

## **(1) DAILY WORK OF THE BOARD OF DIRECTORS**

During the reporting period, the board of directors held 4 meetings as follows:

- (1) On 15 April 2005, the Company held the 11th meeting of the fourth Board of Directors at which the following resolutions were discussed and approved: the 2004 Annual Report and Explanations for opinion given by auditors. The profit appropriation plan; appointments of Deloitte Touche Tohmatsu Certified Public Accountants and Tohmatu Touche Tohmatsu Hua Yong Certified Public Accountants as overseas auditors and domestic auditors respectively and the amendments to Articles of Association; to be submitted to the 2004 Annual General Meeting on 2 June 2005 for consideration and approval.
- (2) On 26 April 2005, the Company held the 12th meeting of the fourth Board of Directors at which the 2005 first quarterly report of the Company was approved.
- (3) On 10 August 2005, the Company held the 13th meeting of the fourth Board of Directors at which the following resolutions were discussed and approved: the 2005 interim report and explanation on matters containing in the auditor's report of the previous year and net profit appropriation plan.
- (4) On 27 October 2005, the Company held the 14th meeting of the fourth Board of Directors at which the 2005 third quarterly report of the Company and the appointment of Mr. Sun Zhen as Chief Accountant were discussed and approved.

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

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

## **(3) FINANCIAL HIGHLIGHTS**

The financial highlights are detailed in (I) "Summary of Accounting Data and Financial Indicator" of this report.

The material difference between PRC accounting standard and HK GAPP is detailed in Item II(1)3.

## **(4) RESERVES**

Changes of reserves are detailed in Notes 30 to 32 to the Financial Statements of this Report.

## **(5) BANK LOANS AND OTHER LOANS**

Bank loans and other loans are detailed in Notes 18 to 27 to the financial statements.

**(6) FIXED ASSETS**

Changes of fixed assets are detailed in Notes 15 to 16 to the financial statements.

**(7) RETIREMENT WELFARE**

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

**(8) SHARE CAPITAL**

Changes of share capital are detailed in "IV. Equity Changes and Shareholders".

**(9) PRE-EMPTIVE RIGHT**

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

**(10) 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.

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

The Board recommended to distribute the profit for the year ended 31 December 2005 as follows:

During the reporting period, the Company recorded net profit of RMB23,625,686.63, all of which was used to cover loss recorded in the previous year, the accrued profit allocatable to shareholders at the end of the year is -1,157,605,354.19. Therefore the Board resolved not to make any profit appropriation during the reporting period, nor transfer any reserves to increase the share capital of the Company.

## (12) THE INDEPENDENT DIRECTORS PROVIDED INDEPENDENT OPINIONS ON THE FOLLOWING MATTERS

As independent directors of Northeast Electric Development Co., Ltd (the “Company”), Lin Wenbin, Gao Chuang, Kang Jinjiang, Liang Jie and Liu Hongguang have, in accordance with the relevant requirements set out in “Guidance Opinions on the Establishment of Independent Director System by Listed Companies” (《關於在上市公司建立獨立董事制度的指導意見》), “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” (《關於規範上市公司與關聯方資金往來及上市公司對外擔保若干問題的通知》)(Zhen Jian Fa [2003] No. 56), “Notice on Regulation of External Guarantee Acts of Listed Companies” (《關於規範上市公司對外擔保行為的通知》)(Zhen Jian Fa 2005 No. 120) and based on the relevant information available by the Board to the Company, the Board has reviewed the information provided and issued the following specific explanations and independent views on external guarantees of the Company, auditors’ opinion and issues involved, connected transactions and re-appointment of auditors in a pragmatic manner on the basis that the information available are true, accurate and complete:

### 1. Specific explanations and independent opinions on the Company’s external guarantee:

In 2005, the external guarantee of the Company aggregated to RMB59,060,000, of which RMB58,610,000 was granted to its controlling subsidiary and the total external guarantee of the Company accounted for 14.76% of the net assets as shown in the consolidated financial statements of 2005.

During the reporting period, the Company was able to observe relevant requirements as stated in documents, namely, Zhen Jian Fa [2003] No. 56 and Zhen Jian Fa 2005 No. 120, to cautiously deal with external guarantees and no guarantees was provided to shareholders, actual controller and its connected parties. Information disclosure was complete and external guarantees were fully disclosed and effectively controlled. 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.

### 2. Independent opinions on issues involved in auditors’ opinions

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

Referring to the issues of equity related to the disposal of 錦州電力電容器有限責任公司(「錦容」) in the audit opinion, as the calculation of the disposal price of the Company was based on net assets, it would not constitute any effect to the current total profit and net cash flow of the Company, neither or the future operating results of the Company. The independent directors also noticed that the audit opinion involved with other matters.

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

**(12) THE INDEPENDENT DIRECTORS PROVIDED INDEPENDENT OPINIONS ON THE FOLLOWING MATTERS (Continued)**

**3. Independent opinions on connected transactions**

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

**4. Independent opinions on re-appointment of auditors**

The Board of Directors' nomination, verification and voting procedure in connection to appointment of Deloitte Touche Tohmatsu CPA, who is qualified and meets the appointment requirements as stipulated by laws and regulations and the provisions of Articles of Associations, is lawful and effective. The auditors provided quality services and did not have any connected relationship with the Company.

In conclusion of the above, the Board has given its consent on the resolution of re-appointment of Deloitte Touche Tohmatsu CPA put forth at the 15th meeting of the 4th session of the Board of Directors.

**5. The independent opinion on appointing Mr. Shili as the Deputy General Manager of the Company**

The procedure of appointing Mr. Shi Li as the Deputy General Manager of the Company by the Board is legal, and has passed the personnel's audit. The independent directors considered that Mr. Shi conforms to the provision of China Securities Regulatory Commission and Shenzhen Stock Exchange, and is qualified to be a senior management of the Company. Based on the above description, it is agreed that the Board appoints Mr. Shi Li as the Deputy General Manager of the Company.