

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

During the reporting period, the company, under the direct guidance of the board of director and supports of mass shareholders, overcame the difficulties in material supply and funds, realized sustained operation and steady growth, and formed a basis for further development by deepening capital operation and inside management and persisting in a strict control on cost and expenditures. The profit from principal operations amounted to RMB537,961,000 representing a decrease of 2.17%; and the net profit of the Company amounted to RMB29,221,000, representing an increase of 23.68%. Major operating policies implemented during the reporting period were as follows:

1. Strengthened market management to enhance the quality of contracts. Improved the quality of sales staff and set up special division to establish an ideal regional market pattern and sales service system; exerted greater efforts to receive payments so as to minimize the risk of funds; paid more attention to review the quality of contracts to increase the gross profit ratio of orders.
2. Made a great progress in the research and development of new products and a steady increase in the quality of products. During the reporting period, the company, while implementing development to keep up with the market, completed nine scientific researches and won three new products by boosting strategic studies concerning the future. At the same time, it widely carried out sustained quality improvement activities for high quality products and made more efforts to control the quality in the whole course so that it could reduce quality losses and ensure the qualified product rate in the first test to a new level in history respectively.
3. Optimized process control, improved planned organization and field management, and found real solutions to solve bottlenecks to enhance production capacity. Realized information communication and resource sharing on the one hand and increased optimum distribution and overall utilization of resources on the other hand through carrying out in-depth ERP projects. Made greater efforts to realize reasonable arrangement and effective link by having closer cooperation among production, supply and sales, taking pertinent measures to reduce capital stress and meet urgent needs of production.
4. Detailed the management of costs and expenditures to stop up loopholes. In recent years, because the main raw materials have been keeping prices up, the company lays special emphasis on strict management in expenditure and material purchase, further strengthen inside control and the utilization rate of raw materials to cut down the costs of purchase and production.

(2) OPERATION OF THE COMPANY DURING THE REPORTING PERIOD

1. Scope of principal business and its operation

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

(2) Operational results for the year

The Company recorded a revenue of RMB537,960,970.52, total profit of RMB41,833,876.33 and the net profit of RMB29,221,345.41.

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

Principal operations by business and product segment

Unit: RMB0' 000

By Business or Product	By Business						
	Income from principal operations	Costs of principal operations	Profit ratio of principal operations(%)	Increase / decrease(%) in income from principal operations as compared with the preceding year	Increase / decrease(%) in costs of principal operations as compared with the preceding year	Increase / decrease(%) in profit ratio of principal operations as compared with the preceding year	
Electrical transmission and allocation and control facilities manufacturing	48,242.17	36,076.32	25.19	-0.80	-0.41	-0.21	
Other transportation and storage	2,272.34	1,424.44	33.15	-28.64	-24.75	-2.66	
Hotel	3,281.58	2,593.52	15.64	3.38	7.82	-3.57	
	By Product						
High-voltage switchgears circuit breaker	14,862.30	12,480.19	16.03	-31.27	-32.60	-1.66	
Power capacitor	21,155.76	14,451.85	31.67	30.51	53.27	-10.08	
Closed busbar	10,583.68	7,712.86	27.12	17.36	14.91	1.85	
Others	1,640.44	1,431.42	12.08	-7.67	-8.65	0.96	

**(2) OPERATION OF THE COMPANY DURING THE REPORTING PERIOD
(CONTINUED)****1. Scope of principal business and its operation (CONTINUED)**

(3) Principal operations by region segment

Unit: RMB0' 000

Region	Income from principal operations	Increase /decrease(%)in income from principal operations over last year
Northeast China	19,755	-2.65
Northern China (Shandong inclusive)	10,395	-59.06
Central China	5,041	540.53
East China	3,538	211.72
South China	6,464	93.94
Southwest China	3,612	68.86
Others	4,944	158.31
Total	53,796	-2.25

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

2. Operation and results of major controlling company and Investee Company

Unit: RMB0' 000

Name	Principal Business	Registered capital	Percentage of share held by the Company	Total assets	Net assets	Income from principal operations	Net profit
Fuxin closed busbars Company Limited	Closed busbars	US\$2,800,000	100	25,778	2,715	10,595	628
Shenyang Kingdom Hotel Co., Ltd.	Accommodation and catering	US\$18,070,000	100	28,148	22,089	3,298	-819
New Northeast Electric (Shenyang) High-voltage Isolator Co. Ltd	Insulated switchgear	US\$21,500,000	74.4	49,513	18,775	8,932	737
New Northeast Electric (Jinzhou) Power Capacitors Co.Ltd	Lightning arrester, power capacitor	US\$10,000,000	52	21,158	12,772	15,501	1,501
Jinzhou Jinrong Electric Company Limited	High-voltage capacitor	300	69.75	1,995	1,163	1,287	-193
Shenyang Gaodongjia Desiccation Company Limited	Desiccation equipment	US\$778,500	70	849	464	1,161	297
Northeast Electric (Hong Kong) Company Limited	Investment	US\$900,000	100	26,431	4,378	—	-684
New northeast Electric (Shenyang) High-voltage Switchgear Ltd.	Manufacture of switches and equipment	US\$168,000,000	20.8	227,751	119,317	125,378	10,677
Great Power Technology Limited	Investment	US\$12,626	20.8	24,199	9,847	9,722	9,555

3. Major suppliers and customers

Total volume of purchase from the Company's top 5 suppliers amounted to RMB143, 570, 000, representing 55% of the total volume of purchase. Total volume of sales to the Company's top 5 customers amounted to RMB232, 727,000, representing 43% of the total sales volume.

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

4. Impact of changes in operational environment and macro policies on the Company

It is expected that during the eleventh five-year plan, the total investment in national power grid will be up to about RMB1.2 billion, over double as much as that during the tenth five-year plan. With the production peak of power generation, the power grid construction will enter a new stage of overall development by electricity transportation from the west to the east, north-south mutual supply and nationwide network connection for most optimum distribution of resources. Updating transmission equipment, large capacity power transmission line reformation and further transformation for urban and rural power grids will bring new opportunities into power transmission and transformation manufacturers. It is predicted that the total installed capacity in 2007 will remain the same level as that in 2006 and show an improvement, thus directly boosting the sustainable growth in power transmission and transformation industry.

(3) INVESTMENTS DURING THE REPORTING PERIOD

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

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

(4) FINANCIAL CONDITIONS AND OPERATIONS RESULTS DURING THE REPORTING PERIOD**1 Table of financial positions and operation results**

Item	2006	2005	<i>Unit: RMB</i>
			Increase/ decrease(%)
1. Total assets	1,293,246,201.34	1,266,245,850.57	2.13
2. Shareholder's fund	829,159,133.77	797,329,741.70	3.99
3. Profit from principal business	134,186,681.62	140,893,040.68	-4.76
4. Net Profit	29,221,345.41	23,625,686.63	23.68
5. Net increase in cash and cash equivalent	-71,325,050.47	46,535,457.67	-253.27

2. Analysis of assets s with greater changes

Items	As at 31 December 2006	As at 31 December 2005	<i>Unit: RMB</i>
			Change(± %)
Cash and bank balances	41,123,600.99	112,448,651.46	-63.43
Bills receivables	2,180,800.00	13,400,000.00	-83.73
Other receivables	150,454,251.93	97,230,587.15	54.74
Long-term equity investment	357,215,692.62	112,019,656.88	218.89
Construction in progress	552,016.05	310,326.60	77.88
Amortization of long-term deferred expenses	4,274,165.25	0	

Note:

- 1) Main reasons for year-on-year drop of monetary fund: the added investment in New Northeast Electric (Shenyang) High-voltage Switchgears Company Limited and loan repayment
- 2) Main reasons for year-on-year decrease of bills receivable: payment against notes at maturity.
- 3) Main reasons for year-on-year gain of other receivables: changes in merger scope
- 4) Main reasons for year-on-year gain of long-term equity investment: added investment in New North-east Electric (Shenyang) High-voltage Switchgears Company Limited
- 5) Main reasons for year-on-year gain of construction in progress: the newly added ultra-capacitor project.
- 6) Main reason for year-on-year gain of amortization of long-term deferred expenses: payment for 3-year rent of New Northeast Electric (Jin Zhou) Power Capacitors Co., Ltd.

(4) FINANCIAL CONDITIONS AND OPERATIONS RESULTS DURING THE REPORTING PERIOD (CONTINUED)**3. Analysis of liabilities with greater changes**

Items	<i>(Unit: RMB)</i>		
	As at 31 December 2006	As at 31 December 2005	Change(± %)
Bills payable	9,540,800.00	3,000,000.00	218.03
Advances receivable	34,614,796.47	60,600,858.93	-42.88
Welfare payable	436,709.68	1,642,611.33	-73.41
Other payables	85,752,365.39	65,013,948.53	31.90

Note:

- 1) Main reasons for year-on-year gain of bills receivable: the increase of undue notes receivable;
- 2) Main reasons for year-on-year drop of advance receivable: the Advance receivable has reached the standard to be confirmed as income;
- 3) Main reasons for year-on-year gain of welfare payable: changes in merger scope
- 4) Main reasons for year-on-year gain of other payables: changes in merger scope.

4. Analysis of profit and loss with greater changes

Items	<i>(Unit: RMB)</i>		
	2006	2005	Change (± %)
Other operating profits	-1,474,730.35	5,126,347.09	-128.77
Non-operating income	1,483,532.14	16,005,952.63	-90.73
Non-operating expenses	949,909.61	24,186,735.42	-96.07

Note:

- 1) Main reasons for year-on-year gain of other operating profits: most of the other business income confirmed was offset at the merger;
- 2) Main reasons for year-on-year drop of non-operating income: there was estimated liabilities of RMB 15,290,000.00 reversed last year, but not any this year.
- 3) Main reasons for year-on-year drop of non-operating expenses: there was a decrease in estimated legal cost and compensation.

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

5. Fluctuation of cash flow during the reporting period

Items	2006	2005	(Unit: RMB)
			Change (± %)
Cash flows from operating activities	-13,197,000.88	5,643,748.35	-333.83
Cash flows from investing activities	-41,733,604.75	22,598,403.51	-284.68
Cash flows from financing activities	-16,394,444.84	18,293,305.81	-189.62

Note:

- 1) Main reasons for year-on-year drop of cash flows from operating activities: there was an increase of cash payment related to operating activities.
- 2) Main reasons for year-on-year drop of cash flows from investment activities: added investment in New Northeast Electric (Shenyang) High-voltage Switchgears Company Limited
- 3) Main reasons for year-on-year drop of cash flows from financing activities: there was a decrease in financing scale.

(5) THE BOARD'S EXPLANATION FOR OPINIONS GIVEN BY THE AUDITORS

The board of directors discussed and accepted the qualified audit report with emphasized paragraph of matters issued by the international auditors, Wong Lam Leung & Kwok C.P.A. Limited, and the unqualified audit report with emphasized paragraph of matters issued by the domestic auditors, Shenzhen Pengcheng Certified Public Accountants. The board of directors confirmed the 2006 Financial Statements compiled on the basis of relevant policies like the "Accounting System for Enterprises" present fairly and correctly, in all material respects, the financial position and operating results of the Company in 2006.

**(5) THE BOARD'S EXPLANATION FOR OPINIONS GIVEN BY THE AUDITORS
(CONTINUED)****1. Explanation for related matters of qualified opinions**

1. The appropriateness of differentiating the equity premium and investment income generated from the disposal of Jinzhou Power Capacitor Company Limited ("Jinzhou Power Capacitor")

As indicated in note , with the approval of the Board via resolution on 27 December 2004, the Company transferred its 99.99% equity of Jinzhou Power Capacitor to Northeast Construction Installation Engineering Company Limited ("Northeast Construction") and completed the registration of commercial and industrial updating on 15 April 2005. The Board of Directors considered that the disposal was completed, the transfer price is calculated based on the net asset value of Jinzhou Power Capacitor audited as at 31 December 2003, and operating profits of Jinzhou Power Capacitor from 1 January 2005 to the disposal date of the equity is RMB120,000. The Board confirmed that the transfer premium is RMB2,560,000. As the audit procedure required for the implementation of Jinzhou Power Capacitor's operating income had not been confirmed on the date of disposal, it was unable to accurately differentiate Jinzhou Power Capacitor's investment income recognized based on the interest means and the disposal of profit of equity. However, whether differentiating Jinzhou Power Capacitor's operating results and disposal of equity from 1 January 2005 to the date of disposal was appropriate or not, it could only affect the current consolidated profit statement (including the differentiation of Jinzhou Power Capacitor's operating profit and transfer profit), but not the current net profit and the future operating results of the Company.

Otherwise, in the table of consolidated cash flow statement of 2005, The disposal of cash received by subsidiaries shown in the consolidated cash flow statement is calculated based on the transfer price deducting Jinzhou Power Capacitor's initial cash remaining sum on 1 January 2005. As a result, the current cash changes of Jinzhou Power Capacitor from 1 January 2005 to the disposal date of the equity could only affect the flow changes of the related matters in the cash flow statements, but not the current cash flow in 2005 and cash remaining sum at the end of the period.

(5) THE BOARD'S EXPLANATION FOR OPINIONS GIVEN BY THE AUDITORS (CONTINUED)

2. Explanation on Matters in Relation to the Emphasized Matters

Litigation lodged by China Development Bank (CDB) for the debt of RMB150 million

As described in Note, on 22 March 2005, CDB lodged a litigation on the matured repayment against Shenyang High-voltage Switchgears Company Limited ("Shengao") with the Supreme People's Court of the PRC (the "Supreme People's Court"). On 6 June 2006, the Supreme People's Court made a decision to Beijing Higher People's Court that the litigation lodged by CBD on dispute over a loan contract with Shengao, Shenyang Transformer Company Limited ("Shenbian") and Northeast Construction and Installation Engineering General Corporation should be tried along with the litigation lodged by CBD on dispute with New Northeast Electric (Shenyang) High-voltage Isolator Switchgears Company Limited ("Isolator"), Shenyang Suntime Storage and Logistics Company Limited ("Suntime Storage"), Shenyang Chengtai Energy Power Company Limited ("Chengtai Energy") and the Company.

In auditors' opinion, the content of the said emphasized matters has no impact on previously published audit reports.

The lawyers issued a legal opinion letter on this matter. In their opinion, the case belongs to the dispute of CDB over a Loan Contract and a Guarantee Contract with Shengao, Shenbian and Northeast Construction and Installation Engineering General Corporation, and the Company is not the party of the Loan Contract and the Guarantee Contract, so it shall not assume any obligation under the said contracts and shall have no bearing on this dispute; the action Shengao established New Northeast Electric (Shenyang) High-voltage Switchgears Company Limited, Isolator, Suntime Storage and Chengtai Energy belongs to the foreign investment of a company Limited based on the legal relationship with the Company without any losses in assets value and any impact on debt service; there is no malicious collusion in share exchange between Shengao and the Company. The Company's investment in Shenyang with a total of RMB 144,925,000.00 was all paid-up on 25 April 1995 to perform the contribution obligation completely. The court has not made any final decision, so the impact of the litigation lodged by CDB on the Company will be confirmed according to the final decision of the court.

(6) THE BOARD OF DIRECTORS' EXPLANATION ON CORRECTION OF SIGNIFICANT ACCOUNTING ERRORS

The company acquired 74.4% equity of New Northeast Electric (Shenyang) High-voltage Isolator Switchgears Co., Ltd, 95% equity of Shenyang Suntime Storage and Logistics Co., Ltd and 95% equity of Shenyang Chengtai Energy Power Co., Ltd from Shenyang High-voltage Switchgear Co., Ltd on 7 April and 14 April 2004 respectively.

The increased value from assets appraisal in the above three companies was RMB132, 528,703.79 at the beginning of their founding. The Company took this part into the capital reserve of the parent company, but transferred it back when compiling the 2004 Annual Report and 2005 Annual Report.

Under the prudent principles, the amount of increased value should not be embodied in the statement of the parent company of the Company when it is difficult to determine the fair value of the said asset. Meanwhile, the merger and adjustment in the previous two years should be taken into consideration. So the Company made an adjustment on the amount of increased value involved in the number at the beginning of the year in the statement of the parent company of the Company by reducing capital reserve of RMB132, 528,703.79 and the long-term investment of the parent company of RMB132, 528,703.79. The retained income of RMB132, 528,703.79 at the beginning of the year in the statement of the parent company was reduced in this adjustment without any influence on the initial number of the consolidated statement.

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

(7) OPERATING PLANS FOR THE NEW YEAR

Led by the board of directors, the Company will improve management and operation through managerial innovation and technological progress, properly implement the operating plans for the new fiscal year so as to realize rapid growth in sales and net profits.

1. Enhancing budget control in an all-round way and taking effective steps to increase profits.

- (1) Strengthening budget management as well as quantizing and localizing cost control. More attention will be paid to preventative management in expenditure by tightening supervision, reducing controllable costs and expenses and taking a strict measure to cut down unproductive and unplanned spending.
- (2) Adjusting product structure by increasing production of profitable products. High priority will be given to readjustment of production patterns to accelerate the establishment of more competitive advantages, development potential and capacity to produce profitable products as well as to realize the best combination of product variety and productive capacity on the one hand and the maximization of profits on the other hand.
- (3) Emphasis will be laid to productive management and interior accounting foundation through careful and standard management so as to improve steady growth in production and sales and reduce costs.

2. Seeking for more competitive products and larger market share

- (1) More importance will be attached to key and significant projects by reasonable pattern and overall coordination to reconstruct marketing system improve order quality and expand the market share of products.
- (2) Concentrating a superior force to do a good job in R&D and technological transformation. Full efforts will be made to boost the market share of new products by accelerating the development of new products and renovation of normal products as well as to expand the scale of main business by increasing investment in R&D of science and technology and accelerating the absorption of imported technologies.
- (3) Perfecting the quality of products. The quality process of products will be controlled strictly to maintain the reputation of the company and the image of its products.

(7) OPERATING PLANS FOR THE NEW YEAR (CONTINUED)**3. Establishing improved HR management system in accordance with the corporate characteristics**

The company will make a stricter standard to evaluate performances and establish perfect indicator assessment system. It will realize self-stimulation and improve executive force through a high degree of unification in responsibility, right and benefit. Better and proper use will be made of professionals in technology, management and operation by the perfect talent development mechanism, optimized policies and improved systems within the company.

4. Persisting in boosting innovation of management pattern and taking effective steps to increase competitiveness

- (1) Effective steps will be taken to improve work efficiency and management performance by advocating business process reengineering and higher information degree, establishing standard management platform, and realizing standard and careful management. The unification of goods, capital and information flow will be gradually realized by establishing a management information system that mainly relies on production, supply and sales as well as combines production, sales, finance, logistics, equipment and human resources.
- (2) The supply chain management will be improved to ensure the increasing production and sales through the honest, effective, economical and transparent purchase management. Based on proper market investigation and forecast, the blanket purchase will be organized to cut purchase cost and avoid inflation risk.
- (3) After the Company succeeded in implementing equity division reform in May 2006, all shareholders have formed an unified price foundation, which will be taken as an opportunity by the Company to promote the market competitiveness and value in all round way by further improving the corporate governing structure, boosting reforms in operation and management systems and establishing standard, honest and effective enterprise image.

(7) OPERATING PLANS FOR THE NEW YEAR (CONTINUED)

5. Fund needs and usage plans of funds needed for implementation of strategies for future development and source of funds

It is predicted that more funds shall be needed during the process of implementation of strategies for future development (mainly upgrading of equipment and technological renovation). In this connection, the Company will actively widen its financing channels and solve fund needs by such means as of debt financing and equity financing. At present, the Company has a low gearing ratio. The self-owned funds are expected to be sufficient to meet the development needs for 2007. Should any discrepancy emerge, the Company will solve the problem with bank loans.

6. Possible risks faced by the Company and strategy

(1) Development strategy risks

At present, the Company is under-productive. Equipment upgrading and technological renovations are the most vital segments of our development cores. The Company will observe the market with alertness, stress on in-depth studies for first-hand information and will adopt scientific approaches will for feasibility studies and make full use of good opportunities to acquire companies for development at low cost. Development strategies will be incorporated into our daily work through the formulation of action plans and the implementation of duties of all functional departments. Hence strategic control and ongoing improvement mechanisms will be established. As the same time, more efforts shall be spent on enhancing implementation of strategies in line with the real situation, making them more pragmatic. Routine decisions and actions will be kept in line with long-term strategies so as to ensure implementation of strategies.

(2) Market operation risks

The Company will prepare for possible future risks and endeavour to expand its market share and to ensure the Company's products' lead in the market solid foundation for our development. Great efforts are needed to do preliminary market research, enhance predictability of market trend and response to market needs. The Company will be more proactive in directly dealing with both upstream and downstream clients, step up market development and be more ambitions in expanding ordering channels. The Company will also expedite structural adjustment, enhance productivity, provide quality services, and promote economic effectiveness and market shares.

(7) OPERATING PLANS FOR THE NEW YEAR (*CONTINUED*)

6. Possible risks faced by the Company and strategy (*CONTINUED*)

(3) Financial risks

Asset auditing will be conducted on a regular basis to implement the management responsibility system. Financial supervision and management will be strengthened while auditing will be conducted regularly. Changes in exchange and interest rates will be closely monitored for timely adjustments to financing arrangements. Financial management systems will be perfected and strictly implemented, the quality of personnel will be enhanced, and the supervisor accountability system will be implemented.