parties involve in the business combination are the acquirees. The combination date is the date on which the acquirer effectively obtains control of the acquirees.

For business combination not under common control, the cost of business combination is the fair value of consideration paid including cash and non-cash assets, liabilities undertaken, debts and equity securities issued for the controlling interest of the acquiree at the acquisition date. Costs that are directly attributable to the business combination such as audit fee, legal services fee, consultancy fee and other relevant expenses incurred by the company as acquirer are expensed in the profit or loss in the period incurred. Transaction fees of equity securities or debt securities issued for a business combination are included in the initially recognised amount of equity securities or debt securities. For conditions that existed at the date of the acquisition and within 12 months of the acquisition date, when there are updated or new evidence which affect the fair value of the contingent assets and liabilities acquired or undertaken as consideration of the business combination, the goodwill arising from the business combination shall be amended accordingly. The cost of combination and identifiable net assets obtained by the acquirer in a business combination are measured at fair value at the acquisition date. Where the cost of the combination exceeds the acquirer's interest in the fair value of the acquiree's identifiable net assets, the difference is recognised as goodwill; where the cost of combination is lower than the acquirer's interest in the fair value of the acquiree's identifiable net assets, the difference is recognised in profit or loss for the current year after a review of computation.

In relation to the deductible temporary difference acquired from the acquire which were not recognized as deferred tax assets due to non-fulfillment of the recognition criteria, for conditions that existed at the date of the acquisition and within 12 months of the acquisition date, when there are updated or new evidence that indicates future taxable profits will be available to utilize the deductible temporary differences, the relevant deferred tax assets shall be recognized and set-off against goodwill, when the amount of goodwill is less than the deferred tax assets that shall be recognized, the difference shall be recognized in profit or loss. Except for the above circumstances, deferred tax assets recognized in relation to business combination are recognized in profit or loss for the period.

**IV. Significant accounting policies and accounting estimates (Continued)****4. Accounting treatment for business Combinations (Continued)****(2) Business combination not under common control (Continued)**

For a business combination not involving enterprises under common control and achieved in stages, the company would determine whether the business combination shall be regarded as “a bundle of transactions” in accordance with “Interpretation 5 on Accounting Standards for Business Enterprises” (No. Caihui [2012] 19) and Rule 51 in “Decree 33, Accounting Standards for Business Enterprises - Consolidated Reports” (Refer to Note IV 5(2)). When the business combination is regarded as “a bundle of transactions”, the accounting treatment for the business combination shall be in accordance with the previous paragraphs and Note IV (11) “Long term equity investment”; when the business combination is not regarded as “a bundle of transactions”, the accounting treatment for the business combination in company and consolidated financial statements shall be as follows:

In the company’s financial statements, the initial cost of the investment shall be the sum of the carrying amount of its previously-held equity interest in the acquiree prior to the acquisition date and the amount of additional investment made to the acquiree at the acquisition date. The other comprehensive income involved in the previously-held equity interest in the acquiree prior to the acquisition date are accounted on the same basis as the investee when disposing of their relative assets or liabilities (i.e. Except for the portion varied due to change of net liabilities or net assets under remeasurement of defined benefit plans, the rest are taken into the current Return on investment).

In the consolidated financial statements, the fair value of the previously-held equity interest in the acquiree is remeasured at the acquisition date, The difference between the fair value and the carrying amount is recognized as investment income for the current period; the amount recognized in other comprehensive income relating to the previously-held equity interest in the acquiree are accounted on the same basis as the investee when disposing of their relative assets or liabilities (i.e. Except for the portion varied due to change of net liabilities or net assets under remeasurement of defined benefit plans, the rest are taken into the current Return on investment).

**5. Preparation method of consolidated financial statements****(1) Scope of consolidation**

The consolidated scope of consolidated financial statements is determined based on the concept of control. Control is the power the Company has over the investee(s), that the Company enjoys variable return on investment by taking part in the investee’s operating activities, and is able to affect the amount of return by using such power. The scope of consolidation includes the company and all of its subsidiaries. Subsidiaries are the entities controlled by the company.

The Company will re-evaluate the definition once any relative element change due to facts or circumstances change.

**IV. Significant accounting policies and accounting estimates (Continued)**

**5. Preparation method of consolidated financial statements (Continued)**

**(2) Preparation method of consolidated financial statements**

Subsidiaries are consolidated from the date on which the company obtains control of their net assets and operating policies and are deconsolidated from the date that such control ceases. For subsidiaries being disposed, the operating results and cash flows prior to the date of disposal are included in the consolidated income statement and consolidated cash flow statement; for subsidiaries disposed during the period, the opening balances of the consolidated balance sheet would not be restated. For subsidiaries acquired from a business combination not under common control, their operating results and cash flows subsequent to the acquisition date are included in the consolidated income statement and consolidated cash flow statement, and the opening balances and comparative figures of the consolidated balance sheet would not be restated. For subsidiaries acquired from a business combination under common control, their operating results and cash flows from the date of commencement of the accounting period in which the combination occurred to the date of combination are included in the consolidated income statement and consolidated cash flow statement, and the comparative figures of the consolidated balance sheet would be restated.

In preparing the consolidated financial statements, where the accounting policies and the accounting periods are inconsistent between the company and subsidiaries, the financial statements of subsidiaries are adjusted in accordance with the accounting policies and accounting period of the company. For subsidiaries acquired from a business combination not under common control, the individual financial statements of the subsidiaries are adjusted based on the fair value of the identifiable net assets at the acquisition date.

All significant inter-group balances, transactions and unrealised profits are eliminated in the consolidated financial statements.

The portion of a subsidiary's equity and the portion of a subsidiary's net profits and losses for the period not attributable to company are recognised as minority interests and profits and losses attributable to minority interests. Minority interest is presented separately in the consolidated balance sheet within shareholders' equity. Net profit or loss attributable to minority shareholders are presented separately in the consolidated income statement below the net profit line item. When the amount of loss for the current period attributable to the minority shareholders of a subsidiary exceeds the minority shareholders' portion of the opening balance of shareholders' equity of the subsidiary, the excess is allocated against the minority interests.

**IV. Significant accounting policies and accounting estimates (Continued)****5. Preparation method of consolidated financial statements (Continued)****(2) Preparation method of consolidated financial statements (Continued)**

When control to a subsidiary ceased due to disposal of a portion of an interest in a subsidiary, the fair value of the remaining equity interest is remeasured at the date control ceased. The difference between the sum of the consideration received from disposal of equity interest and the fair value of the remaining equity interest, less the net assets attributable to the company since acquisition date, is recognized as the investment income from the loss of control. Other comprehensive income in relation to the subsidiary are accounted on the same basis as the investee when control cease (i.e. Except for changes due to net liabilities or net assets from such investee's re-measured defined benefits plan, the rest are reclassified as investment income during the period). Subsequent measurement of the remaining interests shall be in accordance with relevant accounting standards such as "Accounting Standards for Business Enterprises 2 – Long-term Equity Investments" or "Accounting Standards for Business Enterprises 22 – Financial Instruments Recognition and Measurement", which are detailed in Note IV 11 "Long-term equity investments" or Note IV 8 "Financial instruments".

The company shall determine whether loss of control arising from disposal in a series of transactions should be regarded as a bundle of transactions. When the economic effects and terms and conditions of the disposal transactions met one or more of the following situations, the transactions shall normally be accounted for as a bundle of transactions:

- (i) The transactions are entered into after considered the mutual consequences of each individual transaction;
- (ii) The transactions needed to be considered as a whole in order to achieve a deal with commercial sense;
- (iii) The occurrence of an individual transaction depends on the occurrence of one or more individual transactions in the series;
- (iv) The result of an individual transaction is not economical, but it would be economical after taken into account of other transactions in the series.

When the transactions are not regarded as a bundle of transactions, the individual transactions shall be accounted as "disposal of a portion of an interest in a subsidiary which does not lead to loss of control" (Detailed in Note IV 11 (2) (4)) and "disposal of a portion of an interest in a subsidiary which lead to loss of control" (detailed in previous paragraph). When the transactions are regarded as a bundle of transactions, the transactions shall be accounted as a single disposal transaction; however, the difference between the consideration received from disposal and the share of net assets disposed in each individual transactions before loss of control shall be recognized as other comprehensive income, and reclassified as profit or loss arising from the loss of control when control is lost.

**IV. Significant accounting policies and accounting estimates (Continued)**

**6. Definitions of Cash and Cash equivalents**

Cash and cash equivalents comprise cash on hand, deposits that can be readily drawn on demand, and short-term (usually mature with three months since acquisition) and highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

**7. Foreign currency translation**

**(1) Foreign currency transactions**

Foreign currency transactions are, on initial recognition, translated to the recording currency using the exchange rates prevailing at the dates of the transactions, except when the Company carried on a business of currency exchange or involve in currency exchange transactions, at which the actual exchange rates would be used.

**(2) Foreign currency translations for foreign-currency monetary items and foreign-currency non-monetary items**

At the balance sheet date, monetary items denominated in foreign currency are translated into the recording currency using the spot rate of the balance sheet date. Exchange differences arising from these translations are recognised in profit or loss for the current year, except for (i) those attributable to foreign currency borrowings that have been taken out specifically for the acquisition, construction or production of qualifying assets, which are capitalised as part of the cost of those assets; (ii) exchange difference arising from changes in carrying amount of available for sale foreign-currency monetary items other than changes in amortized cost, which is recognized in other comprehensive income.

Non-monetary items denominated in foreign currency that are measured in terms of historical cost are translated into the recording currency at the balance sheet date using the spot rate at the date of the transactions. Non-monetary items denominated in foreign currency that are measured at fair value are translated into the recording currency using the spot rate on the date when fair value is determined and the resulting exchange differences will be recognized as in profit or loss or in other comprehensive income in the current year.

**IV. Significant accounting policies and accounting estimates (Continued)****7. Foreign currency translation (Continued)****(3) Translation of foreign currency financial statements**

For the purpose of preparing consolidated financial statements involving foreign operations, the exchange difference arising from monetary items involved in the net investment to the foreign operation will be recognized as other comprehensive income under the item “exchange difference arising translation of foreign operations”, when the foreign operation is disposed, the exchange difference will be transferred to profit or loss during the period of disposal.

The asset and liability items in the balance sheets for overseas operations are translated at the spot exchange rates on the balance sheet date. Among the shareholders’ equity items, the items other than “undistributed profits” are translated at the spot exchange rates of the transaction dates. The income and expense items in the income statements of overseas operations are translated at the spot exchange rates of the transaction dates. Opening balance of undistributed profits is equal to the closing balance of undistributed profits after translation in last year; closing balance of undistributed profit is computed according to the items in profit distribution after translation. The exchange difference arising from translation of assets, liabilities and equity items are recognized as other comprehensive income. Such exchange difference listed under Shareholders’ Equity in Balance Sheet will be reclassified to profit or loss in current year when the foreign operation is disposed according to the proportion of disposal.

The cash flows of overseas operations are translated at the spot exchange rates on the dates of the cash flows. The effect of exchange rate changes on cash is presented separately in the cash flow statement.

The opening balances are presented as the balances after translation in the financial statements of last year.

All the translation difference due to foreign currency exchange listed under Shareholders’ equity in Balance Sheet and attributable to the parent company are reclassified into the Profit & Loss for the period, when the Company cease control over its overseas operations when disposing all or part of offshore shareholders’ equity, or with other reasons.

The Company takes the exchange difference from its overseas operations related foreign currency reports into Minority Interests but not in the Profit & Loss for the period, when it’s percentage of shares decline but still remains control over the relative operations when disposing part of the equity investment or due to other reasons. Such exchange difference are taken into the current Profit & Loss when the share equity disposed are with the Company’s associate or joint venture.

**IV. Significant accounting policies and accounting estimates (Continued)**

**8. Financial Instruments**

A financial asset or financial liability is recognized when the Company becomes a party in the relative financial instrument contract. The financial asset or liability is measured by fair value when it's initially recognized. Transaction expenses of such financial asset or financial liability are accounted directly into Profit & Loss, when expenses of other types of financial instrument are classified in its initial recognized amount.

**(1) Determination of fair value of financial assets and financial liabilities**

Fair value is the amount at which the asset could be sold or a liability could be transferred between willing parties in an orderly transaction on a measurement date. The fair value of a financial instrument that is traded in an active market is determined at the quoted price in the active market. Quoted price in the active market represent quoted price which can be easily obtained periodically from exchange market, brokers, industry associations or pricing services agency etc, which are the transactions amount in arm's length transactions. The fair value of a financial instrument that is not traded in an active market is determined by using a valuation technique. Valuation techniques include using prices of recent market transactions between knowledgeable and willing parties, reference to the current fair value of another financial asset that is substantially the same with this instrument, discounted cash flow analysis and option pricing models, etc.

**(2) Classification, recognition and measurement of financial assets**

Acquisition and disposal of financial assets in general are recognized and derecognized at the transaction dates. At initial recognition, financial assets can be classified as financial assets at fair value through profit or loss, held-to-maturity investments, loans and receivables, and available-for-sale financial assets.

**(i) Financial assets at fair value through profit or loss**

Financial assets at fair value through profit or loss include financial assets held for trading and other financial assets which are designated to be measured in fair value at inception in which the changes in fair value are recognized in profit or loss.

Financial assets held for trading represents financial assets that met one of the following conditions:

- A. The purpose of obtaining the financial asset is for selling such asset in the short term;
- B. The assets was included in the portfolio of financial instruments which has objective evidence showing that the Company manages the portfolio so as to obtain short term gains;

#### IV. Significant accounting policies and accounting estimates (Continued)

##### 8. Financial Instruments (Continued)

###### (2) Classification, recognition and measurement of financial assets (Continued)

###### (i) Financial assets at fair value through profit or loss (Continued)

- C. The assets is a derivative except for those derivatives which are designated as an effective hedging instrument, or are included in a financial guarantee contract, or are derivatives for which there are no quoted price in active market or the fair value of the underlying equity instruments cannot be measured reliably and the derivative have to be settled by delivering the underlying equity instrument.

Financial assets which met one of the following conditions can be designed as financial assets at fair value through profit or loss at inception:

- A. The designation can eliminate or substantially eliminate the inconsistencies between profit or loss from the financial assets arising from different measurement basis
- B. The portfolio of financial assets and liabilities in which the financial asset belongs to are designated as measured at fair value in the risk management report or investment strategic report handed in to key management personnel.

Financial assets at fair value through profit or loss are subsequently measured at fair value. The gain or loss arising from fair value changes, dividend income and interest income arising from such financial assets are recognized in profit or loss.

###### (ii) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed maturity and fixed or determinable payments that management has the positive intention and ability to hold to maturity. Held-to-maturity investments with maturities over 12 months when the investments were made but are due within 12 months at the balance sheet date are included in the current portion of non-current assets; held-to-maturity investments with maturities no more than 12 months when the investments were made are included in other current assets.

Held-to-maturity financial assets are subsequently measured using the effective interest method on the basis of amortized cost. The gain or loss on de-recognition, impairment or amortization are recognized in profit or loss.

Effective interest rate method means the amortized cost, periodic interest income or payment of financial assets or financial liabilities (including a portfolio of financial assets or financial liabilities) are calculated based the effective interest rate. Effective interest rate means the interest rate used for discounting the future expected cash flows of a financial asset or financial liability to its carrying amount.

**IV. Significant accounting policies and accounting estimates (Continued)**

**8. Financial Instruments (Continued)**

**(2) Classification, recognition and measurement of financial assets (Continued)**

(ii) Held-to-maturity investments (Continued)

When calculating the effective interest rate, the Company will estimate the future cash flows (except for considering loss arising from credit risk) of financial assets and liabilities based on all terms and conditions of the underlying contracts, at the same time considering the charges, transaction costs, discounts or premiums, etc paid or received by the parties involved in the financial assets or financial liabilities.

(iii) Loans and receivables

Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Financial assets classified by the Company as loans and receivables include bills receivable, accounts receivable, interest receivable, divided receivable and other receivables etc.

Loans and other receivables are subsequently measured at amortized cost using the effective interest rate method. The gain or loss arising from de-recognition, impairment or amortization are recognized in profit or loss in the current period.

(iv) Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are either designated in this category or not classified financial assets at fair value through profit or loss, loans and receivables and held-to-maturity investments at initial recognition.

The closing cost of available-for-sale debt instruments are determined based on amortized cost method, which means the amount of initial recognition less the amount of principle already repaid, add or less the accumulated amortized amount arising from the difference between the amount due on maturity and the amount initially recognized using effective interest rate method, and less the amount of impairment losses recognized. The closing cost of available-for-sale equity instruments is equal to its initial acquisition cost.

Available-for-sale financial assets subsequently measured at fair value, the gains or losses arising from changes in fair value, except for impairment losses and exchange difference related to monetary financial assets and amortized cost which are recognized in Profit & Loss, are recognized as other comprehensive income and reclassified to Profit & Loss when the financial assets are de-recognized. However, subsequent measurement is calculated at cost for the equity instrument investment with no fair value quote or reliable measurement in the active market, and for those derivative financial assets linked with and settleable when deliver by such equity instrument.

The dividend income received or receivable when holding available- for-sale financial assets are recognized as investment income.

**IV. Significant accounting policies and accounting estimates (Continued)****8. Financial Instruments (Continued)****(3) Impairment of financial assets**

The Company assesses the carrying amounts of financial assets other than those at fair value through profit or loss at each balance sheet date. If there is objective evidence that a financial asset is impaired, an impairment loss is provided for.

When the amount of a financial asset is material, the financial asset will be assessed for impairment losses on individual basis, for the amount of a financial asset which is individually not material; the financial asset will be assessed for impairment losses on individual basis or assessed for impairment losses collectively together with a portfolio of financial assets which has similar credit risks characteristics. The financial asset which is not considered as impaired when assessed on individual basis (included financial asset which the individual amount is immaterial or not), will be assessed for impairment losses again on collective group basis together with a portfolio of financial assets which has similar credit risk characteristics. The financial assets which are considered as individual impaired will not be assessed for impairment losses on collective group basis together with a portfolio of financial assets which has similar credit risk characteristics.

(i) Impairment losses on held-to-maturity investments and loans and receivables

Impairment loss is recognized in profit or loss according to the differences between the carrying amounts based on cost or amortized cost and present value of estimated future cash flow. When a financial asset is impaired, if there are objective evidences showing the value of this financial asset is recovered and it is objectively related to the matters happened after the impairment loss recognition, the impairment loss recognized shall be reversed. However the reversal shall not result in a carrying amount of the financial asset that exceeds the amortized cost that would have been if the impairment had not been recognized at the date when the impairment is reversed.

(ii) Impairment losses on available-for-sale financial assets

If there are objective evidences shows the fair value of available-for-sale financial asset has a significant decline and this decline is not temporary, impairment loss shall be recognized. Significant decline means the relative fair value drops over 20% accumulatively. Non-temporary decline means the period when the relative fair value drops exceeds 12 months.

**IV. Significant accounting policies and accounting estimates (Continued)**

**8. Financial Instruments (Continued)**

**(3) Impairment of financial assets (Continued)**

(ii) Impairment losses on available-for-sale financial assets (Continued)

If an available-for-sale financial asset is impaired, the cumulative loss arising from decline in fair value that had been recognized directly in capital reserves is removed from capital reserves and recognized in profit or loss. The cumulative loss that is removed from capital reserves is the difference between its acquisition cost (net of any principal repayment and amortization) and its current fair value, less any impairment loss previously recognized in profit or loss.

If there are objective evidences show the value of available-for-sale financial asset is recovered and it is related to the matters happened after the impairment loss recognition, the impairment loss recognized shall be reversed, impairment losses recognized for equity instruments classified as available-for-sale are reversed through other comprehensive income, while impairment losses recognized for debt instruments classified as available-for-sale are reversed through current profit or loss.

The impairment losses recognized on investment in equity instruments which fair value cannot be measured reliably and do not a quoted price inactive market, or derivatives that have to be settled by delivery underlying equity instruments shall not be reversed.

**(4) Recognition and measurement on transfer of financial assets**

Financial assets shall be de-recognized when one of the following conditions is met:

- (i) The contractual right for receiving cash flows from the financial asset is terminated;
- (ii) The financial asset is transferred, and the risk and rewards of ownership of the financial asset have been substantially transferred to the transferee.
- (iii) The financial asset is transferred; the Company neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset, but ceases the control over the financial asset.

If the Company neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset, and the control over the financial asset is not ceased, the financial asset and the related financial liabilities should be recognized base on the degree of continuing involvement. The degree of continuing movement means the level of risks bore by the Company resulting from the change in value of the financial asset.

**IV. Significant accounting policies and accounting estimates (Continued)****8. Financial Instruments (Continued)****(4) Recognition and measurement on transfer of financial assets (Continued)**

When the de-recognition criteria is met and the financial asset is wholly transferred, the difference between the carrying amount and the sum of the consideration received and the cumulative changes in fair value that had been recognized directly in equity, is recognized in profit or loss.

When the de-recognition criteria is met and the financial asset is partially transferred, the carrying amount of the financial asset transferred and retained should be apportioned based on fair value, the difference between the carrying amount of the transferred portion and the sum of the consideration received and the cumulative changes in fair value of the transferred portion that had been recognized directly in equity and the apportioned carrying amount, is recognized in profit or loss.

For financial assets that are transferred with recourse or endorsement, the Company need to determined whether the risk and rewards of ownership of the financial asset have been substantially transferred. If the risk and rewards of ownership of the financial asset have been substantially transferred, the financial assets shall be derecognized. If the risk and rewards of ownership of the financial asset have been retained, the financial assets shall not be de-recognized. If the Company neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset, the Company shall assess whether the control over the financial asset is retained, and the financial assets shall be accounting for according to the above paragraphs.

**(5) Classification and measurement of financial liabilities**

Financial liabilities at initial recognition are classified into financial liabilities at fair value through profit or loss and other financial liabilities. Financial liabilities are initially recognized at fair value. For financial liabilities at fair value through profit or loss, the relevant transaction costs are recognized in current profit or loss, for other financial liabilities, the relevant transaction costs are recognized in the amount of initial recognition.

**(i) Financial liabilities at fair value through profit or loss**

The classification and conditions for financial liabilities classified as held for trading and designated as financial liabilities at fair value through profit or loss at inception is the same as financial assets classified as held for trading and designated as financial asset at fair value through profit or loss at inception.

Financial liabilities at fair value through profit or loss are subsequently measured at fair value. The gain or loss arising from fair value changes, dividend income and interest expenses arising from such financial liabilities are recognized in profit or loss.

**IV. Significant accounting policies and accounting estimates (Continued)**

**8. Financial Instruments (Continued)**

**(5) Classification and measurement of financial liabilities (Continued)**

(ii) Other financial liabilities

Financial liabilities for derivatives which have no quoted price in active market or the fair value of the underlying equity instruments cannot be measured reliably and the derivative have to be settled by delivering the underlying equity instrument are subsequent measured at cost. Other financial liabilities are subsequently measured on amortized cost using effective interest rate method, the gain or loss on de-recognition and amortization is recognized in current profit or loss.

(iii) Financial guarantee contract

For the financial guarantee contract not classified as financial liability measured by its fair value and taken into the current Profit & Loss, it is recognized initially by its fair value, and is measured subsequently with the higher value between its initial recognized amount and the amount calculated by the regulations in <Accounting Standard for Business Enterprises No. 13 - Contingencies> less accumulated amortization stipulated in <Accounting Standard for Business Enterprises No. 14 - Revenue>.

**(6) De-recognition of financial liabilities**

A financial liability shall be derecognized or partly derecognized when the current obligation is discharged or partly discharged. When the Company (debtor) and the creditor have signed a contract which uses a new financial liability to replace the existing financial liability, and the contract terms of the new financial liability are substantially different with the existing financial liability, the existing financial liability shall be de-recognized, and the new financial liability shall be recognized at the same time.

When financial liability is derecognized or partly derecognized, the difference between the carrying amount of the derecognized portion of the financial liability and the consideration paid (include transfer of non-monetary assets or undertaking of new financial liabilities) shall be recognized in profit or loss.

**IV. Significant accounting policies and accounting estimates (Continued)****8. Financial Instruments (Continued)****(7) Derivatives and embedded derivatives**

Derivatives are measured at fair value at the signing date of underlying contract on initial recognition, and are subsequently measured at fair value. Changes in the fair value of derivatives are accounted into the Profit & Loss for the period.

For combined instruments contain embedded derivatives which are not designated as financial assets or financial liabilities at fair value through profit or loss, and the embedded derivative and the main contract does not have a material relation in terms of risk and economic attributes, and when an individual instrument which is the same as the embedded derivative can be defined as derivative, the embedded derivative shall be separated from the combined instrument and treated as an individual derivative. If the embedded derivative cannot be separately measured at acquisition or subsequent balance sheet date, the combined instrument shall be designated as financial assets or financial liabilities at fair value through profit or loss.

**(8) Offsetting financial assets and financial liabilities**

When the Company has the legal right to offset recognized financial assets and financial liabilities, and the legal right can be executed at present, and the Company has a plan to settle the financial assets and financial liabilities at the same time or at net amount, the financial assets and financial liabilities can be presented on the balance sheet after offsetting. Except for the above circumstances, financial assets and financial liabilities cannot be offset and shall be presented separately on the balance sheet.

**(9) Equity instruments**

An equity instrument is a contract that proves the residual interest of the assets after deducting all liabilities in the Company. Change to share equity is accounted when the Company issue (including refinance), buyback, sell or cancel equity instrument. Relative change to fair value of the equity instrument is not recognized. Transaction expenses relating to such transaction is deducted from share equity.

The distribution made by the Company to the owner of equity instrument (except for dividend) shall be deducted from shareholders' equity. Fair value change of equity instruments shall not be recognized by the Company.

**IV. Significant accounting policies and accounting estimates (Continued)**

**9. Receivables**

Receivables comprise accounts receivable and other receivables, etc.

**(1) Recognition standard of bad debt provision**

Bad debt provision is accrued when evidence shows impairment on receivables during the Company’s checkup of book values of receivables on balance sheet date:

- (i) Debtor(s) in serious financial situation;
- (ii) Debtor(s) default (ie. Default on repayment of interest or principal or overdue);
- (iii) Debtor(s) very likely go bankrupt or undergo reconstruction financially;
- (iv) Other proof evidencing impairment on receivables.

**(2) Recognition and provision method of receivables with amounts that are individually significant and subject to separate assessment for provision for bad debts**

The Company considers receivables with amounts over RMB 1 million as individually significant.

The Company assesses individually significant receivables for impairment on individual basis, financial assets which are not impaired on individual basis will be assessed for impairment collectively with a portfolio of financial assets which share similar credit risk characteristics. For receivables that are individually impaired, the receivable will not be assessed for impairment collectively with a portfolio of financial assets which share similar credit risk characteristics.

**(3) Grouping basis and method of provision on receivables that are subject to provision for bad debts collectively on credit risk characteristics:**

- (i) Basis for grouping is as follows:

Group	Grouping basis
Group 1	Individual insignificant accounts receivable, other receivables, and individual significant accounts which not impaired on individual basis will be assessed for impairment on collective basis based on aging
Group 2	Amount due from subsidiaries (internal current account)

## IV. Significant accounting policies and accounting estimates (Continued)

## 9. Receivables (Continued)

## (3) Grouping basis and method of provision on receivables that are subject to provision for bad debts collectively on credit risk characteristics: (Continued)

(ii) Methods of determining provision for bad debts by grouping are as follows:

Group	Method of provision
Group 1	Aging analysis method
Group 2	No provision would be made

(iii) The provision ratios used under the aging analysis method for the above groupings are as follows:

Age of accounts	Provision ratio used for accounts receivable (%)	Provision ratio used for other receivables (%)
Within 1 year	-	-
1-2 years	-	-
2-3 years	40%	40%
3-4 years	60%	60%
Over 4 years	100%	100%

## (4) Receivables with amounts that are not individually significant but subject to separate assessment for provision for bad debts

Item	Method of provision
Reason for making separate assessment	There are objective evidence that the Company will not be able to collect the amount
Method of provision	Based on the amount of the present value of the future cash flows expected to be derived from the receivable below its carrying amount.

## (5) Reversal of bad-debt provision

Should circumstances prove that value of a certain account receivable is recovered, and the recovery is due to events post loss, then the relative Loss for decline in value will be reversed and accounted into Profit & Loss, with its book value not exceeding its book balance less amortization should there be no provision for decline in value on the date of reversal.

**IV. Significant accounting policies and accounting estimates (Continued)**

**10. Inventories**

**(1) Classifications of inventories**

Inventories are classified as raw materials, work in progress, finished goods and goods in transit, etc.

**(2) Costing of inventories**

Inventories are recorded at actual costs on acquisition. Cost of inventories comprises purchase cost, overhead and other costs. Cost for consuming and delivery of inventories is determined using the weighted average method.

**(3) Basis for determining net realizable values of inventories and method for making provision for decline in the value of inventories**

Net realizable value is determined based on the estimated selling price in the ordinary course of business, less the estimated costs to completion and estimated costs necessary to make the sale and related taxes. The assessment on the net realizable value of inventories shall be made based on concrete evidence obtained, the purpose of holding inventories and the effect of subsequent events.

At balance sheet date, inventories are stated at the lower of cost or net realizable value. Provision for decline in the value of inventories is made when the carrying amounts of the inventories are over their net realizable value. Amount of provision for is determined at the excess amount of the carrying amounts of an inventory item over its net realizable value.

When an inventory is impaired, if the factors that give rise to the provision previously do not exist anymore which result in a net realizable value of the inventory higher than its cost, the original provision should be reversed and recognized in profit or loss.

**The Company adopts the perpetual inventory system.**

**IV. Significant accounting policies and accounting estimates (Continued)****11. Long-term equity investments**

Long-term equity investments in this section refers to those with which the Company exercise single or joint control over the invested entity, or has significant influence on its operation. Long-term equity investments fall out of this category are classified either as available-for-sale financial asset or as financial asset measured by its fair value and is accounted into the current Profit & Loss by its changed value. For detailed accounting policy see Note IV.8 “Financial Instruments”.

Joint control refers to the shared control over an invested entity by the relative arrangement, and agreement must be reached by the control sharing parties before any activity under the arrangement. Significant influence refers to the right the Company has to join in the decision making process for financial and business operation policies of the invested entity, while unable to control or sharing joint control with other parties over such decision makings.

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

For long-term equity investment resulting from merger of enterprises under the same control, the Company regards the share of the book value of the equity of the merged enterprise as the initial cost of such investment. The difference between the initial cost of the long-term equity investment, non-cash assets transferred and the total book value of the shares issued shall offset against the capital reserve. If the capital reserve is insufficient to dilute, the retained earnings shall be adjusted. If the consideration of the merging enterprise is by issuing equity securities, on the date of merger, the Company regards the share of the book value of the controlling party’s equity of the merged enterprise as the initial cost of the long-term equity investment. Total face value of the stocks issued are regarded as the capital stock, while the difference between the initial cost of the long-term equity investment and total face value of the shares issued shall offset against the capital reserve. If the capital reserve is insufficient to dilute, the retained earnings shall be adjusted. For a business combination realized by two or more transactions of exchange and ultimately under the same control, different accounting methods are adopted by the criteria of whether those transactions are classified as “a bundle of transactions” or not. If yes, all exchange transactions are deemed as one transaction getting control of the invested entity and are dealt with the relative accounting method. If no, the Company regards the share of the book value of the controlling party’s equity of the merged enterprise as the initial cost of the long-term equity investment on the date of merger. Difference between the initial cost of the long-term equity investment and the sum of book value of long-term equity investment plus new consideration paid for the share in the invested entity on the date of merger shall offset capital reserve. If the capital reserve is insufficient, the retained earnings shall be adjusted. Equity investment acquired before the date of merger are not accounted for the period due to they are accounted by method of equity or are classified as available-for-sale financial assets.

**IV. Significant accounting policies and accounting estimates (Continued)**

**11. Long-term equity investments (Continued)**

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

For a long-term equity investment obtained through a business combination involving entities not under common control, the cost of business combination includes the sum of assets paid by the acquirer, liabilities paid or undertaken and the fair value of equity securities issued. For a business combination realized by two or more transactions of exchange and ultimately not under the same control, different accounting methods are adopted by the criteria of whether those transactions are classified as “a bundle of transactions” or not. If yes, all exchange transactions are deemed as one transaction getting control of the invested entity and are dealt with the relative accounting method. If no, the Company regards the sum of book value of the equity investment of the invested entity plus added cost of investment as the initial cost of investment. For such book value of the equity investment, if it is accounted by method of equity, then the relative other comprehensive income is not accounted for the period; if it is classified as available-for-sale financial asset, the difference between its fair value and book value, together with the accumulated change to fair value which was originally accounted as other comprehensive income will be taken into Profit & Loss for the current period.

Transaction costs such as audit fee, legal service fee, consultancy fee and other relevant costs incurred by the acquirer for the purpose of business combination are recognized in profit or loss as incurred

For long-term equity investments acquired other than through a business combination, the investment shall be initially recognized at cost, the cost of investment varies between different ways of acquisition, which is recognized based on the actual amount of cash consideration paid by the Company, fair value of equity instruments issued by the Company, value of investment contracts or agreement made, fair value or original carrying amount of non-monetary assets transferred or the fair value of the long-term equity investments, etc. The costs directly attributable to the acquisition of long-term equity investments, taxes or other necessary expenses are also included in the cost of investment. For long-term equity investment with significant influences, or enjoys joint control over the invested entity without constituting control by adding investment, its cost of investment is the sum of fair value of equity investment plus newly added cost of investment, according to the regulations in <Accounting Standard for Business Enterprises No. 22 - Recognition and measurement of financial instruments> .

**IV. Significant accounting policies and accounting estimates (Continued)****11. Long-term equity investments (Continued)****(2) Subsequent measurement and recognition of profit and loss**

The Company use equity method for accounting of the long-term equity investment which enjoys joint control or significant control over the invested entity, excepting co-undertakings. Moreover, the Company use cost method to account long-term equity investment that has control over the invested entity.

In addition, the financial statements on company level use cost method to account for long-term investments which the Company has control over the investee

**(i) Long-term equity investment accounted for using cost method**

Long-term equity investments accounted for using the cost method are measured at the initial investment costs, apart from the consideration paid for the acquisition of investment or cash dividend declared but not yet paid or appropriated profits which included in the consideration, investment income for the period shall include cash dividend declared by the investee or appropriated profit recognized. Such cost of investment shall be adjusted when investment are added or discontinued.

**(ii) Long-term equity investment accounted for using equity method**

For long-term equity investment accounted for using equity method, where the initial investment cost exceeds the Company's share of the fair value of the investee's identifiable net assets at the time of acquisition, the initial investment cost of the long-term equity investment will not be adjusted; where the initial investment cost is less than the Company's share of the fair value of the investee's identifiable net assets at the time of acquisition, the difference is included in profit or loss for the current year and the cost of the long-term equity investment is adjusted accordingly.

For long-term equity investment accounted for using equity method, return on investment and other comprehensive income are recognized separately according to the share in the invested entity's net profit/or loss and its other comprehensive income, with the book value adjusted for the long-term equity investment by the Company. Book value of the long-term equity investment will be deducted according to the announced profit to be distributed by the invested entity or the share of cash dividend. Changes to shareholders' equity other than net profit/or loss, other comprehensive and profit distribution cause book value of long-term equity investment to be adjusted, and taken into capital reserve. Net profit of the invested entity is recognized after adjustment on the basis of fair value of all recognizable assets of the invested entity on acquisition. Accounting policies and accounting period of the invested entity will be adjusted

**IV. Significant accounting policies and accounting estimates (Continued)**

**11. Long-term equity investments (Continued)**

**(2) Subsequent measurement and recognition of profit and loss (Continued)**

(ii) Long-term equity investment accounted for using equity method (Continued)

according to the Company's relative regulations if that entity adopted different policies. Meanwhile return on investment and other comprehensive income are adjusted accordingly. For transactions between the Company and its associates and joint ventures not constituting business transactions by transferring or selling assets, relative unrealized profit/or loss on internal transactions attributable to the Company pro rata will be offset, and return on investment will be recognized on such basis. However if such realized loss on internal transactions are classified as loss on decline in value of asset, then the relative loss are not to be offset. Furthermore, if such assets transfer are classified as business transactions, fair value of the asset transferred are recognized as initial cost of investment, and the difference between initial cost of investment and book value of asset transferred are taken in full amount into the current Profit & Loss, if the investing party obtain long-term equity investment but not control over the invested entity. The difference between consideration of assets sold to associate or joint venture and book value of the asset are taken in full amount into the current Profit & Loss, if the transaction is classified as a business transaction. If the assets purchased from associate and joint venture are classified as business transactions, then full amount of profit or loss relating to the transaction are recognized, according to the regulations in <Accounting Standard for Business Enterprise No. 20 - Business Combination>.

The Company discontinues recognizing its share of net losses of the investee after the carrying amount of the long-term equity investment and any long-term interest that in substance forms part of the company's net investment in the investee is reduced to zero, except to the extent that the company has an obligation to assume additional losses. Where net profits are subsequently made by the investee, the Company resumes recognizing its share of those profits only after its share of the profits equals the share of losses not recognized.

(iii) Acquisition of minority interest

When preparing consolidated financial statements, the difference between the increased in long-term equity investment due to acquisition of minority interest of a subsidiary and the share of net asset of the subsidiary since the acquisition date (or combination date) calculated under the new ownership ratio shall be adjusted to the capital surplus, when capital surplus is insufficient, the excess shall be adjusted to retained profits.

**IV. Significant accounting policies and accounting estimates (Continued)****11. Long-term equity investments (Continued)****(2) Subsequent measurement and recognition of profit and loss (Continued)****(iv) Disposal of long-term equity investment**

When preparing consolidated financial statements, when the parent company disposes part of its subsidiary without loss of control, the difference between the consideration received and the share of net asset for the disposed portion of long-term equity investment shall be recognized in shareholders' equity; when the parent company disposes part of its subsidiary with loss of control, the accounting treatment should be in accordance with the accounting policies stated at Note IV 5 (2) "Preparation of consolidated financial statements".

For disposal of long-term equity investment in other situations, the difference between the considerations received and the carrying amount of the disposed investment shall be recognized in profit or loss; for long-term equity investment accounted for using equity method, the other comprehensive income originally accounted into shareholders' equity will be accounted on the same basis as the invested entity while disposing relative asset or liability according to its proportion. Shareholders' equity recognized by the invested entity due to change to such item other than net profit/or loss, other comprehensive income or profit distribution, will be accounted into the current Profit & Loss.

For the remaining equity accounted with cost method after partial disposal, the same basis as the invested entity while disposing relative asset or liability will be used for the other comprehensive income recognized using equity method before the investment, or recognized by the regulations of financial instrument recognition and measurement, and such income will be transferred to the current Profit & Loss proportionately. Changes to shareholders' equity other than those caused by net profit/or loss, other comprehensive income or profit distribution will be taken into the current Profit & Loss.

For the remaining share equity after partial disposal which cause the Company to lose control over the invested entity, equity method will be used to account and adjust for the remaining share equity as if they are accounted by the same method upon acquisition, if such equity enable the Company exercise joint control or significant influences over the invested entity. If not, the difference between fair value on the date of losing control and book value will be taken into the current Profit & Loss, according to the regulations of financial instrument recognition and measurement. For the other comprehensive income recognized by equity method or by financial instruments recognition and measurement before the Company took control of the invested entity, the same basis the invested entity while disposing relative asset or liability will be adopted for accounting when the Company lose control over the investee, changes to shareholders' equity in the net asset of invested entity recognized by equity method, other than net

**IV. Significant accounting policies and accounting estimates (Continued)**

**11. Long-term equity investments (Continued)**

**(2) Subsequent measurement and recognition of profit and loss (Continued)**

(iv) Disposal of long-term equity investment (Continued)

profit/or loss, other comprehensive income and profit distribution will be carried forward to the current Profit & Loss. Meanwhile, other comprehensive income and other shareholders' equity will be carried proportionately if the remaining share equity is accounted by equity method; and will be carried in full amount if the remaining share equity is accounted by financial instrument recognition and measurement.

The remaining share equity after partial disposal that cause the Company to lose joint control or significant influences over the invested entity are accounted by financial instrument recognition and measurement, difference between fair value of such equity on the date of losing control or significant influence and book value will be taken into the current Profit & Loss. Other comprehensive income recognized using equity method for the previous share equity investment will be accounted using the same basis as the invested entity while disposing the relative asset or liability, full amount of shareholders' equity recognized by other change to shareholders' equity other than net profit or loss, other comprehensive income or profit distribution will be taken into return on investment for the period when equity method stops being adopted.

When the Company lose control over the invested entity through two or more disposing transactions, if such transactions are classified as "a bundle of transactions", then they will be accounted as one transaction of control-losing asset disposal, difference between each amount of disposal and book value of relative share equity will be recognized as other comprehensive income first, and altogether will be taken into the current Profit & Loss when the control is lost.

**12. Joint venture arrangement classification and relative accounting methods**

Joint venture arrangement is the arrangement jointly controlled by two or more parties. The Company classifies such arrangement as joint-operation and joint venture according to the rights and obligations set out in the arrangement. Joint operation refers to the relative arrangement that the Company shares the assets as well as the liabilities of the invested entity. Joint venture refers to the arrangement that the Company shares only the net asset of the invested entity.

Equity method is adopted to account for investment in the joint ventures by the Company, details see Note IV.11(2).

In Joint-operation, the Company recognize asset and liability singly held, and shared assets and liabilities pro rata shares in the invested entity by the Company. Income pro rata the Company's share in the joint operation production are recognized, as well as income from sales of products pro rata the Company's share in the joint operation. Moreover, expenses by the Company as well as shared expenses pro rata the Company's share are recognized.

**IV. Significant accounting policies and accounting estimates (Continued)****12. Joint venture arrangement classification and relative accounting methods (Continued)**

When the Company, as a party in the joint operation, transfers or sells assets to, or purchase assets from the joint operation, only the relative profit or loss arising from such transaction attributable to other participating parties will be recognized by the Company before the relative asset is sold to a third party. If any loss occur due to such transaction and meet the criteria of <Accounting Standard for Business Enterprise No.8 - Impairment of assets>, the Company will recognize loss in full amount if it is the Company that transfers or sell assets to joint operation, and will recognize shared loss if it is the Company that purchase the assets from joint operation. (Note: The transaction mentioned in this paragraph does not constitute a business transaction)

**13. Investment properties**

Investment properties, which are properties held to earn rental or capital appreciation or both, including land use rights that have already been leased out, land use rights that are held for the purpose of sale after capital appreciation, buildings that have been already been leased out, etc.

Investment properties are measured initially at cost. Subsequent expenditures incurred in relation to an investment property is included in the cost of the investment property when it is probable that the associated economic benefits will flow to the Company and its cost can be reliably measured; otherwise, the expenditures are recognized in profit or loss in the period in which they are incurred.

The Company adopts the cost model for subsequent measurement of the investment properties, and they are depreciated or amortized on a basis consistent with the Company adopts for buildings and land use rights.

Impairment loss assessment and provision for impairment loss for investment properties are detailed at Note IV.19 “Impairment loss on non-current assets”.

When owner-occupied property or inventories are transferred to investment property or when investment property transfer to owner-occupied property, the initial recognized amount shall be the carrying amount of the property before such transfer.

An investment property is derecognized on disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposal. The net amount of proceeds from sale, transfer, retirement or damage of an investment property net of its carrying amount and related taxes and expenses is recognized in profit or loss for the current year.

## IV. Significant accounting policies and accounting estimates (Continued)

## 14. Fixed assets

## (1) Recognition criteria for fixed asset

Fixed assets are tangible assets that are held for producing goods, rendering of services, leasing out to other parties or administrative purposes, with useful life more than one year. Fixed assets are recognized when the following conditions are met:

- (i) it is probable that future economic benefits that are associated with the fixed asset will flow to the company
- (ii) the cost can be measured reliably

## (2) Depreciation for different categories of fixed assets

Fixed assets are depreciated by categories using the straight-line method. Depreciation starts from the date when the fixed asset is available for its intended use and ceases when the fixed asset is derecognized or classified as non-current assets held for sale (except for fully depreciated fixed assets and land which is accounted for separately). Without taking impairment provision into consideration, based on the fixed asset categories, expected useful life and estimated residual value, the annual depreciation rates used are as following:

Category	Useful life (year)	Residual value rate (%)	Annual depreciation rate (%)
Buildings and structures	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%

**Remark:**

*Residual value represents the proceeds from disposal less cost of disposal of a fixed asset the Company can receive when fixed asset is fully depreciated.*

## (3) Impairment loss assessment and provision for fixed assets

The impairment loss assessment method and provision method of fixed asset is detailed at Note IV 19 "Impairment on non-current assets".

**IV. Significant accounting policies and accounting estimates (Continued)****14. Fixed assets (Continued)****(4) Basis for identification of fixed assets held under a finance lease and its measurement**

A lease that transfers substantially all the risks and rewards incidental to ownership of an asset is a finance lease, the ownership of the asset may or may not be transferred. At the inception of lease, the leased asset is recognized at the lower of the fair value of the leased asset and the present value of the minimum lease payments.

When a leased asset can be reasonably determined that its ownership will be transferred at the end of the lease term, it is depreciated over the period of expected use; otherwise, the leased asset is depreciated over the shorter period of the lease term and the period of expected use.

**(5) Other explanations**

There is an annual review over the usage life, estimated residual value and depreciation method by the end of each year. If there is a change of expected useful life and estimated residual value, an adjustment will be made if necessary.

Repair costs will be capitalized if the recognition criteria of fixed asset is satisfied, and charged to current profit and loss when the recognition criteria is not satisfied.

Repair cost which is capitalized should be depreciated separately on straight line basis over the expected useful life or the time until next repair, whichever is shorter.

**15. Construction in progress**

Construction in progress is measured at actual cost. When construction in progress is ready for its intended use, all actual costs incurred are transferred into fixed assets. When construction in progress is ready for its intended use but the actual cost is not yet determined, the estimated cost according to the construction budget or actual costs incurred up to the date when the construction in progress is ready for its intended use should be transferred into fixed asset and depreciated according to the company's accounting policy. The cost of the fixed asset will be adjusted when the actual cost of the fixed asset is determined, however, no adjustments will be made with regard to the amount depreciated since the construction in progress is transferred into fixed asset.

The impairment loss assessment method and provision method of construction in progress is detailed at Note IV.19 "Impairment loss on non-current assets".

**IV. Significant accounting policies and accounting estimates (Continued)**

**16. Borrowing costs**

Borrowing costs include loan interests, discount or premium amortization, other supplementary costs and certain foreign exchange differences that occurred from the borrowings in foreign currencies. Borrowing costs incurred directly attributable to the acquisition and construction of a qualifying asset is capitalized as part of the cost of the asset, borrowing costs are started to be capitalized when expenditures for the qualifying asset have been incurred, borrowing costs have been incurred and the activities relating to the acquisition and construction that are necessary to prepare the asset for its intended use have commenced. The capitalization ceases when the qualifying assets are ready for its intended use or at a state that is saleable. Other borrowing costs are recognized in current profit or loss.

Borrowing costs arising from specific borrowings is capitalized after deducting any interest income earned from depositing the unused specific borrowings in the banks or any investment income arising on the temporary investment of those borrowings. For general borrowings, the amount of borrowing costs eligible for capitalization is determined by applying the weighted average effective interest rate of general borrowings, to the weighted average of the excess amount of cumulative expenditures on the asset over the amount of specific borrowings. The capitalization rate is calculated based on the weighted average effective interest rate.

During the capitalization period, exchange differences related to specific borrowings denominated in foreign currency are capitalized as part of the cost of the qualifying asset. Exchange differences related to general borrowings denominated in foreign currency are recognized in current profit or loss.

Qualifying assets represent fixed assets, investment properties, inventories etc. that necessarily take a substantial period of time to get ready for their intended use or sale.

Capitalization of borrowing costs is suspended during periods in which the acquisition or construction of a fixed asset is interrupted abnormally and the interruption lasts for more than 3 months, until the acquisition or construction is resumed.

**IV. Significant accounting policies and accounting estimates (Continued)****17. Intangible assets****(1) Intangible assets**

An intangible asset is an identifiable non-monetary asset without physical substance owned or controlled by the Company.

Intangible assets are initially stated at cost. Outgoings related to intangible assets are recognized as cost of intangible assets if it is probable that future economic benefits attributable to the asset will flow to the Company and the amount of outgoings can be measured reliably. Otherwise, the outgoings are expensed in profit or loss as incurred.

Land use rights acquired are usually accounted for as intangible assets. Cost of self-constructed buildings and structures and the relevant land use rights are separately accounted for as fixed assets and intangible assets. If the buildings and structures are acquired, the consideration for acquisition shall be apportioned between land use rights and buildings, if the consideration cannot be apportioned reasonably; both the land use rights and buildings are accounted for as fixed assets.

Intangible assets with finite useful lives are amortized at cost less residual value and accumulated impairment using the straight-line method over their useful lives since it is ready for use. Intangible assets with infinite useful life would not be amortized.

For an intangible asset with a finite useful life, the useful life and amortization method are reviewed at each year-end, relevant adjustments will be regarded as a change in accounting estimates. In addition, intangible asset with an infinite useful life are reviewed, if there are objective evidence that the economic benefit derived from the intangible asset is finite, then the life of that intangible asset would be estimated and it would be amortized in accordance with the accounting policies in relation to intangible assets with finite useful life.

**(2) Research and development**

The expenditure on an internal research and development project is classified into expenditure on the research phase and expenditure on the development phase.

Expenditure on the research phase is recognized in profit or loss in the period in which it is incurred.

Expenditure on the development phase is capitalized as intangible assets only if all of the following conditions are satisfied, expenditure on the development phase which cannot met all of the following conditions are recognized in current profit or loss:

**IV. Significant accounting policies and accounting estimates (Continued)**

**17. Intangible assets (Continued)**

**(2) Research and development (Continued)**

- (i) it is technically feasible to complete the intangible asset so that it will be available for use or sale;
- (ii) management intends to complete the intangible asset, and to use or sell it;
- (iii) it can be demonstrated how the intangible asset will generate economic benefits, including demonstrating that there is an existing market for products produced by the intangible asset or there is an existing market for the intangible asset itself, if the intangible asset is to be used internally, the usage of it can be demonstrated;
- (iv) there are adequate technical, financial and other resources to complete the development and the ability to use or sell the intangible assets; and
- (v) The expenditure attributable to the intangible asset during its development phase can be reliably measured.

Expenditures on research and development which cannot be distinguished between the research phase and development phase are recognized in profit or loss as incurred.

**(3) Impairment loss assessment and provision for intangible assets**

The impairment loss assessment method and provision method of intangible asset is detailed at Note IV.19 “Impairment on non-current assets”.

**18. Long-term deferred expenses**

Long term deferred expenses are expenditures that have been incurred but should be recognized as expenses over more than one year in the current and subsequent periods. Long term deferred expenses are amortized on the straight-line basis over the expected beneficial period, including:

- (1) Prepaid rental for operating lease, amortized over the lease term
- (2) Expenditures paid for improvement of fixed assets under operating lease, amortized over the lease term or remaining useful life of the asset, whichever is shorter.
- (3) Decoration that are qualified to be capitalized in relation to fixed asset acquired under finance lease, amortized over the remaining time until the next decoration, lease term or remaining useful life of the fixed asset, whichever is shorter.

For long-term deferred expenses which will not benefit the company in subsequent period, the carrying amount of the long-term deferred expenses is transferred to current profit and loss.

**IV. Significant accounting policies and accounting estimates (Continued)****19. Impairment on non-current assets**

At balance sheet date, the Company will assess whether there are any indications of impairment on non-current and non-financial assets such as fixed assets, construction in progress, intangible asset with finite useful life, investment properties accounted for using cost model, long-term equity investments in joint ventures and associates. If any indication exists that an asset may be impaired, the recoverable amount of the asset is estimated and impairment test will be performed. Impairment test will be performed on goodwill, intangible asset with infinite useful life and intangible asset which are not yet ready for use each year, regardless of whether any indications for impairment exist.

If the result of the impairment test indicates that the recoverable amount of an asset is less than its carrying amount, a provision for impairment and an impairment loss are recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and the present value of the future cash flows expected to be derived from the asset. Fair value of an asset is determined based on the transaction amount in arm's length transaction; when there are no transactions but has an active market for the asset, the fair value is determined based on the bid price in the market; when there no transactions and active market for the asset, the fair value is estimated based on the best information available. Costs to sell include legal fee, taxes, logistics charges and other expenses that incurred directly to bring the asset to saleable condition. Present value of the future cash flows expected to be derived from the asset is calculated by discounting the expected future cash flows from continuous use of the asset and disposal of the asset using an appropriate discount rate. Provision for asset impairment is determined and recognized on the individual asset basis. If it is not possible to estimate the recoverable amount of an individual asset, the recoverable amount of a group of assets to which the asset belongs is determined. A group of assets is the smallest group of assets that is able to generate independent cash inflows.

When performing impairment test on goodwill that is separately presented in the financial statements, the carrying value of goodwill is allocated to the related asset groups or groups of asset groups which are expected to benefit from the synergies of the business combination. If the result of the test indicates that the recoverable amount of an asset group or group of asset groups, including the allocated goodwill, is lower than its carrying amount, the corresponding impairment loss is recognized. The impairment loss is first deducted from the carrying amount of goodwill that is allocated to the asset group or group of asset groups, and then deducted from the carrying amounts of other assets within the asset groups or groups of asset groups in proportion to the carrying amounts of assets other than goodwill.

Once the above asset impairment loss is recognized, it will not be reversed for the value recovered in the subsequent periods.

**IV. Significant accounting policies and accounting estimates (Continued)**

**20. Provision**

Provision is made when there is an obligation in relation to contingent events and the following conditions are met:

- (1) the Company has a present obligation
- (2) it is probable that an outflow of economic benefits will be required to settle the obligation
- (3) The amount of the obligation can be measured reliably.

At balance sheet date, a provision is measured at the best estimate of the expenditures required to settle the related present obligation. Factors surrounding a contingency, such as the risks, uncertainties and the time value of money, are taken into account as a whole in reaching the best estimate of a provision.

If the expenditures required to settle the provision is expected to be wholly or partially compensated by third party, and the compensation is expected to be received, the compensation is recognized as asset but should exceed the carrying amount of the provision.

**21. Revenue**

**(1) Revenue from sales of goods**

Revenue from sales of goods are recognized when the risk and reward of ownership of goods is transferred to the buyer, the Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold, and it is probable that the economic benefit associated with the transaction will flow to the Company and the relevant revenue and costs can be measured reliably.

**(2) Revenue from the rendering of services**

On the balance sheet date, when the outcome of rendering of services could be measured reliably, related revenue from rendering of services is recognized according to the percentage of completion. Total revenue for the rendering of services is determined according to amounts stipulated in contracts or agreements received or receivable by the service provider, unless such amounts are deemed unfair.

The outcome of rendering of services can be measured reliably when all of the following conditions are met:

- (i) The amount of revenue can be measured reliably;
- (ii) It is probable that the economic benefit associated with the transaction will flow to the Company

**IV. Significant accounting policies and accounting estimates (Continued)****21. Revenue (Continued)****(2) Revenue from the rendering of services (Continued)**

- (iii) The percentage of completion of service can be measured reliably
- (iv) The cost incurred and to be incurred for rendering the service can be measured reliably.

When the outcome of rendering of services could not be measured reliably, when the costs incurred are expected to be recovered, revenues are recognized to the extent that the costs incurred that are expected to be recovered, and an equivalent amount is charged to profit or loss as service cost; when the costs incurred are not expected to be recovered, the costs incurred are recognized in profit or loss and no service revenue is recognized.

**(3) Revenue from construction contracts**

On the balance sheet date, when the outcome of construction contracts could be measured reliably, related revenue and cost for the construction contract is recognized according to the percentage of completion.

The outcome of construction contract can be measured reliably when all of the following conditions are met:

- (i) The amount of total contract sum can be measured reliably;
- (ii) It is probable that the economic benefit associated with the contract will flow to the Company
- (iii) The actual contract cost incurred can be clearly distinguished and measured reliably
- (iv) The percentage of completion of the contract and the cost expected to be incurred in order to complete the contract can be measured reliably

When the outcome of a construction contract could not be measured reliably, but the contract cost incurred is recoverable, revenues are recognized to the extent that the actual costs incurred that are expected to be recovered, and an equivalent amount is charged to profit or loss as contract cost; when the costs incurred are not recoverable, the costs incurred are recognized in profit or loss and no contract revenue is recognized. When the factor that causes the outcome of construction contract does not exist anymore, the relevant revenue and cost of construction contract is recognized based on percentage of completion.

When the expected total contract cost exceeds the expected total contract revenue, the expected loss shall be recognized in current profit and loss.

**IV. Significant accounting policies and accounting estimates (Continued)**

**21. Revenue (Continued)**

**(4) Revenue from transfer of asset use rights**

The revenue is recognized on accrual basis based on the relevant contract or agreement.

**(5) Interest income**

Interest income is measured based on the time and effective interest rates for the Company to transfer the right to use its cash.

**22. Government Grant**

Government grants are transfers of monetary or non-monetary assets from the government to the Company at nil consideration, except for the investment made to the Company by the government at a capacity of an owner. Government grant can be classified as asset-related government grant and income-related government grant.

When government grants are received in the form of monetary assets, they are measured at the amount received or receivable. When the grant is in the form of non-monetary assets, it is measured at fair value. When fair value cannot be measured reliably, it is measured at a nominal amount. Government grant measured at nominal amount are recognized in the current profit or loss.

Asset-related government grant is recognized as deferred income and is amortized evenly in profit or loss over the useful lives of related assets. For government grants related to income, where the grant is a compensation for related expenses or losses to be incurred by the Company in the subsequent periods, the grant shall be recognized as deferred income, and recognized in profit or loss in the periods in which the related costs are recognized; where the grant is a compensation for related expenses or loss already incurred by the Company, the grant shall be recognized immediately in profit or loss for the current year.

When the government grant previously recognized are needed to be repaid, the carrying amount of deferred income in relation to the government grant shall be reversed, when the amount of repayment exceeds the carrying amount of deferred income, the excess shall be recognized in profit or loss. When there are balances of deferred income relating to the government grant, the amount of repayment are directly recognized in profit or loss.

**IV. Significant accounting policies and accounting estimates (Continued)****23. Deferred tax assets/ deferred tax liabilities****(1) Current income tax**

At balance sheet date, current tax payables (or recoverable) in relation to current or prior period are calculated based on the amount of expected income tax payable (or recoverable) under applicable tax laws. Current tax expense is calculated based on taxable income which is adjusted from current accounting profit before tax under applicable tax laws.

**(2) Deferred tax assets and deferred tax liabilities**

Deferred tax assets and liabilities are calculated and recognized based on the temporary difference arising between the tax bases of assets and liabilities and their carrying amounts.

No deferred tax liability is recognized for a temporary difference arising from the initial recognition of goodwill. No deferred tax liability is recognized for the taxable temporary differences resulting from the initial recognition of assets or liabilities due to a transaction other than a business combination, which affects neither accounting profit nor taxable profit (or deductible loss). Deferred tax liabilities are not recognized for taxable temporary differences arising from investments in subsidiaries, joint ventures and associates if the Company is able to control the timing of the reversal of the temporary difference, and it is probable that the temporary difference will not reverse in the foreseeable future. Apart from the above exceptions, the Company recognizes deferred tax liabilities arising from all other taxable temporary differences.

No deferred tax asset is recognized for the deductible temporary differences resulting from the initial recognition of assets or liabilities due to a transaction other than a business combination, which affects neither accounting profit nor taxable profit (or deductible loss). Deferred tax assets are not recognized for deductible temporary differences arising from investments in subsidiaries, joint ventures and associates if it is probable that the temporary difference will not reverse in the foreseeable future, or it is not probable that taxable profit will be available in the future against which the deductible temporary differences can be utilized. Apart from the above exceptions, the Company recognizes deferred tax assets arising from all other deductible temporary differences to the extent that it is probable that taxable profit will be available in the future against which the deductible temporary differences can be utilized.

In respect of deductible losses and tax credits that can be carry forward to future years, deferred tax assets are only recognized for to the extent that it is probable that taxable profit will be available in the future against which the deductible losses and tax credits can be utilized.

**IV. Significant accounting policies and accounting estimates (Continued)**

**23. Deferred tax assets/ deferred tax liabilities (Continued)**

**(2) Deferred tax assets and deferred tax liabilities (Continued)**

At the balance sheet date, deferred tax assets and deferred tax liabilities are measured at the tax rates according to the applicable tax laws that are expected to apply to the period when the asset is realized or the liability is settled.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date. The carrying amount of a deferred tax asset is reduced when it is no longer probable that sufficient taxable profits will be available to allow the benefit of the deferred tax asset to be utilized. When it is probable that sufficient taxable profits will be available to allow the benefit of the deferred tax asset to be utilized, the previously written down amount shall be reversed.

**(3) Income tax expense**

Income tax expense comprises current income tax expense and deferred tax expense.

Apart from current tax and deferred tax arising from transactions and events related to other comprehensive income or shareholders' equity are recognized in other comprehensive income or directly in equity, and deferred tax arising from business combination which adjusts the carrying amount of goodwill, all other current income tax expense and deferred tax expense or income are recognized in current profit or loss.

**24. Leases**

A finance lease is a lease that transfers substantially all the risks and rewards incidental to ownership of an asset, the ownership of the asset may or may not transferred at the end of the lease. An operating lease is a lease other than a finance lease.

**(1) The company as a lessee in operating lease**

Operating lease rental expenses are recognized on straight line basis to relevant asset cost or current profit or loss. Direct cost at the inception of lease is recognized in profit or loss. Contingent rentals are recognized in profit or loss based on actual occurrence.

**IV. Significant accounting policies and accounting estimates (Continued)****24. Leases (Continued)****(2) The company as a lessor in operating lease**

Operating lease rental income is recognized in profit or loss on straight line basis. Material direct cost at the inception of lease is capitalized when incurred, and are amortized in profit or loss on the same basis as rental income over the lease term. Other initial direct costs with an insignificant amount are charged to profit or loss in the period in which they are incurred. Contingent rentals are recognized in profit or loss based on actual occurrence.

**(3) The company as a lessee in finance lease**

At the inception of lease, the leased asset is recorded at the lower of the fair value of the leased asset and the present value of the minimum lease payments. The difference between the recorded amount and the minimum lease payments is accounted for as unrecognized finance charge. In addition, direct cost in relation to the negotiation of the lease and signing of lease contract can be capitalized to the recorded amount of the leased asset. Minimum lease payments less unrecognized finance charge are presented in the balance sheet separately as long-term liability or long-term liability which due within one year.

Unrecognized finance charge is amortized using the effective interest method over the period of the lease. Contingent rentals are recognized in profit or loss based on actual occurrence.

**(4) The company as a lessor in finance lease**

At the inception of lease, the finance lease receivable is recognized as the sum of the minimum lease receipts and initial direct costs, at the same time recording the unguaranteed residual value; the difference between the sum of minimum lease receipts, initial direct costs and unguaranteed residual value and the sum of their present value are unrecognized interest income. Finance lease receivable less unrecognized interest income is presented in the balance sheet separately as long-term receivables and long-term receivables due within one year.

Unrecognized interest income is amortized using the effective interest method over the period of the lease. Contingent rentals are recognized in profit or loss based on actual occurrence.

**IV. Significant accounting policies and accounting estimates (Continued)**

**25. Classified held-to-maturity assets**

When a certain non-current asset can be sold immediately under the circumstances by the common practice, and the Company has passed a resolution to disposed an non-current asset, and has signed an irrevocable contract with transferee, and the transfer shall be completed within one year, then the non-current asset shall be accounted for as asset held for sale, which will not be depreciated or amortized starting from the date of re-classification, and is stated at the lower of its carrying amount or its fair value less costs to dispose. Non-current assets held for sale include individual asset and disposal group. If a disposal group is a group of asset, and goodwill arising from business combination is allocated to the group of asset in accordance with “Accounting standards for business enterprise 8 – Impairment of assets”, or the disposal group is an operation operating but such asset, then the disposal group includes goodwill arising from business combination.

Single non-current asset classified as available-for-sale asset or assets grouped in disposing group should be listed separately in Balance Sheet under Current Assets. Liabilities grouped in disposing group and those relating to transferring asset should be listed separately in Balance Sheet under Current Liabilities.

When an asset or disposal group previously recognized as assets held for sale no longer satisfy the conditions to be regarded as assets held for sale, the Company ceased to account for the asset as asset held for sale, and the asset is measured at the lower of:

- (1) The carrying amount of the asset or disposal group prior to be classified as assets held for sale, adjusted for depreciation, amortization or impairment as if they are never being classified as assets held for sale;
- (2) The recoverable amount of the asset or disposal group at the date where the decision of not disposing the asset or disposal group was made.

**IV. Significant accounting policies and accounting estimates (Continued)****26. Employee compensation**

Employee compensation of the Company mainly comprise short-term employee compensation, welfare post resignation, welfare post cancellation of the labor relationship, and other long-term compensation, including:

Short-term employee compensation include wage, bonus, allowances and subsidies, employee welfare expenditures, medical insurance expenditures, maternity insurance expenditures, work injury insurance expenditures, housing accumulation fund expenditures, labor union expenditures and employee education expenses, non-monetary welfare, etc. During the accounting period that an employee's providing services to the Company, The Company recognize the relative short-term employee compensation incurred as liabilities, and will account for in the current Profit & Loss or relative cost of asset. Non-monetary welfare will be measured by fair value.

Welfare post resignation mainly comprise of defined provision plan, which include basic endowment insurance, unemployment insurance. The relative payables will be accounted for in the relative cost of asset or the current Profit & Loss.

The relative employee compensation liabilities due to cancellation of labor relationship are recognized and taken into the current Profit & Loss, when the Company cancels the labor relationship with any employee prior to the expiration of the relevant labor contract, or brings forward any compensation proposal for the purpose of encouraging the employee to accept a layoff, on the earlier date between the date that Company cannot withdraw the relative compensation, or date that the Company recognize reconstruction of cost involving payment of compensation for the cancellation of the labor relationship with the employee.

Internal retirement plan adopts the same principles as the above mentioned compensation for the cancellation of the labor relationship with the employee. The Company account for the wage and social insurance payables incurred from the date the relative employee cease services to the Company to his/her date of expected retirement to the internally-retired employee into the current Profit & Loss (i.e. compensation for the cancellation of the labor relationship with the employee), when requirements for recognition of provision are met.

For the other long-term employee compensation meeting criteria of defined provision plan, relative defined plan accounting policies will be adopted; otherwise policies of defined benefit plan will be adopted.

**IV. Significant accounting policies and accounting estimates (Continued)**

**27. Profit distributions**

Dividends or distributions of profits proposed in the profit appropriation plan which will be considered and approved after the balance sheet date, are not recognized as a liability at the balance sheet date but disclosed in the notes separately.

**28. Segment Reports**

The Company determines the operating segments on the basis of internal structure, management requirements and internal reporting system, and determines reporting segments based on the operating segments. Two or more operating segments can be aggregated into one operating segment if the segments have similar economic characteristics and the segments are similar in each of the following respects:

- (1) the nature of each product and service;
- (2) the nature of production process;
- (3) the type or class of customers for their products and services;
- (4) the methods used to distribute their products or provide their services;
- (5) The influence brought by law, administrative regulations on production and provision of services.

**29. Changes in significant accounting policy and accounting estimates**

**(1) Changes in accounting policy**

There is no change in accounting policy in this reporting period.

**(2) Changes in accounting estimates**

The company has no changes in accounting e during the year.

**30. Prior period's adjustments**

The company has no prior period's adjustments for the year.

**V. Tax****1. Major types of tax and tax rates**

Types of tax	Tax base and tax rate
Value-added tax	17 % on taxable revenue after offsetting deductible input VAT
City maintenance and construction tax	5% or 7% on amount of turnover tax paid
Education surcharge	3% or 5% on amount of turnover tax paid
Enterprise income tax	25% on taxable income

**2. Tax concessions**

- (1) The profit tax rate for Northeast Electric (HK) Co., Ltd., a wholly owned subsidiary of the company registered in HKSAR of PRC is 16.5%.
- (2) Gaocai Technology Co., Ltd., a company wholly owned by the company's subsidiary – Northeast Electric (HK) Co., Ltd., was registered in the British Virgin Islands and no enterprise income tax is imposed on it.

**3. Other explanations**

Shenyang Kaiyi Electric., Co., Ltd., a subsidiary of the company, is subject to the verification and collection of enterprise income tax.

## Notes to the Financial Statements (Continued)

For the year ended 31 December 2016 (Prepared in accordance with P.R.C. Accounting Rules and Regulations)

### VI. Notes to Consolidated Financial Statements

Unless otherwise specified, 'beginning of period' refers to January 1, 2016, 'end of period' refers to December 31, 2016, 'last year' refers to Year 2015, 'this year' refers to Year 2016 in the following notes (including Notes to the Company's Financial Reports).

#### 1. Cash and deposits

Item	December 31, 2016	December 31, 2015
Cash on hand	2,884.63	3,840.46
Bank deposits	24,790,336.81	101,586,492.51
Other cash equivalents	2,807,150.00	21,826,830.22
<b>total</b>	<b>27,600,371.44</b>	<b>123,417,163.19</b>
Incl: total overseas deposits.	398,194.42	407,555.60

#### Remark:

- (1) By the end of year RMB2,304,291.23 in Xinjinrong's bank account was freeze by the Court for unpaid due payment, and such bank account has a total of frozen amount of RMB5,080,750.00
- (2) Other cash and deposit amounting to RMB 2,767,150.00 is the security deposits for performance guarantee deposited in a designated bank, and RMB40 million is deposits for Bank Acceptance Notes. All of the above security deposits mature over three months.
- (3) Overseas deposits represent deposits with banks in HongKong, which are not restricted.

#### 2. Notes receivables

##### (1) Classification of notes receivables

Types	December 31, 2016	December 31, 2015
Bankers' acceptance notes	2,200,000.00	2,109,500.00
Commercial acceptance notes	418,650.00	-
<b>Total</b>	<b>2,618,650.00</b>	<b>2,109,500.00</b>

##### (2) Notes endorsed and not matured by report date

Item	De-recognized amount by end of year	Non-Derecognized amount by end of year
Bankers' acceptance notes	4,595,245.00	-
Commercial acceptance notes	-	-
<b>Total</b>	<b>4,595,245.00</b>	<b>-</b>

## VI. Notes to Consolidated Financial Statements (Continued)

## 2. Notes receivables (Continued)

(3) At the end of reporting period, Fuxin Enclosed Busbar – subsidiary of the Company has pledged RMB1.9 million to Bank of China Fuxin Branch for issuance of Bank Acceptance Notes.

## 3. Accounts receivable

(1) Accounts receivable by categories are analyzed as follows:

Type	Balance at end of Year				Book value
	Carrying amount		Bad-debt provision		
	Percentage		Percentage		
	Amount	(%)	Amount	(%)	
Individually significant and subject to separate provision	-	-	-	-	-
Subject to provision by groups with risk characteristics					
Aging combination	160,922,677.73	100.00	24,845,885.39	15.44	136,074,792.34
Sub-total	160,922,677.73	100.00	24,845,885.39	15.44	136,074,792.34
Individually significant and subject to separate provision	-	-	-	-	-
<b>Total</b>	<b>160,922,677.73</b>	<b>100.00</b>	<b>24,845,885.39</b>	<b>15.44</b>	<b>136,074,792.34</b>

(Cont'd)

Type	Balance at beginning of Year				Book value
	Carrying amount		Bad-debt provision		
	Percentage		Percentage		
	Amount	(%)	Amount	(%)	
Individually significant and subject to separate provision	-	-	-	-	-
Subject to provision by groups with risk characteristics					
Aging combination	160,28,985.49	100.00	26,274,831.49	16.39	134,014,154.00
Sub-total	160,28,985.49	100.00	26,274,831.49	16.39	134,014,154.00
Individually significant and subject to separate provision	-	-	-	-	-
<b>Total</b>	<b>160,28,985.49</b>	<b>100.00</b>	<b>26,274,831.49</b>	<b>16.39</b>	<b>134,014,154.00</b>

## Notes to the Financial Statements (Continued)

For the year ended 31 December 2016 (Prepared in accordance with P.R.C. Accounting Rules and Regulations)

### VI. Notes to Consolidated Financial Statements (Continued)

#### 3. Accounts receivable (Continued)

- (2) Accounts receivables that the related provisions for bad debts using the Aging Analysis Method are analyzed as follows:

Age of Account	Balance at end of Year		
	Accounts Receivable	Bad-debt provision	Percentage (%)
Within 1 year	44,001,279.81	-	-
1 – 2 years	86,626,874.36	-	-
2 – 3 years	7,208,804.13	2,883,521.66	40
3 – 4 years	2,803,389.25	1,682,033.55	60
Over 4 years	20,280,330.18	20,280,330.18	100
<b>Total</b>	<b>160,920,677.73</b>	<b>24,845,885.39</b>	<b>15.44</b>

- (3) Details of annual allotment, retrieval and reversal of provision

In this reporting period, total of RMB1,058,677.50 bad debt provision has been accrued, RMB1,363,955.60 worth of bad debt provision has been transferred to subsidiary.

- (4) At end of period, there was total of RMB1,123,688 of Accounts Receivable balance.
- (5) There are no write-off of trade receivables during the reporting period. There are no receivables from shareholders holding 5% or above voting shares of the company.
- (6) The five largest accounts receivable are listed as follows:

Name of company	Relationship	Amount	Age	Percentage to	
				total Accounts Receivable (%)	Balance of Bad Debt Provision
Shenyang Kaidi Insulation Technology Co. Ltd.	Non-related	38,233,391.79	Within 3 year	23.76	160,784.32
Yingkou Hongyue Machinery Co. Ltd.	Non-related	36,572,119.90	Within 2 year	22.73	-
Yingkou Chongzheng Electric Equipment Co. Ltd.	Non-related	26,848,135.23	Within 3 year	16.68	337,020.40
China State Grid Int'l Trade Co.	Non-related	4,032,000.00	Within 1 year	2.51	-
Shenhua Guohua Shouguang Power Co. Ltd.	Non-related	3,050,000.00	Within 2 year	1.90	-
<b>Total</b>		<b>108,735,646.92</b>		<b>67.58</b>	<b>497,804.72</b>

## VI. Notes to Consolidated Financial Statements (Continued)

## 4. Prepayments

## (1) Prepayments are listed by ages:

Age of Account	Balance at end of Year		Balance at beginning of Year	
	Amount	Percentage (%)	Amount	Percentage (%)
Within 1 year	533,590.52	98.20	384,863.12	99.85
1 - 2 years	9,174.01	1.69	587.68	0.15
2 - 3 years	587.68	0.11	-	-
<b>Total</b>	<b>543,352.21</b>	<b>100.00</b>	<b>385,450.80</b>	<b>100.00</b>

## (2) Companies with outstanding significant balance in Prepayment as of Dec. 31, 2016

Name of company	Relations	Amount	Age	Reason for unsettlement
Fuxin Heating Corporation	Non-related	267,591.26	Within 1 year	Prepayment for heating
Liaoning Power Corp. Fuxin Power Plant	Non-related	111,939.06	Within 1 year	Prepayment for electricity
Renqiu Datian Electric Co.	Non-related	100,450.00	Within 1 year	Prepayment of goods
<b>Total</b>		<b>479,980.32</b>		

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

## Notes to the Financial Statements (Continued)

For the year ended 31 December 2016 (Prepared in accordance with P.R.C. Accounting Rules and Regulations)

### VI. Notes to Consolidated Financial Statements (Continued)

#### 5. Other receivables

##### (1) Other receivables by categories are analyzed as follows:

Type	Balance at end of Year				
	Carrying Amount		Bad-debt provision		Book value
	Percentage		Percentage of		
	Amount	(%)	Amount	provision (%)	
Individually significant and subject to separate provision	142,627,757.72	88.26	87,721,226.72	61.50	54,906,531.00
Subject to provision by risk groups	-	-	-	-	-
Aging combination	18,963,496.37	11.74	2,845,097.13	15.00	16,118,399.24
Sub-total	18,963,496.37	11.74	2,845,097.13	15.00	16,118,399.24
Individually insignificant but subject to separate provision	-	-	-	-	-
<b>Total</b>	<b>161,591,254.09</b>	<b>100.00</b>	<b>90,566,323.85</b>	<b>56.05</b>	<b>71,024,930.24</b>

(Cont'd)

Type	Balance at beginning of Year				
	Carrying Amount		Bad-debt provision		Book value
	Percentage		Percentage of		
	Amount	(%)	Amount	provision (%)	
Individually significant and subject to separate provision	87,721,293.96	90.19	87,721,293.96	100.00	-
Subject to provision by risk groups	-	-	-	-	-
Aging combination	9,541,409.10	9.81	2,481,565.54	26.01	7,059,843.56
Sub-total	9,541,409.10	9.81	2,481,565.54	26.01	7,059,843.56
Individually insignificant but subject to separate provision	-	-	-	-	-
<b>Total</b>	<b>97,262,703.06</b>	<b>100.00</b>	<b>90,202,859.50</b>	<b>92.74</b>	<b>7,059,843.56</b>

## VI. Notes to Consolidated Financial Statements (Continued)

## 5. Other receivables (Continued)

## (2) Other accounts receivable with significant balance at end of year that bad debt provision individually prepared

Other accounts receivable	Balance at end of year			
	Other receivables	Bad debt provision	Rate of provision	Reason
Benxi Steel Group Corp.	76,090,000.00	76,090,000.00	100%	See Note VI.5.(9)a
Jinzhou Power Capacitor Co Ltd.	11,631,226.72	11,631,226.72	100%	See Note VI.5.(9)b
Northeast Electric (Beijing) Co Ltd.	54,906,531.00	-	Nil	See Note VI.5.(9)c
<b>Total</b>	<b>142,627,757.72</b>	<b>87,721,226.72</b>		

## (3) Other receivables that the related provisions for bad debts is provided on grouping basis using the Aging Analysis Method are analyzed as follows:

Age of receivables	Balance at end of Year		
	Other receivables	Bad-debt provision	Percentage of provision (%)
Within 1 year	14,025,250.34	-	-
1 -2 years	1,547,137.91	-	-
2 - 3 years	872,269.03	348,907.61	40.00
3 - 4 years	56,623.93	33,974.36	60.00
Over 4 years	2,462,215.16	2,462,215.16	100.00
<b>Total</b>	<b>18,963,496.37</b>	<b>2,845,097.13</b>	<b>15.00</b>

## (4) Details of annual allotment, retrieval and reversal of provision

Total of RMB543,367.55 has been accrued for this period, with RMB0 retrieved or reversed. Transferred to subsidiary RMB179,903.20.

## (5) There are no write-off of other receivables during the reporting period.

## (6) Details of Other receivables from shareholders holding 5% or above voting shares of the Company see Note X.6.

## Notes to the Financial Statements (Continued)

For the year ended 31 December 2016 (Prepared in accordance with P.R.C. Accounting Rules and Regulations)

### VI. Notes to Consolidated Financial Statements (Continued)

#### 5. Other receivables (Continued)

##### (7) Other receivables categorized by nature are as follows:

Nature	Amount at end of period	Amount at beginning of period
Lawsuits(See Note VI 5 (9))	76,690,000.00	76,090,000.00
Receivables from sale of subsidiary (see Note VI 5 (9))	54,906,531.00	-
Current Account	23,792,648.39	14,736,437.50
Deposits for Bidding	5,814,178.42	3,914,477.42
Other	387,896.28	2,521,788.14
<b>Total</b>	<b>161,591,254.09</b>	<b>97,262,703.06</b>

##### (8) Top 5 of Other Receivables:

Name of company	Relations	Amount	Age	Percentage in total other receivables (%)	Balance of Bad-debt provision
Benxi Steel (Group) Co. Ltd	Non-related	76,090,000.00	Over 4 years	47.09	76,090,000.00
	Previous subsidiary				
Northeast Electric (Beijing) Co Ltd	Previous subsidiary	54,906,531.00	Over 2 years	33.98	-
Jinzhou Power Capacitor Co. Ltd.	Non-related	11,631,226.72	Over 4 years	7.20	11,631,226.72
Jiangsu Disheng Silian New Energy Investment Ltd.	Non-related	5,000,000.00	Within 1 year	3.09	-
State Grid Materials Ltd.	Non-related	2,594,000.00	Within 1 year	1.61	-
<b>Total</b>		<b>150,221,757.72</b>		<b>92.97</b>	<b>87,721,226.72</b>

## VI. Notes to Consolidated Financial Statements (Continued)

## 5. Other receivables (Continued)

## (9) Nature or contents of other receivables of significant amount:

- A. By end of the year, principal owed from Benxi Steel (Group) Co., Ltd.(referred as Ben Steel) of RMB76,090,000.00 is included in other receivables, which receivables occurred in May and September 2005, by Liaoning Trust & Investment Co. (hereinafter referred to as Liao Trust) repaying principals of RMB74,424,671.45 deposited with them by the company with their receivables from Ben Steel of RMB76,090,000.00 by the approval related governments in Liaoning Province. The company has taken receivables from Ben Steel into other receivables, surplus to the original deposit has been taken into bad debt provision. On Dec. 16, 2005, High Court of Liaoning Province has made ultimate ruling (No. (2005) Liao Min Er Zhong Zi Di 220), that Ben Steel had owed the company RMB15,900,000.00 and related interest. The company had applied for Enforcement. As a result Intermediate Court of Shenyang has established the case and delivered Enforcement Notice to Ben Steel on Mar. 10, 2006. On Mar. 30, 2006, The Intermediate Court of Shenyang has made first ruling concerning the remaining principals by Rulings Nos. of (2005) Shen Zhong Min Si He Chu Zi Di 21, 22 and 23, that Ben Steel should repay the company principal of RMB60,190,000.00 and related interest. 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 ordered retry of the case to Shenyang City Medium 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 Medium 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 No (2010)Min Shen Zi Di 1144, 1145 and 1146 on Dec. 13 2010, overruled retrial appeal of the Company. Since the other receivable is long outstanding and the chance of recovery is remote, the company has made a provision in full for this other receivable.
- B. By end of period there are receivables due from Jinzhou Power Capacity Co. Ltd of RMB 17,941,821.51. The Company has made full amount of provision due to unhealthy financial position and no operation activities of Jinzhou Power Capacity Co. Ltd.
- C. Receivables from Xintai (Liaoning) Precision Equipment Co. Ltd. Are payment for vehicles by Kaiyi Electric - a subsidiary of the Company.

## Notes to the Financial Statements (Continued)

For the year ended 31 December 2016 (Prepared in accordance with P.R.C. Accounting Rules and Regulations)

### VI. Notes to Consolidated Financial Statements (Continued)

#### 6. Inventories

##### (1) Classification of inventories

Item	Balance at end of Year		
	Book balance	Provision for decline in value	Book value
Raw material	13,376,704.88	4,554,586.24	8,822,118.64
Work in progress	6,654,640.50	2,253,751.70	4,400,888.80
Finished goods	9,434,775.30	7,666,198.88	1,768,576.42
<b>Total</b>	<b>29,466,120.68</b>	<b>14,474,536.82</b>	<b>14,991,583.86</b>

(Cont'd)

Item	Balance at beginning of Year		
	Book balance	Provision for decline in value	Book balance
Raw material	14,737,707.31	796,257.45	13,941,449.86
Work in progress	5,292,476.45	422,258.63	4,870,217.82
Finished goods	13,616,492.16	4,246,845.51	9,369,646.65
<b>Total</b>	<b>33,646,675.92</b>	<b>5,465,361.59</b>	<b>28,181,314.33</b>

##### (2) Provisions for decline in value

Item	Balance at beginning of Year	Increase of provision during the period		Decrease of provision during the period		Balance at beginning of Year
		Provision	Other	Reverse/Write off	Other	
Raw material	796,257.45	3,758,328.79	-	-	-	4,554,586.24
Finished goods	4,246,845.51	1,831,493.07	-	293,955.99	-	5,784,382.59
Work in Progress	422,258.63	3,713,309.36	-	-	-	4,135,567.99
<b>Total</b>	<b>5,465,361.59</b>	<b>9,303,131.22</b>	<b>-</b>	<b>293,955.99</b>	<b>-</b>	<b>14,474,536.82</b>

##### (3) Analysis for provisions for decline in value and its reversal

Item	Basis for provisions	Reason for reversal of provision during the period	Ratio of reversed amount to relative balance of inventory at end of Year
Raw material	Net realizable value lower than cost	-	-
Finished goods	Net realizable value lower than cost	Decline provision transferred when sold	16.62%
Work in Progress	Net realizable value lower than cost		

## VI. Notes to Consolidated Financial Statements (Continued)

## 7. Other Current Assets

Item	Balance at end of year	Balance at beginning of year	Notes
Rental expenses	995,992.85	1,016,618.01	-
Property insurance premium	-	25,986.51	-
Input taxes to be confirmed	14,504.84	-	-
Value-added taxes	1,399,633.76	-	-
<b>Total</b>	<b>2,410,131.45</b>	<b>1,042,604.52</b>	

*Note:*

Increased value-added taxes by end of year is Fuxin Enclosed's purchase of equipment last year which value-added tax invoice is received this fiscal year; thus the relative tax is on the debit side. Balances of Rental expenses are prepaid leases for land, buildings and equipment.

## 8. Available-for-sale financial assets

## (1) Details of available-for-sale financial assets

Item	December 31, 2016			December 31, 2015		
	Provision for			Provision for		
	Book balance	decline in value	Book value	Book balance	decline in value	Book value
Available-for-sale liability	-	-	-	-	-	-
Available-for-sale equity	81,850,957.56	26,776,203.32	55,074,754.24	77,242,503.69	7,795,821.84	69,446,681.85
Incl.: measured by fair value	-	-	-	-	-	-
Measured by cost	81,850,957.56	26,776,203.32	55,074,754.24	77,242,503.69	7,795,821.84	69,446,681.85
Other	-	-	-	-	-	-
<b>Total</b>	<b>81,850,957.56</b>	<b>26,776,203.32</b>	<b>55,074,754.24</b>	<b>77,242,503.69</b>	<b>7,795,821.84</b>	<b>69,446,681.85</b>

## Notes to the Financial Statements (Continued)

For the year ended 31 December 2016 (Prepared in accordance with P.R.C. Accounting Rules and Regulations)

### VI. Notes to Consolidated Financial Statements (Continued)

#### 8. Available-for-sale financial assets (Continued)

(2) There's no available-for-sale financial assets measured by fair value by end of period.

(3) Available-for-sale financial assets measured by cost

Company invested	Balance on book			Provision			Cash Share dividend percentage held (%)	for the year		
	Balance at beginning of year	Increase in the year	Decrease in the year	Balance at end of year	Balance at beginning of year	Increase in the year			Decrease in the year	
Shenyang Zhaoli High Voltage Electric Equipment Co Ltd	77,242,503.69	4,608,453.87	-	81,850,957.56	7,795,821.84	18,980,381.48	-	26,776,203.32	6.90	-
<b>Total</b>	<b>77,242,503.69</b>	<b>4,608,453.87</b>	<b>-</b>	<b>81,850,957.56</b>	<b>7,795,821.84</b>	<b>18,980,381.48</b>	<b>-</b>	<b>26,776,203.32</b>		<b>-</b>

(4) Change to impairment on available-for-sale assets for the year

Classification of available-for-sale assets	available-for-sale equity	available-for-sale liabilities	Total
Balance of provision allocated at beginning of year	7,795,821.84	-	7,795,821.84
Increment	18,980,381.48	-	18,980,381.48
Inclu: transfer from other comprehensive income	1,164,105.78	-	1,164,105.78
Decrement	-	-	-
Incl: reversal due to rise in fair value after date	-	-	-
Balance of provision allocated at end of year	26,776,203.32	-	26,776,203.32

(5) Notes to available-for-sale financial assets

- (i) Increment of book value and bad debt provision in the period is due to foreign currency translation difference resulting from changes in exchange rates.
- (ii) Increase in impairment is due to increment to the provision for impairment of RMB17,816,275.70, variation of foreign exchange rates resulted in increase of RMB1,164,105.78 in reports recorded in foreign currency.
- (iii) Shenyang Zhaoli High-voltage Electric Equipment Co Ltd is a non-listed company set up in Shenyang, P.R.C.

## VI. Notes to Consolidated Financial Statements (Continued)

## 9. Long-term equity investments

## (1) Classification of long-term equity investments

Parties receiving investment	Balance at beginning of year	Increase/decrease during the year				
		Increase in investment	Decrease in investment	Profit/loss for investment by Method of Equity	Adjustment to other comprehensive income	Other change to equity
I. Associates						
WeiDa High-voltage Electric Co. Ltd.	41,020,089.96	-	-	-8,186.51	3,722,549.43	-
<b>Total</b>	<b>41,020,089.96</b>	<b>-</b>	<b>-</b>	<b>-8,186.51</b>	<b>3,722,549.43</b>	<b>-</b>

(Cont'd)

Parties receiving investment	Increase/decrease during the year			Balance at beginning of year	Balance of Provision for decline in value at end of Year
	Cash dividend declared/or profit	Provision for decline in value	Other		
I. Associates					
WeiDa High-voltage Electric Co. Ltd.	-	19,734,452.88	-	25,000,000.00	33,724,276.08
<b>Total</b>	<b>-</b>	<b>19,734,452.88</b>	<b>-</b>	<b>25,000,000.00</b>	<b>33,724,276.08</b>

**Remark:**

The invested entities are non-listed companies established in British Virgin Islands.

## Notes to the Financial Statements (Continued)

For the year ended 31 December 2016 (Prepared in accordance with P.R.C. Accounting Rules and Regulations)

### VI. Notes to Consolidated Financial Statements (Continued)

#### 9. Long-term equity investments (Continued)

##### (2) Investment to associates

Investee	Type of enterprise	Place of registration	Legal representative	Nature of business	Capital	Percentage of share held by the Company (%)	Voting percentage in Investee by the Company (%)
Weida High-Voltage Electric Co., Ltd	Limited company	British Virgin Islands	LoYuet	Investment/ share holding	USD12,626	20.80	20.80

(Cont'd)

Investee	Total asset by end of Year	Total liability by end of Year	Total net asset by end of Year	Total operating income for the Year	Net profit for the Year	Organization Relations	Organization Code
Weida High-Voltage Electric Co., Ltd							

##### (3) Provision for impairment on long-term equity investment

Item	Balance at beginning of Year	Increment	Decrement	Balance at end of Year
Weida High-voltage Electric Co., Ltd	13,989,823.20	19,734,452.88	-	33,724,276.08
<b>Total</b>	<b>13,989,823.20</b>	<b>19,734,452.88</b>	<b>-</b>	<b>33,724,276.08</b>

##### Remark:

Increase in Provision for impairment of long-term equity investment for the year include provision of RMB17,974,823.40, and the rest of RMB1,759,629.48 is due to difference resulted by foreign exchange rates variation.

#### 10. Fixed Assets

##### (1) Fixed assets

Item	Buildings	Machinery & equipment	Motor vehicles & others	Total
<b>I. Carrying amount</b>				
1. Balance at beginning of Year	48,193,147.57	90,274,026.02	20,222,768.18	158,689,941.77
2. Increment for the Year	184,000.00	4,936.75	669,807.43	858,744.18
(1) Purchase	184,000.00	4,936.75	669,807.43	858,744.18

## VI. Notes to Consolidated Financial Statements (Continued)

## 10. Fixed Assets (Continued)

## (1) Fixed assets (Continued)

Item	Buildings	Machinery & equipment	Motor vehicles & others	Total
(2) Transferred from Construction in progress	-	-	-	-
3. Decrement for the Year	184,000.00	21,103,576.97	5,957,365.72	27,244,942.69
(1) Disposal or write-off	184,000.00	21,103,576.97	5,957,365.72	27,244,942.69
(2) Transferred to Construction in progress	-	-	-	-
4. Balance at end of Year	48,193,147.57	69,175,385.80	14,935,209.89	132,303,743.26
<b>II. Accumulated depreciation</b>				
1. Balance at beginning of Year	35,750,165.97	49,222,005.88	13,106,725.03	98,078,896.88
2. Increment	768,969.36	4,803,506.00	1,186,850.82	6,759,056.19
(1) Provision	768,969.36	4,803,506.00	1,186,850.82	6,759,056.19
3. Decrement	-	13,263,610.05	4,534,905.58	17,798,515.63
(1) Disposal or write-off	-	13,263,610.05	4,534,905.58	17,798,515.63
(2) Transferred to Construction in Progress	-	-	-	-
4. Balance at end of Year	36,519,135.34	40,761,901.83	9,758,400.27	87,039,437.44
<b>III. Provision for Impairment</b>				
1. Balance at beginning of Year	-	1,509,984.95	317,644.79	1,827,629.74
2. Increment	-	8,664,746.13	46,142.00	8,710,888.13
(1) Provision	-	8,664,746.13	46,142.00	8,710,888.13
3. Decrement	-	7,118,835.71	-	7,118,835.71
(1) Disposal or write-off	-	7,118,835.71	-	7,118,835.71
<b>4. Balance at end of Year</b>	-	<b>3,055,895.37</b>	<b>363,786.79</b>	<b>3,419,682.16</b>
<b>IV. Book balance</b>				
1. Book balance at end of Year	11,674,012.23	25,357,588.60	4,813,022.83	41,844,623.66
2. Book balance at beginning of Year	12,442,981.60	39,542,035.19	6,798,398.36	58,783,415.15

**Remark:**

Total depreciation during the period is RMB6,763,869.24.

## VI. Notes to Consolidated Financial Statements (Continued)

## 10. Fixed Assets (Continued)

## (2) Fixed assets with restricted ownership

As at 31 December 2016, buildings with net book value of RMB3,867,425.22 are pledged to Bank of China, Fuxin Branch by Fuxin Enclosed Busbar Co., Ltd. - a subsidiary of the Company - for a loan of RMB 9million.

(3) During the reporting period, fixed assets expected no longer in use are transferred into Disposal of fixed assets.

(4) There is no fixed asset acquired under financial lease during the reporting period.

(5) There is no fixed asset leased out under operating lease during the reporting period.

(6) There is no fixed asset held-for-sale by the end of period.

(7) There is no fixed asset with certificate of title to be obtained.

(8) All buildings belong to the Company are located in China, which land use rights are within 50 years.

## 11. Construction in progress

Item	Balance at end of Year			Balance at beginning of Year		
	Book balance	Provision for impairment	Book value	Book balance	Provision for impairment	Book value
Equipment to be installed	6,445,249.68	29,902.91	6,415,346.77	6,070,928.55	-	6,070,928.55
<b>Total</b>	<b>6,445,249.68</b>	<b>29,902.91</b>	<b>6,415,346.77</b>	<b>6,070,928.55</b>	<b>-</b>	<b>6,070,928.55</b>

**Remark:**

Balance in this item by end of year is RMB6,041,025.64 – equipment purchased by Fuxin Enclosed Busbar Co. Ltd. Such equipments are still to be installed due to its North Plant move. Details see Note XIV.2.

Provision for impairment are purchase of header tank purifier by the Company's subsidiary – New Northeast Electric (Jinzhou) Power Capacitor Co Ltd in previous year, which totaled RMB29,902.91. Installation of such equipment didn't meet usage standards as expected, and could not be put into normal use, thus it was taken full amount provision.

## VI. Notes to Consolidated Financial Statements (Continued)

## 12. Disposal of Fixed Assets

Item	Balance at end of year	Balance at beginning of year
Equipment & Machinery	629,668.46	-
<b>Total</b>	<b>629,668.46</b>	<b>-</b>

**Remark:**

*Subsidiary of the Company – New Northeast Electric (Jinzhou) Power Capacitor has disposed all machinery that are damaged, non-repair worth and could not be normally used, among which that are not completely disposed are transferred into Disposal of Fixed Assets for its book value.*

## 13. Intangible Assets

Item	Land use rights	Patent	Software	Total
<b>I. Book balance</b>				
1. Balance at beginning of Year	6,774,501.05	450,000.00	207,000.00	7,431,501.05
2. Increment	13,200,304.00	-	-	13,200,304.00
(1) Purchase	13,200,304.00	-	-	13,200,304.00
3. Decrement	-	-	-	-
(1) Disposal of assets	-	-	-	-
4. Balance at end of Year	19,974,805.05	450,000.00	207,000.00	20,631,805.05
<b>II. Accumulated amortization</b>				
1. Balance at beginning of Year	2,709,801.84	450,000.00	207,000.00	3,366,801.84
2. Increment	201,491.61	-	-	201,491.61
(1) Amortization	201,491.61	-	-	201,491.61
3. Decrement	-	-	-	-
(1) Disposal of assets	-	-	-	-
4. Balance at end of Year	2,911,293.45	450,000.00	207,000.00	3,568,293.45
<b>III. Provision for impairment</b>				
1. Balance at beginning of Year	-	-	-	-

## Notes to the Financial Statements (Continued)

For the year ended 31 December 2016 (Prepared in accordance with P.R.C. Accounting Rules and Regulations)

### VI. Notes to Consolidated Financial Statements (Continued)

#### 13. Intangible Assets (Continued)

Item	Land use rights	Patent	Software	Total
2. Increment	-	-	-	-
(1) Provision	-	-	-	-
3. Decrement	-	-	-	-
(1) Disposal of assets	-	-	-	-
4. Balance at end of Year	-	-	-	-
IV. Book Balance				
1. Book balance at end of Year	17,063,511.60			17,063,511.60
2. Book balance at beginning of Year	4,064,699.21			4,064,699.21

**Remark:**

- (1) Amortization of the year totalled RMB201,491.61.
- (2) As at 31 December 2016 land use right of RMB3,929,209.13 to Bank of China, Fuxin Branch by Fuxin Enclosed Busbar Company Limited - a wholly own subsidiary of the Company for loan of RMB 9 million.
- (3) Details of newly purchased land use rights see Note XIV.2.(2).

#### 14. Good Will

Company invested or Items resulted in Good Will	Balance at beginning of year	Increment	Decrement	Balance at end of year
Northeast Electric (Chengdu) Power Engineering Designing Co Ltd.		- 72,097.15	-	72,097.15
<b>Total</b>		<b>- 72,097.15</b>	<b>-</b>	<b>72,097.15</b>

**Remark:**

On Dec. 8, 2016, the Company bought 51% shares of Northeast Electric (Chengdu) Power Engineering Designing Co Ltd. Details see Note VII.1(1).

## VI. Notes to Consolidated Financial Statements (Continued)

## 15. Long-term deferred expenses

Item	Balance at beginning of Year	Increment	Amortization	Other decrement	Balance at end of Year	Reasons for other decrement
Improvement expenditures for fixed assets rented	467,900.00	108,000.00	123,600.00	-	452,300.00	-
Property Insurance premium	22,745.27	-	8,529.48	-	14,215.79	-
<b>Total</b>	<b>490,645.27</b>	<b>108,000.00</b>	<b>132,129.48</b>	<b>-</b>	<b>466,515.79</b>	

## 16. Deferred tax assets

## (1) Deferred tax assets recognized

Item	December 31, 2016		December 31, 2015	
	Deferred tax assets	Deductible temporary difference	Deferred tax assets	Deductible temporary difference
Provision for impairment for assets	-	-	7,342,267.86	29,369,071.44
<b>Total</b>	<b>-</b>	<b>-</b>	<b>7,342,267.86</b>	<b>29,369,071.44</b>

**Remark:**

There is huge loss for subsidiary of the Company – New Northeast Electric (Jinzhou) Power Capacitor Co Ltd due to big drop of income. It is estimated that this subsidiary can not make up deferred income tax asset by acquiring sufficient taxable income, thus balance of this item of RMB6,956,702.66 was reversed, and the rest of decrement is due to transfer of subsidiary – Northeast Electric (Beijing) Co Ltd.

## (2) Details of deductible temporary difference

Item	December 31, 2016	December 31, 2015
Bad-debt provision	-	25,698,156.20
Provision for decline in value of inventory	-	3,670,915.24
<b>Total</b>	<b>-</b>	<b>29,369,071.44</b>

## Notes to the Financial Statements (Continued)

For the year ended 31 December 2016 (Prepared in accordance with P.R.C. Accounting Rules and Regulations)

### VI. Notes to Consolidated Financial Statements (Continued)

#### 16. Deferred tax assets (Continued)

##### (3) Details of Income Deferred Tax Asset not yet recognized

Item	Amount at end of year	Amount at beginning of year
Offsettable temporary difference	220,887,581.52	160,840,100.52
Offsettable loss	39,253,117.39	39,651,709.32
<b>Total</b>	<b>260,140,698.91</b>	<b>200,491,809.840</b>

##### (4) Income Tax Asset not yet recognized offsettable with loss which due in next period

Year	Balance at end of year	Balance at beginning of year	Note
2016	-	37,415,199.34	-
2017	420,345.54	420,345.51	-
2018	774,155.44	774,309.89	-
2019	366,885.87	366,885.87	-
2020	286,269.50	674,968.71	-
2021	23,091,537.86	-	-
No specified limit	14,313,923.18	-	Off-settable loss by subsidiary – Northeast Electric (HK) Co Ltd
<b>Total</b>	<b>39,253,117.39</b>	<b>39,651,709.32</b>	

#### 17. Short-term borrowings

##### (1) Classification

Item	December 31, 2016	December 31, 2015
Bank borrowings, secured	9,000,000.00	9,000,000.00
Bank borrowings, guaranteed	20,000,000.00	
<b>Total</b>	<b>29,000,000.00</b>	<b>9,000,000.00</b>

## VI. Notes to Consolidated Financial Statements (Continued)

## 17. Short-term borrowings (Continued)

## (1) Classification (Continued)

**Remark:**

The secured loan was obtained from Bank of China, Fuxin Branch by Fuxin Enclosed Busbar Company Limited - a wholly owned subsidiary of the Company amounting to RMB 9 million. This loan was drawn in installments and would be repaid at maturity date altogether. Interest rate of the loan is 25% above the one-year benchmark lending rate announced by People's Bank of China. Lending period of the loan is from Mar. 4, 2016 to August 31, 2017.

Balance of RMB20 million of guaranteed borrowing is the Company's loan from Changzhou Hongtai Technological Small-amount Loan Ltd, borrowing rate is 7%, which will remain unchanged when PBOC lowers its benchmark lending rate, and will times result of new benchmark rate divided by benchmark at lending, and at any time will not exceed 4 times of benchmark rate. Lending period is between Oct. 20, 2016 till Apr. 20, 2017, with its parent company – Changzhou Tsing Chuang Industrial Investment Group Limited as the Guarantor.

(2) As at December 31, 2016, there are no matured short-term borrowings unpaid.

## 18. Notes Payable

Type	Amount at end of year	Amount at beginning of year
Commercial Acceptance Notes	-	-
Bank Acceptance Notes	1,845,000.00	20,508,400.00
<b>Total</b>	<b>1,845,000.00</b>	<b>20,508,400.00</b>

## VI. Notes to Consolidated Financial Statements (Continued)

## 19. Accounts Payable

## (1) Details of Accounts payable

Age of accounts	December 31, 2016	December 31, 2015
Within 1 year	20,765,578.77	25,068,581.43
1 - 2 years	7,106,466.22	7,857,164.27
2 -3 years	3,584,758.56	1,492,264.52
Over 3 years	3,215,760.90	2,918,695.95
<b>Total</b>	<b>34,672,564.45</b>	<b>37,336,706.17</b>

(2) There are no accounts payable to shareholders or associates holding 5% or above voting shares of the Company.

(3) Accounts payable aged over 1 year mainly represents unsettled balance of goods purchased.

## 20. Receipts in advance

## (1) Details

Age of accounts	December 31, 2016	December 31, 2015
Within 1 year	3,976,040.01	5,338,886.52
1 - 2 years	2,862,095.02	1,508,700.02
2 -3 years	8,700.00	11,828.00
Over 3 years	807,729.09	879,157.50
<b>Total</b>	<b>7,654,564.12</b>	<b>7,738,572.04</b>

(2) There's no receipt in advance from shareholders or associates holding 5% or above voting shares of the Company.

(3) Analysis of receipt in advance with significant amount aged over 1 year

Name	Amount	Reason for unsettlement
Shenhua Guoneng Baoqing Electrify Co Ltd.	1,393,800.00	Receipts in advance for goods as per contract

**Remark:**

Receipts in advance aged over 1 year are mainly advanced payments for enclosed busbar as per contract, which is 40% of the total RMB3,750,000.00 contract amount.

## VI. Notes to Consolidated Financial Statements (Continued)

## 21. Employee compensation

## (1) Details of employee compensation

Item	December 31, 2015	Increment	Decrement	December 31, 2016
I. Short-term compensation	2,544,304.91	24,715,501.28	24,178,767.53	3,081,038.66
II. Post resignation benefit - designed provision plan	84,659.49	3,245,712.40	3,211,551.79	118,820.10
<b>Total</b>	<b>2,628,964.40</b>	<b>27,961,213.68</b>	<b>27,390,319.32</b>	<b>3,199,858.76</b>

## (2) Short-term compensation are analyzed as follows:

Item	December 31, 2015	Increment	Decrement	December 31, 2016
I. Wages, bonuses, allowances, subsidies	-	21,219,662.30	20,814,331.00	405,331.30
II. Welfare expenses	-	696,138.63	696,138.63	-
III. Social insurances	8,060.77	1,457,560.76	1,443,086.05	22,535.48
Incl: 1. Medical insurance	41.44	1,178,424.11	1,166,160.55	12,305.00
2. Work injury insurance	5,912.43	204,740.21	203,139.81	7,512.83
3. Maternity insurance	2,106.90	74,396.44	73,785.69	2,717.65
IV. Housing accumulation fund	265,929.11	1,108,126.12	1,105,630.32	268,424.91
V. Labor union expenditure and employee education expenses	2,270,315.03	234,013.47	119,581.53	2,384,746.97
<b>Total</b>	<b>2,544,304.91</b>	<b>24,715,501.28</b>	<b>24,178,767.53</b>	<b>3,081,038.66</b>

*Note:*

*There's no employee compensation in arrears.*

## Notes to the Financial Statements (Continued)

For the year ended 31 December 2016 (Prepared in accordance with P.R.C. Accounting Rules and Regulations)

### VI. Notes to Consolidated Financial Statements (Continued)

#### 21. Employee compensation (Continued)

##### (3) Designed provision plan listed as follows:

Item	December 31, 2015	Increment	Decrement	December 31, 2016
I. Basic endowment insurance	80,491.87	3,038,265.02	3,005,854.04	112,902.85
II. Unemployment insurance	4,167.62	207,447.38	205,697.75	5,917.25
<b>Total</b>	<b>84,659.49</b>	<b>3,245,712.40</b>	<b>3,211,551.79</b>	<b>118,820.10</b>

##### Note:

The Company has joined Endowment insurance plan and Unemployment insurance plan that are set up by the Government, and pay for employees accordingly. The Company takes no further payment obligation than these.

##### (4) Remuneration of directors, supervisor and senior managerial personnel

Name	Position	Total remuneration	
		Year 2016	Year 2015
Su Weiguo	Deputy Board Chairman	715,206.32	255,273.20
Feng Xiaoyu	Director	655,000.00	-
Su Jianghua	Board Chairman	600,000.00	-
Liu Jun	Director	450,000.00	-
Wang Zheng	Director	450,000.00	-
Qiu Yongjian	Supervisor	264,696.30	144,719.06
Li Min	Director	100,000.00	-
Zhang Luyang	Independent Director	120,000.00	-
Jin Wenhong	Independent Director	120,000.00	-
Qian Fengsheng	Independent Director	120,000.00	-
Li Dong	Supervisor	80,000.00	-
Wu Junyun	Supervisor Chairman	80,000.00	-
Zhu Xinguang	Supervisor (resigned)	135,045.75	77,814.33

## VI. Notes to Consolidated Financial Statements (Continued)

## 21. Employee compensation (Continued)

## (4) Remuneration of directors, supervisor and senior managerial personnel (Continued)

Name	Position	Total remuneration	
		Year 2016	Year 2015
Liu Qingmin	Director (resigned)	114,672.68	180,756.32
Liu Xuehou	Supervisor Chairman(resigned)	112,527.38	223,775.50
Wang Shouguan	Vice Board Chairman (resigned)	63,817.82	142,857.12
Jiao Liyuan	Director (resigned)	53,952.38	189,232.04
Wang Yunxiao	Independent Director (resigned)	-	59,523.60
Liang Jie	Independent Director (resigned)	-	59,523.60
Liu Hongguang	Independent Director (resigned)	-	59,523.60
Dong Liansheng	Supervisor (resigned)	-	9,502.38
<b>Total</b>		<b>4,234,918.63</b>	<b>1,402,500.75</b>

## 22. Tax payable

Item	December 31, 2016	December 31, 2015
Enterprise Income Tax	-43,428.58	511,176.33
Value-added Tax	480,448.01	982,388.00
City maintenance and construction Tax	33,631.36	187,744.69
Education Surcharge	27,715.99	137,796.94
Individual Income Tax	115,344.91	38,927.73
Tenure Tax	118,992.00	59,149.50
Housing Property Tax	44,535.95	20,535.95
Other	17,554.00	46,576.13
<b>Total</b>	<b>794,793.64</b>	<b>1,984,295.27</b>

## Notes to the Financial Statements (Continued)

For the year ended 31 December 2016 (Prepared in accordance with P.R.C. Accounting Rules and Regulations)

### VI. Notes to Consolidated Financial Statements (Continued)

#### 23. Other payables

##### (1) Details of other payables

Age of account	December 31, 2016	December 31, 2015
Current Account	36,858,058.77	37,737,164.96
Shipment expenses	4,624,900.63	4,732,053.27
Purchase of equipments	188,851.56	111,685.38
Other	3,699,331.69	3,066,447.12
<b>Total</b>	<b>45,371,142.65</b>	<b>45,647,350.73</b>

(2) Details of other payables to shareholders holding 5% or above voting shares of the Company or balance with related parties are shown in Note X.6 Payables to related parties.

(3) Other payables with significant amount aged over 1 year represent current account balance not yet settled.

Item	Amount at end of year	Reason for overdue
Shenyang Transformer Co. Ltd	26,695,903.10	Creditor not yet collect

#### 24. Special Payables

Item	Amount at end of period	Amount at beginning of year
Demolition Compensation	10,609,500.00	500,000.00
<b>Total</b>	<b>10,609,500.00</b>	<b>500,000.00</b>

*Note:*

Compensation for the land construction of the new factory is according to Fuxin Municipal's letter of approval regarding Xihe District Enclosed Busbar new factory land cost budget, see Note XIV.2 for details.

#### 25. Estimated liabilities

Parties being guaranteed	December 31, 2015	Increment	Decrement	December 31, 2016
Jinzhou Power Capacitor Co. Ltd	60,721,078.25			60,721,078.25
<b>Total</b>	<b>60,721,078.25</b>			<b>60,721,078.25</b>

## VI. Notes to Consolidated Financial Statements (Continued)

## 25. Estimated liabilities (Continued)

*Note:*

- (1) 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 Di 89 in Sep., 2005. And on Jun. 23, 2010 the Court has made Enforcement Ruling No. (2005) JinZhiYiZiDi89, 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.
- (2) 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 of 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 of RMB2,890,000.00 by Ruling no. (2007)Jin Min San Chu Zi Di 00049 in Jun. 2007, which has come into effectiveness for the company has not appealed. The company therefore estimate liability of RMB19,890,000.00. Intermediary Court of Jinzhou city issued an order of Enforcement to the Company on Mar. 5 2008, requesting execution of obligations. Up till the reporting date, the company has not paid the above mentioned liability.
- (3) 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 Intermediate Court of Jinzhou City, for the borrower to repay loan principal of RMB22,900,000.00 and relative interest of 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 loan principal of RMB22,900,000.00 and loan interest of RMB3,466,578.25. On Apr. 14, 2008, the Intermediate Court of Jinzhou City issued Enforcement Notice, requesting the Company to take the captioned liabilities. On 25 August 2010, the Intermediate Court of Jinzhou City issued (2008) Jin Zhi Yi Zi 00067 execution notice, confiscated the 10% equity interest in Shenyang Kaiyi Electric Co., Ltd. held by the company. Therefore the company has estimated liability of RMB26,366,578.25. The company has not paid the above mentioned debt by the report date.

## Notes to the Financial Statements (Continued)

For the year ended 31 December 2016 (Prepared in accordance with P.R.C. Accounting Rules and Regulations)

### VI. Notes to Consolidated Financial Statements (Continued)

#### 26. Share Capital

Item	December 31, 2016		Increment/Decrement (+/-)					December 31, 2015	
	Amount	Ratio	New shares issued	Stock dividend	Reserve to shares	Others	Sub total	Amount	Ratio
<b>I. Shares subject to trading restriction</b>									
1. State-owned shares	-	-	-	-	-	-	-	-	-
2.State-owned legal person owned shares	-	-	-	-	-	-	-	-	-
3. Other domestic shares	5,999,022.00	0.69%	-	-	-	-	-	5,999,022.00	0.69%
Include: Domestic non-state-owned legal shares	5,999,022.00	0.69%	-	-	-	-	-	5,999,022.00	0.69%
Sub-total	5,999,022.00	0.69%	-	-	-	-	-	5,999,022.00	0.69%
<b>II. shares not subject to trading restriction</b>									
1. Ordinary share in RMB	609,420,978.00	69.78%	-	-	-	-	-	609,420,978.00	69.78%
2. Foreign shares listed overseas	257,950,000.00	29.53%	-	-	-	-	-	257,950,000.00	29.53%
Sub-total	867,370,978.00	99.31%	-	-	-	-	-	867,370,978.00	99.31%
<b>III. Total shares</b>	<b>873,370,000.00</b>	<b>100.00%</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>873,370,000.00</b>	<b>100.00%</b>

**Note:**

There are no changes of share capital in the current year.

#### 27. Capital reserve

Item	December 31, 2015	Increment	Decrement	December 31, 2016
Share premium	115,431,040.00	-	-	115,431,040.00
Others reserve	767,991,363.92	-	-	767,991,363.92
<b>Total</b>	<b>883,422,403.92</b>	<b>-</b>	<b>-</b>	<b>883,422,403.92</b>

**Note:**

There are no changes of capital reserve in the current year.

## VI. Notes to Consolidated Financial Statements (Continued)

## 28. Other Comprehensive Income(OCI)

Item	Amount incurred during the period						December 31, 2015
	December 31, 2016	Amount before income tax	Less: previous Other Comprehensive Income converted to current Profit & Loss	Less: income tax	Attributable to parent company after tax	Attributable to minority interests after tax	
<b>I. OCI not to be re-classified into Profit &amp; Loss</b>	-	-	-	-	-	-	-
Incl.: Change to net liabilities/ assets due to remeasurement of defined benefit plan	-	-	-	-	-	-	-
Share of OCI not to be re- classified into Profit & Loss in invested entity	-	-	-	-	-	-	-
<b>II. OCI to be reclassified into Profit &amp; Loss</b>	-36,666,972.81	5,865,463.24	-	-	5,865,463.24	-	-30,801,509.57
Incl.: Share of OCI not to be re-classified into Profit & Loss in invested entity	-	-	-	-	-	-	-
Profit or loss due to change in fair value of available-for- sale financial assets	-	-	-	-	-	-	-
Profit or loss on held-to- maturity financial assets reclassified as available-for- sale financial assets	-	-	-	-	-	-	-
Effective portion of cash flow hedge	-	-	-	-	-	-	-
Foreign currency translation difference	-30,801,509.57	5,296,521.13	-	-	5,296,521.13	-	-25,504,988.44
<b>Total OCI</b>	<b>-30,801,509.57</b>	<b>5,296,521.13</b>	<b>-</b>	<b>-</b>	<b>5,296,521.13</b>	<b>-</b>	<b>-25,504,988.44</b>

## Notes to the Financial Statements (Continued)

For the year ended 31 December 2016 (Prepared in accordance with P.R.C. Accounting Rules and Regulations)

### VI. Notes to Consolidated Financial Statements (Continued)

#### 29. Surplus reserves

Item	December 31, 2015	Increment	Decrement	December 31, 2016
Statutory surplus reserve	80,028,220.48	-	-	80,028,220.48
Optional surplus reserve	28,558,903.92	-	-	28,558,903.92
<b>Total</b>	<b>108,587,124.40</b>	<b>-</b>	<b>-</b>	<b>108,587,124.40</b>

*Note:*

*There's no change to surplus reserves for the period.*

#### 30. Accumulated losses

Item	Year 2016	Year 2015	Ratio of appropriation or distribution
Accumulated losses at the end of last year	-1,537,590,906.29	-1,542,524,243.79	-
Adjustment for accumulated losses at the beginning of the year	-	-	-
Accumulated losses at the beginning of the year after adjustment	-1,537,590,906.29	-1,542,524,243.79	-
Add: Net Profit attributable shareholders of the Company for the year	-99,493,754.11	4,933,337.50	-
Less: Appropriation for statutory surplus reserve			-
Appropriation for optional surplus reserve			-
Ordinary shares dividends payable			-
Ordinary shares dividends converted to equity			-
Accumulated losses at end of period	-1,637,084,660.40	-1,537,590,906.29	-

## VI. Notes to Consolidated Financial Statements (Continued)

## 31. Revenue and cost of sales

## (1) Revenue and cost of sales

Item	Year 2016		Year 2015	
	Income	Cost	Income	Cost
Main business	63,327,513.55	53,880,384.72	151,639,578.32	111,164,012.39
Other business	186,910.74	69,746.77	100,906.50	63,598.80
<b>Total</b>	<b>63,514,424.29</b>	<b>53,950,131.49</b>	<b>151,740,484.82</b>	<b>111,227,611.19</b>

## (2) Main business (by products)

Products	Year 2016		Year 2015	
	Business income	Cost of sale	Business income	Cost of sale
Enclosed Busbar	34,193,870.44	29,224,549.68	47,369,246.56	33,638,937.68
Power Capacitor	28,730,053.36	24,299,424.79	102,568,451.47	76,198,613.17
High-voltage Switchgear	403,589.75	356,410.25	1,701,880.29	1,326,461.54
<b>Total</b>	<b>63,327,513.55</b>	<b>53,880,384.72</b>	<b>151,639,578.32</b>	<b>111,164,012.39</b>

## (3) Main business (by regions)

Regions	Year 2016		Year 2015	
	Business income	Cost of sale	Business income	Business income
Central North	8,180,683.59	6,883,432.94	2,452,145.25	1,891,378.18
Central	8,434,885.87	7,098,446.35	9,136,254.41	6,798,368.35
Central East	12,196,554.38	11,234,032.28	22,637,008.30	17,038,530.13
South East	980,599.66	1,430,277.06	3,475,577.43	2,990,914.04
Southwest	301,241.03	306,158.13	11,307,975.75	6,968,768.15
Northwest	96,176.96	159,078.77	12,075,464.63	8,842,631.19
<b>Total</b>	<b>63,327,513.55</b>	<b>53,880,384.72</b>	<b>151,639,578.32</b>	<b>111,164,012.39</b>

## (4) Business income from top 5 customers

Period	Amount	Ratio of total business income (%)
Year 2016	35,801,119.83	56.37
Year 2015	105,580,331.29	69.58

## Notes to the Financial Statements (Continued)

For the year ended 31 December 2016 (Prepared in accordance with P.R.C. Accounting Rules and Regulations)

### VI. Notes to Consolidated Financial Statements (Continued)

#### 31. Revenue and cost of sales (Continued)

##### (5) Purchase from top 5 suppliers

Period	Amount	Ratio of total purchase (%)
Year 2016	19,348,072.08	48.27
Year 2015	35,801,119.83	39.64

*Note:*

The Company engages in production and sales of power transmission equipment, which mainly operates in one segment and thus no segment reporting is required.

#### 32. Business tax and surcharges

Item	Year 2016	Year 2015
Business tax		1,000.00
City maintenance and construction tax	220,828.84	662,205.30
Education Surcharges	157,879.44	474,620.17
Land use tax	533,038.50	-
Property tax	180,287.60	-
Stamp duty	27,877.83	-
Tax on vehicles	13,017.60	-
<b>Total</b>	<b>1,132,929.81</b>	<b>1,137,825.47</b>

#### 33. Sales expenses

Item	Year 2016	Year 2015
Transportation fee	2,266,108.04	6,331,304.06
Consultation fee	3,039,448.11	2,259,875.44
Employee compensation	1,400,062.52	1,438,790.93
Travelling expense	1,491,077.95	1,989,098.40
Bidding fee	427,770.72	847,356.00
Material Consumption	317,163.94	595,935.20
After-Sales services Expenses	364,296.70	360,103.50
Entertainment fee	365,137.57	383,580.70
Other	331,672.21	332,262.43
<b>Total</b>	<b>10,002,737.76</b>	<b>14,538,306.66</b>

## VI. Notes to Consolidated Financial Statements (Continued)

## 34. Administrative expenses

Item	Year 2016	Year 2015
Employee compensation	17,371,189.79	14,823,546.45
Loss of Shutdown	6,424,435.47	-
Office expenses	3,012,468.00	2,823,835.03
Depreciation expenses	1,601,641.29	2,353,377.66
Agent fee	2,770,247.05	1,320,473.41
Heating expenses	1,319,815.96	1,033,814.65
Taxes	352,049.65	1,065,435.61
Entertainment	956,027.43	655,722.78
Travelling expense	874,967.18	526,796.36
Intangible assets amortization	396,386.40	405,857.17
Rents & leases	397,635.58	397,252.00
Other	16,904.00	59,504.36
<b>Total</b>	<b>35,493,767.80</b>	<b>25,465,615.48</b>

**Note:**

*Loss of Shutdown is difference of Salaries and manufacturing expenses lower than normal level is taken into Administrative Expenses when manufacturing capacity is not in full use due to sales drop of Xinjinrong – the Company's subsidiary.*

## 35. Finance expenses

Item	Year 2016	Year 2015
Interest Expenses	855,032.02	662,688.68
Less: Interest Income	395,901.69	566,734.77
Exchange difference	334.25	-21.73
Bank charges	75,421.89	64,087.86
<b>Total</b>	<b>534,886.47</b>	<b>160,020.04</b>

**Note:**

*Interest expenses represents interest arising from bank loan which would be paid at maturity date, details of the bank loan are shown in Note VI 17 (1) short-term borrowings.*

## VI. Notes to Consolidated Financial Statements (Continued)

## 36. Assets impairment loss

Item	Year 2016	Year 2015
Bad debt expenses	1,602,045.05	-9,734,514.47
Provision for decline in value on inventory	9,009,175.23	2,285,792.24
Impairment loss of saleable financial assets	17,816,275.70	-
Impairment loss of long-term equity investment	17,974,823.40	-
Impairment loss of fixed assets	8,710,888.13	-
Impairment loss of construction in progress	29,902.91	-
<b>Total</b>	<b>55,143,110.42</b>	<b>-7,448,722.23</b>

## 37. Return on investments

## (1) Details of return on investment

Item	Year 2016	Year 2015
Return on long-term equity investment by equity method	-8,186.51	-8,567.26
Return on investment in disposing long-term equity investments	67,932.18	-
Return on available-for-sale financial assets	367,369.30	867,706.84
<b>Total</b>	<b>427,114.97</b>	<b>859,139.58</b>

*Note:*

*Return on available-for-sale financial assets represents gains from banks' wealth investment products purchased by the Company.*

## (2) Return on long-term equity investment by equity method

Investee	Year 2016	Year 2015	Reason for change
WeiDa High-voltage Electric Co. Ltd	-8,186.51	-8,567.26	Due to change in WeiDa's net profit/loss
<b>Total</b>	<b>-8,186.51</b>	<b>-8,567.26</b>	

## VI. Notes to Consolidated Financial Statements (Continued)

## 38. Non-operating income

Item	Year 2016	Year 2015	Amounts included in the current
			extraordinary profit & loss
Gain on disposal of non-current assets	398,576.16	65,365.76	398,576.16
Include: Gain on disposal of fixed assets	398,576.16	65,365.76	398,576.16
Gain on disposal of intangible assets	-	-	-
Subsidy from Government	-	106,670.00	-
Others	44,931.23	65,700.31	44,931.23
<b>Total</b>	<b>443,507.39</b>	<b>237,736.07</b>	<b>443,507.39</b>

## 39. Non-operating expenses

Item	Year 2016	Year 2015	Amounts included in the current
			extraordinary profit & loss
Loss on disposal of non-current assets	757,718.22	49,371.58	757,718.22
Include: loss on disposal of fixed assets	757,718.22	49,371.58	757,718.22
Loss on disposal of intangible assets	-	-	-
Fines on late payment	1,420.97	9,152.93	1,420.97
Other	-	35,200.00	-
<b>Total</b>	<b>759,139.19</b>	<b>93,724.51</b>	<b>759,139.19</b>

## 40. Income tax expense

## (1) Income tax expenses

Item	Year 2016	Year 2015
Current income tax expense in accordance with applicable tax laws and regulations	194.18	890,528.75
Deferred income tax expense	6,956,702.66	1,914,963.42
<b>Total</b>	<b>6,956,896.84</b>	<b>2,805,492.17</b>

**Note:**

RMB194.18 for the period is Shenyang Kaiyi Electric Co Ltd – the Company's subsidiary's confirmed taxes. Adjustments of Deferred Income Tax are reversed Deferred Income Tax Assets from beginning of period by subsidiary – New Northeast Electric (Jinzhou) Power Capacitor Co Ltd, which is RMB6,956,702.66.

## Notes to the Financial Statements (Continued)

For the year ended 31 December 2016 (Prepared in accordance with P.R.C. Accounting Rules and Regulations)

### VI. Notes to Consolidated Financial Statements (Continued)

#### 40. Income tax expense (Continued)

##### (2) Proceedings of adjustments of Accounting profit and Income Tax Expenses

Item	Amount in the period
Total profit	-92,631,656.29
Income Tax Expenses by law/appropriate tax rate	-23,157,914.08
Effects of using different tax rates	2,560,610.14
Effects of adjustments to previous Income Taxes	-
Effects of non-taxable income	-
Effects of non-offsettable cost/expenses/loss	7,034,828.19
Effects of utilization of offsettable Deferred Income Tax Assets	-950,510.56
Effects of unconfirmed offsettable temporary difference or losses of deferred income tax assets	21,469,883.15
Change due to Tax rates adjustments to Income Tax Assets/Liabilities balances	-
Income Tax Expenses	6,956,896.84

#### 41. Notes to Cash Flow report

##### (1) Cash received from other operating activities

Item	Year 2016	Year 2015
Bank guarantee deposits	20,468,400.00	-
Government Subsidy	10,109,500.00	606,670.00
Interest Income	395,901.69	566,734.77
Current Account	-	1,222,967.19
Performance guarantee deposits	-	518,100.00
Bidding guarantee deposits	-	229,545.00
Other	-	64,274.99
Total	30,973,801.69	3,208,291.95

## VI. Notes to Consolidated Financial Statements (Continued)

## 41. Notes to Cash Flow report (Continued)

## (2) Cash paid to other operating activities

Item	Year 2016	Year 2015
Cash expenses	19,878,329.47	17,523,086.98
Current Account	18,589,469.74	919,177.20
Frozen capital	2,304,291.23	-
Performance guarantee deposits	1,461,412.50	-
Bidding guarantee deposits	1,899,701.00	-
Other	114,124.00	9,152.93
Bank guarantee deposits	-	20,508,400.00
Total	44,247,327.94	38,959,817.11

## (3) Cash paid to other investment activities

Cash paid to other investment activities is the net cash-in from disposals of subsidiaries, see Note VI.42(2) for details

## 42. Supplementary information to cash flows statement

## (1) Reconciliation from net profit to cash flows from operating activities

Item	Year 2016	Year 2015
I. Reconciliation from net profit to cash flows from operating activities		
Net profit	-99,588,553.13	4,857,487.18
Plus: Provisions for assets impairment	55,143,110.42	-7,448,722.23
Depreciation of fixed assets, depreciation of oil and gas assets, depreciation of productive bio-assets	6,759,056.19	6,890,793.23
Amortization of intangible assets	201,491.61	135,490.08
Amortization of long term deferred expenses	132,129.48	112,057.43

## Notes to the Financial Statements (Continued)

For the year ended 31 December 2016 (Prepared in accordance with P.R.C. Accounting Rules and Regulations)

### VI. Notes to Consolidated Financial Statements (Continued)

#### 42. Supplementary information to cash flows statement (Continued)

##### (1) Reconciliation from net profit to cash flows from operating activities (Continued)

Item	Year 2016	Year 2015
Loss on disposal of fixed assets, intangible assets and other non-current assets (gain is shown as “-“)	356,126.50	-64,717.93
Loss on write-off of fixed assets (gain is shown as “-“)	3,015.56	48,723.75
Loss on changes in fair value (gain is shown as “-“)	-	-
Finance costs (gain is shown as “-“)	814,756.60	662,688.68
Loss on investments (gain is shown as “-“)	-427,114.97	-859,139.58
Decrease in deferred tax assets (increase is shown as “-“)	6,956,702.66	1,914,963.42
Increase in deferred tax liabilities (decrease is shown as “-“)	-	-
Decrease in inventories (increase is shown as “-“)	4,210,296.74	3,524,336.57
Decrease in operating receivables (increase is shown as “-“)	17,836,958.96	-18,424,529.85
Increase in operating payables (decrease is shown as “-“)	-22,289,459.47	-9,586,615.95
Other	-	-
Net cash flows generated from operational activities	29,891,482.85	26,805,591.07
II. Significant non-cash investment and financing activities		
Debts changed to capital	-	-
Convertible bonds mature within 1 year	-	-
Fixed assets acquired under finance lease	-	-
III. Changes in cash and cash equivalents:		
Cash at the end of period	22,488,930.21	101,603,025.69
Less: cash at the beginning of period	101,603,025.69	122,394,679.36
Plus: cash equivalents at the end of period	-	-
Less: cash equivalents at beginning of period	-	-
Net increase in cash and cash equivalents	-79,114,095.48	-20,791,653.67

## VI. Notes to Consolidated Financial Statements (Continued)

## 42. Supplementary information to cash flows statement (Continued)

## (2) Net Cash-in from disposals of subsidiaries

Item	Amount
Cash or equivalent from disposal of subsidiary in this period	1,000,000.00
Minus: Cash or equivalent held by subsidiary on share control switch date	54,721,509.80
Net cash from disposal of subsidiary	-53,721,509.80

## (3) Net cash from acquisition of subsidiary

Item	Amount
Cash or equivalent paid for merging in this period	5,100,000.00
Minus: Cash or equivalent held by subsidiary on share control switch date	2,649,082.53
Cash or equivalent from acquisition of subsidiary	2,450,917.47

## (4) Composition of cash and cash equivalents

Item	December 31, 2016	December 31, 2015
I. Cash	22,488,930.21	101,603,025.69
Incl: Cash on hand	2,884.63	3,840.46
Bank Deposits available on demand	22,486,045.58	101,586,492.51
Other cash assets available on demand	-	12,692.72
Deposits with Central Bank available on demand	-	-
Deposits with other banks	-	-
Inter-bank lending	-	-
II. Cash equivalents	-	-
Incl: Bond investments mature within 3 months	-	-
III. Balance of Cash and equivalents at end of Year	22,488,930.21	101,603,025.69

**Note:**

Performance guarantee deposits pledged to the bank amounting to RMB2,767,150 and Bank Acceptance Notes deposits of RMB40 million are not included in the balance of cash and cash equivalents at the end of period, either is RMB2,304,291.23 that's frozen by Court Order.

## Notes to the Financial Statements (Continued)

For the year ended 31 December 2016 (Prepared in accordance with P.R.C. Accounting Rules and Regulations)

### VI. Notes to Consolidated Financial Statements (Continued)

#### 43. Assets with limited title or use

Item	Balance at beginning of year	Increment	Decrement	Balance at end of year
Intangible asset - land use right	4,064,699.21	-	135,490.08	3,929,209.13
Fixed asset - Buildings	4,128,188.10	-	260,762.88	3,867,425.22
Cash and equivalent - Other	21,814,137.50	6,746,291.25	25,753,278.75	2,807,150.00
Cash and equivalent - Bank deposits	-	2,304,291.23	-	2,304,291.23
Bank acceptance notes	-	1,900,000.00	-	1,900,000.00
<b>Total</b>	<b>30,007,024.81</b>	<b>10,950,582.48</b>	<b>26,149,531.71</b>	<b>14,808,075.58</b>

**Note:**

Restrictions on land use rights and buildings please see Note VI.13(2) and Note VI.10(2), and see Note VI.1 for those on other cash and equivalents. Increase in this item are deposit against issuance of bank acceptance notes, decrease is due to amortization of land use rights, depreciation of buildings, bank deposits against performance guarantees, and reversal of bank deposits against bank acceptance notes on due date.

#### 44. Foreign currency monetary items

##### (1) Foreign currency monetary items

Item	Foreign currency balance at end of year	Exchange rate	Translated RMB balance at end of year
Cash			
US dollars	58.04	6.937	402.62
<b>Total</b>	<b>58.04</b>	<b>6.937</b>	<b>402.62</b>

## VI. Notes to Consolidated Financial Statements (Continued)

## 44. Foreign currency monetary items (Continued)

## (2) Exchange rate of offshore entities major reporting items

Item	Items on Balance Sheet	
	December 31, 2016	December 31, 2015
Northeast Electric (HK) Co. Ltd.	HKD1.00 = RMB0.8945	HKD1.00 = RMB0.8378
Gaocai technology Co. Ltd.	HKD1.00 = RMB0.8945	HKD1.00 = RMB0.8378
Item	Income, expenses, cash flow items	
	Year 2016	Year 2015
Northeast Electric (HK) Co. Ltd.	HKD1.00 = RMB0.8558	HKD1.00 = RMB0.8134
Gaocai technology Co. Ltd.	HKD1.00 = RMB0.8558	HKD1.00 = RMB0.8134

**Note:**

*Northeast Electric (HK) Co. Ltd. is a company set up in HongKong by the Company, Gaocai technology Co. Ltd. is a company set up in British Virgin Islands by the Company.*

## Notes to the Financial Statements (Continued)

For the year ended 31 December 2016 (Prepared in accordance with P.R.C. Accounting Rules and Regulations)

### VII. Merge and Consolidated Financial Statements

#### 1. Merge of parties not under same control

##### (1) Merge of parties not under same control in this period

Name of party bought over	Acquisition time	Cost of acquisition	Shares acquired	Acquisition Means	Acquisition date	Evidence of firm deal	Income from party bought from purchase date to end of period	Net profit from party bought from purchase date to end of period
Northeast Electric (Chengdu) Engineering Design Co Ltd	2016-12-8	510万元	51%	Agreement	2016-12-31	Acquisition approved by Board of Director, acquisition amount fully paid, assets and financial control successfully switched over that the Company enjoys relative interest, controls its financial policy making and takes up its risks	-	-

**Note:**

Other comments: none.

##### (2) Cost of merging and good will

Northeast Electric (Chengdu) Engineering Design Co Ltd

Cost of Merging	Amount
Cash	5,100,000.00
Total cost of merging	5,100,000.00
Minus: shares of recognizable fair value of net assets acquired	5,027,902.85
Good will	72,097.15

**Note:**

*Notes to Recognition of fair value of cost of merging, contingent consideration and its variation: Fair value of the cash for payment of merging on the acquisition date does not include relative expenses, thus no contingent consideration.*

*Reasons for good will: Cost of merging equals fair value of shares of recognizable net worth.*

*Other comment: none.*

## VII. Merge and Consolidated Financial Statements (Continued)

## 1. Merge of parties not under same control (Continued)

## (3) Recognizable asset/liability on acquisition date of the merged party

Item on the book	Fair value on acquisition date	Book value on acquisition date
Cash and equivalents	2,649,082.53	2,649,082.53
Other receivables	7,293,030.00	7,293,030.00
Inventory	29,741.50	29,741.50
Other Payables	113,221.00	113,221.00
Net worth acquired	9,858,633.03	9,858,633.03

## 2. Subsidiary sold

Name	Disposing Price	Shares sold	Means	Time of control switch	Evidence of control switch over	Difference of disposing price and book value
Northeast Electric (Beijing) Co Ltd	1 million	100%	Transfer by agreement	Nov. 30, 2016	Control cease in Board of Directors/Shareholders meeting	67,932.18

(Continued)

Name	Remaining shares on date of switch over	Book value of remaining shares on switch over date	Fair value of remaining shares on switch over date	Profit or loss calculated of remaining shares by their fair value	Recognition method or major presumption of fair value	Amount of other comprehensive income related to remaining shares bought into book
Northeast Electric (Beijing) Co Ltd						

**Note:***Other comment:*

The Company's subsidiary – Shenyang Kaiyi Electric Co Ltd signed Agreement of Shares Transfer with Beijing Yaoxin Technology Co Ltd ("Beijing Yaoxin"), transferring 100% of Northeast Electric (Beijing) Co Ltd's shares held by it to that latter on Sep. 30, 2016. Such transfer of shares have been approved by Shareholders Meeting on Nov. 15, 2016. The Company received funds of transfer from Beijing Yaoxin on Nov. 30, 2016. On the consolidation book there's net worth of Beijing subsidiary RMB932,067.82, and profit from such transfer of RMB67,932.18.

## Notes to the Financial Statements (Continued)

For the year ended 31 December 2016 (Prepared in accordance with P.R.C. Accounting Rules and Regulations)

### VII. Merge and Consolidated Financial Statements (Continued)

#### 3. Newly setup subsidiary

Name	Note
Shanghai Kaixin Internet Technology Development Ltd.	Setup date: Apr. 29, 2016, not yet in business

### VIII. Disclosure of equity in other entities

#### 1. Equity in subsidiary

##### (1) Composition of the Group

Name of Subsidiary	Operating location	Location of registration	Nature of business	Percentage of shares held by the Company		Means of acquisition
				Direct	Indirect	
Northeast Electric (HK) Co Ltd	HK	HK	Investment/Trade	100.00	-	Set up by investment
Gaocai Technology Co., Ltd.	BVI	BVI	Investment	-	100.00	Set up by investment
Shenyang Kaiyi Electric Co., Ltd.	Shenyang	Shenyang	Manufacturing, sales of electrical equipment, power capacitor, etc	10.00	90.00	Set up by investment
Fuxin Enclosed Busbar Co Ltd	Fuxin	Fuxin	Manufacturing of enclosed busbar	-	100.00	Set up by investment
New Northeast Electric (Jinzhou) Power Capacitor Co	Jinzhou	Jinzhou	Manufacturing power capacitor	-	100.00	Business combination under common control
Jinzhou Jinrong Electric Appliance	Jinzhou	Jinzhou	Dry type capacitor banks, etc	-	69.75	Business combination under common control
Shanghai Kaixin Internet Technology Development Ltd.	Shanghai	Shanghai	Investment	-	100.00	Established by investment
Northeast Electric (Chengdu) Engineering Design Co Ltd	Chengdu	Chengdu	Design and construction of new energy	-	51	Set up by investment

## VIII. Disclosure of equity in other entities (Continued)

## 1. Equity in subsidiary (Continued)

## (2) Information on non-wholly-owned subsidiary

Name of subsidiary	Share percentage of minority shareholder(%)	Profit/loss attributable to minority shareholders	Dividends paid to minority shareholders for the period	Accumulated minority interests by end of period
Jinzhou Jinrong Electric Appliance Co. Ltd	30.25%	-94,799.02	-	258,422.05
Northeast Electric (Chengdu) Engineering Design Co Ltd	49%	-	-	4,830,730.18
<b>Total</b>		<b>-94,799.02</b>	<b>-</b>	<b>5,089,152.23</b>

## 2. Equity in associates

## (1) Basic information of associates

Name of company	Principle operating location	Location of registration	Share percentage held(%)	Nature of business
Weida High-voltage Electric Co. Ltd	BVI	BVI	20.80%	Investment

**VIII. Disclosure of equity in other entities (Continued)**

**2. Equity in associates (Continued)**

**(2) Main information of significant associates accounting by Equity Method**

Item	December 31, 2016	December 31, 2015
Current Assets	211,434,096.54	198,024,992.62
Incl: Cash and equivalents	571,458.48	528,382.03
Non-current assets		
Total assets	211,434,096.54	198,024,992.62
Current liabilities	916,499.78	813,021.65
Non-current liabilities		
Total liabilities	916,499.78	813,021.65
Net asset	210,517,596.76	197,211,970.97
Share in net asset pro rata shares held	43,787,660.12	41,020,089.96
Book value of equity investment to associate	43,787,660.12	41,020,089.96
Operating income		
Net profit	-39,358.24	-41,188.76

**(3) Risk information relating to equity in associates**

(i) Significant restriction to fund transferrability

Nil

(ii) Shared portion of excessive loss in associate

Nil

**IX. Risks related to financial instrument**

Financial instruments the Company invested mainly include equity investment, borrowings, accounts receivables, and accounts payables, see Note V. for details. The following will show the risks relating to these financial instruments and the risk management policies the Company adopted to reduce the relative risks. Management of the Company manage and supervise the exposures of these financial instruments to ensure that they are within control.

Sensitivity analysis is adopted by the Company to analyze possible impact on the current Profit & Loss or Shareholders' equity by the reasonable and possible variations of risks. Since any variation of a risk seldom happen isolatedly, relativity between variables will cause significant influences on the ultimate impacted amount of a changed variable of risk, so the following statement is based on supposition that each variable happens independently.

**Goal and policies of risk management**

The goal of risk management of the Company is to achieve balance between risk and income, reducing the negative impacts on the operations to the lowest level, and maximizing interests and shareholders and other equity investors. Based on this goal, the basic strategy of risk management for the Company is to ascertain and analyze all the risks that the Company confronts, establish appropriate bottom line for risk-taking, and manage the risks accordingly, in the meantime supervise all the risks in a timely and reliable manner, controlling the risks within the limited scope.

**1. Market risks****(1) foreign currency risks**

Foreign currency risks is the risks of loss caused by variations in exchange rates. The main foreign currency risks for the Company involve HK dollar. Subsidiaries established overseas - Northeast Electric (HK) Co. Ltd., Gaocai Technology Co., Ltd. use HK dollar as recording currency for their financial statements, while the rest of the Company's major activities are accounted in RMB. In the statements dated on December 31, 2015, only daily expenses reported with no purchases or sales for these subsidiaries.

On December 31, 2016, impacts on the current Profit & Loss and Shareholders' equity are as follows, supposing HK dollars against RMB appreciate or depreciate 0.5% while all other variables remain unchanged:

Item	Change in Exchange rate	Year 2016		Year 2015	
		Impacts on profit	Impacts on shareholder' equity	Impacts on profit	Impacts on shareholder' equity
Translation from foreign currency reports	Appreciate 0.5% against RMB	-4,009.72	289,830.61	-2,794.01	414,444.55
Translation from foreign currency reports	Depreciate 0.5% against RMB	4,009.72	-289,830.61	2,794.01	-414,444.55

**IX. Risks related to financial instrument (Continued)****1. Market risks (Continued)****(2) Risks of interest rates**

Risks related to changes in financial instruments' cash flow due to interest rates' variation mainly involve floating interest rates of bank borrowings (see Note V.18 for details), and the Company's present policy is to maintain the floating interest rates of these borrowings.

The following chart shows the possible before-tax impacts on the current Profit & Loss and Shareholders' Equity on the report date December 31, 2016, supposing bank borrowings' floating interest increase or decrease 50 basis points while all other variants remain unchanged:

Item	Change in interest rate	Year 2016		Year 2015	
		Impacts on profit	Impacts on shareholder' equity	Impacts on profit	Impacts on shareholder' equity
Short-term borrowing	Increase by 0.5%	-64,958.90	-64,958.90	-45,736.11	-45,736.11
Short-term borrowing	Decrease by 0.5%	64,958.90	64,958.90	45,736.11	45,736.11

**2. Credit risks**

The principle exposure of credit risks comes when the other Party of the contract doesn't carry out its obligations so as to cause loss on the financial assets investment and financial guarantee undertaken by the Company.

A special team has been set up to be in charge of setting credit amounts, approving credit limits and exercising other supervisory procedures to make sure all necessary measures are taken to retrieve overdue creditor's rights. Moreover, the Company supervisors every single receivable on every Balance Sheet date to make sure sufficient provision on bad debt will be in place for those irretrievable receivables. Therefore, the management of the Company considers the credit risks greatly reduced.

Working capital of the Company has been deposited with banks with high credit ratings, so there's low risk for those capital.

**(1) Notes receivable**

Notes receivable for the Company mainly comprise of Bankers' acceptance notes receivable, which the Company exercise strict management and continuous supervision to make sure there will be no significant bad debt risk for the Company.

**IX. Risks related to financial instrument (Continued)****2. Credit risks (Continued)****(2) Accounts receivable**

The Company only conducts transactions with a recognized third party with good credit. All the customers with credit settlements will be reviewed for their credit according to the Company's policy. Furthermore, the Company will keep continuous supervision on the relative balance of receivables so that the Company won't be confronted with significant bad debt risks.

Staff are trained to strengthen risk awareness, risk management procedures are improved continuously. Measures are used to improve internal control over customers' credit policy management, which adjustment require necessary review procedure.

Detailed transaction entries and accounting are requested by the Company. Payment records of customers are used as important reference for their credit evaluation. Dynamic management are exercised over customers' information, updated information of customers' are required for relative credit policy to the customers.

Management of the Company considers credit risks facing by the Company greatly reduced because it only conducts transactions with recognized third party with good credit, and manage concentration of credit risks by customer.

**(3) Other receivables**

Other receivables of the Company consists mainly of petty cash, guarantee deposits, etc. The Company manage all these receivables with relative business operations to make sure no significant bad debt risk will occur.

**3. Risk of liquidity**

The Company maintains sufficient cash and cash equivalents with continuous supervision to satisfy operation needs and reduce impact on cash flow, which meet the requirement of management of liquidity risks. Management of the Company supervises utilization of bank borrowings to make sure relative borrowing contracts are honored.

## Notes to the Financial Statements (Continued)

For the year ended 31 December 2016 (Prepared in accordance with P.R.C. Accounting Rules and Regulations)

### X. Related parties and related parties transaction

#### 1. Company that holds most shares of the Company

Name	Place of Reg.	Nature of Business	Registered Capital	Shares percentage held by largest shareholder	Voting percentage held by largest shareholder
Changzhou Tsing Chuang Industrial Investment Group Limited	Changzhou	Investment	RMB80 million	9.331%	9.331%

**Note:**

(1) Ultimate of the Company is Changzhou Tsing Chuang Industrial Investment Group Limited

(2) Changes to Largest shareholder please see Note XIV.1.

#### 2. Subsidiary of the Company

Details are shown in Note VIII.1 “Equity in subsidiary”

#### 3. Associate of the Company

Details are shown in Note VIII.2 “Equity in associate”

#### 4. Leasing between associates

Changzhou Tsing Chuang Industrial Investment Group Limited provided office for the Company without rental expense, from Aug. 4 2016 to Feb. 3, 2017.

#### 5. Guaranty between associates

Changzhou Tsing Chuang Industrial Investment Group Limited provided RMB20 million guarantee for the Company’s loan, details please see Note VI.17.(1).

#### 6. Current accounts between associates

Item	Name	Balance at end of year	Balance at beginning of year
Other Receivables	Northeast Electric (Beijing) Ltd.	52,860,591.00	52,860,591.00
Other Payables	Weida High-voltage	350,890.13	314,585.66

#### 7. Key managerial personnel compensation

Item	Year 2016	Year 2015
Employee compensation	4,234,918.63	1,402,500.75

**XI. Contingent Events****1. Up to Dec.31, 2016, lawsuits of the Company pending rulings are as follows:**

Liaoning Limeng State Asset Co Ltd (“Limeng”) applied for New Northeast Electric (Jinzhou) Power Capacitor Co Ltd, subsidiary of the Company, to assist to implement ruling.

Shenyang High-voltage switches Co Ltd borrowed from Everbright Bank Shenyang Heping Sub-branch RMB4 million in 2004, for which loan Jinzhou Power Capacitor Co Ltd (“Jinzhou Capacitor”) has provided guarantee. Median Court of Shenyang City ruled that Jinzhou Capacitor should take up guaranty for such loan by Ruling of (2004)ShenZhongMinSanHeChuZi No.372 Civic Ruling. From Mar. 10, 2005, the Median Court has issued Orders of Enforcement several times to Xinjinrong – the Company’s subsidiary, to pay rental of RMB4.2 million to Jinzhou Power, which rental Xinjinrong denied. Everbright Bank has now transferred right under the original loan to Limeng, thus Court of Enforcement has ruled that Xinjinrong should pay RMB4.2 million internal rental to Limeng by Ruling of (2015)ShenZhongZhiCaiZi No.3.

Xinjinrong has acknowledged such liability. This event does not constitute any effect on the Company’s financial situation. After consultation with the Company’s lawyers, the Company believe that Jinzhou does not have any creditor’s rights against Xinjinrong which rights were founding evidence to the Court’s ruling. Thus Xinjinrong has filed objection against the ruling. By the Law the Court of Enforcement would not enforce 3rd party, and would not investigate such objection. The Company’s subsidiary – Xinjinrong should not take up payment duty, and should win the lawsuit.

**2. Up to Dec. 31, 2016, the Company has pledged guarantee for Jinzou Capacitor’s RMB52.9 million bank loan. Details please see Note VI.26 Estimated Liabilities.****3. Other contingent liabilities and relevant impacts on financial statements**

- (1) Up to Dec. 31, 2016, RMB 4,595,245.00 of Bank Acceptance Notes which are not yet matured have been endorsed by the Company.
- (2) Up to Dec. 31, 2016, the Company has issued Performance Guarantee of RMB 6,998,100.00 with Bank of China Fuxin Branch

**XII. Commitment**

There's no material commitment during the period.

**XIII. Post Balance Sheet Date Events**

Changes to Largest shareholder of the Company please see Note XIV.1(2)..

**XIV. Other major events**

**1. Significant asset reconstruction**

- (1) Jan. 22, 2016, registration of shares transfer was completed for the new largest shareholder – Changzhou Tsing Chuang Industrial Investment Group Limited

On Dec. 21, 2015, New Northeast Investment signed <Agreement of Shares Transfer of Northeast Electric Development Co Ltd. between New Northeast Electric Investment and Changzhou Tsing Chuang Industrial Investment Group Limited>, Changzhou Tsing Chuang was transferred share with unlimited conditions 81,494,850 shares, at the price of RMB800 million.

Shares transfer registration was completed on Jan. 22, 2016 in China Stock Registration and Settlement Co Ltd. Shenzhen Branch. Thus Changzhou Tsing Chuang held 81,494,850 shares of the Company which takes up 9.331% of the Company's total share capital, and became the largest shareholder of the Company. Liu Jun became the Company's ultimate controller, Wang Zheng, Wu Yisha and Liu Jun became people acting in concert.

On November 27, 2015, the Company was notified by the shareholder of largest shares – Xin Northeast Electric Investment Co Ltd (mentioned below as New North Investment) that its planning to transfer 81.4949 million of the Company's unrestricted circulating shares (9.331% of total circulating shares) to Suzhou Tsing Chuang Trading Group Co., Ltd. (mentioned below as Suzhou Tsing Chuang) and its Concerted-action Party. Suzhou Tsing Chuang thus becomes the shareholder with largest shares of the Company.

- (2) In February 2017, the largest shareholder of the Company has changed to Beijing Haihongyuan Investment Management Ltd.

On Jan. 23, 2017, Changzhou Tsing Chuang signed <Agreement of shares transfer of Northeast Electric Development Ltd. > with Beijing Haihongyuan Investment Management Ltd., transferring 81,494,850 shares of the Company's A shares to Beijing Haihongyuan.

On Feb. 13, 2017, registration of such share transfer was completed with China Stock Registration and Settlement Co Ltd Shenzhen Branch. Then, Beijing Haihongyuan holds the Company's 9.331% shares, which are 81,494,850 shares, and becomes the largest shareholder of the Company.

**XIV. Other major events (Continued)****2. Compensation for Demolition to subsidiary of the Company – Fuxin Enclosed Busbar Co. Ltd.**

On January 12, 2016, Fuxin Enclosed Busbar Co. Ltd – a wholly-owned subsidiary of the Company, signed <Agreement of attracting business> with the People’s Government of Xihe District, Fuxin City. Terms and conditions are agreed by both parties regarding construction of the new plant of Fuxin Enclosed and its old plant move. Main contents are as follows:

- (1) Fuxin Enclosed swaps its north plant area – a total of 15,174 sq.m land, 4500 sq.m buildings and attached real estates on 77 Dongfeng Road, for a 40,000 sq.m land, 17,831 sq.m buildings and attached real estates located in the Industrial Zone in Sihe Town, Xihe District, Fuxin City. Fuxin Enclosed will invest and construct a new plant project which ultimately has the annual production capacity of 20 million KW enclosed busbar. Estimated construction investment of the new plant amounts to RMB 50 million, including RMB 12 million on land, RMB38 million on production, buildings and attached real estate. Funding sources include compensation for demolition of 77 Dongfeng Road, rest will be resolved by Enterprise Development Fund of People’s Government of Xihe District, Fuxin City. Construction expenses will be calculated by prices of settlement and equipment purchase.
- (2) Fuxin Enclosed acquired 39,895m<sup>2</sup> state land use rights (from Oct. 25, 2016 till Oct. 24, 2066), and paid RMB12.6926 million according to relative state land use transfer agreement, and received in December 2016 special fund of RMB10.1095 from Fuxin City Xihe District Finance Department. Buildings will be constructed by the Government, which are estimated to be completed by end of September 2017.

**3. Accumulated profit**

There is no accumulated profit available for distribution up to December 31, 2016.

**4. Other Significant Events**

Total loss of the Company in 2016 is RMB99.5886 million, accumulated loss is RMB16,37.0847 million, Cash and equivalents are RMB27.6004 million, which is less RMB95.8168 million than beginning of year. The Company realized there are significant difficulties for continuous operation, and has made arrangements in cash flow, operation and structural adjustment of assets:

On Feb. 13, 2017, largest shareholder of the Company has changed to Beijing Haihongyuan Investment Management Ltd. (“Beijing Haihongyuan”), ultimate controller has changed to Hainan Aviation Group and Hainan Provincial Cihang Public Benefit Funds. Beijing Haihongyuan has pledged to help and push Northeast Electric to continuous operate, and push Northeast Electric Group for further improvement of management structure. Beijing Haihongyuan committed to support the Company with operation and cash to improve Northeast Electric’s capabilities of continuous operation and profit making.

**XIV. Other major events (Continued)**

**4. Other Significant Events (Continued)**

Measures for the Company to continuous operate include (but not limited to):

- (1) Improve collecting capabilities. The Company has collected Other Receivables of significant amount RMB54.90 million.
- (2) Sales of subsidiaries with no operation, or with major loss to increase cash for the Company.
- (3) Development of new markets

Management of the Company proactively face and manage under the complicated external environment and risks, adjust base of clientele, change marketing strategies, bid on conventional markets, develop customers from industry and enterprises. Internally, the Company issued incentive policies to improve major products' profitability. Meanwhile improve management in contract performance, product quality and after-sale service, to improve market rate of major products and bargaining power, thus improving image of the Company.

- (4) Push for implementation of technological upgrading programs

In 2016, the Company launched Fuxin Enclosed's move to the new manufacturing site. For now, every aspects of this project is moving on smoothly, including the Provincial State land use approval, assignments of geological examination, construction design, environment evaluation, machinery bidding and land construction works have been completed, steel structures are being installed for factories. The Company will push for implementation of this project, improve management of funding and project, take good control of construction quality and speed to ensure continuous operation of the Company. With these measures, the Company hopes to improve the manufacturing level, products quality and efficiency of Cable Busbar products, thus improving the Company's image and comprehensive competitiveness.

- (5) Better internal management control, increase risk control

The Company strictly improve working standards and better internal management control according to Listing Company Operation Regulations' requirements, to establish a full-functioned management structure, increase internal controls, decrease operating risks, thus ensuring the Company's internal control are more operable, to avoid any event that could impair the Company or shareholder's interests, ultimately to ensure realization of the Company's operating goal.

In all, the Company will be much improved by changing largest shareholder, better manufacturing operation, sales of non-profitable assets, which should bring in cash flow of RMB0.15 billion. Together with cash commitment from the largest shareholder, the Company is capable of continuous operations.

## XV. Major notes to Financial Statements of the Company

## 1. Accounts receivable

## (1) Accounts receivables by categories are analyzed as follows:

Types	December 31, 2016				
	Carrying amount		Provision for bad debt		Book value
	Amount	Ratio(%)	Amount	Ratio(%)	
Individually significant and subject to separate provision	-	-	-	-	-
Subject to provision by group of risk characteristics					
Aging combination	1,423,911.79	100	677,204.72	47.56	746,707.07
Sub-total	1,423,911.79	100	677,204.72	47.56	746,707.07
Individually insignificant but subject to separate provision	-	-	-	-	-
<b>Total</b>	<b>1,423,911.79</b>	<b>100</b>	<b>677,204.72</b>	<b>47.56</b>	<b>746,707.07</b>

(Cont'd)

Types	December 31, 2015				
	Carrying amount		Provision for bad debt		Book value
	Amount	Ratio(%)	Amount	Ratio(%)	
Individually significant and subject to separate provision	-	-	-	-	-
Subject to provision by group of risk characteristics	-	-	-	-	-
Aging combination	1,423,911.79	100	179,400.00	12.6	1,244,511.79
Sub-total	1,423,911.79	100	179,400.00	12.6	1,244,511.79
Individually insignificant but subject to separate provision	-	-	-	-	-
<b>Total</b>	<b>1,423,911.79</b>	<b>100</b>	<b>179,400.00</b>	<b>12.6</b>	<b>1,244,511.79</b>

## Notes to the Financial Statements (Continued)

For the year ended 31 December 2016 (Prepared in accordance with P.R.C. Accounting Rules and Regulations)

### XV. Major notes to Financial Statements of the Company (Continued)

#### 1. Accounts receivable (Continued)

##### (2) Accounts receivables that the related provisions for bad debts are based on grouping

Age of account	December 31, 2016		
	Accounts receivable	Bad-debt provision	Ratio of provision (%)
2 - 3 years	1,244,511.79	497,804.72	40.00
Over 4 years	179,400.00	179,400.00	100.00
<b>Total</b>	<b>1,423,911.79</b>	<b>677,204.72</b>	<b>47.56</b>

##### (3) Details of accrual, retrieval and reversal of bad debt provision

Balance of bad debt provision in this item is RMB497,804.72; retrieval or reversal of bad debt provision is 0.

##### (4) There are no write off of trade receivables.

##### (5) There are no receivables from shareholders holding 5% or above voting shares of the company.

##### (6) Companies with significant balance in accounts receivable by end of period:

Name of company	relations	Amount	Age	Percentage in total accounts receivable (%)	Bad-debt provision balance
Shenyang Kaidi Insulation Technology Co. Ltd	Non-related	401,960.79	1-2 years	28.23	-
Yingkou Chongzheng Electric Equipment Co Ltd	Non-related	842,551.00	1-2 years	59.17	-
<b>Total</b>		<b>1,244,511.79</b>		<b>87.40</b>	<b>-</b>

## XV. Major notes to Financial Statements of the Company (Continued)

## 2. Other receivables

## (1) Other receivables by categories are analyzed as follows:

Types	December 31, 2016					
	Book balance		Bad-debt provision		Ratio of provision (%)	Book value
	Amount	Ratio (%)	Amount	provision (%)		
Individually significant and subject to separate provision	128,950,591.00	33.60	76,090,000.00	59.01	52,860,591.00	
Subject to provision by group with risk characteristics	-	-	-	-	-	
Aging combination	387,896.26	0.10	291,607.44	75.18	96,288.82	
Internal current account	254,442,160.42	66.30			254,442,160.42	
Sub-total	383,780,647.68	100	76,381,607.44	19.90	307,399,040.24	
Individually insignificant but subject to separate provision	-	-	-	-	-	
<b>Total</b>	<b>383,780,647.68</b>	<b>100</b>	<b>76,381,607.44</b>	<b>19.90</b>	<b>307,399,040.24</b>	

(Cont'd)

Types	December 31, 2015					
	Book balance		Bad-debt provision		Ratio of provision (%)	Book value
	Amount	Ratio (%)	Amount	provision (%)		
Individually significant and subject to separate provision	76,090,000.00	18.18	76,090,000.00	100.00	-	
Subject to provision by group with risk characteristics	-	-	-	-	-	
Aging combination	347,668.10	0.08	273,942.23	78.79	73,725.87	
Internal current account	342,124,976.82	81.74	-	-	342,124,976.82	
Sub-total	342,472,644.92	81.82	273,942.23	0.08	342,198,702.69	
Individually insignificant but subject to separate provision	-	-	-	-	-	
<b>Total</b>	<b>418,562,644.92</b>	<b>100.00</b>	<b>76,363,942.23</b>	<b>18.24</b>	<b>342,198,702.69</b>	

**XV. Major notes to Financial Statements of the Company (Continued)****2. Other receivables (Continued)****(2) By end of year, Other Receivable with significant amount and individually taken bad debt provisions**

Other Receivables	Balance at end of year			Reasons
	Other receivables	Provisions	Percentage	
Benxi Steel (Group) Ltd.	76,090,000.00	76,090,000.00	100%	See Note VI.5(9).a
Northeast Electric (Beijing) Ltd.	52,860,591.00	-	-	See Note VI.5(9).a
<b>Total</b>	<b>128,950,591.00</b>	<b>76,090,000.00</b>		

**(3) Other receivables that the related provisions for bad debts is provided on grouping basis using the Aging Analysis Method are analyzed as follows:**

Age of account	December 31, 2016		
	Other receivables	Bad-debt provision	Percentage of bad-debt provision (%)
Within 1 year	69,791.00	-	-
2 - 3 years	44,163.03	17,665.21	40.00
Over 4 years	273,942.23	273,942.23	100.00
<b>Total</b>	<b>387,896.26</b>	<b>291,607.44</b>	<b>75.18</b>

**(4) Accrual, Retrieval and Reversal of bad debt provision in the period**

Bad debt provision for this item is RMB17,665.21, retrieval or reversal of this item is 0.

**(5) There are no write off of other receivables during reporting period.****(6) There are no other receivables from shareholders holding 5% or above voting shares of the Company during the reporting period.**

## XV. Major notes to Financial Statements of the Company (Continued)

## 2. Other receivables (Continued)

## (7) The largest five other receivables are analyzed by nature as follows:

Nature of Accounts	Balance at end of period	Balance at beginning of year
Lawsuit (see Note VI.5 (9))	76,090,000.00	76,090,000.00
Current Account with subsidiaries	254,442,160.40	342,124,976.82
Payables for subsidiary sold in this period	52,860,591.00	-
Other	387,896.28	347,668.10
<b>Total</b>	<b>383,780,647.68</b>	<b>418,562,644.92</b>

## (8) Top five Other Receivables customers by end of period:

Name of company	Relationship	Amount	Age	Percentage in total Other Receivables (%)	Balance of bad debt provision
Shenyang Kaiyi Electric Ltd.	Wholly owned subsidiary	160,187,499.98	Within 4 years	41.74	-
Gaocai Technology Co. Ltd	Wholly owned subsidiary	79,298,247.36	Within 1 year	20.66	-
Benxi Steel (Group) Ltd.	Not related	76,090,000.00	Over 4 years	19.83	76,090,000.00
Northeast Electric (Beijing) Ltd.	Wholly owned subsidiary	52,860,591.00	Within 4 years	13.77	-
New Northeast Electric (Jinzhou) Power Capacitor Ltd.	Wholly owned subsidiary	8,339,510.41	Within 4 years	2.17	-
<b>Total</b>		<b>376,775,848.75</b>		<b>98.17</b>	<b>76,090,000.00</b>

*Note:*

For nature of receivables due from Benxi Steel (Group) Ltd. please see Note VI. 5.(9).

## (9) Other receivable due from related parties of RMB254,442,160.40 are current account from the Company's subsidiaries.

## Notes to the Financial Statements (Continued)

For the year ended 31 December 2016 (Prepared in accordance with P.R.C. Accounting Rules and Regulations)

### XV. Major notes to Financial Statements of the Company (Continued)

#### 3. Long-term equity investments

##### (1) Classification

Item	December 31, 2016			December 31, 2015		
	Book balance	Provision for decline in value	Book value	Book balance	Provision for decline in value	Book value
Investment to subsidiary	173,305,837.52	66,385,900.53	106,919,936.99	156,799,451.63	66,385,900.53	90,413,551.10
<b>Total</b>	<b>173,305,837.52</b>	<b>66,385,900.53</b>	<b>106,919,936.99</b>	<b>156,799,451.63</b>	<b>66,385,900.53</b>	<b>90,413,551.10</b>

##### (2) Investment to subsidiary

Investee	Accounting method	Cost of Investment	December 31, 2013	Increment/Decrement	December 31, 2014
Northeast Electric (HK) Co	Cost Method	156,699,451.63	156,699,451.63	-	156,699,451.63
Shenyang Kaiyi Electric Co Ltd	Cost Method	100,000.00	100,000.00	-	100,000.00
Gaocai Technology Co Ltd	Cost Method	16,506,385.89	-	16,506,385.89	16,506,385.89
<b>Total</b>		<b>173,305,837.52</b>	<b>156,799,451.63</b>	<b>16,506,385.89</b>	<b>173,305,837.52</b>

(Cont'd)

Investee	Percentage Reason for difference			Provision for impairment	Provision during the period	Cash dividends
	Percentage of shares held (%)	of voting rights held(%)	between percentages of shares held and voting rights held			
Northeast Electric (HK) Co Ltd	100.00	100.00	-	66,285,900.53	-	-
Shenyang Kaiyi Electric Co Ltd	10.00	10.00	-	100,000.00	-	-
Gaocai Technology Co Ltd	100.00	100.00	-	-	-	-
<b>Total</b>				<b>66,385,900.53</b>	<b>-</b>	<b>-</b>

##### Note:

Intermediate Court of Liaoning Province Jinzhou City sealed up 10% equity of Shenyang Kaiyi Electric Co Ltd, which was owned by the Company, details are shown in Note VI 25(3).

## XV. Major notes to Financial Statements of the Company (Continued)

## 3. Long-term equity investments (Continued)

## (3) Provision for impairment of long-term equity investment

Item	December 31, 2015	Increment	Decrement	December 31, 2016
Northeast Electric (HK) Co Ltd	66,285,900.53	-	-	66,285,900.53
Shenyang Kaiyi Electric Co Ltd	100,000.00	-	-	100,000.00
<b>Total</b>	<b>66,385,900.53</b>	<b>-</b>	<b>-</b>	<b>66,385,900.53</b>

## 4. Supplementary information to cash flows statement

Supplementary Information	Year 2016	Year 2015
(1) Reconciliation from net profit to cash flows from operating activities		
Net Profit	-9,131,252.84	-1,620,225.22
Add: Provisions for assets impairment	515,469.93	-
Depreciation of fixed assets, depreciation of oil and gas assets, depreciation of production bio-assets	16,799.15	15,696.12
Amortization of intangible assets	-	-
Amortization of long term deferred expenses	-	-
Loss on disposal of fixed assets, intangible assets and other non-current assets (gain is shown as "-")	-	-
Loss on write-off of fixed assets (gain is shown as "-")	3,015.56	48,723.75
Loss on changes in fair value (gain is shown as "-")	-	-
Finance costs (gain is shown as "-")	273,833.66	-
Loss on investments (gain is shown as "-")	-	-
Decrease in deferred tax assets (increase is shown as "-")	-	-

## Notes to the Financial Statements (Continued)

For the year ended 31 December 2016 (Prepared in accordance with P.R.C. Accounting Rules and Regulations)

### XV. Major notes to Financial Statements of the Company (Continued)

#### 4. Supplementary information to cash flows statement (Continued)

Supplementary Information	Year 2016	Year 2015
Increase in deferred tax liabilities (decrease is shown as “-”)	-	-
Decrease in inventories (increase is shown as “-”)	-	-
Decrease in operating receivables (increase is shown as “-”)	39,787,285.57	8,059,447.34
Increase in operating payables (decrease is shown as “-”)	-45,996,198.63	-6,515,715.69
Others	-	-
Net cash flows generated from operational activities	-14,531,047.60	-12,073.70
(2) Significant non-cash investment and financing activities		
Debts changed to capital	-	-
Convertible bonds mature within 1 year	-	-
Fixed assets acquired under finance lease	-	-
(3) Changes in cash and cash equivalents:		
Cash at the end of period	49,760.27	2,658.47
Less: cash at the beginning of period	2,658.47	21,532.17
Add: cash equivalents at the end of period	-	-
Less: cash equivalents at the beginning of period	-	-
Net increase in cash and cash equivalents	47,101.80	-18,873.70

**XVI. Supplementary information****1. Details of extraordinary profit& loss**

Item	Year 2016	Year 2015
Profit & loss on disposal of non-current asset	-291,209.88	15,994.18
Tax return/exemption with ultra vires approval/or no official approval	-	-
Government grant taken into profit & loss of the period(except for those closely related to business of the company and those granted by the government in fixed amount or quantity according national standards)	-	106,670.00
Fund appropriation fees charged on non-financial enterprise taken into profit& loss of the period	-	-
Revenue generated when cost of investment is less than fair value of identifiable net assets acquired when acquiring subsidiary, associates, or joint venture	-	-
Profit & loss of non-monetary asset swap	-	-
Profit & loss entrusting third party to invest or manage asset	-	-
Force majeure, for example, provision for impairment on assets due to natural disaster	-	-
Profit & loss on debt restructuring	-	-
Expenses on reorganization of enterprise	-	-
Profit & loss over difference between fair value and inappropriate transaction price	-	-
Net Profit & Loss arising from business combination under common control in relation to the period from the beginning of the year to the date of combination	-	-
Profit & loss by contingent events non-related to normal business of the company	-	-
Except for effective hedging related to the operation of the company, profit & loss arising from fair value change on financial assets or liabilities held for trading, disposal of financial assets or liabilities held for trading or available-for-sale securities	367,369.30	867,706.84
Reverse of account receivable provision under separate impairment test	-	6,310,527.55

## Notes to the Financial Statements (Continued)

For the year ended 31 December 2016 (Prepared in accordance with P.R.C. Accounting Rules and Regulations)

### XVI. Supplementary information (Continued)

#### 1. Details of extraordinary profit & loss (Continued)

Item	Year 2016	Year 2015
Profit & loss on entrusted loans	-	-
Profit & loss on subsequent measurement at fair value for investment properties	-	-
Impact on profit & loss by non-recurring 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	43,510.26	21,347.38
Other items complied with definitions of extraordinary profit & loss	-	-
Sub total	119,669.68	7,322,245.95
Amount of impact on Income Tax	-	-1,612,986.42
Impact on Minority Interests (after tax)	-	-
<b>Total</b>	<b>119,669.68</b>	<b>5,709,259.53</b>

**Note:**

*Extraordinary profit and loss items of the Company are recognized in accordance with "Explanatory Announcement No.1 on Information Disclosure for Companies Offering Their Securities to the Public- Extraordinary profit and loss" (CSRC Announcement [2008] No.43)*

## XVI. Supplementary information (Continued)

## 2. Return on net assets and earnings per share

Profit for the period	Weighted average return on net assets	Earnings per share (RMB/share)	
		Basic earnings per share	Diluted earnings per share
Net profit attributable to ordinary shareholders	-39.398%	-0.11	-0.11
Net profit attributable to ordinary shareholders after deduction of extraordinary profit and loss.	-39.445%	-0.11	-0.11

**Note:**

Calculations of basic earnings per share and diluted earnings per share are detailed in Notes VI.42.

Northeast Electric Development Co., Ltd.

Mar. 27, 2017



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 annual report of the Company.



**東北電氣發展股份有限公司**  
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