

**(I) MATERIAL LITIGATION AND ARBITRATION****1. Litigation lodged by China Development Bank (CDB) for the debt of RMB150 million**

According to the announcement dated 29 September 2006, CDB lodged litigation against Shenyang High-voltage Switchgears Company Limited on dispute over a loan contract and also against the Company for acceptance of joint compensation. On 6 June 2006, the Supreme People's Court made a final decision ((2005) Min Er Zhong Zi No.106) to discharge the civil judgment ((2004) Gao Min Chu Zi No.802) made by Beijing Higher People's Court and pronounced a ruling that the litigation lodged by CBD on dispute over a loan contract with Shenyang High-voltage Switchgears Company Limited 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 Switchgears Limited, Shenyang Suntime High-voltage Electric Company Limited, Shenyang Chengtai Energy Power Company Limited, Shenyang Suntime Storage and Logistics Company Limited and the Company.

**2. Litigation lodged by Shenyang representative office of Xinda Assets Management Corporation ("Xinda") on dispute over a loan contract**

According to the announcement dated 28 March 2006, Xinda lodged a litigation against Shenyang High-voltage Switchgears Company Limited on dispute over a loan contract and also against the Company for acceptance of joint compensation. On 20 March 2006, The Higher People's Court of Liaoning Province gave the civil judgment (2005) Liao Min San Chu Zi No.8, and retorted the plaintiff's claims against the Company. Xinda soon lodged an appeal with the Supreme Court. On 26 December 2006, the Company received the final decision ((2006) Min Er Zhong Zi No.128) given by the Supreme People's Court, which maintained the previous judgment. Now the ruling is always in effect.

### (I) MATERIAL LITIGATION AND ARBITRATION (CONTINUED)

#### 3. Progress of Debt and equity case brought by Liaoning Trust and Investment Company (“Liaoning Trust”) on US\$12 million

Confirmed by relevant departments of the People’s Government of Liaoning Province, on 30 May 2005, the liquidation team of Liaoning Trust transferred the Company a creditor assets agreement of RMB76.09 million from the provincial financial trust loan for Benxi Iron & Steel (Group) Co., Ltd (Bengang). The Company soon after lodged litigation against Bengang on 1 June and 24 October of 2005 by objects RMB15.9 million and 60.19 million respectively. With regard to the case of RMB15.9 million, on 2 November 2005, Shenyang Intermediate People’s Court (Shenyang Intermediate Court) made a civil judgment ((2005) Shen Zhong Min Si He Chu Zi No.13) and required Bengang to repay its debts. Bengang thereby lodged an appeal with the Higher People’s Court of Liaoning Province (Liaoning Higher Court). On 16 December 2005, Liaoning Higher Court made a final decision ((2005) Liao Min Er Zhong Zi No.220) and maintained the previous judgment. Now the case is in the stage of enforcement. As for the case of RMB60.19 million, on 30 March 2006, Shenyang Intermediate Court made a civil judgment ((2005) Shen Zhong Min Si He Chu Zi No. 21, 22 and 23) and required Bengang to repay its debts. Bengang soon lodged an appeal with Liaoning Higher Court. There is at present no final decision.

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

#### 1. Overseas investment and assets acquisition

- (1) With the approval of the director’s meeting on 8 July 2006, Northeast Electric (Hong Kong) Co., Ltd, the fully funded subsidiary of the company, contributed US \$ 10,420,000.00 to subscribe for the newly increased capital stock of New Northeast Electric (Shenyang) High-voltage Switchgear Co., Ltd. It made the registration of change with the Industrial and Commercial Administration on 15 August 2006.
- (2) With the approval of the director’s meeting on 15 October 2006, Fuxin Closed Busbars Co., Ltd, the fully funded subsidiary of the company, contributed US \$ 18,300,000.00 to subscribe the newly increased capital stock of New Northeast Electric (Shenyang) High-voltage Switchgear Co., Ltd. It made the registration of change with the Industrial and Commercial Administration on 1 November 2006.

**(2) ASSETS ACQUIRED AND DISPOSED BY THE COMPANY DURING THIS REPORTING PERIOD (CONTINUED)****2. Disposal of assets**

With the approval of the director's meeting on 31 October 2006, the company transferred 95% of its equity in Shenyang Suntime Storage and Logistics Company Limited and the same percentage in and Shenyang Chengtai Energy Power Company Limited, which are held by its fully funded subsidiary Fuxin Closed Busbars Co., Ltd, to Shenyang Dejia Trading Co., Ltd (A third party that has nothing related to the company or its subsidiaries). It made the registration of change with the Industrial and Commercial Administration on 1 November 2006.

**(3) CONNECTED TRANSACTIONS**

During the reporting period, there were no connected transactions as defined under the Listing Rules of Shenzhen Stock Exchange (Revised in 2005) nor had creditor rights and debt with connected parties at the end of the reporting period.

The Company formed connected transactions with New Northeast Electric (Shenyang) High-voltage Switchgear Co. Ltd by making twice Capital Investment to it on 8 July 2006 and 15 October 2006, pursuant to the requirements of the Listing Rules of Hongkong Stock Exchange. The Company gave announcement on 17 November 2006 for the Extraordinary General Meeting.

**(4) USE OF CAPITAL FOR CONNECTED PARTIES**

Controlling shareholders or other connected parties did not use any capital during the reporting period.

### (5) SIGNIFICANT CONTRACTS AND THEIR EXECUTIONS

1. During the reporting period, the Company did not enter into any material guarantee, trust, contractual or lease arrangement in respect of the assets of other companies nor did other companies enter into any trust, contractual or lease arrangement in respect of the assets of the Company nor have any fund management on trust or designated loan during the reporting period.
2. Guarantees

Through the approval of the board of directors, Shenyang Kingdom Hotel (the fully funded subsidiary of the company) offered its assets as mortgage guarantee against a short-term loan of RMB 50,000,000.00 in CITIC Bank Shenyang Branch for New Northeast Electric (Shenyang) High-voltage Switchgear Co. Ltd (the subsidiary of the joint stock company of the company). The guarantee is valid to 20 October 2007, accounting for 3.87% of the company's total assets for 2006, which was audited to be RMB 1,293,250,000.00.

- 1) Foreign guarantees of the company

By the end of 2006, the foreign guarantee of the company totaled RMB 89,900,000.00, including RMB 50,000,000.00 for New Northeast Electric (Shenyang) High-voltage Switchgear Co. Ltd and RMB 39,900,000.00 for Jinzhou Power Capacitors Co., Ltd.

- 2) Guarantees for the holding subsidiaries of the company

In 2006, the company offered guarantees of RMB 57,300,000.00 in total for its holding subsidiaries.

- 3) Guarantee of the company for the guaranteed company with assets liabilities over 70%

As of the end of the reporting period, the guarantee of the company for Jinzhou Power Capacitors Co., Ltd with assets liabilities over 70% was up to RMB 39,900,000.00, accounting for 4.81% of the audited net assets of the company for 2006.

- 4) The company hasn't any other guarantees for its shareholder, effective controller and other parties concerned.

**(6) COMMITMENTS ON EQUITY DISTRIBUTION REFORM**

In accordance with the relevant requirements as set out in the “Guidelines of Share Reform of Listed Companies” issued by the five commissions including China Securities Regulatory Commission, and authorized by Shenzhen Stock Exchange, the Company implement the Share Reform Scheme on 16 May 2006. Non-circulating Shares Shareholders of the Company undertook to comply with the requirement of laws, regulations and rules to perform statutory undertaking of obligations. To implement the Share Reform Scheme of the Company smoothly, New Northeast Electric Investment Co., Ltd, the controlling shareholder 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 stock exchange will not less than RMB5, and it will pay the consideration in advance to Non-circulating Shares Shareholders who have not yet indicated their consents to the participation in the Share Reform. ( For details, please refer to the designated newspaper disclosure dated 12 May 2006.)

**(7) APPOINTMENT AND DISMISSAL OF ACCOUNTANTS**

Please refer to section 5(5) 13 of this Annual Report for details.

**(8) DURING THE REPORTING PERIOD, THE COMPANY, THE BOARD OF DIRECTORS AND THE DIRECTORS HAD NOT BEEN INVESTIGATED, UNDER ADMINISTRATIVE PENALTY, CRITICIZED BY NOTICE BY THE CHINA SECURITIES REGULATORY COMMISSION AND OPENLY REPRIMANDED BY THE STOCK EXCHANGE****(9) NO SIGNIFICANT EVENTS AS LISTED IN SECTION 67 OF THE SECURITIES LAW AND SECTION 30 OF DETAILS FOR ADMINISTRATION ON INFORMATION DISCLOSURE OF LISTED COMPANIES****(10) IN ACCORDANCE WITH THE REQUIREMENTS OF GUIDE FOR FAIR INFORMATION DISCLOSURE OF LISTED COMPANIES MADE BY SHENZHEN STOCK EXCHANGE, THE COMPANY RECEIVED INVESTORS’ INVESTIGATIONS AND MEDIA INTERVIEWS IN AN OPEN, FAIR AND JUST WAY DURING THE REPORTING PERIOD.**

### (11) SUBSEQUENT EVENTS

#### I . The second extraordinary general meeting

The second extraordinary general meeting of Northeast Electric Development Co., Ltd (the Company) in 2007 was held in the conference room of the Company at No. 189 Taiyuan South Street, Heping District, Shenyang, the PRC at 10:20 a.m. on 7 March 2007. Total three shareholders and proxies attended the meeting, holding and representing 498,628,390 shares, accounting for 57.09% of the entire share capital of 873,370,000 shares of the Company, of which 248,648,392 shares have right to vote in the meeting, which was in compliance with the requirement of Company Law of PRC and provisions of the Articles of Association of the Company, and obtained the Legal Opinion Letter issued by Liaoning Tongfang Law Firm. The meeting has considered and passed the following resolutions:

1. The Resolution in Relation to the Candidates of Members in the Fifth Session of the Board of Directors be approved;

The fifth session of the Board of Directors of the Company comprises of eight executive Directors, namely Mr. Sun Zhen, Mr. Wang Shouguan, Mr. Zhang Bin, Mr. Su Weiguo, Mr. Liu Qing Min, Mr. Shi Li, Mr. Du Kai and Mr. Liu Tongyan; and five independent non-executive Directors, namely Mr. Wu Qicheng, Mr. Xiang Yongchun, Mr. Lin Wenbin, Ms. Liang Jie and Mr. Liu Hongguang.

2. The Resolution in Relation to the Candidates of Members in the Fifth Session of the Supervisory Committee be approved;

The fifth session of the Supervisory Committee of the Company comprises of two shareholder representatives, namely Mr. Fu Xiuheng and Ms. Dai Guiqing, and one employee representative, namely Mr. Dong Liansheng.

3. The Remuneration Scheme for the Members of the Fifth Session of the Board of the Directors be approved;
4. The Remuneration Scheme for the members of the Fifth Session of the Supervisory Committee be approved;

**(11) SUBSEQUENT EVENTS (*CONTINUED*)****I . The second extraordinary general meeting (*continued*)**

Pursuant to Rules 13.51(2) and 13.74, The Company hereby wishes to announce the appointment of the above directors and supervisors and the relevant information as follows:

1. Re-appointed Directors

The seven re-appointed directors are Mr. Wang Shouguan, Mr. Zhang Bin, Mr. Su Weiguo, Mr. Liu Qingmin, Mr. Lin Wenbin, Ms. Liang Jie, and Mr. Liu Hongguang.

2. New Appointed Directors

The six new directors are Mr. Sun Zhen, Mr. Shi Li, Mr. Du Kai, Mr. Liu Tongyan, Mr. Wu Qicheng and Mr. Xiang Yongchun.

Mr. Sun Zhen, executive director, born in 1975, a university graduate and a post-graduate student, graduated from Shenyang Industrial University majoring in accounting. He is currently the Chairman of the board of Northeast Electric Development Co., Ltd. He has served as the Director of the Financial Department and Deputy Director of a factory of Shenyang High-voltage Switchgears Co., Ltd and the Director of the Financial Department, Chief Accountant and Secretary to the Board of Directors of the Company.

Mr. Shi Li, executive director, born in 1967, a college diploma holder and a post-graduate student, graduated from Harbin Mechanical and Electrical College in industrial accounting. He is currently the Deputy General Manager and Secretary to the Board of Directors of Northeast Electric Development Co., Ltd. He has served the position of Financial Manager of Shenyang Transformers Company Limited, Manager of Financial Department of Kingdom Hotel and Deputy Manager of Financial Department, Chief of Office of the Company and the Chairman of New Northeast Electric (Shenyang) High-voltage Isolator Co., Ltd, Deputy General Manager, Chief Accountant and Secretary to the Board of Directors of the Company.

Mr. Du Kai, executive director, born in 1968, is currently the Chairman of New Northeast Electric (Jinzhou) Power Capacitors Co., Ltd. He is an economist who graduated in Northeast University specializing in mechanical manufacturing techniques. He served as assistant of the General manager in Shenyang New District Development and Construction Company Limited and the Office Director of the Company.

### (11) SUBSEQUENT EVENTS (*CONTINUED*)

#### 1. The second extraordinary general meeting (*continued*)

##### 2. New Appointed Directors (*CONTINUED*)

Mr. Liu Tongyan, executive director, born in 1968, is currently the executive director and Chief Engineer of Fuxin Closed Busbars Ltd. He graduated in Harbin Polytechnic University specialising in electric isolation and cable. He has served as Director of loop Workshop, Section Chief of Production Department, Director of Manufacturing Department of Shenyang Transformers Limited Company, Manager of Extra-high Voltage Project Company and Director of Human Resource Department of the Company.

Mr. Wu Qicheng, Independent non-executive directors, born in 1945, a professor and a senior engineer, graduated from the Department of Motive Power Engineering of Huazhong Institute of Technology in heat energy. He has served as the Vice Head of Bajiazi Zinc Mine of Liaoning Province, the Director of Chaoyang Municipal Economic and Trade Commission of Liaoning Province, the Vice Director of Liaoning Provincial Economic and Trade Commission, the Mayor of Benxi City, the General Director of Liaoning Provincial Land and Resources Administration, and the Vice Director of Liaoning Provincial State-owned Assets Supervision and Administration Committee.

Mr. Xiang Yongchun, Independent non-executive directors, born in 1943, a professor of engineering, graduated from the Department of Mechanic Manufacture of Shenyang Industrial University in Mechanic Manufacture. He has served as the Workshop Director, Vice Factory Director and Factory Director of Shenyang High-voltage Switchgears Co., Ltd, the General Manager of Shenyang Tool Industry Company and the Chairman of the Company.

Save as disclosed above, the 13 directors have not held any directorship or other major appointments in any listed public companies in the last three years. All the above-mentioned directors don't have any interest in the shares of the Company with the meaning of Part XV of the Securities and Futures Ordinance ("SFO") as at the date of this announcement. Other than the relationship arising from Mr. Wang Shouguan's serving at New Northeast Investment Limited Company, the controlling shareholder, all directors do not have any relationship with any other directors, supervisors, senior management, substantial shareholder or controlling shareholder of the Company.



**(11) SUBSEQUENT EVENTS (*CONTINUED*)****1. The second extraordinary general meeting (*continued*)**2. New Appointed Directors (*CONTINUED*)

The elected directors will sign service agreements with the Company for a term from 8 March 2007 to 7 March 2010. The remuneration paid by the Company is in accordance with the Remuneration Scheme for the members of the Fifth Session of the Board of Directors approved by the extraordinary general meeting on 7 March 2007.

Save as disclosed in this announcement, the Board is not aware of any other information to be disclosed pursuant to Rule 13.51 (2)(h) to (v) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited or matter that needs to be brought to the attention of the shareholders of the Company in connection with the proposed appointment of the above persons as directors of the Company.

## 3. Resigned Directors

Six members of Previous Board, namely Mr. Qu Lin, Ms. Tian Li, Mr. Li Hongliang, Mr. Niu Wenjun, Mr. Gao Chuang and Mr. Kang Jinjiang ceased to be Directors.

Pursuant to Rule 13.51 (2), all resigning directors confirm that there is no disagreement between them and the Board or any matters relating to their resignations that need to be brought to the attention of shareholders of the Company.

### (11) SUBSEQUENT EVENTS (*CONTINUED*)

#### I . The second extraordinary general meeting (*continued*)

##### 4. Appointed Supervisors

All members of the previous Supervisory Committee were elected for a successive term, namely Mr. Dong Liansheng, Mr. Fu Xiuheng and Ms. Dai Guiqing.

Save as disclosed above, the three supervisors have not held any directorship or other major appointments in any listed public companies in the last three years. All the above supervisors don't have any interest in the shares of the Company with the meaning of Part XV of the Securities and Futures Ordinance ("SFO") as at the date of this announcement. Other than the relationship arising from Ms. Dai Guiqing's being Financing Controller of New Northeast Investment Limited Company, the controlling shareholder, all the supervisors do not have any relationship with any other directors, supervisors, senior management, substantial shareholder or controlling shareholder of the Company.

The elected supervisors will sign service agreements with the Company for a term from 8 March 2007 to 7 March 2010. The remuneration paid by the Company is in accordance with the Remuneration Scheme for the members of the Fifth Session of the Supervisory Committee Of the Company approved by the extraordinary general meeting on 7 March 2007.

Save as disclosed in this announcement, the Board is not aware of any other information to be disclosed pursuant to Rule 13.51 (2)(h) to (v) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited or matter that needs to be brought to the attention of the supervisors of the Company in connection with the proposed appointment of the above persons as supervisors of the Company.

**(11) SUBSEQUENT EVENTS (*CONTINUED*)****I . The second extraordinary general meeting (*continued*)**

5. The Resignation and Appointment of the Company Secretary and Authorized Representative

The Board accepted the resignation of Mr. Sun Zhen as Company Secretary for work-related reasons. Mr. Sun Zhen confirms that there is no disagreement between him and the Board or any matters relating to his resignation that need to be brought to the attention of the shareholders of the Company.

The Board has appointed Mr. Mak Yee Chuen, Vincent, as the Company Secretary and the authorized representative in Hong Kong to discharge the related obligations timely under the regulations of Chapter 32 of the Laws of Hong Kong.

Profile of Company Secretary

Mr. Mak Yee Chuen, Vincent, born in 1957, holds a master's degree of laws from The University of Hong Kong in 2001 and a master's degree in business administration from The Hong Kong Polytechnic University in 1994. He is a fellow member of the Hong Kong Institute of Certified Public Accountants and The Association of Chartered Certified Accountants. He was the founder and partner of Vincent Mak & Company, Certified Public Accountants in 1987. He is now the principal of Vincent Mak & Co., Solicitors.

Principal Place of Business in Hong Kong and Place of Accepting Service of Process and Notice

The Company's principal place of business and place for acceptance of service of process and notice is Room 1017, 10/F, Star House, 3 Salisbury Road, Tsim Sha Tsui, Hong Kong (Attention: Mr. Mak Yee Chuen).

### (11) SUBSEQUENT EVENTS (CONTINUED)

#### II 、 Changes of directors and senior management

The first meeting of the 5th session of the Board of Directors of Northeast Electric Development Co., Ltd. was held in the conference room of the Company at 11.00 a.m. on 7 March 2007. Thirteen directors were supposed to attend the meeting; twelve of them and one proxy were present. The members of the Supervisory Committee and senior management of the Company attended the meeting. The resolutions are as follows:

1. Mr. Sun Zhen was elected as the Chairman of the Company, Mr. Wang Shouguan and Mr. Zhang Bin was elected as the Vice Chairman of the Company;

2. The appointment of the members of the following committees were approved:

(1) Strategic Development Committee

Chief member of the Committee: Mr. Sun Zhen

Members: Mr. Wang Shouguan, Mr. Zhang Bin, Mr. Su Weiguo and Mr. Xiang Yongchun

(2) Nomination Committee

Chief member of the Committee: Mr. Sun Zhen

Members: Mr. Wang Shouguan, Mr. Zhang Bin, Mr. Su Weiguo and Mr. Shi Li.

(3) Remuneration Committee

Chief member of the Committee: Mr. Lin Wenbin

Members: Mr. Sun Zhen, Mr. Zhang Bin, Mr. Su Weiguo and Mr. Shi Li

(4) Investment Management Committee

Chief member of the Committee: Mr. Sun Zhen

Members: Mr. Wang Shouguan, Mr. Zhang Bin, Mr. Su Weiguo and Mr. Shi Li

(5) Audit Committee

Chief member of the Committee: Ms. Liang Jie

Members: Mr. Wu Qicheng, Mr. Lin Wenbin, Mr. Xiang Yongchun and Mr. Liu Hongguang

**(11) SUBSEQUENT EVENTS (*CONTINUED*)****II 、 Changes of directors and senior management (*CONTINUED*)**

3. The appointment of Mr. Zhang Bin as the General Manager was approved;
4. According to nomination of the General Manager, the appointment of Mr. Su Weiguo as the Vice General Manager, Mr. Shi Li as the Vice General Manager and Mr. Bi Jianzhong as the Chief Accountant were approved;
5. Mr. Shi Li, the Vice General Manager, will temporarily perform the duties of the secretary to the board of directors. And the appointment of Mr. Zhu Xinguang as the Representative For Securities Affairs was approved;
6. The fifth session of the Supervisory Committee of the Company elected Mr. Dong Liansheng as the Chairman of the Supervisory Committee.