

(1) DAILY WORK OF THE BOARD OF DIRECTORS

During the reporting period, the board of directors held 5 meetings as follows:

1. On 18 April 2006, the Company held the 15th meeting of the fourth Board of Directors at which the following resolutions were discussed and approved: the 2005 Annual Report and Explanations for opinions 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 2005 Annual General Meeting on 2 June 2006 for consideration and approval.
2. On 27 April 2006, the Company held the 16th meeting of the fourth Board of Directors at which the 2006 first quarterly report of the Company was approved.
3. On 16 August 2006, the Company held the 17th meeting of the fourth Board of Directors at which the following resolutions were discussed and approved: the 2006 interim report and appointment of Mr. Mak Yee Chuen as Joint secretary and authorized representative of the Company in Hong Kong were discussed and approved.
4. On 24 October 2006, the Company held the 18th meeting of the fourth Board of Directors at which the 2006 third quarterly report of the Company was approved.
5. On 17 November 2006, the Company held the 19th meeting of the fourth Board of Directors at which the following resolutions were discussed and approved: the resolution in related to re-appointed the Company's domestic and international auditors; to accept Mr. Niu Wenjun's resignation as executive director and extra approve the resolution of increasing in share capital expansion.

(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 section 2(1) of this Annual Report.

The material difference between PRC accounting standard and HK GAPP is detailed in section 2(1) 3 of this Annual Report.

(4) RESERVES

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

(5) BANK LOANS AND OTHER LOANS

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

(6) FIXED ASSETS

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

(7) RETIREMENT WELFARE

During the year, the Company adopted Hong Kong Standard on Auditing (HKAS) No.19 "Employee Benefits" which standardized the Company's policy on staff welfare like retirement welfare plans. Since the Company only participated in the staff retirement insurance system regulated by the state government, the application of HKAS 19 did not impose significant impact on the Company's financial status.

(8) SHARE CAPITAL

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

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

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

(11) INCOME TAX: The income taxes of the Company paid are detailed in the Notes to the Financial Statements and there's no taxable income in Hong Kong.

(12) 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.

(13) 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 2006 as follows:

During the reporting period, the Company recorded net profit of RMB29,221,345.41, of which RMB27,618,395.83 was used to cover loss recorded in the previous year after deduction of free common reserve funds of RMB368,569.85 and surplus common reserve funds of RMB1,234,379.73 withdrawn by subsidiaries, and the accrued profit distributable to shareholders at the end of the year is RMB-1,129,986,958.36. Therefore the Board resolved not to make any profit distribution and not to transfer any capital reserve into share capital during the reporting period.

(14) FOREIGN EXCHANGE RISK

Most of the revenue, expenditure, assets and liabilities of the Company are denominated in Renminbi and therefore the Company is not subjected to any significant risks from fluctuation of foreign exchange.

(15) CASH LIQUIDITY, FINANCIAL RESOURCES, CAPITAL STRUCTURE AND ASSETS PLEDGED

As at end of the year, the balance of monetary fund was RMB39, 760,000.

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

The funds are mainly satisfied by 1) the cash flow from the Company's operation and capital operation and 2) the borrowings from financial institutions.

As at the end of the year 2006, the Company had bank loans amounting to RMB68, 300,000, representing 5.22% of the total assets. These bank loans bear fixed interests.

The debt equity ratio of the Company was 8.24% (debt equity ratio= total bank loan/total share capital reserve * 100%)

As at the end of the year 2006, the Company had net asset of RMB133, 121,000 as security.

(16) THE INDEPENDENT DIRECTORS PROVIDED INDEPENDENT OPINIONS ON THE FOLLOWING MATTERS

1. Special representation and independent opinion on guarantees the Company has committed to during the current year and cumulatively

In accordance with the relevant requirements set out in "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, in a pragmatic manner on the basis that the information available are true, accurate and complete:

(16) THE INDEPENDENT DIRECTORS PROVIDED INDEPENDENT OPINIONS ON THE FOLLOWING MATTERS (CONTINUED)

1. Special representation and independent opinion on guarantees the Company has committed to during the current year and cumulatively (CONTINUED)

Through careful examination, we are convinced that during the reporting period, Northeast Electric Development Co., Ltd cautiously treats and handles the foreign guarantee matters and makes complete information disclosure in accordance with stipulations of Zheng Jian Fa [2003] No. 56 and Zheng Jian Fa [2005] No. 120, thus making full disclosure and effective control of foreign guarantee. It hasn't made any guarantee for its shareholders, effective controller as well as the parties concerned and, its capital flow with the parties concerned is the normal operational capital flow. Neither any insider dealings with the people concerned, nor connected transactions that impair the rights and interests of some shareholders' or the company's are found. The company operates by law without any problems in its finance, purchase and merger, sales of assets and related transactions. The foreign guarantee amount of the company amounts to RMB 89,900,000.00, and the guarantee amount for its holding subsidiary RMB 57,300,000.00. The total guarantee amount takes up 17.75% of net assets in consolidated statement for 2006.

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 international auditors' qualified report with emphasized matters of Wong Lam Leung & Kwok C.P.A. Limited and domestic auditors unqualified report with emphasized matters of Shenzhen Pengcheng Certified Accountants Co., Ltd issued by the Board of Directors conforms to the fact.

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.

(16) THE INDEPENDENT DIRECTORS PROVIDED INDEPENDENT OPINIONS ON THE FOLLOWING MATTERS (*CONTINUED*)**3. Independent Opinions 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 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 consolidated statement.

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, 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.

4. Independent opinions on connected transactions

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

(16) THE INDEPENDENT DIRECTORS PROVIDED INDEPENDENT OPINIONS ON THE FOLLOWING MATTERS (CONTINUED)

5. Independent opinions on compensation for senior management in 2006

In accordance with relevant rules and regulations such as the Guiding Opinions on the Establishment of Independent Directors Systems by Listed Companies and the Work System of Independent Directors, we, the independent directors of the company, made a serious examination of compensation for the top management and worked out:

The company strictly implemented the system of compensation for directors, supervisors and top management in 2006. The systems the company made, the evaluation system and the process to grant compensation were in conformity with the relevant laws, regulations and articles of association.

6. Independent opinion on appointment and dismissal of senior management

In accordance with relevant rules and regulations such as the Guiding Opinions on the Establishment of Independent Directors Systems by Listed Companies and the Work System of Independent Directors, we, the independent directors of the company, with seriousness and sense of responsibility, hereby give the following independent opinions for the motion on appointment and dismissal of senior management:

- (1) We agreed Mr. Sun Zhen to resign the post of chief accountant and secretary to the board of directors. The above approval process is effective and in accordance with the provisions as specified in Articles of Association;
- (2) With nomination of general manager, we engaged Mr. Shi Li as the chief accountant and secretary to the board of directors, and Mr. Bi Jianzhong as the assistant manager. The above nomination is accordance with the provisions as specified in Articles of Association;
- (3) Through review of the resumes and other documents related to Mr. Shi Li and Mr. Bi Jianzhong, we didn't find out they had involved in any conditions stipulated in Article 147 of Company Law, or they had been banned from the market by China Securities Regulatory Commission and are still undergoing this ban. Talented with the professional knowledge and capable of decision-making, supervision and coordination, they are satisfied with the requirements of relevant duties as well as employment qualifications for senior management stipulated in Company Law and Articles of Association.

(16) THE INDEPENDENT DIRECTORS PROVIDED INDEPENDENT OPINIONS ON THE FOLLOWING MATTERS (*CONTINUED*)**7. Independent opinions of independent directors on the term-change election for the new board of directors**

- (1) In accordance with relevant rules and regulations such as the Guiding Opinions on the Establishment of Independent Directors Systems by Listed Companies and the Work System of Independent Directors, we, the independent directors of the company, made serious consideration for the Motion on Candidates for The Fifth Board of Directors in the 20th session of the fourth board of directors through careful reading of the relevant documents provided by the company and making enquiries to the Company about relevant matters. We agreed to nominate Mr. Wang Souguan, Mr. Zhang Bin, Mr. Su Wei, Mr. Liu Qingmin, Mr. Sun Zhen, Mr. Shi Li, Mr. Du Kai and Mr. Liu Tongyan as candidates for executive directors, and nominate Mr. Lin Wenbin, Ms. Liang Jie, Mr. Liu Hongguang, Mr. Xiang Yongchun and Mr. Wu Qicheng as candidates for independent directors. The nomination process nomination is in accordance with stipulations of laws and regulations of China and provisions of the articles of association;
- (2) Through review of the resumes and other documents related to above persons, we didn't find out they had involved in any conditions stipulated in Article 147 of Company Law, or they had been banned from the market by China Securities Regulatory Commission and are still undergoing this ban. They are satisfied with the requirements of acting as directors of listed company and competent for employment qualifications, complying with relevant stipulations of Company Law and Articles of Association.

8. Independent opinions of independent directors on re-appointing international and domestic auditors

In view of the expiration of the present board of directors on 7 March 2007, the company will publish the annual report for 2006 before that. The international and domestic auditors submitted their resignations since they haven't reached agreements on time arrangement with the company. At the same time, the auditors, as stipulated in the Listing Rules, confirmed there weren't anything related to their resignation to be mentioned to all the shareholders. The auditors had every reason to make professional judgment through adequate consideration of their own audit process and work foundation, which is natural and up to professional standards.

(16) THE INDEPENDENT DIRECTORS PROVIDED INDEPENDENT OPINIONS ON THE FOLLOWING MATTERS (*CONTINUED*)

8. Independent opinions of independent directors on re-appointing international and domestic auditors (*CONTINUED*)

The company's board of directors performed its duties and responsibilities in line with listing rules, and made a decision to reappoint auditors. The resolution process conforms to the stipulations of relevant laws, regulations, normative documents and Articles of Association as well as consists with the fact and the rights and interests of all shareholders.

Independent Directors: Gao Chuang, Kang Jinjiang, Lin Wenbin, Liang Jie, Liu Hongguang

Shenyang, the PRC
28 February 2007