INDEPENDENT AUDITOR´ S REPORT TO THE SHAREHOLDERS OF

NORTHEAST ELECTRIC DEVELOPMENT COMPANY LIMITED

(A sino-foreign joint stock company established in the People´ s Republic of China with limited liability)

We have audited the consolidated financial statements of Northeast Electric Development Company Limited (the ˝Company˝) and its subsidiaries (collectively referred to as the ˝Group˝) set out on pages 3 to 49, which comprise the consolidated balance sheet as at 31 December 2006, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, and for no other purposes. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Except as described in the basis for qualified opinion paragraph, we conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor´ s judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity´ s preparation and true and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity´ s internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

BASIS FOR QUALIFIED OPINION

The Group´s former subsidiary, Jinzhou Power Capacitors Limited (˝Jinzhou Power˝) was disposed of on 15 April 2005. The profit made by Jinzhou Power during the period from 1 January, 2005 up to the date of disposal (˝Profit made by Jinzhou Power for the period˝) amounting to approximately RMB120,000 had been included in the 2005 consolidated income statement based on unaudited management accounts. According to the auditor´s report of last year, the former auditor was unable to assess as to whether Profit made by Jinzhou Power for the period and the related gain on disposal of Jinzhou Power amounting to approximately RMB2,555,000 were free from material misstatement. In addition, in the absence of sufficient financial information of Jinzhou Power for the period from 1 January 2005 up to the date of disposal, the directors had used the related assets and liabilities of Jinzhou Power at 31 December 2004 to prepare the relevant disclosures included in the notes to the financial statements and the consolidated cash flow statement, thereby assuming there were no movements up to the date of disposal. Accordingly, the former auditor was unable to assess as to whether the amount disclosed in the consolidated cash flow statement, details relating to the disposal included in certain notes to the financial statements and the details of the assets and liabilities of Jinzhou Power at the date of disposal disclosed in note 36 to the financial statements were free from material misstatement. Any adjustment to these figures would affect the classification of the 2005 consolidated income statement, cash flow statement and the related amounts disclosed in the notes to the financial statements in respect of Jinzhou Power.

MATERIAL UNCERTAINTY RELATING TO LITIGATION

In forming our opinion, we have considered the adequacy of the disclosure made in note 2 to the financial statements regarding the litigation against the Group by China Development Bank (the "Bank").

In May 2004, a lawsuit was brought by the Bank against the Company and certain of its subsidiaries and its associate in relation to the repayment of loan of RMB150,000,000 borrowed by Shenyang High-Voltage, a former associate of the Company and the interest accrued thereon as well as certain sale and purchase agreements entered into between the Company and Shenyang High-Voltage. The details of which are set out in note 2 to the financial statements. These claims were rejected subsequently by the Beijing Higher People's Court (the "Beijing Higher Court") of the People's Republic of China. However, on 22 March 2005, the Bank filed an appeal to Beijing Supreme People's Court (the "Supreme Court") for a retrial. On 6th June 2006, Supreme Court ruled out that there is legal relationship between the claims brought by the Bank against the Company, the Named Companies and Shenyang High-Voltage and therefore the claims should be brought together. The trial from Beijing Higher Court has not been finalised up to the date of this report, the final outcome cannot be determined with certainty at this time. The financial statements do not include any adjustments that might be necessary if the Bank's appeal was to be upheld by the Beijing Higher Court. We consider that the fundamental uncertainty has been adequately disclosed in the financial statements and our opinion is not qualified in this respect.

QUALIFIED OPINION ARISING FROM LIMITATION OF AUDIT SCOPE

In our opinion, except for any adjustments that might have been found to be necessary had we been able to obtain sufficient evidence concerning the accounting for Jinzhou Power, the consolidated financial statements give a true and fair view of the state of the Group's affairs as at 31 December 2006 and of its profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

REPORT ON MATTERS UNDER SECTIONS 141(4) AND 141(6) OF THE HONG KONG COMPANIES ORDINANCE

In respect alone of the limitation on our work relating to the effect of accounting for Jinzhou Power:-

- we have not obtained all the information and explanations that we considered necessary for the purpose of our audit; and
- we were unable to determine whether proper books of account had been kept.

For and on behalf of
Wong Lam Leung & Kwok C.P.A. Limited

WONG LUNG TAK PATRICK
Chartered Accountant
Certified Public Accountant (Practising), Hong Kong
Practising Certificate Number : P00448

Hong Kong, 28 February 2007
Ref : N135/PW/OH/751/486

CONSOLIDATED INCOME STATEMENT

For The Year Ended 31st December 2006 (Prepared In Accordance With Accounting Principles Generally Accepted In Hong Kong)

	Notes	2006 *RMB'000*	2005 *RMB'000*
Continuing operations			
Turnover	7	494,790	546,135
Cost of sales		(370,503)	(405,242)
Gross profit		124,287	140,893
Other income	9	11,237	9,303
Distribution costs		(40,968)	(39,753)
Administrative expenses		(74,066)	(73,262)
Other expenses		(9,443)	(671)
Interest on bank borrowings wholly repayable within five years		(3,446)	(4,578)
Share of results of associates		23,410	18,835
Exchange loss		(7,178)	-
Gain on disposal of a subsidiary		-	2,555
Reversal of allowance for impairment loss		2,429	-
Provision for loss on guarantees		-	(8,425)
Profit before tax		26,262	44,897
Income tax expense	12	(3,551)	(2,419)
Profit for the year from continuing operations		22,711	42,478
Discontinued operations			
Profit for the year from discontinued operations	13	16,772	-
Profit for the year	10	39,483	42,478
Attributed to:			
Equity holders of the parent		29,540	26,761
Minority interests		9,943	15,717
		39,483	42,478
		RMB	*RMB*
Earnings per share-basic	15	0.034	0.031

	Notes	2006 RMB'000	2005 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	16	316,382	467,720
Prepaid lease payments	17	58,204	46,320
Interests in associates	19	320,346	76,853
Available-for-sale investments	20	37,345	36,595
Long term prepayments		4,274	-
		736,551	627,488
CURRENT ASSETS			
Inventories	22	68,521	85,514
Trade and bill receivables	23	153,458	183,502
Other receivables, deposits and prepayments	24	219,741	184,510
Amounts due from associates	25	88,773	74,211
Pledged bank deposits	26	1,360	4,230
Bank balances and cash	26	39,764	108,219
		571,617	640,186
CURRENT LIABILITIES			
Trade and bill payables	27	89,149	80,327
Other payables, advances from customers and accruals	28	147,219	138,604
Amounts due to associates	25	4,208	8,722
Bank borrowings	29	68,300	84,810
Provision for loss on guarantees	30	54,711	54,711
Tax payable		330	406
		363,917	367,580
NET CURRENT ASSETS		207,700	272,606
TOTAL ASSETS LESS CURRENT LIABILITIES		944,251	900,094

	Notes	2006 RMB'000	2005 RMB'000
CAPITAL AND RESERVES			
Share capital	31	873,370	873,370
Reserves	32	(44,023)	(72,990)
Equity attributed to equity holders of the parent		829,347	800,380
Minority interests		114,404	98,714
TOTAL EQUITY		943,751	899,094
NON-CURRENT LIABILITY			
Government grant	33	500	1,000
		944,251	900,094

The consolidated financial statements on pages 3 to 49 were approved and authorised for issue by the board of directors on 28 February 2007 and are signed on its behalf by:

DIRECTOR DIRECTOR

For The Year Ended 31st December 2006 (Prepared In Accordance With Accounting Principles Generally Accepted In Hong Kong)

	Attributable to equity holders of the parent										
	Share capital	Capital reserve	Capital contribution	Statutory common reserve	Statutory public welfare reserve	Discretionary common reserve	Translation reserve	Accumulated losses	Total	Minority interests	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
		(note 32)	(note 32)	(note 32)	(note 32)	(note 32)					
At 1 January 2005											
-As orginally stated	873,370	603,394	186,419	48,091	32,212	32,424	-	(1,004,730)	771,180	105,808	876,988
- Effects of changes in accounting policies	-	-	-	-	-	-	-	1,633	1,633	-	1,633
- As restated	873,370	603,394	186,419	48,091	32,212	32,424	-	(1,003,097)	772,813	105,808	878,621
Exchange differences arising on translation of foreign operations and income recognised directly in equity	-	-	-	-	-	-	806	-	806	-	806
Acquisition of a subsidiary	-	-	-	-	-	-	-	-	-	359	359
Acquisition of additional interest a subsidiary	-	-	-	-	-	-	-	-	-	(23,170)	(23,170)
Profit for the year	-	-	-	-	-	-	-	26,761	26,761	15,717	42,478
At 31 December 2005	873,370	603,394	186,419	48,091	32,212	32,424	806	(976,336)	800,380	98,714	899,094
Capital contribution arising from											-
disposal of subsidiaries	-	-	(136,028)	-	-	-	-	136,028	-	317	317
Transfer	-	-	-	33,540	(32,212)	275	-	(1,603)	-	-	-
Reserval of fair value adjustment	-	-	-	-	-	-	-	-	-	5,430	5,430
Exchange differences arising on translation of foreign operations and income recognised directly in equity	-	-	-	-	-	-	(573)	-	(573)	-	(573)
Profit for the year	-	-	-	-	-	-	-	29,540	29,540	9,943	39,483
At 31 December 2006	873,370	603,394	50,391	81,631	-	32,699	233	(812,371)	829,347	114,404	943,751

For The Year Ended 31st December 2006 (Prepared In Accordance With Accounting Principles Generally Accepted In Hong Kong)

	2006 RMB'000	2005 RMB'000
OPERATING ACTIVITIES		
Profit for the year	39,483	42,478
Adjustments for:		
Amortisation of intangible assets	1,658	1,217
Depreciation of property, plant and equipment	18,775	19,041
Discount on acquisition of a subsidiary	-	(838)
Dividend income	(1,278)	(777)
Gain on acquisition of additional interest in a subsidiary	-	(1,170)
Gain on disposal of a subsidiary	(15,338)	(2,555)
Allowance of impairment loss	2,414	5,779
Income tax expense	4,242	2,419
Interest expense	3,446	4,578
Interest income	(379)	(567)
(Gain)/loss on disposal of property, plant and equipment	(281)	203
Loss on dissolution of an associate	-	202
Profit of Chengtai Energy and Suntime Storage for the period from 1st January, 2006 to 31st October, 2006	(2,125)	(120)
Provision for loss on guarantees	-	8,425
Reversal of allowance for inventories	(48)	-
Reversal of allowance for impairment loss	(2,429)	-
Share of results of associates	(23,410)	(18,835)
Operating cash flows before movements in working capital	24,730	59,480
Decrease/(increase) in inventories	16,993	(47,005)
Decrease in trade and bills receivables	66,220	6,683
Increase in other receivables, deposits and prepayments	(28,108)	(101,571)
(Increase)/decrease in amount due from an associate	(86,608)	576
Increase in pledged bank deposits	(1,360)	(4,230)
(Decrease)/increase in trade and bills payables	(2,497)	34,361
Increase in other payables, advances from customers and accruals	9,704	67,151
Increase/(decrease) in amount due to an associate	4,208	(7,130)
Increase in amount due to related companies	892	-
Cash generated from operations	4,174	8,315

	2006 RMB'000	2005 RMB'000
Income tax paid	(1,302)	(3,249)
NET CASH GENERATED FROM OPERATING ACTIVITIES	2,872	5,066
INVESTING ACTIVITIES		
Net cash inflow from disposal of a subsidiary	157,990	47,528
Dividend income received from an associate	11,188	7,266
Dividend income received from available-for-sale investments	528	-
Proceeds from dissolution of a subsidiary	-	3,494
Proceeds from disposal of property, plant and equipment	1,305	1,256
Repayment from a related company	-	689
Interest received	379	567
Subsidies granted by the government	-	500
Net cash inflow from acquisitions of subsidiaries	-	114
Purchase of intangible assets	(102)	-
Purchase of property, plant and equipment	(11,079)	(27,481)
Payment for acquisition of a subsidiary	-	(9,917)
Addition of construction in progress	(2,772)	(439)
Capital injection to an associate	(208,023)	-
NET CASH (USED IN) FROM INVESTING ACTIVITIES	(50,586)	23,577
FINANCING ACTIVITIES		
Other borrowings raised	-	89,980
New bank borrowings raised	34,000	30,000
Repayments of other borrowings	(500)	(89,980)
Repayments of bank borrowings	(50,510)	(8,290)
Interest paid	(3,446)	(3,817)
NET CASH (USED IN) FROM FINANCING ACTIVITIES	(20,456)	17,893
NET (DECREASE) / INCREASE IN CASH AND CASH EQUIVALENTS	(68,170)	46,536
CASH AND CASH EQUIVALENTS AT 1ST JANUARY	108,219	61,683
Effects of exchange rate changes on the balance of cash held in foreign currencies	(285)	-
CASH AND CASH EQUIVALENTS AT 31ST DECEMBER, representing bank balances and cash	39,764	108,219

1. GENERAL

The Company is a sino-foreign joint stock company established in the People's Republic of China (the "PRC") with limited liabilities, its shares are listed on the Stock Exchange of Hong Kong Limited and Shenzhen Stock Exchange. The addresses of the registered office and principal place of business of the Company are disclosed in the Company profile of the annual report.

The consolidated financial statements are presented in Renminbi, which is the functional currency of the Group.

The Company is an investment holding company. The principal activities of its subsidiaries are described in note 18.

2. LITIGATION RELATING TO CHINA DEVELOPMENT BANK

In May 2004, a lawsuit was brought by China Development Bank (the "Bank") against the Company and certain of its subsidiaries, Shenyang Chengtai Energy Power Company Limited ("Chengtai Energy"), New Northeast (Shenyang) High-Voltage Isolator Company Limited (formerly known as Shenyang Suntime High-Voltage Electric Company Limited) ("High-Voltage Isolator") and Shenyang Suntime Storage and Logistics Company Limited ("Suntime Storage"), and the Company's associate, New Northeast Electric (Shenyang) High-Voltage Switchgear Company Limited ("New High-Voltage" and hereinafter collectively referred to the "Named Companies"), requesting: 1) the Company and the Named Companies to bear joint and several liabilities in relation to the repayment of the principal of the loan of RMB150,000,000 granted in August 1998 by the Bank to Shenyang High-Voltage Switchgears Limited ("Shenyang High-Voltage"), a former associate of the Company and the interest accrued thereon, which was then in default and 2) to void the sale and purchase agreements over equity interests in the Named Companies entered into between the Company and Shenyang High-Voltage between August 2003 and June 2004.

Pursuant to the civil written order (民事裁定書) [2004 高民初字第802號] issued by the Beijing Higher People's Court (the "Beijing Higher Court") of the PRC on 18 March 2005, the Beijing Higher Court ruled out that there is no legal relationship between the claims brought by the Bank against the Company, the Named Companies and Shenyang High-Voltage and accordingly rejected the claim by the Bank against the Company and the Named Companies. However, on 22 March 2005, the Bank filed an appeal to the Beijing Supreme People's Court (the "Supreme Court").

2. LITIGATION RELATING TO CHINA DEVELOPMENT BANK *(CONTINUED)*

On 6 June 2006, Supreme Court ruled out that there is legal relationship between the claims brought by the Bank against the Company, the Named Companies and Shenyang High-Voltage and therefore the claims should not be rejected and the two issues should be judged together.

The Company´s lawyer commented that the Company and the related companies are not the mentioned parties of the Loan Agreement and Guarantee Agreement and should not bear respective liabilities thereof and unrelated to the loan dispute. The set up of the Named Companies were limited liabilities based on investments outside the Company´ s legal relationship and such procedure would not diminish the asset value of Shenyang High-Voltage and would not have any negative effect on its repayment ability. Shenyang High-Voltage and the Company do not contribute any intentional fraud. The Company had fulfilled all her responsibilities in respect of sale and purchase agreements at the time that the consideration amounting to RMB144,925,000 settled at 25 April 1995.

As the trial from the Beijing Higher Court has not been finalized up to the date of this report, the final outcome cannot be determined with certainty at this time. The financial statements do not include any adjustments that might be necessary if the Bank´ s appeal was to be upheld by the Beijing Higher Court.

3. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS/ CHANGES IN ACCOUNTING POLICIES

In the current year, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards (˝HKFRS(s)˝), Hong Kong Accounting Standards (˝HKAS(s)˝) and Interpretations (hereinafter collectively referred to as ˝new HKFRS(s)˝) issued by the Hong Kong Institute of Certified Public Accountants (˝HKICPA˝) that are effective for accounting periods beginning on or after 1 December 2005 and 1 January 2006. The application of the new HKFRSs has resulted in a change in the presentation of the consolidated income statement, consolidated balance sheet and consolidated statement of changes in equity.

3. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS/ CHANGES IN ACCOUNTING POLICIES*(CONTINUED)*

Financial guarantee contracts

In the current year, the Group has applied Hong Kong Accounting Standards (˝HKAS˝) 39 and HKFRS 4 (Amendments) Financial Guarantee Contracts which is effective for annual periods beginning on or after 1 January 2006.

A financial guarantee contract is defined by HKAS 39 Financial Instruments: Recognition and Measurement as ˝a contact that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument˝.

Prior to 1 January 2006, financial guarantee contracts were not accounted for in accordance with HKFRS 4 Insurance Contract and those contracts were disclosed as contingent liabilities. A provision for financial guarantee was only recognised when it was probable that an outflow of resources would be required to settle the financial guarantee obligation and the amount can be estimated reliably.

Upon the application of these amendments, a financial guarantee contract issued by the Group and not designed as at fair value through profit or loss is recognized initially at its fair value less transaction costs that are directly attributable to the issue of the financial guarantee contract. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount determined in accordance with HKAS 37 Provisions, Contingent Liabilities and Contingent Assets; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognized over the life of the guarantee on a straight-line basis.

In the directors´ opinion, the adoption of above new standard has had no impact on the Group´ s result for the current or prior year.

The Group has not early applied the following new standard, amendment or interpretations that have been issued but are not yet effective. The directors of the Group anticipate that the potential impact cannot be reasonably estimated as at the balance sheet date.

3. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS/ CHANGES IN ACCOUNTING POLICIES*(CONTINUED)*

HKAS 1 (Amendment)	Capital Disclosure[1]
HKFRS 7	Financial Instruments: Disclosures[1]
HKFRS 8	Operating segments[2]
HK (IFRIC) - INT 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies[3]
HK (IFRIC) - INT 8	Scope of HKFRS 2[4]
HK (IFRIC) - INT 9	Reassessment of Embedded Derivatives[5]
HK (IFRIC) - INT 10	Interim Financial Reporting and Impairment[6]
HK (IFRIC) - INT 11	IFRS 2 - Group and treasury share transactions[7]
HK (IFRIC) - INT 12	Service concession arrangements[8]

1 Effective for annual periods beginning on or after 1 January 2007.
2 Effective for annual periods beginning on or after 1 January 2009.
3 Effective for annual periods beginning on or after 1 March 2006.
4 Effective for annual periods beginning on or after 1 May 2006.
5 Effective for annual periods beginning on or after 1 June 2006.
6 Effective for annual periods beginning on or after 1 November 2006.
7 Effective for annual periods beginning on or after 1 March 2007.
8 Effective for annual periods beginning on or after 1 January 2008.

4. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with HKFRSs issued by HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and the Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis except for financial instruments, which are measured at fair values at initial recognition as explained in the accounting policies set out below.

4. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Minority interests in the net assets of consolidated subsidiaries are presented separately from the Group´ s equity therein.

Minority interests in the net assets consist of the amount of those interests at the date of the original business combination and the minority´ s share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority´ s interest in the subsidiary´ s equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

The acquisition of subsidiaries after 1 January 2005 is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree´ s identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under HKFRS 3 are recognised at their fair values at the acquisition date.

4. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Basis of consolidation *(Continued)*

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group´ s interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group´ s interest in the net fair value of the acquiree´ s identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss.

The interest of minority shareholders in the acquiree is initially measured at the minority´ s proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

Investments in associates

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group´ s share of the profit or loss and of changes in equity of the associate, less any identified impairment loss. When the Group´s share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group´s net investment in the associate), the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

4. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Investments in associates *(Continued)*

Any excess of the cost of acquisition over the Group´s share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment. Any excess of the Group´s share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss. Where a group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group´ s interest in the relevant associate.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts and sales related taxes.

Sales of goods are recognised when goods are delivered and title has passed.

Revenue arising from hotel operations and service income are recognised when the relevant services are provided.

Dividend income from investments is recognised when the shareholders´ right to receive payment have been established.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset´ s net carrying amount.

Service and guarantee income is recognised over the period the related services/ guarantee are provided.

4. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Leasing

The Group as lessor

Rental income from operating leases is recognized in the consolidated income statement on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized as an expense on a straight-line basis over the lease term.

The Group as leasee

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in its functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

4. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Foreign currencies *(Continued)*

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise, except for exchange differences arising on a monetary item that forms part of the Company´s net investment in a foreign operation, in which case, such exchange differences are recognized in equity in the consolidated financials statements. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity, in which cases, the exchange differences are also recognised directly in equity.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group´s foreign operations are translated into the presentation currency of the Company (i.e. Renminbi) at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognized as a separate component of equity (the translation reserve). Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in net profit or loss in the year in which they are incurred.

Retirement benefit costs

The Group participates in defined contribution retirement schemes organised by the PRC government. The contributions to the schemes are charged as an expense as they fall due.

4. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax base used in the computation of taxable profit, and is accounted for using the balance sheet liability method.

Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

4. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any identified impairment loss.

Depreciation is charged so as to write off the cost of property, plant and equipment over their estimated useful lives and after taking into account their estimated residual value, using the straight-line method, at the following rates per annum:

Buildings	20 to 40 years
Hotel property	40 years
Plant, machinery and equipment	8 to 20 years
Motor vehicles and others	6 to 17 years

The gain or loss arising on the disposal is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the consolidated income statement.

Construction in progress

Construction in progress are carried at cost less any identified impairment loss. Cost includes professional fees and, for qualifying assets, borrowing cost capitalised in accordance with the Group´ s accounting policy. Depreciation of these assets, on the same basis as property, plant and equipment, commences when the assets are ready for their intended use.

Research and development expenditure

Expenditure on research activities is recognised as an expense in the year in which it is incurred.

An internally-generated intangible asset arising from the Group´ s development is recognized only if all of the following conditions are met:

- an asset is created that can be identified;
- it is probable that the asset created will generate future economic benefits; and
- the development cost of the asset can be measured reliably.

4. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Land use rights

Payment for obtaining land use rights are accounted for as prepaid lease payments and are charged to the income statement on a straight line basis over the lease terms. Land use rights which are to be charged to the income statement in the next twelve months or less are classified as current asset.

Impairment of tangible assets

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment losses are recognized as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognized as income immediately.

Provision

Provision is recognised when the Group has a present legal or constructive obligation as a result of a past event which is probable and will result in an outflow of economic benefits that can be reasonably estimated.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method.

Government grants

Government grants are recognised as income when the Group has fulfilled the conditions attaching to them and the grants are/will be received.

4. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Financial instruments

Financial assets and financial liabilities are recognised on the balance sheet when a Group entity becomes a party to the contractual provisions of the instruments. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

The Group´s financial assets are classified as loans and receivables and available-for-sale investments. The accounting policies adopted in respect of each category of financial assets are set out below.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including bill receivables, trade receivables, other receivables, amount due from an associate, a former associate and a related company and bank balances) are carried at amortised cost using the effective interest method, less any identified impairment losses. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the assets´ carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset´s recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

4. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Financial instruments *(Continued)*

Available-for-sale investments

For available-for-sale investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, they are measure at cost less any identified impairment losses at each balance sheet date subsequent to initial recognition. An impairment loss is recognised in profit or loss when there is objective evidence that the investment is impaired. An impairment loss for the investment is not reversed in subsequent periods.

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. The accounting policies adopted in respect of financial liabilities and equity instruments are set out below.

Financial liabilities

Financial liabilities including trade payables, bill payables, other payables, advances from customers and accruals, amount due to an associate and bank borrowings are subsequently measured at amortised cost, using the effective interest rate method.

Financial guarantee contracts

A financial guarantee contract is a contract that requires the Group to make specified payments to reimburse the holder for a loss it incurs because a specified entity or person fails to make payment when due in accordance with the original or modified terms of an undertaking. Financial guarantee contracts are accounted for as financial instruments under HKAS 39 and are initially recognised at fair value. Subsequently, such contracts are measured at the higher of the amount determined in accordance with HKAS 37 - Provisions, Contingent Liabilities and Contingent Assets and the amount initially recognised less, where appropriate, cumulative amortisation recognised over the life of the guarantee on a straight-line basis.

4. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Financial instruments *(Continued)*

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset´s carrying amount and the sum of the consideration received is recognised in profit or loss.

For financial liabilities, they are removed from the Group´s balance sheet (i.e. when the obligation specified in the relevant contract is discharged, cancelled or expired). The difference between the carrying amount of the financial liability derecognised and the consideration received or receivable is recognised in profit or loss.

5. KEY SOURCES OF ESTIMATION UNCERTAINTY

The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Provision for loss on guarantees

At 31 December 2006, the Group´s outstanding litigations are set out in notes 2 and 30. Based on court ruling and legal advice obtained, an aggregate amount of RMB54,711, 000 was accounted for as provisions for loss on guarantees up to 31 December 2006. Certain litigations are still in progress and the final outcome of the appeal, if any, may result in adjustment to the amount of provision for loss on guarantees being accounted for.

5. KEY SOURCES OF ESTIMATION UNCERTAINTY *(CONTINUED)*

Income taxes

As at 31 December 2006, the Group has unrecognised deferred tax assets of RMB232, 000,000. The realisability of the deferred tax asset mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future. In cases where the circumstances arise that it becomes probable that the deferred tax assets could be utilised against future profits, deferred tax assets will be recognised in future periods.

Useful lives and impairment assessment of property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and identified impairment losses. The Group depreciates the property, plant and equipment on straight-line basis over the estimated useful life of 6 to 40 years. The estimated useful life reflects the director´s estimate of the periods that the Group intends to derive future economic benefits from the use of the Group´ s property, plant and equipment. The estimation of their useful lives impacts the level of annual depreciation expenses recorded. In addition, property, plant and equipment are evaluated for possible impairment on a specific asset basis or in groups of similar assets, as applicable this process requires management´ s estimate of future cash flows generated by each asset or group of assets for any instance where this evaluation process indicates impairment, the appropriate asset´ s carrying values are written down to the recoverable amount and the amount of the written-down is changed against the results of operations.

Allowances of impairment loss

The policy for allowance of impairment loss of the Group is based on the evaluation of collectability and aging analysis of accounts and on management´ s judgment. A considerable amount of judgment is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each customer. If the financial conditions of customers of the Group were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

5. KEY SOURCES OF ESTIMATION UNCERTAINTY *(CONTINUED)*

Allowances for inventories

The management of the Group reviews an aging analysis at each balance sheet date, and makes allowance for obsolete and slow-moving inventory items identified that are no longer suitable for use in production. The management estimates the net realisable value for such finished goods and work-in progress based primarily on the latest invoice prices and current market conditions. The Group carries out an inventory review on a product-by-product basis at each balance sheet date and makes allowance for obsolete items.

6. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group´s major financial instruments include equity investments, bill receivables, trade receivables, other receivables, amount due from an associate, a former associate, trade payables, bill payables, other payables, advance from customers and accruals, amount due to an associate, bank borrowings and bank balances and financial guarantees. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Currency risk

Certain bank balances of the Group are denominated in foreign currencies. The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposures should the need arises.

Interest rate risk

The Group is exposed to fair value interest rate risk through the impact of rate changes on interest bearing bank borrowings with fixed interest. The interest rate and terms of repayment of bank borrowings of the Group are disclosed in note 29.

6. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(CONTINUED)*

Credit risk

The Group´s maximum exposure to credit risk in the event of the counterparties failure to perform their obligations as at 31 December 2006 in relation to each class of recognized financial assets is the carrying amount of those assets as stated in the consolidated balance sheet. In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group´ s credit risk is significantly reduced.

The Group has no significant concentration of credit risk except for the amount due from Bengang Group (note 21(b)), with exposure spread over a number of counterparties and customers.

The Group´ s credit risk on liquid funds and bill receivables is limited because the counterparties are banks established in the PRC with good reputation.

Price risk

The Group´s available-for-sale investments are measured at cost less impairment at the balance sheet date. Accordingly, the Group is exposed to equity price risk should the value of the investments fluctuate. The Group currently does not have diversification policy for its investments. However, the management regularly monitors the value of the investments and will consider diversifying its investments should the need arises.

7. TURNOVER

An analysis of the Group´ s revenue is as follows:

	2006 RMB'000	2005 RMB'000
Continuing operations		
Sales of goods	465,989	465,926
Revenue from provision of hotel, catering and entertainment services	28,801	30,152
Revenue from provision of storage and logistic services	-	32,411
Revenue from provision of energy and power services	-	17,646
	494,790	546,135
Discontinued operations		
Revenue from provision of storage and logistic services	24,044	-
Revenue from provision of energy and power services	16,296	-
	40,340	-
Total	535,130	546,135

8. BUSINESS AND GEOGRAPHICAL SEGMENTS

Business segments

For management purposes, the Group is currently organised into two operations - manufacture of transmission machinery and others (including hotel, storage and power supply operations). These operations are the basis on which the Group reports its primary segment information.

Segment information about these businesses is presented below:

2006	Continuing operations		Discontinued operations	
	Manufacture of transmission machinery	Others	Others	Consolidated
	RMB´ 000	*RMB´ 000*	*RMB´ 000*	*RMB´ 000*
INCOME STATEMENT				
TURNOVER	465,989	28,801	40,340	535,130

8. BUSINESS AND GEOGRAPHICAL SEGMENTS *(CONTINUED)*

2006	Continuing operations		Discontinued operations	
	Manufacture of transmission machinery	Others	Others	Consolidated
	RMB´ 000	*RMB´ 000*	*RMB´ 000*	*RMB´ 000*
RESULT				
Segment result	19,265	(8,218)	2,148	13,195
Finance costs	(3,034)	(412)	(23)	(3,469)
Loss on exchange	(7,178)	-	-	(7,178)
Share of results of associates	23,410	-	-	23,410
Reversal of allowance for impairment loss	2,429	-	-	2,429
Profit from discontinued operations	-	-	15,338	15,338
Profit before tax	34,892	(8,630)	17,463	43,725
Income tax expense	(3,551)	-	(691)	(4,242)
Net profit for the year	31,341	(8,630)	16,772	39,483

	Manufacture of transmission machinery	Others	Consolidated
	RMB´ 000	*RMB´ 000*	*RMB´ 000*
OTHER INFORMATION			
Capital additions			
- through acquisition of subsidiaries	-	-	-
- others	12,380	1,471	13,851
Depreciation	7,510	11,265	18,775
Allowance for impairment loss	2,414	-	2,414

8. BUSINESS AND GEOGRAPHICAL SEGMENTS *(CONTINUED)*

2006

	Manufacture of transmission machinery	Others	Consolidated
	RMB´ 000	*RMB´ 000*	*RMB´ 000*
BALANCE SHEET			
Assets			
Segment assets	672,414	274,284	946,698
Interests in associates	320,346	-	320,346
Unallocated corporate assets			41,124
Consolidated total assets			1,308,168
Liabilities			
Segment liabilities	284,687	11,100	295,787
Unallocated corporate liabilities			68,630
Consolidated total liabilities			364,417

2005

	Manufacture of transmission machinery	Others	Consolidated
	RMB´ 000	*RMB´ 000*	*RMB´ 000*
INCOME STATEMENT			
TURNOVER	465,926	80,209	546,135
RESULT			
Segment result	40,624	(4,114)	36,510
Finance costs	(4,578)	-	(4,578)
Share of results of associates	18,835	-	18,835
Gain on disposal of a subsidiary	2,555	-	2,555
Provision for loss on guarantees			(8,425)
Profit before tax			44,897
Taxation			(2,419)
Net profit for the year			42,478

8. BUSINESS AND GEOGRAPHICAL SEGMENTS *(CONTINUED)*

2005

	Manufacture of transmission machinery	Others	Consolidated
	RMB´ 000	*RMB´ 000*	*RMB´ 000*
OTHER INFORMATION			
Capital additions			
- through acquisition of subsidiaries	564	-	564
- others	27,920	-	27,920
Depreciation	3,040	16,001	19,041
Allowance for impairment loss	4,212	1,567	5,779

	Manufacture of transmission machinery	Others	Consolidated
	RMB´ 000	*RMB´ 000*	*RMB´ 000*
BALANCE SHEET			
Assets			
Segment assets	525,434	552,938	1,078,372
Interests in associates	76,853	-	76,853
Unallocated corporate assets			112,449
Consolidated total assets			1,267,674
Liabilities			
Segment liabilities	247,667	35,697	283,364
Unallocated corporate liabilities			85,216
Consolidated total liabilities			368,580

Geographical Segment

More than 90% of the Group´s income are derived from the PRC and the income earned outside the PRC is insignificant.

More than 90% of the carrying amount of segment assets, and additions to property, plant and equipment are located in PRC and the assets outside the PRC is insignificant.

Accordingly, geographical segment information has not been presented.

9. OTHER INCOME

	2006	2005
	RMB'000	*RMB'000*
Continuing operations		
Sales of materials	-	3,691
Net rental income of machinery and equipment received from an associate	-	1,699
Discount on acquisition of additional interest in a subsidiary	-	1,170
Discount on acquisition of a subsidiary	-	838
Dividend from available-for-sale investments	1,278	777
Interest income from an associate	-	501
Interest on bank deposits	375	66
Loss on disposal of property, plant and equipment	(126)	-
Subsidy income	1,650	-
Rental income	2,418	-
Sales of wastage	448	-
Penalty income	58	-
Others	5,136	561
	11,237	9,303
Discontinued operations		
Interest on bank deposits	4	-
Gain on disposal of property, plant and equipment	407	-
Rental income	8	-
Others	37	-
	456	-
Total	11,693	9,303

10. NET PROFIT FOR THE YEAR

Net profit for the year has been arrived at after charging and crediting:

2006

	Continuing operations *RMB'000*	Discontinued operations *RMB'000*	Consolidated *RMB'000*
Depreciation	15,857	2,918	18,775
Land use rights charge for the year (included in administrative expenses)	1,658	-	1,658
(Loss) gain on disposal of property, plant and equipment	(126)	407	281
Research and development costs	212	-	212
Allowance for impairment loss	2,414	-	2,414
Auditors´ remuneration	1,284	-	1,284
Staff costs, including directors´ emoluments	38,181	2,580	40,761
Operating lease	2,412	-	2,412
Rental expense of land use right	110	-	110

2005

	Continuing operations *RMB'000*	Discontinued operations *RMB'000*	Consolidated *RMB'000*
Depreciation	19,041	-	19,041
Land use rights charge for the year (included in administrative expenses)	1,217	-	1,217
Loss on disposal of property, plant and equipment	203	-	203
Loss on dissolution of an associate	202	-	202
Research and development costs	327	-	327
Allowance for impairment loss	5,779	-	5,779
Auditors´ remuneration	2,755	-	2,755
Staff costs, including directors´ emoluments	36,610	-	36,610
Operating lease	-	-	-
Rental expense of land use right	-	-	-

11. DIRECTORS' EMOLUMENTS AND SENIOR EXECUTIVES' EMOLUMENTS

(a) Directors' emoluments

The emoluments paid or payable to each of the 13 (2005: 13) directors were as follows:

	Qu Lin	Wang Shouguan	Zhang Bin	Tian Li	Su Weiguo	Li Hongliang	Liu Qingmin	Niu Wenjun	Gao Chuang	Kang Jinjiang	Liang Jie	Lin Wenbin	Liu Hongguang	2006 Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Fees	-	-	-	-	-	-	-	-	27	27	27	27	27	135
Other emoluments														
Salaries and other benefit	472	472	360	-	248	48	115	31	-	-	-	-	-	1,746
Bonuses	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Contribution to retirement benefit Schemes	118	-	88	-	60	12	23	6	-	-	-	-	-	307
Total emoluments	590	472	448	-	308	60	138	37	27	27	27	27	27	2,188

	Qu Lin	Wang Shouguan	Zhang Bin	Tian Li	Su Weiguo	Li Hongliang	Liu Qingmin	Niu Wenjun	Gao Chuang	Kang Jinjiang	Liang Jie	Lin Wenbin	Liu Hongguang	2005 Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Fees	-	-	-	-	-	-	-	-	44	44	44	44	44	220
Other emoluments														
Salaries and other benefit	72	-	60	-	48	71	27	31	-	-	-	-	-	309
Bonuses	250	-	170	-	130	65	113	-	-	-	-	-	-	728
Contribution to retirement benefit Schemes	22	-	18	-	14	14	-	-	-	-	-	-	-	68
Total emoluments	344	-	248	-	192	150	140	31	44	44	44	44	44	1,325

The amount disclosed above include directors' fees of RMB135,000 (2005: RMB220,000) payable to independent non-executive directors.

No emoluments were paid by the Group to the directors of the Company as an inducement to join or upon joining the Group or as compensation for loss of office and none of the directors has waived the right to receive their emoluments for both years.

11. DIRECTORS' EMOLUMENTS AND SENIOR EXECUTIVES' EMOLUMENTS *(CONTINUED)*

(b) Senior executives' emoluments

The emoluments paid or payable to each of the 4 (2005: 3) senior executives were as follows:

	Dong Lianshen *RMB'000*	Dai Guiqin *RMB'000*	Fu Siuhang *RMB'000*	Sun Zhen *RMB'000*	Total 2006 *RMB'000*
Fees	-	-	-	-	-
Other emoluments					
Salaries and other benefits	60	-	29	248	337
Bonuses	-	-	-	-	-
Contribution to retirement benefit schemes	12	-	-	60	72
Total emoluments	72	-	29	308	409

	Dong Lianshen *RMB'000*	Dai Guiqin *RMB'000*	Fu Siuhang *RMB'000*	Total 2005 *RMB'000*
Fees	-	-	-	-
Other emoluments				
Salaries and other benefits	60	-	28	88
Bonuses	-	-	-	-
Contribution to retirement benefit schemes	12	-	-	12
Total emoluments	72	-	28	100

11. DIRECTORS' EMOLUMENTS AND SENIOR EXECUTIVES' EMOLUMENTS *(CONTINUED)*

(c) Five highest-paid individuals

During the year, the five highest-paid individuals included four (2005: three) directors of the Company and details of their emoluments are set out in (a) above. The emoluments of the remaining one (2005: two) highest-paid individual were as follows:

	2006	2005
	RMB'000	*RMB'000*
Salaries and other benefits	248	142
Contributions to retirement benefit schemes	60	28
	308	170

12. INCOME TAX EXPENSE

	Continuing Operations		Discontinued Operations		Consolidated	
	2006	2005	2006	2005	2006	2005
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
The charge comprises:						
Income tax for certain PRC subsidiaries						
- Current year	3,551	2,419	691	-	4,242	2,419

The tax charge for the year represents the income tax in the PRC which is calculated at the prevailing tax rate on the taxable income of subsidiaries in the PRC. Certain subsidiaries of the Group in the PRC are eligible for certain tax holidays and concessions and were subject to tax exemption or 50% reduction in tax rate for both years.

Hong Kong Profits Tax has not been provided as the Company and its subsidiaries had no assessable profit in Hong Kong for both years.

12. INCOME TAX EXPENSE *(CONTINUED)*

Details of unrecognised deferred tax assets are set out in note 34.

The charge for the year can be reconciled to the profit before taxation per the income statement as follows:

	2006 *RMB'000*	2005 *RMB'000*
Profit before tax:		
Continuing operations	26,262	44,897
Discontinued operations	17,463	-
	43,725	44,897
Tax at the domestic income tax rate of 33% (2005: 33%)	14,428	14,816
Effect of different tax rates of subsidiary operating under different tax exemption scheme	324	-
Tax effect of income not taxable for tax purpose	(712)	(1,899)
Tax effect of expenses not deductible for tax purpose	3	3,861
Utilisation of deductible temporary differences not recognised	-	(1,387)
Tax effect of tax losses not recognised	(9,809)	4,653
Tax effect of deductible temporary differences not recognised	4,073	-
Income tax on concessionary rate	(6,461)	(11,409)
Tax effect of share of results of associates	1,573	(6,216)
Underprovision in previous years	823	-
Tax expenses	4,242	2,419

13. DISCONTINUED OPERATIONS

Disposal of subsidiaries [誠泰能源動力有限公司 ("Chengtai Energy") and 瀋陽新泰倉儲物流有限公司 ("Suntime Storage")]

On 31 October 2006, the board of Directors entered into a sale agreement to dispose of the Group's subsidiaries. The proceeds of sale substantially exceeds the carrying amount of the related net asset and, accordingly, no impairment losses were recognized on the reclassification of their operations as held for sale. The disposal of subsidiaries is consistent with the Group's long-term policy to focus its activities in the electrical equipment manufacturing industry. On 1 November 2006, the shareholdings of subsidiaries passed to the acquirer. Details of the assets and liabilities disposed of are disclosed in note 36.

	2006 RMB'000	2005 RMB'000
Profit for the year from discontinued operations		
Revenue	40,796	-
Expenses	(38,671)	-
Profit before tax	2,125	-
Income tax expense	(691)	-
	1,434	-
Gain on disposal of operations	15,338	-
Income tax expense	-	-
	15,338	-
Profit for the year from discontinued operations	16,772	-
Cash flows from discontinued operations		
Net cash flows from operating activities	188	-
Net cash flows from investing activities	(1,595)	-
Net cash flows from financing activities	-	-
Net cash flows	(1,407)	-

14. DIVIDEND

No dividend was paid or proposed during the year, nor has any dividend been proposed since the balance sheet date.

15. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the net profit for the year attributable to equity holders of the parent of RMB29,540,000 (2005: RMB26,761,000) and on the number of 873,370,000 ordinary shares in issue during both years.

Diluted earnings per share is not shown as the Company has no potential ordinary shares outstanding for both years.

16. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Hotel property	Plant, machinery and equipment	Motor vehicles and others	Construction in progress	Total
	RMB´ 000	*RMB´ 000*	*RMB´ 000*	*RMB´ 000*	*RMB´ 000*	*RMB´ 000*
COST						
At 1st January, 2005	171,301	370,960	158,937	17,549	3,925	722,672
Additions	16,121	-	6,481	4,879	439	27,920
Transferred from construction in progress	92	-	37	-	(129)	-
Acquisition of a subsidiary	-		523	41	-	564
Assets received upon dissolution						-
of an associate	507	-	-	-	-	507
Disposal of a subsidiary	(32,128)	-	(48,486)	(2,761)	(3,925)	(87,300)
Disposals	(546)	-	(17)	(1,166)	-	(1,729)
At 31st December, 2005	155,347	370,960	117,475	18,542	310	662,634
ACCUMULATED DEPRECIATION AND IMPAIRMENT LOSS						
At 1st January, 2005	16,413	113,789	80,756	4,501	-	215,459
Charge for the year	4,253	6,680	6,015	2,093	-	19,041
Disposal of a subsidiary	(9,306)	-	(29,259)	(751)	-	(39,316)
Eliminated on disposals	(2)	-	(10)	(258)	-	(270)
At 31st December, 2005	11,358	120,469	57,502	5,585	-	194,914
NET CARRYING VALUES						
At 31st December, 2005	143,989	250,491	59,973	12,957	310	467,720

16. PROPERTY, PLANT AND EQUIPMENT *(CONTINUED)*

	Buildings	Hotel property	Plant, machinery and equipment	Motor vehicles and others	Construction in progress	Total
	RMB' 000	*RMB' 000*	*RMB' 000*	*RMB' 000*	*RMB' 000*	*RMB' 000*
COST						
At 1st January, 2006	155,347	370,960	117,475	18,542	310	662,634
Reclassify to prepaid lease payments (note 17)	16,456	251	(14,148)	(339)	-	2,220
Reversal of fair value adjustment	111,812	-	-	-	-	111,812
Additions	1,353	-	2,871	6,556	3,071	13,851
Transferred from construction in progress	1,098	150	1,581	-	(2,829)	-
Assets received upon dissolution of an associate	-	-	(229)	-	-	(229)
Disposal of a subsidiary	(229,061)	-	(27,156)	(4,910)	-	(261,127)
Disposals	-	-	(2,715)	(2,452)	-	(5,167)
At 31st December, 2006	57,005	371,361	77,679	17,397	552	523,994
ACCUMULATED DEPRECIATION AND IMPAIRMENT LOSS						
At 1st January, 2006	11,358	120,469	57,502	5,585	-	194,914
Reclassify to prepaid lease payments (note 17)	29,546	-	(12,852)	293	-	16,987
Reversal of fair value adjustment	829	-	-	-	-	829
Charge for the year	4,743	7,149	5,187	1,696	-	18,775
Reveral of impairment loss	-	-	(705)	(55)	-	(760)
Disposal of a subsidiary	(11,484)	-	(8,141)	(813)	-	(20,438)
Disposals	-	-	(1,814)	(881)	-	(2,695)
At 31st December, 2006	34,992	127,618	39,177	5,825	-	207,612
NET CARRYING VALUES						
At 31st December, 2006	22,013	243,743	38,502	11,572	552	316,382

16. PROPERTY, PLANT AND EQUIPMENT *(CONTINUED)*

The Group has pledged buildings and plant, machinery and equipment having a net carrying value of approximately RMB6,075,000 and RMB121,762,000 respectively (2005: RMB6,290, 000 and Nil) to secure general banking facilities granted to the Group and an associate respectively.

All the buildings and hotel property are located in the PRC and held under medium-term leases.

The Group is in the process of obtaining ownership certificate of certain portion of the hotel property including office floors on 15 and 25 floors, bowling centre, restaurants and staff quarters. In addition, the Group is in the process of obtaining ownership certificate of certain buildings with net carrying value of RMB1,358,000 (2005: RMB1,432,000).

Included in plant, machinery and equipment is net interest capitalised of Nil (2005: Nil).

17. PREPAID LEASE PAYMENTS

	Land use rights
	RMB'000
COST	
At 1st January 2005	53,213
Disposal of a subsidiary	(4,459)
Charge for the year	(1,217)
At 31st December, 2005	47,537
Reclassify from property,plant and equipment (Note 16)	14,768
Charge for the year	(1,658)
Reversal of fair value adjustment	(786)
At 31st December, 2006	59,861

	2006	2005
	RMB'000	RMB'000
Analysed as:		
Current assets (included in other receivables, deposits and prepayments)	1,657	1,217
Non-current assets	58,204	46,320
	59,861	47,537

Land use right is amortised on a straight-line basis over the lease term of 50 years.

The Group has pledged land use rights having a net carrying value of approximately RMB5, 284,000 (2005: RMB5,420,000) to secure banking facilities granted to the Group. Included is also land use rights with carrying amount of RMB14,540,000 frozen by the court as a result of litigation brought against the Group by Xinda Asset Management Corporation ("Xinda"). Details are set out in note 37.

18. SUBSIDIARIES

The details of the subsidiaries at 31 December 2006 are as follows:

Name of subsidiary	Place of establishment/ incorporation and operation	Registered capital	Percentage of registered capital held by the Company Directly %	Indirectly %	Principal activities
Fuxin Enclosed Busbars Co., Limited	PRC (Note c)	US$2,800,000	-	100%	Manufacture of enclosed busbars
Great Talent Technology Limited	British Virgin Islands	US$1	-	100%	Investment holding
Jinzhou Jinrong Electric Appliance Liability Co., Ltd	PRC (Note a)	RMB3,000,000	69.75%	-	Manufacture of electrical equipment
Kingdom Hotel Shenyang Co. Limited ("Kingdom Hotel Shenyang")	PRC (Note c)	US$18,070,000	100%	-	Provision of hotel and catering services
New Northeast Electric (Jinzhou) Power Capacitors Co., Limited ("New Jinzhou Power")	PRC (Note c)	US$10,000,000	-	52%	Manufacture of power capacitors
Northeast Electric (Hong Kong) Limited	Hong Kong	US$900,000	100%	-	Investment holding
New Northeast Electric (Shenyang) High-Voltage Isolator Co., Ltd	PRC (Note b)	US$21,500,000	74.4%	-	Manufacture of electrical transmission and transformation equipment
Shenyang Gaodongjia Drier Equipment Company Limited ("Gaodongjia")	PRC (Note b)	US$778,500	70%	-	Manufacture of dryer equipment

Notes:
(a) The companies are limited companies incorporated under Company Law of the PRC.
(b) The companies are sino-foreign joint venture companies.
(c) The company is a wholly foreign owned company.

None of the subsidiaries had any debt capital outstanding at the end of the year or at any time during the year.

19. INTERESTS IN ASSOCIATES

	2006 RMB'000	2005 RMB'000
Unlisted share, at cost	269,838	48,182
Share of post-acquisition profits	50,508	28,671
	320,346	76,853

The details of the associates at 31 December 2006 are as follows:

Name of associate	Place of establishment/ incorporation and operation	Proportion of registered capital held by the Group Directly %	Indirectly %	Principal activities
Great Power Technology Limited	BVI	20.80%	-	Investment holding
Smart Power Technology Limited	BVI	-	20.80%	Investment holding
New Northeast Electric (Shenyang) High-Voltage Switchgear Co., Ltd	PRC	-	20.80%	Manufacture of electrical equipment and machineries

The summarised financial information in respect of the Group's associates is set out below:

	2006 *RMB'000*	2005 *RMB'000*
Total assets	2,815,946	811,323
Total liabilities	(1,275,821)	(441,838)
Net assets	1,540,125	369,485
Group's share of net assets of associates	320,346	76,853
Revenue	1,370,818	1,118,279
Profit for the year	222,254	90,463
Group's share of results of associates for the year	23,410	18,835

20. AVAILABLE-FOR-SALE INVESTMENTS

	2006	2005
	RMB'000	*RMB'000*
Unlisted investment, at cost net of impairment loss recognised	37,345	36,595

The details of the unlisted investment at 31 December 2006 are as follows:

Name of securities	EQUITY INTEREST 2006	2005	2006	2005
	%	%	RMB'000	RMB'000
Jinzhou City Commercial Bank	4.35%	4.35%	12,537	11,787
錦化化工集團氯碱股份有限公司 (˝錦化氯碱˝)(Note)	3.10%	3.57%	24,808	24,808
			37,345	36,595

Note: The amount represents 12,124,346 non-circulating shares in 錦化氯碱 in 2005. On 15 February 2006, 錦化氯碱announced a share reform scheme to convert all non-circulating A shares into circulating A shares by allocating 3.1 non-circulating A shares to holders of circulating A shares for every 10 circulating A shares held. Accordingly, the Group´s shares in 錦化氯碱was converted into 10,553,031 A shares which represent 3.10% interest in錦化氯碱after conversion. The conversion was completed on 13 March 2006. Under the arrangement, these A shares held by the Group cannot be disposed of until 13 March 2007.

The above investments are measured at cost less impairment at the balance sheet date because the range of reasonable fair value estimates is so significant that the directors of the Company are of the opinion that their fair values cannot be measured reliably.

21. AMOUNT DUE FROM A NON-BANK FINANCIAL INSTITUTION

The amount was originally a long-term deposit of US$20,000,000 (equivalent to RMB165,532,000), placed with Liaoning Trust and Investment Company ("Liaoning Trust") as a condition for Liaoning Trust granting a guarantee for a syndicated loan of US$40,000,000. Liaoning Trust was a third party non-bank financial institution registered in the PRC. In November 2001, the People's Bank of China withdrew Liaoning Trust's Financial Institution Legal Person Licence (金融機構私人許可證) and Financial Institution Business Licence (金融機構營業許可證). Its entire financial activities were suspended with effect from the date of notice for a liquidation process. The Company registered with the Liaoning Trust Liquidation Team (遼寧信托投資公司清算組) its deposits of US$20,000,000 previously placed with Liaoning Trust with the relevant proof of debt.

Up to the year ended 31 December 2004, Liaoning Trust repaid US$8,000,000 to settle part of the debt owing to the Company and the remaining balance was US$12,000,000 (equivalent to approximately RMB99,233,000) at 31 December 2004.

On 5 March 2005, the Company signed a Letter of Intent with 撫順特殊鋼集團有限責任公司 Fushun Special Steel Group Corporation ("Fushun Special Steel") and Prosper Power Company Limited, pursuant to which Fushun Special Steel agreed to transfer its equity interests in 東北特殊鋼集團有限責任公司 Northeast Special Steel Group Incorporation, as confirmed and valued at US$12,000,000 by an independent intermediary appraisal company, to the Company to exchange the Company's debt due from Liaoning Trust of US$12,000,000. The above transfer was subsequently not executed. In April 2005, pursuant to the approval of Bureau of Finance of Liaoning Province (遼財[2005] 63 號《關于遼信與東北電氣發展股份有限公司債權置換問題的請示》), the followings were assigned to the Group to offset the deposits originally placed in Liaoning Trust:

(a) The Company obtained 12,124,346 non-circulating shares of 錦化氯碱which represents approximately 3.57% shareholding in 錦化氯碱. At 13 March 2006, the Company's shares in 錦化氯碱 was converted into 10,553,031 A shares which represent 3.10% interest in 錦化氯碱 after conversion. 錦化氯碱 is a company listed on the Shenzhen Stock Exchange and is engaged in manufacture of chemical products. The investment in 錦化氯碱 was recorded as available-for-sale investments at a carrying value of RMB24, 808,000 at 31 December 2006 (note 20).

21. AMOUNT DUE FROM A NON-BANK FINANCIAL INSTITUTION *(CONTINUED)*

(b) The Company obtained an aggregate of RMB76,090,000 receivables due from Benxi Iron & Steel (Group) Limited 本溪鋼鐵(集團)有限責任公司 ("Bengang Group"). The amount due from Bengang Group was recorded as other receivables at a carrying amount of approximately RMB74,425,000 at 31 December 2006 (note 24). Subsequently, the Company commenced litigation against Bengang Group for the repayment of the debts of RMB76,090,000. On 16 December 2005, Shenyang Higher People's Court ruled that the Company has legally obtained the right to the debts of RMB15,900,000 and Bengang Group is liable to repay the principal and the accrued interest thereon to the Company. On 10 March 2006, Notice of Execution was issued by Shenyang Higher People's Court and delivered to Bengang Group for the outstanding debts of RMB15,900,000. On 30 March 2006 Shenyang Intermediate People's Court ruled that the Company has also legally obtained the right to the debts of remaining RMB60,190,000 and Bengang Group is also liable to repay the principal and the accrued interest thereon to the Company. Further on 30 April 2006, Bengang Group filed and appeal to the Liaoning Higher People´s Court, the final outcome cannot be determined at this time.

The Company is currently in negotiation with Bengang Group on the settlement of these debts of RMB76,090,000 in aggregate and accrued interest thereon. The directors are of the opinion that the amount due from Bengang Group will be recovered in full on the completion of the negotiation with Bengang Group, taking into account its financial position and the Company´s right to seize an equivalent amount of assets pursuant to the Notice of Execution issued by the court.

22. INVENTORIES

	2006 RMB'000	2005 RMB'000
Raw materials and consumables	28,120	30,865
Work in progress	18,331	14,056
Finished goods	22,070	40,593
	68,521	85,514

The cost of inventories recognised as expense in the consolidated income statement were approximately RMB369,682,000 (2005: RMB339,439,000).

23. TRADE RECEIVABLES AND BILL RECEIVABLES

The credit terms given to the customers vary which are based on the sales contracts signed with individual customers and are generally based on the financial strengths of individual customers. The following is the aged analysis of trade and bill receivables:

	2006 *RMB'000*	2005 *RMB'000*
Within 1 year	123,693	134,661
1 to 2 years	25,023	36,590
2 to 3 years	8,317	26,088
Over 3 years	8,189	13,484
	165,222	210,823
Allowance for impairment loss	(11,764)	(27,321)
	153,458	183,502

The directors consider that the carrying amounts of the trade and bill receivables approximate to their fair values.

24. OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	2006	2005
	RMB'000	*RMB'000*
Receivables from Bengang Group (note 21(b))	74,425	74,425
Deposits for purchase of goods	55,706	52,600
Other prepayments	1,482	-
Others	88,128	57,485
	219,741	184,510

The directors consider that the carrying amounts of the other receivables, deposits and prepayments approximate to their fair values.

25. AMOUNTS DUE FROM / (TO) ASSOCIATES

		2006	2005
	Relationship	*RMB'000*	*RMB'000*
Amounts due from:			
New High-Voltage	Associate	86,685	74,211
Great Power Technology Limited	Associate	2,088	-
		88,773	74,211
Amount due to:			
New High-Voltage	Associate	3,405	8,722
Great Power Technology Limited	Associate	803	-
		4,208	8,722

The amounts are unsecured, interest free and repayable on demand. The directors consider that the carrying amounts of amounts due from / (to) associates approximate to their fair values.

26. PLEDGED BANK DEPOSIT AND BANK BALANCES AND CASH

Pledged deposits represents deposits pledged to banks to banking facilities of the Group. The bank deposits and bank balances carry interest at prevailing market rates. The directors consider that the carrying amounts of bank deposits and bank balances approximate to their fair values.

27. TRADE PAYABLES AND BILL PAYABLES

The following is an aged analysis of trade and bill payables:

	2006 *RMB'000*	2005 *RMB'000*
Within 1 year	66,865	60,648
1 to 2 years	11,481	16,408
2 to 3 years	8,143	1,279
Over 3 years	2,660	1,992
	89,149	80,327

The directors consider that the carrying amounts of the trade and bill payables approximate to their fair values.

28. OTHER PAYABLES, ADVANCES FROM CUSTOMERS AND ACCRUALS

	2006 *RMB'000*	2005 *RMB'000*
Advances from customers	34,615	60,601
Others	112,604	78,003
	147,219	138,604

The directors consider that the carrying amounts of the other payables, advances from customers and accruals approximate to their fair values.

29. BANK BORROWINGS

	2006 *RMB'000*	2005 *RMB'000*
RMB bank loans repayable within one year or on demand	68,300	84,810
Analysed as:		
Secured	33,950	21,200
Unsecured	34,350	63,610
	68,300	84,810

The bank loans are secured by certain bill receivables of nil (2005: RMB11,400,000), property plant and equipment and land use rights as set out in notes 16 and 17, respectively. All bank loans are with fixed interest rate ranges from 5.04% to 8.78% (2005: 6.14% to 9.49%) per annum.

Note:

Included above are loans of RMB29,000,000 (2005: RMB29,000,000) which have been overdued as at 31 December 2006. The loans have not yet been repaid as at 31 December 2006 and the Group are in the process of negotiating with the bankers on the settlement plan.

30. PROVISION FOR LOSS ON GUARANTEES

	2006 RMB'000	2005 RMB'000
Provision for loss on guarantees given to:		
Northeast Electrical Transmission Group Corporation ("NET") (note a)	30,994	30,994
Jinzhou Power Capacitors Limited ("Jinzhou Power") (note b)	14,465	14,465
Shuangjia Insulator & Electric Co. Ltd ("Shuangjia") (note c)	9,252	9,252
	54,711	54,711

Notes:

(a) The Company acted as the guarantor for a 10-months loan amounting to RMB30,000,000 which was entered into by NET and the China Everbright Bank in June 1998 and this guarantee was not approved by the Company's Board of directors and shareholders. In December 2001, the China Everbright Bank commenced litigation against the Company and NET for the repayment of loan principal of RMB26,402,000 and the related interest.

On 13 May 2003, the Company received a verdict of final trial from the Beijing Higher People´s Court which ruled that the Company be jointly held responsible for the repayment of the loan principal of RMB26,402, 000 and the related interest of RMB4,592,000. Accordingly, a provision for loss on guarantee given to NET of RMB30,994,000 has been made during the year ended 31 December 2003. The Group is in process of negotiating with China Everbright Banks for the settlement plan.

(b) In 2004, the Company acted as the guarantor for a 12-months loan amounting to RMB13,000,000 which was entered into by Jinzhou Power, a subsidiary at that time, and a bank. In March 2005, the Company disposed of Jinzhou Power. At the loan fall due date, Jinzhou Power did not repay the loan principal and the related interest. The bank commenced litigation against Jinzhou Power and the Company.

30. PROVISION FOR LOSS ON GUARANTEES *(CONTINUED)*

(b) On 20 May, 2005, the Company received a verdict from the Shenyang Intermediate People's Court which ruled that the Company be jointly held responsible for the repayment of the loan principal and interest accrued thereon. Accordingly, provision for loss on guarantee given to Jinzhou Power of RMB14,465,000 and accrued interest thereon has been made during the year ended 31 December 2005.

(c) In April 2004, Shuangjia commenced litigation against Shenyang High-Voltage, the goods receiving party, in relation to the disputes on payment of goods. In July 2004, the Company, being a former shareholder of Shenyang High-Voltage,was additional joint defendants. On 18 October 2005, the Company received a verdict from the Shanxi Higher People's Court which ruled that the Company shall undertake the joint repayment liability for amount equivalent to the fair value of certain properties in question. Accordingly, provision for loss of RMB9,252,000 has been made during the year ended 31 December 2005.

The directors consider that the carrying amounts of provision for loss on guarantees approximate to their fair values.

31. SHARE CAPITAL

	2006 *RMB'000*	2005 *RMB'000*
Registered, issued and fully paid-up capital: 615,420,000 ordinary 'Domestic' shares of RMB1 each, of which:		
- Non-listed	435,920	471,820
- Listed ″A″ shares	179,500	143,600
	615,420	615,420
257,950,000 Listed ″H″ shares of RMB1 each	257,950	257,950
	873,370	873,370

31. SHARE CAPITAL *(CONTINUED)*

On 27 March 2006, the Company announced a share reform scheme ("Share Reform Scheme") to convert all Non-circulating A shares into Circulating A shares. Pursuant to the Share Reform Scheme, it is proposed that all holders of Non-circulating A share to allocate 2.5 Non-circulating A shares to holders of Circulating A shares for every 10 Circulating A shares held. Based on the Company′ s total 143,600,000 Circulating A shares in issue, a total of 35,900, 000 A shares will be offered to holders of Circulating A shares. Subject to relevant moratorium, all Non-circulating A shares (including those offered to holders of Circulating A shares) will be entitled to listing and trading on Shenzhen Stock Exchange on the first trading day immediately following completion of the Share Reform Scheme. The Non-circulating A shareholders have no intention to offer similar arrangement or proposal to H shareholders. Details of the Share Reform Scheme are set out in the Company′ s announcement dated 27 March 2006.

32. RESERVES

Capital reserve

Capital reserve represents premium on issue of shares net of issuing expenses and an amount arising as a result of the original restructuring of the Group. Capital reserve can only be used to increase share capital.

Statutory common reserve

According to their respective Articles of Association, the Company and each of its subsidiaries are required to transfer 10% of their profit after taxation to the statutory common reserve until the reserve reaches 50% of the registered capital. The statutory common reserve shall only be used for the following purposes:

- to make up losses;
- to expand production facilities; or
- to be converted into capital. The Company and each of its subsidiaries may, with the sanction of a resolution of shareholders in general meeting, convert their statutory common reserve into capital and issue bonus shares to existing shareholders in proportion to their original shareholdings or to increase the par value of each share. When converting the statutory common reserve into capital, the amount of such reserve remaining unconverted must not be less than 25% of the registered capital of the Company and each of its subsidiaries.

32. RESERVES *(CONTINUED)*

Statutory public welfare reserve

According to their respective Articles of Association, the Company and each of its subsidiaries are required to transfer 5% to 10% of their profit after taxation to the statutory public welfare fund. This fund can be used for the collective welfare of the employees of the welfare of the employees of the Group in PRC. The public welfare is not distributable to shareholders. There has been no utilisation of the public welfare fund during the year. Pursuant to the revised Companies Ordinance in the PRC which became effective on 1 January 2006, the statutory public welfare reserve will be transferred to statutory common reserve.

Discretionary common reserve

According to their respective Articles of Association, the Company and each of its subsidiaries shall transfer at their discretion a certain percentage of their profit after taxation, to the discretionary common reserve (in accordance with the PRC Accounting Regulations). The discretionary common reserve may be used for the same purposes as the statutory common reserve.

Capital contribution

Capital contribution represents gain on acquisition of certain subsidiaries from an equity participant during the year ended 31 December 2004 of RMB184,546,000 and gain on disposal of an associate to that equity participant of RMB1,873,000. Reduction of capital contribution during the year represents the disposal of certain subsidiaries.

33. GOVERNMENT GRANTS

	RMB'000
ADVANCES FROM GOVERNMENT	
At 1 January 2005	16,167
Additions	500
Disposal of a subsidiary	(15,667)
At 31 December 2005 and 1 January 2006	1,000
Reduction	(500)
At 31 December 2006	500

Amounts represent government grants received to be used mainly for technical improvement. They are recorded as liabilities as the conditions attaching to them have not yet been fulfilled.

34. DEFERRED TAX

The following are the major unrecognised deferred tax assets of the Group arising from:

	2006 *RMB'000*	2005 *RMB'000*
Deductible temporary difference available	1,261	176,712
Tax losses	230,739	219,712
	232,000	396,424

No deferred tax asset has been recognised due to the unpredictability of future profit streams. Included in unrecognised tax losses are losses of RMB230,739,000 (2005: RMB219,712,000) that will expire in 2011 (2005: 2010).

35. ACQUISITIONS OF SUBSIDIARIES

During the year ended 31 December 2006, the Group did not acquire any subsidiaries.

On 9 March 2005, the Company received a ruling served by Shenyang Intermediate People's Court of Liaoning Province that NET is ruled to transfer the 70% equity interests in Gaodongjia and 75% equity interests in 瀋陽東北輸變電設備成套工程有限公司 Shenyang Northeast Equipment Complete Engineering Company Limited ("Shenyang Equipment") held by Shenyang High-Voltage, to the Company to set off debts due to the Company with principal of RMB8,310,000 and the interests accrued thereon, together with the penalty for overdue repayment commencing from 10 October 2000, of which the Company has made full allowance in prior years. The acquisition was completed on 24 August 2005. The detail of the acquisition of Gaodongjia is set out below and resulted in a discount on acquisition of RMB838,000. The fair value and carrying amounts of the assets and liabilities at disposal date are set out below. The 75% equity interests in Shenyang Equipment was disposed of immediately at nil consideration. No gain or loss arised from the disposal of Shenyang Equipment.

The effect of acquisitions of subsidiaries during prior year were as follows:

	2006 *RMB'000*	2005 *RMB'000*
Property, plant and equipment	-	564
Inventories	-	1,664
Trade receivables	-	1,106
Other receivables, deposits and prepayments	-	24
Bank balances and cash	-	114
Trade payables	-	(1,149)
Other payables, advance from customers and accruals	-	(1,070)
Tax payable	-	(56)
Minority interests	-	(359)
	-	838
Gain on acquisition of a subsidiary recognised in income statement	-	(838)
Total consideration	-	-
Net cash inflow arising on acquisitions:		
Cash and bank balances acquired	-	114

36. DISPOSAL OF SUBSIDIARIES

On 31 October 2006, the Company entered into a sale and purchase agreement with a third party, 瀋陽德佳經貿有限公司, pursuant to which the Company agreed to sell the 95% equity interest in 瀋陽誠泰能源動力有限公司 and 瀋陽新泰倉儲物流有限公司at a cash consideration of RMB160,000,000. The transaction was approved by the shareholders on 31 October 2006 and completed on 1 November 2006.

On 28 December 2004, the Company entered into a sale and purchase agreement with Northeast Construction Work Company, pursuant to which the Company agreed to sell the 99.99% equity interest in Jinzhou Power at cash consideration of RMB54,000,000. The transaction was approved by the shareholders on 21 March 2005 and completed on 15 April 2005.

The aggregate net assets of the subsidiary disposed of at date of disposal were as follows:

	2006 *RMB'000*	2005 *RMB'000*
Non-current assets	216,049	55,868
Current assets	74,808	234,570
Current liabilities	(146,195)	(238,993)
	144,662	51,445
Gain on disposal of a subsidiary recognised in income statement	15,338	2,555
Total consideration	160,000	54,000
Satisfied by:		
Cash	160,000	54,000
Net cash inflow arising on disposal:		
Cash consideration	160,000	54,000
Bank balances and cash disposed of at 31 October 2006	(2,010)	(6,472)
Net cash inflow arising on disposal	157,990	47,528

37. CONTINGENT LIABILITIES

	2006 *RMB'000*	2005 *RMB'000*
Guarantees given to banks in respect of banking facilities utilised by other entities:		
Former subsidiary	52,900	52,900
Former associate	6,160	6,160
	59,060	59,060

At 31 December 2006, the Company gave guarantees to banks in respect of banking facilities utilised by its subsidiaries and the amount utilised was RMB55,710,000 (2005: RMB55,710,000).

In addition, on 12 May 2005, Xinda commenced litigation against the Shenyang High-Voltage, the borrower, and Jinzhou Capacitors, the guarantor, for the repayment of loan principal of RMB28,350,000. The Company, being the former shareholder, was requested to undertake joint liabilities for the discrepancy of Shenyang High-Voltage´ s investment amount and the outstanding make-up amount of the investment. In addition, certain land use rights of the Group with carrying amount of RMB14,540,000 was frozen accordingly. On 20 March 2006, Liaoning Higher Peoples´ Court ruled that the plaintiff´ s claims against the Company were rejected. Further on 12 October 2006, the company received a trial from the Beijing Supreme Court that the plaintiff´ s claims against the Company were rejected.

38. LEASE COMMITMENTS

The Group as lessor

Property and land use right rental income earned during the year was RMB3,018,000 (2005: RMB2,340,000) and outgoings of RMB592,000 (2005: RMB641,000). All the properties held have committed tenants for the next year.

At the balance sheet date, the Group had contracted with tenants for the following future minimum lease payments:

	2006	2005
	RMB'000	*RMB'000*
Within one year	165	1,216
In the second to fifth year inclusive	330	2,768
After five years	-	-
	495	3,984

The Group as lessee

	2006	2005
	RMB'000	*RMB'000*
Minimum lease payments under operating leases	2,555	2,555

38. LEASE COMMITMENTS *(CONTINUED)*

At the balance sheet date, the Group had outstanding commitments under non-cancellable operating leases, which fall due as follows:

	2006 *RMB'000*	2005 *RMB'000*
Within one year	2,720	2,575
In the second to fifth year inclusive	10,551	7,572
After five years	9,796	1,532
	23,067	11,679

39. RELATED PARTY TRANSACTIONS

During the year, the Group had entered into the following transactions with New High-Voltage, an associate:

	2006 *RMB'000*	2005 *RMB'000*
Sales to:		
New High-Voltage	70,173	62,403
Purchase from:		
New High-Voltage	112,576	109,014
Interest income received from:		
New High-Voltage	-	501
Rental income received from:		
New High-Voltage	2,488	2,340
Service fee income received from:		
New High-Voltage	44,339	51,436
Service paid to:		
New High-Voltage	3,746	5,212
Income received on behalf by:		
New High-Voltage	4,703	-

40. RETIREMENT BENEFITS PLANS, HEALTH CARE ASSURANCE AND HOUSING FUND

The Group's full-time employees are covered by a government-sponsored defined contribution pension scheme, and are entitled to a monthly pension at their retirement dates. The PRC government is responsible for the pension liability to these retired employees. The Group is required to make annual contributions to the retirement plan at a rate of 23.5% of employees' salaries, which are charged to operations as an expense when the contributions are due. For the years ended 31 December 2006 and 2005, the retirement plan contributions made by the Group amounted to RMB3,099,000 and RMB3,803,000 are charged to the income statement respectively.

Pursuant to regulations stipulated by the State Council and the government, the Group started a defined contribution health care scheme in 2001. Under this scheme, all full-time employees of the Group have to make a specified contribution for health care benefits calculated at a certain percentage of their salaries, and the Group is required to match the employees contribution. For the years ended 31 December 2006 and 2005 the medical care contributions made by the Group amounted to RMB3,657,000 and RMB1,498,000 are charged to the income statement respectively.

Furthermore, the Group's full-time employees are entitled to participate in a state-sponsored housing fund. The fund can be used by the employees to purchase housing, or claimed upon their retirement. The Group is required to make annual contributions to the housing fund equal to a percentage of each full-time employee's salary based on service period and position. For the years ended 31 December 2006 and 2005, the Group´ s housing fund contributions amounting to RMB1,460,000 and RMB1,469,000 are charged to the income statement respectively.

These financial statements are prepared in accordance with accounting principles generally accepted in Hong Kong, which differ in certain significant aspects from those in the PRC Accounting Regulations. The significant differences relate principally to the following items and the adjustments considered necessary to restate net profit attributable to shareholders and net assets in accordance with PRC Accounting Regulations are shown in the tables set out below.

	Net assets	Net profit
	RMB'000	*RMB'000*
Under accounting principles generally accepted in Hong Kong	944,251	29,540
Accrued staff welfare expenses	(437)	1,205
Negative goodwill	(475)	-
Amortisation of negative goodwill	204	204
Subsidy income	-	(1,650)
Debt restructuring	-	(78)
Others	20	-
Under the PRC Accounting Regulations	943,563	29,221

TO THE SHAREHOLDERS OF NORTHEAST ELECTRIC DEVELOPMENT CO., LTD.

We have audited the balance sheet of Northeast Electric Development Co., Ltd. (hereinafter referred as ″Northeast Electric″) and its subsidiaries as of Dec. 31, 2006, and the related profit and loss/profit appropriation, cash flow for the year then ended, with notes ensued.

1、 Responsibility of the managerial staff to the reports

It′s the responsibility of the managerial staff to workout financial reports by the guidelines and rules of 〖Enterprise Accounting Rules〗, which involve (1)to devise, implement and maintain an interior financial control system so that material misinformation will appear due to fraudulent practices or mistakes; (2) to choose and exercise the appropriate accounting principles; (3) to make reasonable accounting valuation.

2、 Responsibility of the Certified Accountants

Our responsibility is to express opinion on these financial reports based on our audit. We have performed the auditing by the guidelines of Certified Accountants of China, which require us to abide by the criterion of our professional moral, to obtain reasonable assurance to avoid material misinformation by planning and performing auditing.

An audit involves implementing the auditing procedures to obtain evidence supporting amounts and disclosures in the financial reports. Auditing procedures are decided by the judgements of our certified accountants, which involve valuation of material misinformations due to fraudulent practices and mistakes. While conducting our risks valuation, we have devised appropriate auditing procedures by considering interior financial controls relating to the working out of financial reports, which aim not to express any opinion on the effectiveness of interior controls. And appraisal of the aptitude and rationality of the choosing accounting principles by the managerial staff, and of the overall financial statements presentation.

We believe that our audit provides a reasonable basis for our opinion.

3、 Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the company as of Dec. 31, 2006, and of the results of its operations and its cash flows for the year then ended in accordance with our national financial reporting standards.

4、 Major proceedings

Shenyang High-voltage Switchgears Co., Ltd. (hereinafter referred as "Shenyang High-votage") has borrowed from China Development Bank (hereinafter referred as De-Bank) in 1998, countersigning the relative Loan Agreement., and under which loan guarantee was signed by the legal person guarantors. Later Shenyang High-votage started up New Northeast Electric (Shenyang) High-voltage Switchgears Ltd. (hereinafter referred as New Shenyang High votage) 、New Northeast Electric (Shenyang) High-votage Isolator Co., Ltd. (hereinafter referred as Insolator Switchgears)、 Shenyang Suntime Storage Logistics Co., Ltd. (hereinafter referred as Suntime Storage) and Shenyang Chengtai Energy Co., Ltd. (hereinafter referred as Chengtai Energy)- all share-holding co. with other parties, contributing its own assets and rights to the use of land for shares in those companies. The Company has obtained shares of Insolator Switchgears、Suntime Storage and Chengtai Energy from Shenyang High in 2004. De-Bank has filed a lawsuit against Shenyang High to Beijing City High Court (hereinafter referred as Beijing High Court) in May 31, 2004, demanding the plaintiff to repay overdue loan principal of RMB150 million and the interest entailed, and at the same time for the Company、 New Shenyang High、Insolator Switchgears、Suntime Storage and Chengtai Energy (hereinafter referred collectively as "the co. and associates") to undertake joint liability to the aforesaid debts; asking the Court to declare the shares-transferring contracts concerning Insolator Switchgears、 Suntime Storage and Chengtai Energy between the Company and Shenyang High void and null. Beijing High Court overruled De-Bank′ s requests in Mar. 18, 2005 (civil judgement no.(2004)HCP802). De-Bank then appealed to the People′s Supreme Court of China (hereinafter referred as Supreme Court) in Mar. 22, 2005. The Supreme Court has ruled that Beijing High Court should unify hearing of the cases of De-Bank vs. Shenyang High&Shenyang Transformers Co. Ltd. (hereinafter referred as Shenyang Transfomers) & Northeast Construction and Installation Co., and of De-Bank vs. Shenyang High & Insolator Switchgears & Suntime Storage & Chengtai Energy & the Company. Up to the date of the report, Beijing High Court has not yet made its ruling concerning the above mentioned cases. Legal advisors of the company believe that as the company was not a party in either the disputed Loan Agreement or the Guarantee, the subject case was irrelevant; and the action of setting-up New Shenyang High 、 Insolator Switchgears、 Xintai Storage and Chengtai Energy was normal investment abiding by the Corporate Law by a limited company, which neither decrease the company′ s assets nor impair its repayment ability; and no hostile collusion existed in the transferring of shares between Shenyang High and the Company. Legal Advisors also believe that the promised fund of RMB144,925,000.00 due Shenyang High from the company has been paid up by Apr. 25, 1995, by which the obligation of contributing fund has been fully carried out. Whether or however the company will be affected is to be decided by the final judgement made by the Beijing High Court. The contents of this paragraph do not affect our opinion issued in this audit report.

Shenzhen Pengcheng Certified Accountants Co., Ltd.

Shenzhen, P.R. China

Certified Accountants of China:刘仁芝

Certified Accountants of China:赵慰情

Feb. 28, 2007

Unit:RMB

		2006-12-31		2005-12-31	
Asset	Notes	Consolidated	Company	Consolidated	Company
Current Assets					
Cash and deposits	6、(1)	41,123,600.99	14,066,308.79	112,448,651.46	13,344,545.39
Short-term investment		-	-	-	-
Bills receivable	6、(2)	2,180,800.00	-	13,400,000.00	-
Interest receivable		-	-	-	-
Dividend receivable		2,087,881.75	-	2,165,010.00	-
Account receivable	6、(3)、7、(1)	233,856,936.75	17,429,051.60	244,313,827.33	34,900,328.00
Other receivables	6、(4)	150,454,251.93	535,499,773.77	97,230,587.15	335,796,568.38
Prepayment	6、(5)	55,480,583.10	3,519,572.76	80,747,978.55	-
Subsidies for account receivable		-	-	-	-
Inventories	6、(6)	68,520,854.75	1,879,090.38	85,513,733.84	13,039,316.24
Deferred and prepaid expenses	6、(7)	1,482,335.72	-	2,821,832.71	2,216,683.76
Due from associates		-	-	-	-
Total current assets		555,187,244.99	572,393,797.30	638,641,621.04	399,297,441.77
Long-term investments					
Investment in equity shares	6、(8) 7、(2)	357,215,692.62	433,989,673.74	112,019,656.88	564,610,479.92
Long-term investment in debts		-	-	-	-
Total long-term assets		357,215,692.62	433,989,673.74	112,019,656.88	564,610,479.92
inclu.:consolidated goodwill		(474,995.07)	-	(1,428,447.94)	-
Marsgin of share-to-price		-	-	-	-
Fixed Assets					
Fixed Assets - costs	6、(9)	582,087,872.30	7,550,227.87	724,099,773.53	6,618,178.87
Less: Acumulated Depreciation	6、(9)	129,097,729.47	3,246,058.03	127,451,710.78	2,426,489.81
Net value of fixed assets	6、(9)	452,990,142.83	4,304,169.84	596,648,062.75	4,191,689.06
Less:Provision for loss on realization of fixed assets	6、(10)	82,583,587.22	-	87,120,500.32	-
Net worth of fixed assets		370,406,555.61	4,304,169.84	509,527,562.43	4,191,689.06
Materials of construction		-	-	-	-
Construction in progress	6、(11)	552,016.05	-	310,326.60	-
Disposal of fixed assets		-	-	-	-
Total fixed assets		370,958,571.66	4,304,169.84	509,837,889.03	4,191,689.06
Intangible and other assets					
Intangible assets	6、(12)	5,610,526.82	-	5,746,683.62	-
Long-term deferred and prepaid expenses	6、(13)	4,274,165.25	-	-	-
Other long-term assets		-	-	-	-
Total intangible and other assets		9,884,692.07	-	5,746,683.62	-
Deferred taxes					
Deferred taxes - debit		-	-	-	-
Total Assets		1,293,246,201.34	1,010,687,640.88	1,266,245,850.57	968,099,610.75

Unit:RMB

Liabilities and shareholders' equity	Notes	2006-12-31 Consolidated	2006-12-31 Company	2005-12-31 Consolidated	2005-12-31 Company
Current Liabilities					
Short-term loans	6、(14)	68,300,000.00	-	84,810,000.00	-
Bills payable	6、(15)	9,540,800.00	-	3,000,000.00	-
Acount payable	6、(16)	79,608,362.25	9,332,058.00	82,644,567.14	7,869,888.57
Advanced payments	6、(17)	34,614,796.47	2,315,750.00	60,600,858.93	24,754,660.00
Accrued payroll		-	-	-	-
Accured benefits		436,709.68	-	1,642,611.33	-
Accurued dividends		40,017.86	-	-	-
Taxes payable	6、(18)	11,434,581.71	2,723,199.96	14,868,678.26	3,551,574.47
Other accurals		13,066.36	-	33,931.63	-
Other payables	6、(19)	85,752,365.39	101,138,650.36	65,013,948.53	79,921,461.56
Expenses payable	6、(20)	4,731,324.20	4,215,254.12	1,876,354.46	1,846,354.46
Estimated liabilities	6、(21)	54,711,289.00	54,711,289.00	54,711,289.00	54,711,289.00
Long-term liabilities - current portion		-	-	-	-
Due to associates		-	-	-	-
Total Current Liabilities		349,183,312.92	174,436,201.44	369,202,239.28	172,655,228.06
Long-term Liabilities					
Long-term loan		-	-	-	-
Bonds payable		-	-	-	-
Long-term Account payable		-	-	-	-
Payables on specific accounts	6、(22)	500,000.00	-	1,000,000.00	-
Other long-term liabilities		-	-	-	-
Total Long-term Liabilities		500,000.00	-	1,000,000.00	-
Deferred taxes					
Deferred taxes -credit		-	-	-	-
Total Liabilities		349,683,312.92	174,436,201.44	370,202,239.28	172,655,228.06
Minority shareholders' equity:					
Minority shareholders' equity		114,403,754.65	-	98,713,869.59	-
Shareholders' equity:					
Capital	6、(23)	873,370,000.00	873,370,000.00	873,370,000.00	873,370,000.00
Additional paid-in capital	6、(24)	975,304,036.72	997,976,188.74	972,123,038.66	994,611,846.68
Reserve on earnings	6、(25)	110,190,073.98	108,587,124.40	108,587,124.40	108,587,124.40
inclu.:legal reserve		-	-	32,210,803.10	32,210,803.10
Margins on exchanges		281,981.43	-	854,932.83	-
Retained earnings	6、(26)	(1,129,986,958.36)	(1,143,681,873.70)	(1,157,605,354.19)	(1,181,124,588.39)
Total shareholders' equity		829,159,133.77	836,251,439.44	797,329,741.70	795,444,382.69
Total Liabilities and Shareholders' Equity		1,293,246,201.34	1,010,687,640.88	1,266,245,850.57	968,099,610.75

Unit:RMB

Items	Notes	For the year ended Dec. 31, 2006 Consolidated	Company	For the year ended Dec. 31, 2005 Consolidated	Company
1.Operating Revenue	7、(27) 8、(3)	537,960,970.52	127,143,131.50	549,894,247.22	125,012,220.34
Less: Operating costs	7、(27) 8、(3)	400,942,827.29	118,535,916.54	405,241,777.39	115,590,038.06
Taxes and allowances		2,831,461.61	-	3,759,429.15	-
2.Operating Profit		134,186,681.62	8,607,214.96	140,893,040.68	9,422,182.28
Add:Other operating prafits	7、(28)	(1,474,730.35)	57,537.25	5,126,347.09	1,886,700.00
Less: Operating expenses		39,762,437.93	1,628,233.82	39,752,966.69	1,434,033.70
Adminstrative expenses		79,803,941.60	18,216,748.19	74,035,817.47	16,895,669.84
Financial expenses	7、(29)	10,502,394.08	(53,460.97)	4,457,496.74	(62,035.82)
3.Operating Profit		2,643,177.66	(11,126,768.83)	27,773,106.87	(6,958,785.44)
Add:Investments income	7、(30) 8、(4)	38,657,076.14	48,574,574.65	22,169,493.31	35,979,521.46
Subsidies income		-	-	0.00	-
Non-operating revenue	7、(31)	1,483,532.14	-	16,005,952.63	15,291,725.00
Less: Non-operating expenses	7、(32)	949,909.61	5,091.13	24,186,735.42	23,933,268.80
4.Total Profit		41,833,876.33	37,442,714.69	41,761,817.39	20,379,192.22
Less: Income tax		2,669,588.07	-	2,419,149.00	-
Minority shareholders' interests		9,942,942.85	-	15,716,981.76	-
Investment loss to affirm		-	-	0.00	-
5.Net Profit		29,221,345.41	37,442,714.69	23,625,686.63	20,379,192.22
Add: Undistributed profits at beginning of year		(1,157,605,354.19)	(1,181,124,588.39)	(1,181,231,040.82)	(1,201,503,780.61)
Other incomes		-	-	-	-
6.Distributable Profits		(1,128,384,008.78)	(1,143,681,873.70)	(1,157,605,354.19)	(1,181,124,588.39)
Less: Provision of legal reserve		1,234,379.73	-	-	-
Provision of legal commonweal fund		-	-	-	-
5.Profits distributable to shareholders		(1,129,618,388.51)	(1,143,681,873.70)	(1,157,605,354.19)	(1,181,124,588.39)
Less:Dividends payable to preference shares		-	-	-	-
Provision of additional reserve on earnings		368,569.85	-	-	-
Dividends payable to common shares		-	-	-	-
Dividends payable to common shares recapitalized		-	-	-	-
8.Non-declared profits		(1,129,986,958.36)	(1,143,681,873.70)	(1,157,605,354.19)	(1,181,124,588.39)
Supplemental information：					
1、Incomes of sales/disposals of departments/invested companies		15,337,844.67	19,315,371.11	2,353,472.59	2,245,545.24
2、Loss due to natural disasters		-	-	-	-
3、Profit increase/decrease due to accounting policies change		-	-	-	-
4、Profit increase/decrease due to accounting revaluation		-	-	-	-
5、Loss on liabilities reformation		-	-	-	-
6、Others		-	-	-	-

Cash Flow Statements

At 31st December, 2006(Prepared in accordance with the PRC Accounting Rules and Regulations)

Unit: RMB

Items	Notes	For the year ended Dec. 31, 2006 Consolidated	Company
1、Cash Flows from Operating Activities:			
Cash received from sales of goods or rendering of services		562,765,190.28	143,789,830.00
Value added tax on sales received and refunds of value		112,952.79	-
Other cash received relating to operating activities	6、(33)	133,540,848.81	16,330,520.00
Sub-total of cash inflows		696,418,991.88	160,120,350.00
Cash paid for goods and services		409,271,587.22	129,584,200.00
Cash paid to and on behalf of employees		43,047,633.12	5,171,214.00
Taxes paid		37,259,294.35	733,500.00
Other cash paid relating to operating activities	6、(34)	220,037,478.07	238,440,460.00
Sub-total of cash outflows		709,615,992.76	373,929,374.00
Net cash flows from operating activities		(13,197,000.88)	(213,809,024.00)
2、Cash Flows from Investing Activities:			
Cash received from return of investments		160,000,000.00	215,462,836.00
inclu.: inflows from sales of subsidiaries		160,000,000.00	215,462,836.00
inflows from investments income		11,716,267.55	-
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		4,530,071.04	-
Other cash received relating to investing activities		74,287.00	-
Sub-total of cash inflows		176,320,625.59	215,462,836.00
Cash paid to acquire fixed assets, intangible assets and other long-term assets		12,281,753.34	932,048.60
Cash paid to acquire equity investments		205,772,477.00	-
Cash paid to purchase/dispose of subsidiaries		-	-
Other cash paid relating to investing activities		-	-
Sub-total of cash outflows		218,054,230.34	932,048.60
Net cash flows from investing activities		(41,733,604.75)	214,530,787.40
3、Cash Flows from Financing Activities:			
Proceeds from issuing shares/bonds		-	-
Proceeds from borrowings		13,950,000.00	-
Other proceeds relating to financing activities		72,587.37	-
Sub-total of cash inflows		14,022,587.37	-
Cash repayments of amounts borrowed		27,060,000.00	-
Cash payments for distribution of dividends or profits/of interest expenses		3,357,032.21	-
Other cash payments relating to financing activities		-	-
Sub-total of cash outflows		30,417,032.21	-
Net cash flows from financing activities		(16,394,444.84)	-
4、Effect of Foreign Exchange Rate Changes on Cash		-	-
5、Net Increase in Cash and Cash Equivalents		(71,325,050.47)	721,763.40

Unit：RMB

Items	For the year ended Dec. 31, 2006 Consolidated	Company
1.Reconciliation of Net Profit to Cash Flows from Operating Activities:		
Net profit	29,221,345.41	37,442,714.69
Add:Minority shareholders' equity - current portion	9,942,942.85	-
Investment loss to affirm	-	-
Provision of assets devaluation	(1,902,995.30)	-
Depreciation of fixed assets	27,877,900.39	819,568.00
Amortization of intangible assets	238,156.80	-
Amortization of long-term deferred and prepaid expenses	2,555,360.00	-
Decrease of deferred and prepaid expenses （or deduct:increase)	1,339,496.99	2,216,683.76
Provision of increase of other expenses(or deduct:increase)	2,854,969.74	2,368,899.66
Losses on disposal of fixed assets,intangible assets and other long-term assets (or deduct:gains)	519,325.41	-
Financial expenses	10,502,394.08	(53,460.97)
Losses arising from investments (or deduct:gains)	(38,657,076.14)	(48,574,574.65)
Decrease in inventories (or deduct：increase)	16,992,879.09	11,160,225.86
Deferred taxes - credit(or deduct: debit)	-	-
Decrease in operating receivables (or deduct:increase)	(69,483,687.89)	(218,601,154.31)
Increase in operating payables (or deduct:decrease)	(5,198,012.31)	(587,926.04)
Others	-	-
Net cash flows from operating activities	(13,197,000.88)	(213,809,024.00)
2.Investing and Financing Activities that do not Involve in Cash Receipts and Payments :		
Repayments of debts by the transfer of investories	-	-
Transferrable company bonds due in 1 year	-	-
Financial leasing of fixed assets	-	-
3. Increase in Cash and Cash Equivalents		
cash at the end of the period	41,123,600.99	14,066,308.79
Less:cash at the beginning of the period	112,448,651.46	13,344,545.39
Plus:cash equivalents at the end of the period	-	-
Less:cash equivalents at the beginning of the period	-	-
Net increase in Cash and Cash Equivalents	(71,325,050.47)	721,763.40

Fiancial reports of Segments (Business Segments)

At 31st December, 2006(Prepared in accordance with the PRC Accounting Rules and Regulations)

Unit: RMB

Items	Industry		Restaurants/Hotels/Diners/Other Services		Setting-off		Total	
	For the year ended Dec. 31, 2006	For the year ended Dec. 31, 2005	For the year ended Dec. 31, 2006	For the year ended Dec. 31, 2005	For the year ended Dec. 31, 2006	For the year ended Dec. 31, 2005	For the year ended Dec. 31, 2006	For the year ended Dec. 31, 2005
1、Total Operating Revenues	466,017,381.18	468,538,377.59	74,377,366.72	83,434,097.63	2,433,777.38	2,078,228.00	537,960,970.52	549,894,247.22
2、Total Operating Costs	344,567,613.22	346,587,030.41	56,375,214.07	58,654,746.98	-	-	400,942,827.29	405,241,777.39
3、Total Expenses	109,054,682.08	98,138,168.00	23,447,868.91	22,186,340.90	2,433,777.38	2,078,228.00	130,068,773.61	118,246,280.90
4、Total Operating Profits	9,093,722.06	28,265,125.04	(6,450,544.40)	(492,018.17)	-	-	2,643,177.66	27,773,106.87
5、Total Assets	1,011,763,534.48	715,603,827.08	281,482,666.86	550,642,023.49	-	-	1,293,246,201.34	1,266,245,850.57
6、Total Liabilities	289,095,392.30	75,050,498.72	60,587,920.62	295,151,740.56	-	-	349,683,312.92	370,202,239.28

1、 INTRODUCTION OF THE COMPANY

Northeast Electric Development Co., Ltd. (formerly: Northeast Electrical Transmission & Transformation Machinery ManafacturingCo., Ltd.) (hereinafter referred as ″the company″ or ″company″) is a share-holding limited company in a directional collection way initiated mainly by the Northeast Electrical Transmission & Transformation Equipment Group Corporation, and approved by the Shenyang corporate system reformation committee (approval: ShenSysRefDev (1992)81). The company officially came into being on Feb. 18, 1993, with 824.54 million shares which adjusted to 585.42 million shares. The company issued 257.95 million H-shares in Hong Kong in 1995, and on Jul. 6 listed on the Hong Kong Exchanges and Clearing Ltd. In that same year the company issued 30 million A-shares which listed on the Shenzhen Stock Exchange on Dec. 13, 1995. Total number 4 shares of the company has reached 873.37 million。

The state share sale reform of the company has been completed by May 15, 2006, details as shown in Notes. 6-23.

The main operating scope is production of electricity transmitting and transformation machinery and relative fittings. Subsidiaries of the company involve in operations of restaurants、hotels.

2、 THE MAIN ACCOUNTING POLICIES OF THE COMPANY AND ITS SUBSIDIARIES、ACCOCUNTING VALUATION AND THE WORKINGOUT OF CONSOLIDATED FINANCIAL REPORT

(1) Accounting policies

By the regulation of ′Enterprise Accounting Standards′ and ′Enterprise Accounting Systems′ and relative supplements.

(2) Accounting period

Accounting period begins on Jan. 1 and ends on Dec. 31 of each calendar year.

(3) Standard currency

Ren Min Bi Yuan is the standard currency in the financial report.

2、 THE MAIN ACCOUNTING POLICIES OF THE COMPANY AND ITS SUBSIDIARIES、ACCOCUNTING VALUATION AND THE WORKINGOUT OF CONSOLIDATED FINANCIAL REPORT *(CONTINUED)*

(4) Basis for book-keeping and valuation

The reporting is based on accrual basis accounting, each asset was recorded at its cost. Provision for depreciation of assets has been set aside in accordance with the relative regulations.

(5) Translation of foreign currencies

The results from operations denominated in foreign currencies are translated into Ren Min Bi using the ruling the foreign exchange interim rates by the People´s Bank of China at the beginning of the operation month. Monetary assets and liabilities at the end of the report period are adjusted by the ruling exchange rates by the People´s Bank of China. Differences arising from exchanges are reported as gains/or losses of exchange, except for differences of exchange from loans of construction preparations and fixed assets purchase.

(6) Translation of foreign currencies financial report

All assets and liabilities on the subsidiaries´ reports using foreign currencies as standard currencies are exchanged into the standard currency of the parent company´s report using the ruling exchange rates on the date of the final consolidated report; Except for the ´undeclared profit´, all items of shareholders´ equity are exchanged into the standard currency of the parent company´s report at the exchange rates approximating foreign exchange rates ruling on the dates of transactions, and relative items on Profit & Loss & Profit Appropriation are exchanged into the standard currency used by the parent company at the exchange rates ruling on the date of the final consolidated report. Items concerning income、expenses along with items concerning increases/or decreases of long-term liabilities、fixed assets、long-term deferred expenses and intangible assets are exchanged into the standard currency of the parent company´s report on the date of final consolidated report. Increases of assets are translated to the standard currency at the ruling exchange rates on the dates of transactions. The resulting exchange differences are recognized in a separate component of equity.

2、 THE MAIN ACCOUNTING POLICIES OF THE COMPANY AND ITS SUBSIDIARIES、ACCOCUNTING VALUATION AND THE WORKINGOUT OF CONSOLIDATED FINANCIAL REPORT *(CONTINUED)*

(7) Cash equivalents recognition

Short-term、 highly liquid investments that are readily convertible into known amount of cash and which are subject to insignificant risk of changes in value are reported as cash equivalents.

(8) Bad debts

Standards of bad debts recognition

a. Account receivables yet not recovered after debtor(s)′ bankruptcy or death, or liquidation of their properties or legacy.

b. Account receivables due for over three years and which apparent evidences show unrecoverable.

Methods and standards of bad debts provisions

Allowance method are applicable to bad debts reporting. The company prepare provisions for bad debts by their separate ages according to the balances of account receivables (including accounts receivables and other receivables) at the end of report period.

To appropriate 0% for receivables within 2 years, 40% for those between 2-3 years, 60% for those between 3-4 years, 100% for those over 4 years.

First the company appropriate provisions for bad debts for recoverable receivables or receivables significantly different from other receivables using method of Individual Recognition according to past experience、debtors′ real financial status and cash flow, then for the rest of receivables using method of Age Analyzation, and apply method of Individual recognition for those that irrefutable evidences show that they are unrecoverable.

2、 THE MAIN ACCOUNTING POLICIES OF THE COMPANY AND ITS SUBSIDIARIES、ACCOCUNTING VALUATION AND THE WORKINGOUT OF CONSOLIDATED FINANCIAL REPORT *(CONTINUED)*

(9) Inventories

Inventories are divided into four categories: raw material(including auxiliary material)、work in progress、fininshed goods、low value articles.

Method of perpetual inventory is adopted for reporting. Purchased and self-produced inventories are carried at real costs, goods-in-delivery are calculated using the weighted average cost formula, inventories of low value articles are amortized at the time of consumption.

Inventories are carried using the Lower-of-Cost-or-Realizable Ner Worth method by end of report date. Provisions for inventories depreciation are appropriated from the differences of cost over realizable net worth., the estimiated loss of inventories depreciation are recognized as expenses.

(10) Short-term investments

Short-term investments refer to readily convertible stocks、bonds and funds that intended to keep in possession for less than 1 year.

At acquisitions, short-term investments are calculated at real cost deducting undrawn declared dividends or undrawn due bonds interest.

Except for those already calculated in the items of receivable, income of dividends or interests acquired during possession of short-term investments are directly written-down costs of investments. Differences of book values of short-term investments from real income are reported as profit or loss of investments while disposing of short-term investments.

Short-term investments are calculated using method of Lower of Cost or Market Price, and provisions for depreciation are appropriated from differences of costs over market prices.

(Any single investment exceeding 10% of total short-term investments, provision for its depreciation is appropriated separately.)

2、 THE MAIN ACCOUNTING POLICIES OF THE COMPANY AND ITS SUBSIDIARIES、ACCOCUNTING VALUATION AND THE WORKINGOUT OF CONSOLIDATED FINANCIAL REPORT *(CONTINUED)*

(11) Long-term Investments

Long-term Investments in equity

a. Calculation of long-term investments in equity

Initial investment costs are calculated at real cost at the time of investment or a certain value.

b. Difference of investments in equity

Equity method is adopted to report long-term investments in equity. Account of ˝investment in equity˝ are set up if there are differences between initial long-term investment acquisition costs and shares in the company invested, or when changed to Equity method from Cost method. By end of investment terms, debit balances are amortized according to investment term if such term has been stipulated in the relative contracts; if not, amortization are spread in no less than 10 years. Credit balances occurd before realease of Guideline of No. Caikuai[2003]10 are amortized in a certain amount of time limit, i.e., according to investment term if such term is stipulated in the relative contract, or in no less than 10 years if such term is not stipulated, and are carried into Profit and Loss. For credit balances occurd before the above-mentioned guideline are carried into ˊcapital reserveˊ.

c. Income recognition method

Long-term investments that take up less than 20% of voting capital of the company invested and investments that impose no significant impact though taking up 20% or more of total voting capital in the company investmented are calculated using Cost method; Long-term investments taking up 20% or more of the total voting capital of the company invested and those though less than 20% yet have significant impact are calculated by Equity method.

2、 THE MAIN ACCOUNTING POLICIES OF THE COMPANY AND ITS SUBSIDIARIES、ACCOCUNTING VALUATION AND THE WORKINGOUT OF CONSOLIDATED FINANCIAL REPORT *(CONTINUED)*

(11) Long-term Investments *(Continued)*

c. Income recognition method *(Continued)*

Investment income are recognized when the company invested declare cash dividends for investments using Cost method, which income is limited to the appropriation of accumulated profit after the investment completed. Amount of the investment income that exceeds the above-mentioned declared cash dividends are to write-off initial investment cost on the book. Investments income are recognized by shares of net profit or loss realized by the company invested at end of each accounting period based on the net profit/loss of the company invested after equity acquisition, and long-term investments in equity are adjusted accordingly. Difference between book value of the investment and the real income are recognized as investment income of the period when disposal of investment in equity occur.

Long-term investments in Equity Securities

a. Calculation of Long-term Investments in Equity Securities

Long-term investments in bonds are calculated at the real cost of acquisition.

b. Amortization of Appreciation/Depreciation of Long-term Investments in Equity Securities

Differences between the real cost of acquisition and book value of the bonds are taken as appreciation or depreciation, and are amortized along with the recognition of the related interests of bonds when the relative appreciation/depreciation exsit, using Direct Line method or Real Rate method.

2、 THE MAIN ACCOUNTING POLICIES OF THE COMPANY AND ITS SUBSIDIARIES、ACCOCUNTING VALUATION AND THE WORKINGOUT OF CONSOLIDATED FINANCIAL REPORT *(CONTINUED)*

(11) Long-term Investments *(Continued)*

Long-term investments in Equity Securities *(Continued)*

c. Recognition of Long-term Investment in Securities Income

Interest income are recognized according to book value and the interest rates on the securities by each term,suh interest income are recognized as investment income of the report period after amortization of bonds appreciation/ or depreciation. Interest receivable of other investments of each term are recognized as investment income of the report period. Differences between the real income and book value of the long-term investment are recognized as investment profit/or loss of the report period.

Provisions for Long-term Investment Depreciation

Each long-term investment is subject to review at end of period. If recoverable income go below the book value of the long-term investmemt due to continuous falling of market prices of the long-term investment or deterioration of operations in the company invested, provisions are prepared for difference between such recoverable income and book value of the long-term investment, firstly using such provisions to write off items of capital reserve, and loss are recognized for the period if such provisions fall short. Reversal are done to those recovered investments previously recognized as loss.

2、 THE MAIN ACCOUNTING POLICIES OF THE COMPANY AND ITS SUBSIDIARIES、ACCOCUNTING VALUATION AND THE WORKINGOUT OF CONSOLIDATED FINANCIAL REPORT *(CONTINUED)*

(12) Fixed Assets and Depreciation

Fixed assets refer to buildings of over 1 year service life, construction, machinery, equipment, motor vehicles, and other equipments, utensils and instruments that related to production or operations, and non-productional non-operational assets of over 2 years of service life which valued at over RMB2000.

Fixed assets are recognized at real costs or revaluation. Depreciation of fixed assets are calculated using method of Average Life, and depreciation rates are decided according to the type, estimated service life and estimated salvage value:

Items of assets	Rate of estimated salvage value	Service life	Annual depreciation rate
Buildings	3%	20-40years	2.43-4.85%
Machinery and equipment	3%	8-20years	4.85-12.13%
Motor vehicles and others	3%	6-17years	5.71-16.17%

Provisions for Fixed Assets Depreciation

Fixed assets are calculated at lower of book value and recoverable amount at balance sheet date. For those recoverable amounts fall under book value due to continuous fall of market prices, obsolete technology, impairment or idle, provisions are set for each item of fixed assets at such differences of value.

2、 THE MAIN ACCOUNTING POLICIES OF THE COMPANY AND ITS SUBSIDIARIES、ACCOCUNTING VALUATION AND THE WORKINGOUT OF CONSOLIDATED FINANCIAL REPORT *(CONTINUED)*

(13) Calculation of Construction in Progress

Construction in Progress referred to plants, equipments and other fixed assets that are being constructed, which are recognized at real costs, including direct construction and installation costs, borrowings interests and gains or loss of foreign exchange during such period. Fixed assets are recognized when construction in progress come into use, and relative interests capitalization are closed.

Provisions for Construction in Progress Depreciation

Full scale of checkup to the construction in progress are conducted at end of report date. Construction that held up for a long time and estimated not to re-started in the future 3 years, or which fall wayback in capability or technology, of which economic benefit are significantly uncertain, or other proofs evidencing depreciation, provisions are setup at differences of book value over recoverable amounts.

(14). Intangible Assets and Amortization

Intangible assets are calculated at real costs of acquisitions. Intangible assets used for capital stock are recognized by the value agreed upon by all investors. Intangibles that are self-developed and acquired under legal procedures are recognized at the expenses of registration and legal advice, and expenses of research and development before legal acquisition are carried into profit and loss of the period. Intangibles that purchased are recognized at real cost of purchasing.

Land-use rights that purchased or paid before application of ˝Enterprise Accounting Systems˝ are recognized as intangible assets, and amortized accordingly. Land-use rights that purchased or paid after the application of ˝Enterprise Accounting Systems˝ and construction are not yet set up are recognized as intangible assets, and amortized accordingly. When construction is in progress, book value of land-use rights are wholly transferred to construction in progress costs.

2、 THE MAIN ACCOUNTING POLICIES OF THE COMPANY AND ITS SUBSIDIARIES、ACCOCUNTING VALUATION AND THE WORKINGOUT OF CONSOLIDATED FINANCIAL REPORT *(CONTINUED)*

(14) Intangible Assets and Amortization *(Continued)*

Amortisation of intangible assets is charged to profit or loss on a straight-line basis over the assets´ estimated useful lives. If such lives exceed relative contracts´ stipulation or legal regulation, then amortization period are limited to shorter of useful lives and effective lives. If such lives are indefinite, then amortization period are 10 years.

Provisions for Depreciation of Intangible Assets

Regular checkup are performed to evaluate future economic benefit from intangible assets, when the following situations occur, provisions for depreciation of intangible assets are setup by the differences of book value over recoverable amounts: 1) certain intangible asset are edged out by a new technology rendering its inability to bring forward economic benefit; 2) certain intangible asset´ s market price sink dramatically in the period and is beyong recovery in the rest of the amortization period; 3) certain intangible asset exceed legal protection life but still retain some value in use; 4)other proofs evidencing provisions for depreciation should be setup for a certain intangible asset

(15) Calculation of other assets

Other assets are carried into report at real amount of transactions.

a. Preliminary Expenses: Charged into Profit and Loss at the month of first month of operation of the company;

b. Long-term Deferred Expenses: Amortised in 10 years from date of the relative benefit occur(for which with distinct beneficial period, amortised equally in such period)

Non-beneficial long-term deferred expenses are charged into Profit and Loss at scrap value when recognized.

2、 THE MAIN ACCOUNTING POLICIES OF THE COMPANY AND ITS SUBSIDIARIES、ACCOCUNTING VALUATION AND THE WORKINGOUT OF CONSOLIDATED FINANCIAL REPORT *(CONTINUED)*

(16) Borrowing Expenses

1) Conditions of Recognization of Borrowing Expenses Capitalization

Borrowing expenses include interests, amortization of depreciation or appreciation, auxiliary expenses when borrowing occur, and exchange differences of foreign currency borrowings. Such expenses are capitalized for interests, amortization and exchange differences due to borrowings if under the following circumstances at the same time:

a. capital expenses have occurred;
b. borrowing expenses have occurred;
c. Purchases or Construction to render assets usable have started.

Other interests, amortization of depreciation or appreciation and exchange differences are recognized as expenses at the time of transactions.

2) Recognition of Capitalization Amounts

Amounts of interest capitalization equals to accumulated average weighted expenses times capitalization rates. Such rates are decided according to the following principles:

a. Only 1 borrowing has occurred for the purchase or construction of fixed asset, then capitalization rate is the borrowing interest rate.

b. Over 1 borrowings have occurred for the purchase or construction of fixed asset, then capitalization rates are the weighted average interest rates of these borrowings.

2、 THE MAIN ACCOUNTING POLICIES OF THE COMPANY AND ITS SUBSIDIARIES、ACCOCUNTING VALUATION AND THE WORKINGOUT OF CONSOLIDATED FINANCIAL REPORT *(CONTINUED)*

(16) Borrowing Expenses *(Continued)*

3) Hold-up of Capitalization

Borrowing expenses capitalization are halted when activities of purchase or construction of fixed assets are stopped under abnormal conditions, and stoppage has lasted for over three months. Under such circumstances expenses are recognized until the purchase or construction of fixed assets restarted.

4) Capitalization Cut-off

Borrowing expenses capitalization are cutoff when fixed assets purchased or constructed reach to the condition of usefulness. Borrowing expenses occur later on are recognized as expenses of the period.

(17) Principles of Recognization of Estimated Liabilities

Obligations related to contingent items that fall under the following conditions are recognized as liabilities:

a. Such obligation is contemporary;

b. Execution of such obligation will probably lead economic benefits out of the company;

c. Amounts of such obligation can be measured certainly.

2、 THE MAIN ACCOUNTING POLICIES OF THE COMPANY AND ITS SUBSIDIARIES、ACCOCUNTING VALUATION AND THE WORKINGOUT OF CONSOLIDATED FINANCIAL REPORT *(CONTINUED)*

(17) Principles of Recognization of Estimated Liabilities *(Continued)*

Recognized amount of liabilities are the best evaluation amount to repay such liabilities. If a range exist in the expenses payable, then evaluation are decided at the average of the maxin and minimum amount. If a range does not exist, then evaluation are decided according to the following methods:

a. best evaluation are decided at the most probable amount when contingent events involve in a single item;

b. best evaluation are decided at the possible amounts and their probility.

For recognized liabilities under which expenses are redempted or estimated to be redempted by third parties in all or in part, such redemption are recognized as asset when ascertained, and do not exceed the book value of the recognized liabilities.

(18) Principles of Income Recognition

Sales of Goods

Sales of goods are recognized when major risks and return of ownership are transferred to the buyers, the company no longer holds rights of administration or control, the relative income can be rewarded, costs concerning such goods can be measured in amount certainly.

2、 THE MAIN ACCOUNTING POLICIES OF THE COMPANY AND ITS SUBSIDIARIES、ACCOCUNTING VALUATION AND THE WORKINGOUT OF CONSOLIDATED FINANCIAL REPORT *(CONTINUED)*

(18) Principles of Income Recognition *(Continued)*

Services rendered (Long-term contracts not included)

Income are recognized at transactions closing date using method of Completion Percentage, when outcome of such transaction can be measured in amounts certainly (i.e. total income of services and total costs can be measured in amounts certainly, completion percentage can be measured certainly, relative income can be rewarded).

Income are recognized at transactions closing date at compensatiable service costs really occur, and are charged into Profit and Loss account when outcome of such transaction can not be measured in amounts certainly.

Interest Income and User Charge Income

Interest income are recognized by the time and agreed interest rates, and user charge income are recognized according to the time and calculation methods agreed in the relative contracts, when such income can be measured certainly in amounts, relative economic benefit can be rewarded.

(19) Leasing

Financial Leasing is lease that all risks and return concerning property rights of assets are transferred. Leasing other than financial leasing are Operation Leasing.

Payment of rents under operation leaseing are recognized as expenses at method of Direct Line within each term of lease period.

Income of rents under operation leases are recognized as income at method of Direct Line within each term of lease period.

(20) Income Tax

Income taxes are calculated using method of Tax Payable.

2、 THE MAIN ACCOUNTING POLICIES OF THE COMPANY AND ITS SUBSIDIARIES、ACCOCUNTING VALUATION AND THE WORKINGOUT OF CONSOLIDATED FINANCIAL REPORT *(CONTINUED)*

(21) Planning of Consolidated Financial Report

Principles of Financial Report Consolidation

Consolidated financial report involve reports of those companies invested that the company take up over 50% of their voting capital, or hold control in the relative companies though shares do not exceed 50%.

Method of Planning

Reports of parent company and its subsidiaries within the consolidation scope are basis of the consolidated financial report. Important investments, intra-group transactions, purchases and sales of inventories, and profit-to-realize are consolidated after write-off, and minority interests are calculated

According to Ministry of Finance ´Reply on request of consolidated financial report of companies with less assets than liabilities´(No. Caikuaihanzi[1999]10), proportion of undertaken recognized loss of the investing company is limited until long-term investment in shares reduce to 0. An item of ˝unrecognized investment loss˝ can be added under account of ˝undeclared profit˝ when consolidating financial report for proportion of undertaken unrecognized loss. Meanwhile, an item of ˝unrecognized investment loss˝ should be added under ˝minority interests˝. Both items reflect subsidiarys´ investment loss unrecognized by the parent company.

3、 IMPACT OF ACCOUNTING POLICY, CHANGE OF ACCOUNTING VALUATION, CORRECTION OF ACCOUNTING ERRORS AND CHANGE OF SCOPE OF CONSOLIDATED REPORT

Change in Accounting Policy

There is no change in the accounting policy our company adopt.

Change in Accounting Valuation

There is no change in the accounting valuation of the company.

Correction of Major Errors and relative Impact

A few adjustments to the figures at beginning of report

The company has signed a contract with Shenyang High-voltage Switchgears Co., Ltd. on Apr. 7, 2004, using its shares in Shenyang Tiansheng Comunication Equipment Ltd. (98.5%) to swap Shenyang High-voltage shares in Shenyang Suntime High-voltage Electric Co., Ltd. (74.4%).

On Apr. 14, 2004 the company used account receivables and the relative interests of Northeast Electrical Transmission and Transformation Equipment Group Co., Ltd to swap 95% shares of Shenyang Suntime Storage Logisticis Co., Ltd., and 95% shares of Shenyang Chengtai Energy power Co., Ltd. held by Shenyang High-voltage Switchgears Co., Ltd. respectively.

The assets of all three swapped-in companies are all invested by Shenyang High-voltage. At time of investmentof the company total assets of these 3 companies were revalued and surplus of RMB132,528,703.79 occur. Such surplus are carried into capital reserve when swapped in. Surplus in assets valuation are not included in the consolidated report but appear in each of the three companies´ separate reports.

According to Prudential Principle, surpluses of assets should not be represented in separate company´s own report if fair values of the above-mentioned assets are hard to judged. Hence separate reports of the company are adjusted accordingly. As a result Capital Reserve is reduced RMB132,528,703.79, and Long-term Investment is reduced RMB132,528,703.79, such adjustments have effect on the company´s separate reserved earnings at the beginning of report, while not on the consolidated report.

3、 IMPACT OF ACCOUNTING POLICY, CHANGE OF ACCOUNTING VALUATION, CORRECTION OF ACCOUNTING ERRORS AND CHANGE OF SCOPE OF CONSOLIDATED REPORT*(CONTINUED)*

Impact of Change in Scope of the Consolidated Report

(1) Consolidated financial report of the year 2006 exclude Shenyang Chengtai Energy and Power Co., Ltd.

On Oct. 31, 2006 the company´s subsidiary Fuxin IPB Co., Ltd. (referred as Fuxin IPB) has signed contract with Shenyang Dejia Trade Co., Ltd.(referred as Dejia), transferring Fuxin IPB´ s shares of 85.5 million in Chengtai Energy (95% of registered capital) to Dejia. Up to Nov. 3, 2006, Fuxin IPB has received all payments under such transfer. Relative registration in the Commerce and Industry Bureau has completed on Nov. 1, 2006. Shares transferring date has been fixed on Oct. 31, 2006, Chengtai Energy´ s operational outcome has been consolidated into the company´ s Consolidated report.

Outline of the Profit and Loss of Chengtai Energy in the period of Jan.to Oct. 2006

	Fm. Jan. to Oct. in 2006
Total Profit	1,089,530.87
Net Profit	901,470.75

3、 IMPACT OF ACCOUNTING POLICY, CHANGE OF ACCOUNTING VALUATION, CORRECTION OF ACCOUNTING ERRORS AND CHANGE OF SCOPE OF CONSOLIDATED REPORT*(CONTINUED)*

Impact of Change in Scope of the Consolidated Report*(Continued)*

(2) Consolidated financial report of the year 2006 exclude Shenyang Suntime Storage and Logistics Co., Ltd.

On Oct. 31, 2006 the company´s subsidiary - Fuxin IPB Co., Ltd. (referred as Fuxin IPB) has signed contract with Shenyang Dejia Trade Co., Ltd.(referred as Dejia), transferring Fuxin IPB´ s shares of 161.5 million in Suntime Logistics (95% of registered capital) to Dejia. Up to Nov. 3, 2006, Fuxin IPB has received all payments under such transfer. Relative registration in the Commerce and Industry Bureau has completed on Nov. 1, 2006. Shares transferring date has been fixed on Oct. 31, 2006, Suntime Logistics´ operational outcome has been consolidated into the company´ s Consolidated report. Outline of the Profit and Loss of Suntime Logistics in the period of Jan.to Oct. 2006

	Fm. Jan. to Oct. in 2006
Total Profit	1,035,744.41
Net Profit	533,100.84

Note: Payments under the above-mentioned shares-transferring total RMB160,000,000.00。

4、 TAXES

Items	Tax base	Tax rate %
Value-added tax	Sales tax less deductible purchase sales	17
Sales tax	Income subject to tax	5-20
Maintainence &Construction of the city tax	Amount subject to Value-added tax and Sales tax	7
Income tax	Amount subject to income tax	Note.1

Note.1、Income tax rate of the company, and its subsidiaries 牒 Shenyang Jindu Restaurant Co., Ltd. (referred as Jindu Restaurant), Jinzhou Capacitor Co., Ltd., Shenyang Xintai Storage Logistics Co., Ltd., Shenyang Chengtai Energy and Power Co., Ltd, and Fuxin IPB Co., Ltd. are 33%.

The company´ s subsidiary- New Northeast (Shenyang) High-voltage Insolator Switchgears Limitd (Formerly Shenyang Suntime High-voltage Electric Co., Ltd.) is a foreign-owned enterprise situated in Liaodong Peninsular Economic Zone, and income rate of 27% is applicable according to 《Ministry of Finance on temporary regulations of encouraging foreign investments by reducing/exempting taxes of enterprises along the inshore area》(No.Caishui[1988]91), for which local tax of 3% is included. According to the regulations under《Income Tax Law of Foreign-owned Company and Foreign Company People´ s Republic of China》, and approved by National Tax Bureau of Liaoning Province, Insolator Switchgears has obtained a favorable tax policy of ˝exempt 2 (years) and reduce 3(years)˝ starting from the year it has profit, thus income taxes are exempted from 2004 to 2005, and are reduced in half from 2006 to 2008. Moreover Insolator Switchgears are exempted from local income tax from 2004 to 2008, and reduced to half from 2009 to 2011.

The company´s subsidiary - New Northeast (Jinzhou) Electric Capacity Co., Ltd. (referred to as New JinCap) is a foreign-owned enterprise situated in Liaodong Peninsular Economic Zone, and income rate of 27% is applicable according to 《Ministry of Finance on temporary regulations of encouraging foreign investments by reducing/exempting taxes of enterprises along the inshore area》(No.Caishui[1988]91). According to the regulations under 《Income Tax Law of Foreign-owned Company and Foreign Company People´s Republic of China》,New JinCap has obtained a favorable tax policy of ˝exempt 2 (years) and reduce 3(years)˝ starting from the year it has profit, thus income taxes are exempted from 2005 to 2006, and are reduced in half from 2007 to 2009.

4、 TAXES*(CONTINUED)*

The company´s subsidiary - Shenyang Gaodongjia Desiccation Equipment Co., Ltd. (referred to as Gaodongjia) is a foreign-owned enterprise situated in Liaodong Peninsular Economic Zone, and income rate of 25.5% is applicable according to《Ministry of Finance on temporary regulations of encouraging foreign investments by reducing/exempting taxes of enterprises along the inshore area》(No.Caishui[1988]91).

Northeast Electric (HK) Co., Ltd. is a wholly owned subsidiary of the company registered in HKSAR of P. R. China, its income rate is 17.5%.

Great Talent Technology Co., Ltd.(referred to as ˝Great Talent ˝) is a company wholly owned by the company´ s subsidiary - Northeast Electric (HK) Co., Ltd., and was registered in the British Virgin Islands.No income tax is imposed on it.

5、 SUBSIDIARY, JOINT VENTURES AND ASSOCIATES

(1) Domestic and offshore subsidiaries and joint ventures and scope of consolidation:

Name of company	Registration place	Registered capital	Shares owned directly	Shares owned indirectly	Amount invested	Major operation	Y/N consolidated
Shenyang Jindu Restaurant Co.,Ltd.	Shenyang	USD18.07M	100%	-	USD18.07M	Hotel, restaurants	Y
Northeast Electric (HK) Co., Ltd	HK	USD0.9M	100%	-	USD0.9M	Investment	Y
Great Talent Technology Co., Ltd.	BVI	USD1	-	100%	USD1	Investment	Y
Fuxin IPB Co., Ltd.	Fuxin	USD2.80M	-	100%	USD2.80M	IPB production	Y
Jinzhou Jinrong Electric Co., Ltd.	Jinzhou	3M	69.75%	-	2.0925M	Dry high-voltage Capacitors	Y
New Northeast Electric (Shenyang) High-voltage Insolator Switchgears Co., Ltd.(note)	Shenyang	USD21.5M	74.4%	-	USD16M	Switches, short-circuit platesand insolator switchgears	Y
Shenyang Gaodongjia Desiccation Equipment Co., Ltd.	Shenyang	USD0.7785M	70%	-	USD0.54495M	Metal box and desiccation equipment	Y
New Northeast Electric (Jinzhou) Power Capacitor Co., Ltd.	Jinzhou	USD10M	-	52%	USD5.2M	Capacitor, CVC	Y

The above mentioned subsidiaries are consolidated into the consolidated report by method of Equity. There is no leftout in consolidation.

Note: According to authorization by Shenyang Bureau of Foreign Trade and Economic Cooperation (no. Shenjingmaofa (2006)707, dated Dec. 13, 2006) and Board Meeting Minutes, the company has transferred the shares it own in Northeast Electric (Shenyang) High-voltage Insolator Switchgears Co., Ltd. (74.4%) (referred to as New ShenSwitch) to its subsidiary Fuxin IPB Co., Ltd. with USD16 million. New ShenSwitch has completed the relative registration in the Bureau of Commerce and Industry on Dec. 15, 2006. And such fact is not presented in the report as payment of transfer has not yet made.

5、 SUBSIDIARY, JOINT VENTURES AND ASSOCIATES *(CONTINUED)*

(2) Associates

Name of company	Register place	Legal person representative	Registered capital	Paid-up investment	Proportion of ownership	Major operation
New Northeast Electric (Shenyang) High-voltage Switchgears Co., Lt.d	Shenyang	Liu Xin	USD168Million	USD3.4944Million	20.8%	Production of equipmentsof switch control
Great Power Technology Ltd.	Hong Kong	Lo Yuet	USD12,626	USD2.029664Million	20.8%	Share-holdingt

6、 NOTES TO THE CONSOLIDATED FINANCIAL REPORT

(1) Cash and deposits

		2006-12-31		2005-12-31	
Item	Currency	Currency of transaction	Translation into RMB	Currency of transaction	Translation into RMB
Cash	RMB	-	490,774.56	-	181,104.80
	USD	1,162.34	9,076.36	1,162.34	9,637.87
Sub-total			499,850.92		190,742.67
Deposit with banks	RMB	-	38,838,329.74	-	64,631,433.67
	HKD	124,771.72	125,261.23	41,693,150.45	43,396,475.12
	USD	38,336.78	300,159.10		-
Sub-total			39,263,750.07		108,027,908.79
Other cash equivalents	RMB	-	1,360,000.00	-	4,230,000.00
Total			41,123,600.99		112,448,651.46

Note: Balance at end of period was reduced 71,325,050.47 by 63%, mainly due to increase in investmentin New ShenSwitch and repayment of bank loans.

6、 NOTES TO THE CONSOLIDATED FINANCIAL REPORT*(CONTINUED)*

(2) Bills receivable

Items	2006-12-31	2005-12-31
Bank accepted bills of exchange	2,180,800.00	13,400,000.00

Note1: Balance is reduced 11,219,200.00 at end of report period by 84%, mainly due to payments of bills are made at maturity.

Note2: There is no account payable due to the shareholder company that occupies 5% or more of the company shares in the balances of Bills Receivable.

(3) Account Receivables

	2006-12-31			
Age	Amount	proportion	Provisions for bad debts	Net amount
Within 1 year	202,573,254.06	82%	-	202,573,254.06
1-2 years	25,017,309.74	11%	596,100.00	24,421,209.74
2-3 years	8,544,118.25	4%	3,769,809.62	4,774,308.63
3-4 years	3,526,112.34	1%	1,437,948.02	2,088,164.32
Over 4 years	5,960,207.33	2%	5,960,207.33	-
Total	245,621,001.72	100%	11,764,064.97	233,856,936.75

6、 NOTES TO THE CONSOLIDATED FINANCIAL REPORT*(CONTINUED)*

(3) Account Receivables*(Continued)*

	2005-12-31			
Age	Amount	proportion	Provisions for bad debts	Net amount
Within 1 year	195,472,828.21	72%	596,100.00	194,876,728.21
1-2 years	36,589,985.46	13%	1,706,283.74	34,883,701.72
2-3 years	26,087,765.82	10%	13,310,349.28	12,777,416.54
3-4 years	5,213,497.10	2%	3,529,499.24	1,683,997.86
Over 4years	8,270,934.72	3%	8,178,951.71	91,983.00
Total	271,635,011.31	100%	27,321,183.98	244,313,827.33

Total amount due from top 5 debtors	Percentage in total Account Receivable(%)
114,614,713.08	47%

There is no account receivable due from the shareholder company that occupies 5% or more of the company shares in the balances at end of period.

6、 NOTES TO THE CONSOLIDATED FINANCIAL REPORT*(CONTINUED)*

(4) Other Receivables

2006-12-31

Age	Amount	proportion	Provisions for bad debts	Net amount
Within 1 year	15,929,019.87	9%	-	15,929,019.87
1-2 years	40,482,119.80	23%	286,300.99	40,195,818.81
2-3 years	6,720,195.09	4%	3,561,845.16	3,158,349.93
3-4 years	17,960,035.43	10%	10,781,819.87	7,178,215.56
Over 4years	91,676,789.89	53%	7,683,942.13	83,992,847.76
Total	172,768,160.08	100%	22,313,908.15	150,454,251.93

2005-12-31

Age	Amount	proportion	Provisions for bad debts	Net amount
Within 1 year	16,554,235.44	16%	1,936,032.93	14,618,202.51
1-2 years	6,735,771.55	7%	595,797.17	6,139,974.38
2-3 years	194,056.84	0%	53,811.25	140,245.59
3-4 years	76,368,179.43	76%	203,114.76	76,165,064.67
Over 4 years	1,453,250.54	1%	1,286,150.54	167,100.00
Total	101,305,493.80	100%	4,074,906.65	97,230,587.15

6、 NOTES TO THE CONSOLIDATED FINANCIAL REPORT*(CONTINUED)*

(4) Other Receivables *(Continued)*

Total amount due from top 5 debtors	Percentage in total Other Receivables(%)
93,361,934.21	54%

Note 1: Balances at end of period has increased 53,223,664.78元 by 55%, mainly due to the change in the scope of consolidation.

Note 2: There is no payment due from the shareholder company that occupies 5% or more of the company shares in the balances of Other Receivables.

Note 3: Balance of other receivables involve credit by the company to Benxi Steel (Group) Co., Ltd. (referred to as Ben Steel) , of which principal is 76,090,000.00元. Such credit arise when Liaoning Trust Investment Co. (referred to as Liao Trust) paid back the company´ s deposits (74,424,671. 45) entrusted with it with its account receivables of 76,090,000.00 and the relative interests. The company has recognized such pay-back as other receivables and set up provisions for bad debts for the amount exceed the original deposits. On Dec. 16, 2005, Supreme Court of Liaoning Province has made its final judgement under ruling of (2005)Liaomin2Zhongzi NO 220, that Ben Steel should repay RMB15,900,000.00 and the relative interests owed the company. The company has applied for the court of Compulsory Execution, as a result the District Court of Shenyang City has put on record and delivered Compulsory Execution Order to Ben Steel on Mar. 10, 2006. On Mar. 30, 2006, the District Court of Shenyang City has made 1st sentence concerning the rest of the payment due the company (60,190,000.00) under its rulings of 〔2005〕Shenzhongmin4hechuzi NO 21、22、23, that Ben Steel should repay the company of the whole principal and its relative interests. On Apr. 30, 2006, Ben Steel has appealed to the Supreme Court of Liaoning Province. Up to the report date, the Supreme Court of Liaoning Province has not yet made its judgement. Legal Opinion by the Liaoning Tongfang Attorneys Office believe that the company can apply for Compulsory Execution since the Supreme Court of Liaoning Province will support the company´s claim. Ben Steel Group maintains certain scale of production, there´ s reasonable probability of this credit´s realizability. The company has not set up provisions for this credit since by the above mentioned legal opinion, the company should be able to retrieve assets equal to the subject receivables though the Court´ s Compulsory Exection.

6、 NOTES TO THE CONSOLIDATED FINANCIAL REPORT*(CONTINUED)*

(5) Prepayment

	2006-12-31		2005-12-31	
Age	Amount	proportion	Provisions for bad debts	Net amount
Within 1 year	54,866,985.92	99%	80,747,978.55	100%
1-2 years	613,597.18	1%	-	-
Total	55,480,583.10	100%	80,747,978.55	100%

Total amount due from top 5 debtors	Percentage in total Account Receivable(%)
54,441,761.53	99%

Note 1: Balance at end of period has decreased 25,267,395.45 by 31%, mainly due to decline of prepayments for goods.

Note 2: There is no payment due from the shareholder company that occupies 5% or more of the company shares in the balances of Prepayment.

(6) Inventories and Provisions for Depreciation of Inventories

		2006-12-31			2005-12-31	
Item	Amount	Provisions for depreciation	Net amount	Amount	Provisions for depreciation	Net amount
Raw material	28,961,687.12	841,861.31	28,119,825.81	31,232,314.98	841,861.31	30,390,453.67
Work in progress	18,455,183.80	124,245.33	18,330,938.47	14,180,497.16	124,245.33	14,056,251.83
Goods in store	22,070,090.47	-	22,070,090.47	40,641,056.93	47,964.69	40,593,092.24
Low value articles	-	-	-	473,936.10	-	473,936.10
total	69,486,961.39	966,106.64	68,520,854.75	86,527,805.17	1,014,071.33	85,513,733.84

6、 NOTES TO THE CONSOLIDATED FINANCIAL REPORT*(CONTINUED)*

(6) Inventories and Provisions for Depreciation of Inventories*(Continued)*

Provisions for Depreciation of inventories

items	2005-12-31	Increase in the period	Reversal in	2006-12-31 the period
Raw material	841,861.31	-	-	841,861.31
Work in progress	124,245.33	-	-	124,245.33
Goods in store	47,964.69	-	47,964.69	-
Total	1,014,071.33	-	47,964.69	966,106.64

(7) Deferred Payments

type	2005-12-31	Increase in the period	Amortization of the period	2006-12-31
Warming expenses	243,510.01	1,492,060.00	1,094,833.02	640,736.99
Insurance	321,922.34	1,256,598.21	856,916.90	721,603.65
Deductible purchase tax	2,216,683.76	-	2,216,683.76	-
Others	39,716.60	868,140.99	787,862.51	119,995.08
total	2,821,832.71	3,616,799.20	4,956,296.19	1,482,335.72

Note : Balance at end of period decrease1,339,496.99 by 47%, mainly due to deductible purchase tax has been ascertained by the Bureau of taxes.

6、 NOTES TO THE CONSOLIDATED FINANCIAL REPORT*(CONTINUED)*

(8) Long-term investment

1) Long-term investments are laid out as follows:

items	2005-12-31	Increase in the period	Decrease in the period	2006-12-31
Long-term investment in shares	112,019,656.88	247,367,805.33	2,171,769.59	357,215,692.62
Less: provisions for depreciation	-	-	-	-
Net amount of long-term investment in shares	112,019,656.88	247,367,805.33	2,171,769.59	357,215,692.62

2) Long-terms investment in equity shares

a.Stock

Company invested	Nature of stocks	No. of shares	Proportion of shares	Initial amount of investment	2005-12-31	Adjustment of profit and loss in the period	Dividends in cash	Invrease/ decrease in the period	2006-12-31
一、company using method of Cost									
Jinhua Chemicals Group Chlorin Alkali Co., Ltd.	Legal person shares	10,553,031	3.57%	24,808,224.82	24,808,224.82	-	527,651.55	-	24,808,224.82

Note: Fuxin IPB Co., Ltd. has held 12,124,346 legal person shares of the Jinhua Chemicals Group Chlorin Alkali Co., Ltd. at the beginning of the year. The latter has announced on Feb. 15, 2006 its State Shares Sales Reform, that shareholders will be rewarded 3.1 equal value shares for every 10 tradable shares.Fuxin IPB has issued paid for 1,571,315equal value shares on Mar. 13, 2006, and completed the relative stock registration on the same day. By end of year Fuxin IPB hold 10,553,031 legal person shares of Jinhua Chemicals.

6、 NOTES TO THE CONSOLIDATED FINANCIAL REPORT*(CONTINUED)*

(8) Long-term investment*(Continued)*

2) Long-terms investment in equity shares*(Continued)*

b.Other investments in equity shares

Unit：RMB

Company invested	Period of invest-ment	Proportion of shares	Initial amount of investment	2005-12-31	Adjustment of profit and loss in the period	Invrease/ decrease in the period	2006-12-31
1. company using method of Equity							
New Northeast (Electric) Shenyang High-voltage Switchgears Co., Ltd.	Longterm	20.80%	223,456,630.42	-	22,207,701.04	223,456,630.42	245,664,331.46
Great Power Technology Ltd.	Longterm	20.80%	67,322,731.52	76,852,880.00	-370,206.11	-1,801,563.48	74,681,110.41
Sub-total				76,852,880.00	21,837,494.93	221,655,066.94	320,345,441.87
2. company using method of Cost							
Jinzhou City Commercial Bank Ltd.	Longterm	4.35%	-	11,787,000.00	-	750,021.00	12,537,021.00
Sub-total			-	11,787,000.00		750,021.00	12,537,021.00
Total			-	88,639,880.00	21,837,494.93	222,405,087.94	332,882,462.87

Accounting policies of the companies invested are in line with those of the company´s. There´ s no major restriction of realizability of investments and remittance of return.

6、 NOTES TO THE CONSOLIDATED FINANCIAL REPORT*(CONTINUED)*

(8) Long-term investment*(Continued)*

2) Long-terms investment in equity shares*(Continued)*

c.Consolidated Good will

Unit：RMB

Company invested	Reason of	Period of amorti-zation	Initial amount	2005-12-31	Increase/ decrease in the period	Amorti-zation in the period	2006-12-31
Jinzhou Jinrong Electric Co.,Ltd.	acquisition	10years	-2,040,639.91	-1,428,447.94	-	204,063.99	-1,224,383.95
Fuxin IPB Co., Ltd.	acquisition	10years	749,388.88	-	749,388.88	-	749,388.88
Total				-1,428,447.94	749,388.88	204,063.99	-474,995.07

(9) Fixed Assets and Acumulated Depreciation

Unit：RMB

Types	2005-12-31	Increase in the period	Decrease in the period	2006-12-31
Fixed Assets - Cost				
Buildings	602,570,041.33	113,627,455.00	229,184,561.00	487,012,935.33
Motor Vehicles	81,678,833.55	3,589,155.39	29,275,345.53	55,992,643.41
Machinery	39,850,898.65	7,418,791.79	8,187,396.88	39,082,293.56
Total	724,099,773.53	124,635,402.18	266,647,303.41	582,087,872.30
Accumulated depreciation:				
Fixed Assets-Cost	83,262,120.62	20,398,350.61	17,792,319.61	85,868,151.62
Buildings	23,845,971.28	4,452,316.04	5,519,690.22	22,778,597.10
Motor Vehicles	20,343,618.88	3,027,233.74	2,919,871.87	20,450,980.75
Machinery	127,451,710.78	27,877,900.39	26,231,881.70	129,097,729.47
Net Amount	596,648,062.75			452,990,142.83

Note: Details of pledges of the fixed assets will be shown in note 10.

6、 NOTES TO THE CONSOLIDATED FINANCIAL REPORT*(CONTINUED)*

(10) Provisions for Depreciation of Fixed Assets

Unit：RMB

type	2005-12-31	Increase in the period	Reversal in the period	2006-12-31
Buildings	80,782,444.79	-	-	80,782,444.79
Motor vehicles and others	6,120,931.63	-	4,482,042.80	1,638,888.83
Machinery	217,123.90	-	54,870.30	162,253.60
total	87,120,500.32	-	4,536,913.10	82,583,587.22

(11) Construction in progress

Unit：RMB

Name of construction	Budgeted amount	2005.12.31	Increase in the period	Real payment Charge into fixed assets in the period	Other decreases	2006.12.31	Sources of funds	items progress
Photoelectricity mutual inductance	300,000.00	282,949.60	56,376.00	-	-	339,325.60	自籌、撥款	50%
Air-compressed station	7,000.00	6,627.00	296,398.70	303,025.70	-	-	自籌	99%
Reform on power technology	25,000.00	20,750.00	1,265,522.43	1,278,255.34	-	8,017.09	自籌	100%
Capacitors with mega-capacity	-	-	204,673.36	-	-	204,673.36	自籌	90%
total		310,326.60	1,822,970.49	1,581,281.04	-	552,016.05		

Note： Balance at end of period has increased RMB241,689.45 by 78%, mainly due to the new construction of capacitors with mega capacity.

6、 NOTES TO THE CONSOLIDATED FINANCIAL REPORT*(CONTINUED)*

(12) Intangible Assets

Unit：RMB

Type	Way of acquisition	Initial amounts	2005-12-31	Increase / flow out in the period	Amortization in the period	2006-12-31	Years of amortization left
Land-use rights	transfer	6,774,501.05	5,419,600.33	-	135,490.08	5,284,110.25	38
patent	Self-developed	450,000.00	224,999.96	-	45,000.04	179,999.92	4
softwares	purchase	-	102,083.33	102,000.00	57,666.68	146,416.65	3
total		7,224,501.05	5,746,683.62	102,000.00	238,156.80	5,610,526.82	

Details of pledges of the intangible assets will be shown in note 10.

(13) Long-term deferred Expenses

Unit：RMB

Items	2005-12-31	Increase in the period	Amortization in the period	2006-12-31	terms of amortization left(month)
Expenses of leasing	-	6,829,525.25	2,555,360.00	4,274,165.25	24months

Note： Due to the company´s subsidiary New Northeast Electric (Jinzhou) Power Capacitors Co., Ltd has paid three years´ rents in the period according to the contract, which lead to an increase at end of period of RMB 4,274,165.25.

6、 NOTES TO THE CONSOLIDATED FINANCIAL REPORT*(CONTINUED)*

(14) Short-term Bnk Loans

Unit：RMB

	2006-12-31		2005-12-31	
Types of borrowings	Currency of the transaction	Translation into RMB	Currency of the transaction	Translation into RMB
Bank Loan	68,300,000.00	68,300,000.00	84,810,000.00	84,810,000.00
Inclu.: collateral	6,000,000.00	6,000,000.00	9,800,000.00	9,800,000.00
Guaranteed	62,300,000.00	62,300,000.00	63,610,000.00	63,610,000.00
impawm	-	-	11,400,000.00	11,400,000.00
total	68,300,000.00	68,300,000.00	84,810,000.00	84,810,000.00

Note： Among the above-mentioned bank loans, RMB29 million loan from ICBC Shenyang Yinxin sub-branch to Kingdom Hotel - a subsidiary of the company is overdue, of which loan interst rate is 7.56%. The company has given guarantee for RMB24 million among the subject loan,and undertake joint obligation of guarantee. Up to the date of report, such loan has not been repaid.

(15) Bills Payable

Unit：RMB

Items	2006-12-31	2005-12-31
Bank-AcceptedBills of Exchange	9,540,800.00	3,000,000.00

Note 1: At end of period balance has increase RMB6,540,800.00 by 218%, mostly due to increase of undue bills payable.。

Note 2: There is no payment due to the shareholder company that occupies 5% or more of the company shares in the balances of Bills Payable.

(16) Account Payable

Unit：RMB

	2006-12-31	2005-12-31
Account payable	79,608,362.25	82,644,567.14

Note： There is no payment due to the shareholder company that occupies 5% or more of the company shares in the balances of Account Payable.

6、 NOTES TO THE CONSOLIDATED FINANCIAL REPORT*(CONTINUED)*

(17) Payment in Advance

Unit：RMB

	2006-12-31	2005-12-31
Payment in advance	34,614,796.47	60,600,858.93

Note1： Balance has decrease RMB25,986,062.46 by end of period by 43%, main cause is part of the advances has been charged into sales income.

Note2： There is no payment due to the shareholder company that occupies 5% or more of the company shares in the balances of Payment in Advance.

(18) Tax Payable

Unit：RMB

Type of taxes	2006-12-31	2005-12-31
Income tax -enterprise	330,001.32	405,540.13
Value-added tax	6,673,085.74	9,178,642.61
Sales tax	140,492.78	321,719.48
Maintanence and construction of the city tax	16,402.36	52,916.58
Income tax - person	236,567.74	275,786.97
Housing tax	4,069,071.70	4,560,589.99
others	-31,039.93	73,482.50
total	11,434,581.71	14,868,678.26

(19) Other Payables

Unit：RMB

	2006-12-31	2005-12-31
Other Payables	85,752,365.39	65,013,948.53

Note： There is no payment due to the shareholder company that occupies 5% or more of the company shares in the balances of Other Payables.

6、 NOTES TO THE CONSOLIDATED FINANCIAL REPORT*(CONTINUED)*

(20) Expenses Payable

Unit：RMB

items	2006-12-31	2005-12-31
Expenses of interests	149,040.00	30,000.00
Expenses of intermediary agents	4,214,254.12	1,845,354.46
Others	368,030.08	1,000.00
Total	4,731,324.20	1,876,354.46

Note： An increase of RMB2,854,969.74(up 152%) has occurred due to 3.07 million of expenses payable to the lawyers.

6、 NOTES TO THE CONSOLIDATED FINANCIAL REPORT*(CONTINUED)*

(21) Estimated Liabilities

Unit：RMB

Items	2006-12-31	2005-12-31
Guarantee for loans	54,711,289.00	54,711,289.00

Note1: The company has provided guarantee for the loan agreement between Electricity Transmission and Transformation Group (former shareholder of the company) and China Ever Bright Bank Co., Ltd., principal of which loan is RMB 30,000,000.00, and the company will therefore undertake obligation of joint guarantee. In 2001 China Ever Bright Bank Co., Ltd has filed a lawsuit against the NET to the 1st District Court of Beijing City, and requesting the debtor to repay principal of RMB26,402,000.00 and overdue interests of RMB4,591,929.00, and for the company to undertake joint obligation to repay. The Court has ruled on Apr. 19, 2002 that the company should undertake joint obligation of repayment of the above-mentioned principal in overdue interest. The company has appealed to the Higher People´s Court of Beijing City on Aug. 15, 2002. On May 13, 2003, the High Court of Beijing City has made final judgement the 1st sentence should be carried on. The company has estimated liabilities of RMB30,993,929.00. Up to the report approval date, China Ever Bright Bank Co., Ltd. has not yet ask the company for repayment.

*Note 2:*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 has accordingly estimated liabilities of RMB14,464,500.00. Up to the date of report approval, Bank of China Jinzhou Branch has not yet request the company to repay.

Note 3: The formerly subsidiary of the company - Shenyang High-voltage has disputes over goods payment with its supplier Xi´ an Shuangjia High-voltage Insulators Electric Co., Ltd. (referred to as Xi´ an Shuangjia), later in 2004 Xi´ an Shuangjia sued Shenyang High to the District Court of Xi´ an City Shanxi Province, asking for Shenyang High-voltage to repay RMB14,280,007.35, and along with request that the company as the former shareholder of Shenyang High-voltage to undertake joint obligation of repayment using 8 units of houses bought from the Shenyang High-voltage. The District Court of Xi´ an City Shaan´ xi Province has ruled on May 30, 2005, that the company should use the subject houses to undertake joint obligation of repayment for the above-mentioned debts. The Company has filed appeal on Jun. 15, 2005 to the Higher People´ s Court of Shan´xi Province. On Oct. 18, 2005, the Higher Court has made its final judgement that the 1st sentence should be carried on. The company has estimated liabilities of RMB9,252,860.00 according to the value of the subject houses.

6、 NOTES TO THE CONSOLIDATED FINANCIAL REPORT*(CONTINUED)*

(22) Payables for specific purposes

Unit：RMB

item	2005-12-31	Increase in the period	Decrease in the period	2006-12-31
Allocation of technology expenses	1,000,000.00	-	500,000.00	500,000.00

Note: Allocation of technology expenses were appropriated by Office of Finance Liaoning Province, and for the purposes of Capacitors Projects and IPB Projects development. Capacitors Project is not yet settled, and IPB Project is settled.

6、 NOTES TO THE CONSOLIDATED FINANCIAL REPORT*(CONTINUED)*

(23) Capital

		Change in the period(+、-)					
items	2005-12-31	Rights offering	Compli-mentary shares	Capitaliza-tion on reserve	others	Sub-total	2006-12-31
1、shares with limited sales conditions							
1)、state shares	266,520,000	-	-	-	-266,520,000	-266,520,000	-
2)、legal person shares		-	-	-	4,591,841	4,591,841	4,591,841
3)、other shares held by domestic companies	205,300,000	-	-	-	226,028,159	226,028,159	431,328,159
Inclu.: domestic shares-legal person	205,300,000	-	-	-	226,028,159	226,028,159	431,328,159
Domestic shares-individual		-	-	-	-	-	-
Total shares with limited sales conditions	471,820,000	-	-	-	-35,900,000	-35,900,000	435,920,000
2、freely tradable shares							
1)、common RMB shares (A share)	143,600,000	-	-	-	35,900,000	35,900,000	179,500,000
2)、foreign shares listed abroad(H share)	257,950,000	-	-	-	-	-	257,950,000
Total freely tradable shares	401,550,000	-	-	-	35,900,000	35,900,000	437,450,000
3、Total shares	873,370,000	-	-	-	-	-	873,370,000

Note 1: On Jun. 23, 2005, Tian Li holds 82.22% of shares of the the company´s single top 1 shareholder-New Northeast Electric Investment Co., Ltd. through transfer of shares. According to the authorization of Committee of State-owned Assets Supervision and Administration Liaoning Provincial Goverment document (no. Liaoguozijingying[2006]18)-´ On the nature of defining part of Northeast Electric Development Co., Ltd.´ s non-tradable shares´, as both New Northeast Electric Investment Co., Ltd. and Shenyang Xintai Shengda Equipment Co., Ltd. are individually-run enterprises, the committee agreed to change 230million state shares and 36.52 million state shares held by the above mentioned companies to domestic legal person shares. Both companied has filed for record on Mar. 9, 2006 in Shenzhen Stock Exchange for the subject change of stock natures.

Note 2: State Shares Sales Reform of the company is: All shareholders are rewarded 2.5 equal value shared for every 10 common tradable shares, making tradable A-share to increase 35,900,000 shares.

6、 NOTES TO THE CONSOLIDATED FINANCIAL REPORT*(CONTINUED)*

(24) Capital Reserve

Unit：RMB

Items	2005-12-31	Increase in the year	Decrease in the year	2006-12-31
Share premium	115,547,484.00	-	116,444.00	115,431,040.00
Provisions for equity investments	204,999,026.52	-	136,028,190.56	68,970,835.96
Difference in related parties transactions	5,783,699.46	3,346,846.46	-	9,130,545.92
Other capital reserve	645,792,828.68	136,045,686.16	66,900.00	781,771,614.84
Total	972,123,038.66	139,392,532.62	136,211,534.56	975,304,036.72

Note 1: There is an increase in Differences of Related Parties Tranactions of RMB3,346,846.46, which is the sale of Fuxin IPB Co., Ltd. to Great Talent Technology Co., Ltd. by the company.

Note 2: An increase of RMB136,045,686.16 in Other Capital Reserve is due to liabilities reformation rendering RMB17,495.60 and provisions for investments in equity stocks are charged into this account when subsidiaries Chengtai Energy and Suntime Storage were sold.

Note 3: Share Premium and Other Capital Reserve has decreased RMB116,444.00 and RMB66,900.00 for the reason of change in the scope of consolidation.

Note 4: Provisions for investments in Equity Stock decrease due to provisions for investments in equity stocks of RMB136,028,190.56 are charged into this account when subsidiaries Chengtai Energy and Xintai Storage were sold.

6、 NOTES TO THE CONSOLIDATED FINANCIAL REPORT*(CONTINUED)*

(25) Reserve on earnings

Unit：RMB

Items	2006-12-31	2005-12-31
Legal Reserve on Earnings	81,631,170.04	48,091,633.34
Statutory welfare reserve	-	32,210,803.10
Other Reserve on Earnings	28,558,903.92	28,284,687.96
Total	110,190,073.98	108,587,124.40

Note: Welfare reserve decrease RMB32,210,803.10 due to adjustment from the said account to Reserve on Earnings according to the Corporate Law.

(26) Undeclared Profit

Unit：RMB

Item	2005-12-31	Increase in the period	Decrease in the period	2006-12-31
Undeclared profit	-1,157,605,354.19	29,221,345.41	1,602,949.58	-1,129,986,958.36

(27) Operating Revenue and Costs

Unit：RMB

	Operating Revenue		Operating Costs		Operating Gross Profit	
Business	Year of 2006	Year of 2005	Year of 2006	Year of 2005	Year of 2006	Year of 2005
Power Industry	505,145,129.77	518,151,606.44	375,007,638.97	381,186,745.66	130,137,490.80	136,964,860.78
Restaurants Hotels	32,815,840.75	31,742,640.78	25,935,188.32	24,055,031.73	6,880,652.43	7,687,609.05
Total	537,960,970.52	549,894,247.22	400,942,827.29	405,241,777.39	137,018,143.23	144,652,469.83

Top 5 sales total	Percentage of the total operational income(%)
232,726,889.10	43%

6、 NOTES TO THE CONSOLIDATED FINANCIAL REPORT*(CONTINUED)*

(28) Other

Unit：RMB

Types	Year of 2006	Year of 2005
Other operating revenue	22,246,406.64	24,483,144.04
Less: other operating expenses	23,721,136.99	19,356,796.95
Other operating profit	-1,474,730.35	5,126,347.09

Note: Other operating revenue mainly comprise of sales of material, rent of buildings.

(29) Financial Expenses

Unit：RMB

Types	Year of 2006	Year of 2005
Interests Expenses	3,464,633.41	4,578,994.62
Less: Interest Revenue	379,361.70	323,274.82
Loss on Exchange	7,252,290.56	-
less:gain on Exchange	73,814.71	28,053.04
Others	238,646.52	229,829.98
Total	10,502,394.08	4,457,496.74

Note: Financial expenses increase RMB6,044.897.34 by 136% compared to the same period of last year, mainly due to loss on exchange increase 7,252,290.56.

6、 NOTES TO THE CONSOLIDATED FINANCIAL REPORT*(CONTINUED)*

(30) Investment Income

Unit：RMB

Types	Year of 2006	Year of 2005
Long-term Investment Profit and Loss:		
Profit declared by the companies using method of Cost	1,277,672.55	777,000.00
Shareholders´ interests net increase (decrease)	21,837,494.93	18,834,956.73
Amount of amortization of investment in equity stocks	204,063.99	204,063.99
Gains on shares transferring	15,337,844.67	2,353,472.59
Total	38,657,076.14	22,169,493.31

Note: Investment income increase RMB16,487,582.83 by 74.37% compared with the same period of last year, because of the transferring of shares of Chengtai Energy and Suntime Storage, acquiring 15, 337,844.67. (also see notes 3、(1)；3、(2))

(31) Other Income

Unit：RMB

Items	Year of 2006	Year of 2005
Income of disposal of fixed assets	628,859.40	9,281.09
Sales of disused materials	-	411,641.44
Income of fines	58,150.00	147,316.50
Reversal of estimated liabilities	-	15,291,725.00
Others	796,522.74	145,988.60
Total	1,483,532.14	16,005,952.63

Note: Balance decrease RMB14,522,420.49 by 91% compared with same period of last year, mainly due to reversal of estimated liabilities of RMB15,291,725.00 occurred last year.

6、 NOTES TO THE CONSOLIDATED FINANCIAL REPORT *(CONTINUED)*

(32) Other Expenses

Unit：RMB

Items	Year of 2006	Year of 2005
Estimated compensation under lawsuits	-	23,717,360.00
Fines	258,222.44	188,115.71
Net loss of disposal of fixed assets	519,325.41	212,051.54
Others	159,461.76	69,208.17
Expenses of donations	12,900.00	-
Total	949,909.61	24,186,735.42

Note: Balance decrease 23,236,825.81 by 96% compared with same period last year due to estimated compensation under lawsuits decline in this period.

(33) Other cash received related to operations

In this period balance under account of ˝other cash received related to operations˝ is RMB133,540,848.81, mainly comprise of payment of transactions.

6、 NOTES TO THE CONSOLIDATED FINANCIAL REPORT*(CONTINUED)*

(34) Other operational expenses paid

Unit: RMB

Items	Year of 2006
transaction	181,947,855.52
transportation	6,013,414.67
Bids for deposits	5,690,214.00
Entertainment	4,427,108.14
Fuel	2,345,850.76
Electricity	2,933,347.29
Traveling	2,531,530.29
Warming	1,890,135.46
Sales	1,813,278.65
fixing	1,429,316.93
office	1,334,850.44
Intermediary agents fees like audit fees	1,283,742.41
Insurance	964,387.07
consultance	805,643.02
Bidding	807,522.00
Meeting	806,716.87
Expenses of Board of Directors	630,463.26
After-sale services	223,609.38
Leasing	181,364.98
Others	1,977,126.93
Total	220,037,478.07

7、 NOTES TO THE PARENT COMPANY REPORT

(1) Accounts Receivables

Unit：RMB

	2006-12-31			
Age	Amount	Proportion	Provision for bad debts	Net amount
Within 1 year	15,927,195.60	91%	-	15,927,195.60
2-3years	1,530,160.00	9%	28,304.00	1,501,856.00
Total	17,457,355.60	100%	28,304.00	17,429,051.60

	2005-12-31			
Age	Amount	Proportion	Provision for bad debts	Net amount
Within 1 year	30,363,668.00	87%	-	30,363,668.00
1-2years	4,536,660.00	13%	-	4,536,660.00
Total	34,900,328.00	100%	-	34,900,328.00

(2) Long-term Investments

1)Long-term investments are laid out as follows:

Items	2005-12-31	Increase in the period	Decrease in the period	2006-12-31
Long-term investment in equity stocks	564,610,479.92	38,781,533.66	169,402,339.84	433,989,673.74
Less: provisions for depreciation	-	-	-	-
Net amount of long-term investment in equity stocks	564,610,479.92	38,781,533.66	169,402,339.84	433,989,673.74

7、 NOTES TO THE PARENT COMPANY REPORT *(CONTINUED)*

(2) Long-term Investments *(Continued)*

2)Long-term investment in Shares

Other investment in equity stocks：

Unit：RMB

Company invested	Period of invest-ment	Propor-tion of shares	Initial amount of investment	2005-12-31	Adjustment of profit and loss in the period	Invrease/ decrease in the period	2006-12-31
1. company using method of Equity							
Northeast Electric (HK) Ltd	Longterm	100%	7,458,011.63	54,436,025.59	29,085,765.65	-	83,521,791.24
Jinzhou Jinrong Electric Equipment Co Ltd	Longterm	69.75%	6,071,285.68	10,897,218.66	-1,316,804.19	-	9,580,414.47
Shenyang Gaodongjia Dessication Co., Ltd	Longterm	70%	6,932,706.60	1,168,182.98	2,081,089.06	-	3,249,272.04
New Northeast Electric (Shenyang) High-voltage Insolator Switchgears Co., Ltd	Longterm	74.4%	96,531,095.27	98,722,109.62	5,484,319.34	-	104,206,428.96
Shenyang Kingdam Hotel Ltd	Longterm	100%	331,118,151.11	229,065,281.08	-8,188,030.33	17,495.60	220,894,746.35
Fuxin IPB Co., Ltd		100%	36,836,817.36	19,212,876.43	-	-19,212,876.43	-
Shenyang Suntime Storage and Logistics Co., Ltd.		95%	29,234,019.44	47,843,966.97	856,397.21	-48,700,364.18	-
Shenyang Chengtai Energy Power Co., Ltd		95%	165,262,210.00	91,477,818.91	506,445.80	-91,984,264.71	-
Sub-total				552,823,480.24	28,509,182.54	-159,880,009.72	421,452,653.06
二. company using method of Cost							
Jinzhou City Commercial Bank Co., Ltd	Longterm	4.35%	11,787,000.00	11,786,999.68	-	750,021.00	12,537,020.68
Sub-total			11,787,000.00	11,786,999.68	-	750,021.00	12,537,020.68
total				564,610,479.92	28,509,182.54	-158,977,183.19	433,989,673.74

Note: Accounting policies of the companies invested are in line with those of the company´s. There´s no major restriction of realizability of investments and remittance of return.

7、 NOTES TO THE PARENT COMPANY REPORT *(CONTINUED)*

(3) Operating Revenue and Costs

Unit：RMB

	Operating Revenue		Operating Costs		Operating Gross Profit	
Business	Year of 2006	Year of 2005	Year of 2006	Year of 2005	Year of 2006	Year of 2005
High-voltage Switchgears	127,143,131.50	125,012,220.34	118,535,916.54	115,590,038.06	8,607,214.96	9,422,182.28

(4) Investment Income

Types	Year of 2006	Year of 2005
Long-term Investment Profit and Loss:		
Profit declared by the companies using method of Cost	750,021.00	777,000.00
Shareholders´ interests net increase (decrease)	28,509,182.54	32,956,976.22
Gains on shares transferring	19,315,371.11	2,245,545.24
Total	48,574,574.65	35,979,521.46

8、 RELATED PARTIES AND TRANSACTIONS

(1) Briefing of the related parties

1) Related Parties with the company are shown in Note 5 and the following controlling shareholders of the company and non-controlling related parties

Controlling shareholders of the company

Name of company	Registration place	Registered capital	Proportion of shares of the company owned	Major operations	relation-ship	Nature	Rep. of legal peron
New Northeast Electric Investment Co Ltd	Shenyang	135mln.	23.99%	investment	Parent company	Limited company	Tian Li

Registered capital and its change of the controlling related parties

Name of company	2005-12-31	Increase/ decrease in the period	2006-12-31
New Northeast Electric Investment Co Ltd	135,000,000.00	-	135,000,000.00

Shares and relative change of the controlling related parties

Name of company	2005-12-31	proportion	Increase/ decrease in the period	2006-12-31	Proportion
New Northeast Electric Investment Co Ltd	230,000,000.00	26.34%	-20,486,862.00	209,513,138.00	23.99%

Note: Proportion of shares held decline due to the States shares sales reform of A-share are implemented on May 16, 2006, every shareholders are rewarded 2.5 shares for every 10 shares of common tradable shares, and arrange equal shares of 35,900,000 shares to non-tradable shareholders, making A-shares tradable shares to increase 35,900,000shares.

8、 RELATED PARTIES AND TRANSACTIONS

(1) Briefing of the related parties *(Continued)*

2) non-controlling related parties with transactions

Name of company	Relationship
New Northeast Electric (Shenyang) High-voltage Switchgears Co Ltd	Subsidiary of associate
Great Power Technology Co., Ltd	Associate

(2) Events of related parties transactions

1) Goods purchase

Details of purchase from related parties by the company are as follows:

	Year of 2006		Year of 2005	
Name of related party	Amount	Percentage in total annual purchase	Amount	Percentage in total annual purchase
New Northeast Electric (Shenyang) High-Voltage Switechgears Co Ltd	112,576,244.86	27.92%	109,013,825.24	26.90%

Transactions prices are decided according to stipulated method in the contracts or agreements, real prices of sales do not exceed 120% of book value of goods sold.

8、 RELATED PARTIES AND TRANSACTIONS *(CONTINUED)*

(2) Events of related parties transactions *(Continued)*

2) sales of goods

Details of sales of goods to the related parties by the company is as follows:

	Year of 2006		Year of 2005	
Name of related party	Amount	Percentage in total annual sales	Amount	Percentage in total annual sales
New Northeast Electric (Shenyang) High-Voltage Swichgears Co Ltd	70,173,384.62	12.99%	62,403,418.75	11.55%

Transactions prices are decided according to stipulated method in the contracts or agreements, real prices of sales do not exceed 120% of book value of goods sold.

8、 RELATED PARTIES AND TRANSACTIONS *(CONTINUED)*

(2) Events of related parties transactions *(Continued)*

3) Major Related Parties Transactions occur in the year

Unit：RMB

	Year of 2006	Year of 2005
Income of rent of buildings		
New Northeast Electric (Shenyang) High-Voltage Switchgears Co., Ltd.	2,488,153.16	2,339,716.80
Income from storage, transportation		
New Northeast Electric (Shenyang) High-Voltage Switchgears Co., Ltd.	22,027,373.30	29,660,166.70
Relating services income like wind, water, electricity, gas etc.		
New Northeast Electric (Shenyang) High-Voltage Switchgears Co., Ltd.	19,999,173.39	21,282,148.74
Installation and processing		
New Northeast Electric (Shenyang) High-Voltage Switchgears Co., Ltd.	2,312,074.63	493,796.12
Expenses of plating		
New Northeast Electric (Shenyang) High-Voltage Switchgears Co., Ltd.	1,248,560.05	2,211,926.98
Commission of sales		
New Northeast Electric (Shenyang) High-Voltage Switchgears Co., Ltd.	2,496,991.80	3,000,000.00

95% of income of subsidiaries of the company-Suntime Storage and Chengtai Energy are from transaction conducted with New Northeast Electric (Shenyang) High-Voltage High-Voltage Switchgears Co., Ltd.

Transactions prices are decided according to stipulated method in the contracts or agreements, and prices are in line with other related parties.

8、 RELATED PARTIES AND TRANSACTIONS *(CONTINUED)*

(2) Events of related parties transactions *(Continued)*

4) Events of guarantee

a Details of the company has provided guarantee for related parties´ bank loan at end of Dec. 31, 2006

Name of related parties	Amount	Term
New Northeast Electric (Shenyang) High-Voltage Switchgears Co., Ltd.	50,000,000.00	1year

(3) Balances of Accounts Receivable and Payables relating related parties

	Amount		Percentage in balances of each item	
Name of related parties	2006-12-31	2005-12-31	2006-12-31	2005-12-31
Bills receivable:				
New Northeast Electric (Shenyang) High-Voltage Switchgears Co., Ltd.	-	2,000,000.00	-	14.92%
Dividends receivables:				
Great Power Technology Co., Ltd	2,087,881.75	2,165,010.00	100%	100%
Account receivables:				
New Northeast Electric (Shenyang) High-Voltage Switchgears Co., Ltd.	82,579,594.17	74,210,618.48	33.62%	30.66%
Prepayments:				
New Northeast Electric (Shenyang) High-Voltage Switchgears Co., Ltd.	2,085,512.76	-	6.00%	-
Account payables:				
New Northeast Electric (Shenyang) High-Voltage Switchgears Co., Ltd.	-	5,317,763.57	-	6.43%
Other payables				
New Northeast Electric (Shenyang) High-Voltage Switchgears Co., Ltd.	3,404,590.00	3,404,590.00	4.09%	5.24%
Great Power Technology Co., Ltd.	803,031.44	-	0.97%	-

9、 CONTINGENT ITEMS

(1) Shenyang High-voltage Switchgears Co., Ltd. (hereinafter referred as "Shenyang High-voltage") has borrowed from China Development Bank (hereinafter referred as De-Bank) in 1998, countersigning the relative Loan Agreement.，and under which loan guarantee was signed by the legal person guarantors. Later Shenyang High started up New Northeast Electric (Shenyang) High-voltage Switchgears Co. Ltd. (hereinafter referred as New Shenyang High-voltage) 、New Northeast Electric (Shenyang) Insolator Switchgears Co., Ltd. (hereinafter referred as Insolator Switchgears)、Shenyang Suntime Storage and Logistics Co., Ltd. (hereinafter referred as Suntime Storage) and Shenyang Chengtai Energy Co., Ltd. (hereinafter referred as Chengtai Energy) - all share-holding co. with other parties, contributing its own assets and rights to the use of land for shares in those companies. The Company has obtained shares of Insolator Switchgears、Suntime Storage and Chengtai Energy from Shenyang High-voltage in 2004. De-Bank has filed a lawsuit against Shenyang High to Beijing Higher people′s Court (hereinafter referred as Beijing High Court) in May 31, 2004, demanding the plaintiff to repay overdue loan principal of RMB150 million and the interest entailed, and at the same time for the Company、New Northeast、Insolator Switchgears、Suntime Storage and Chengtai Energy Power (hereinafter referred collectively as "the co. and associates") to undertake joint liability to the aforesaid debts; asking the Court to declare the shares-transferring contracts concerning Insolator Switchgears、Suntime Storage and Chengtai Energy Power between the Company and Shenyang High-voltage void and null. Beijing High Court overruled De-Bank′s requests in Mar. 18, 2005 (civil judgement no.(2004)HCP802). De-Bank then appealed to the People′s Supreme Court of China (hereinafter referred as High Court) in Mar. 22, 2005. The Supreme Court has ruled that Beijing High Court should unify hearing of the cases of De-Bank vs. Shenyang High-voltage&Shenyang Transformers Co. Ltd. (hereinafter referred as Shenyang Transfomers) & Northeast Construction and Installation Co., and of De-Bank vs. Shenyang High-voltage & Insolator Switchgears & Suntime Storage & Chengtai Energy Power & the Company. Up to the date of the report, Beijing High Court has not yet made its ruling concerning the above mentioned cases. Legal advisors of the company believe that as the company was not a party in either the disputed Loan Agreement or the Guarantee, the subject case was irrelevant; and the action of setting-up New Shenyang High-voltage 、Insolator Switchgears、Suntime Storage and Chengtai Energy Power was normal investment abiding by the Corporate Law by a limited company, which neither decrease the company′s assets nor impair its repayment ability；and no hostile collusion existed in the transferring of shares between Shenyang High-voltage and the Company. Legal Advisors also believe that the promised fund of RMB144,925,000.00 due Shenyang High-voltage from the company has been paid up by Apr. 25, 1995, by which the obligation of contributing fund has been fully carried out. Whether or however the company will be affected is to be decided by the final judgement made by the Beijing High Court. The contents of this paragraph do not affect our opinion issued in this audit report.

9、 CONTINGENT ITEMS *(CONTINUED)*

(2) Shenyang High-voltage has borrowed from Bank of Communications Shenyang Branch (referred to as BkCom ShenBr) signing loan agreement in 2003. Guarantees were signed by other companies. Later on Jun. 7, 2004 BkCom ShenBr has signed ˝Credit Transfer Agreement˝ with China Xinda Assets Management Co. (referred to as Xinda), transferring credit of the BkCom ShenBr to Xinda. Xinda has filed a lawsuit to the High Court of Liaoning Province (referred to as Liaoning High Court) in May 2005, asking for Shenyang High-voltage to repay overdue loan of 51,152,083.03 (principals and int. included), and for the company to undertake joint obligation of repayment by reason of short-investment by the company to Shenyang High-voltage. On May 11, 2005 Xinda has appealed to the Court for Preservation of Property. Liaoning High Court has ruled on May 26, 2005 (No. (2005)Liaomin3chuziNO 8), that part of land-use rights of the company were freezed(see notes15). On Mar. 20, 2005, Liaoning High Court has judged that the company has paid up investment, so refuted the lawsuit against the company. On Oct. 12, 2006, The Supreme Court of the People´s Republic of china has made final Civil Judge (No.(2006) Min2zhongziNO 128) as : Appeal is overruled. 1st sentence should be carried forward..

(3) The company has provided RMB39.9 million guarantee for Jinzhou Power Capacitor Co., Ltd.

10、 COMMITMENTS

No commitments should be disclosed by the company.

11、 PLEGES OF ASSETS

Pleges of assets by end of Dec. 31, 2006 are as follows:

Unit：RMB

Asset pleged	Book value	Amount of bank loan/bills
Fuxin IPB-land and buildings	15,556,507.93	6,000,000.00
Kingdom Hotel-Main building(1-7/F.)	141,419,250.00	50,000,000.00

12、 NON-ADJUST POST BALANCE SHEET EVENTS

No post balance sheet events should be disclosed by the company.

13、OTHER MAJOR EVENTS

There are no other major events to disclose in the report by the company.

14、DETAILED CHARTS OF PROVISIONS FOR ASSETS DEPRECIATION

Unit：RMB

Items	2005-12-31	Increase in the period	Reversal in the period	2006-12-31
1、provisions for bad debts	31,396,090.63	18,239,001.50	15,557,119.01	34,077,973.12
Inclu.: for account receivables	27,321,183.98	-	15,557,119.01	11,764,064.97
For other receivables	4,074,906.65	18,239,001.50	-	22,313,908.15
2、provisions for inventories depreciation	1,014,071.33	-	47,964.69	966,106.64
Inclu.: for raw material	841,861.31	-	-	841,861.31
For work in progress	124,245.33	-	-	124,245.33
For goods in store	47,964.69	-	47,964.69	-
3、provisions for fixed assets depreciation	87,120,500.32	-	4,536,913.10	82,583,587.22
Inclu.: Buildings	80,782,444.79	-	-	80,782,444.79
Motor Vehicles and others	6,120,931.63	-	4,482,042.80	1,638,888.83
Machinery	217,123.90	-	54,870.30	162,253.60
Total	119,530,662.28	18,239,001.50	20,141,996.80	117,627,666.98

15、CHART OF FINANCIAL INDICES

(1) Return on equity and Earnings per share at the end of Dec. 31, 2006

	Return on Equity		Earnings per share	
Profit of report period	Overall diluted	Weighted average	Overall diluted	Weighted average
Operating profit	16.18%	16.50%	0.1536	0.1536
Profit	0.32%	0.33%	0.0030	0.0030
Net profit	3.52%	3.59%	0.0335	0.0335
Profit less non-recurring profit and loss	1.61%	1.64%	0.0153	0.0153

(2) Methods of calculation

1) Formulas of rates of overall diluted return on equity and earnings per share are as follows:

rates of overall diluted return on equity =profit of the period ÷net asset by end of period

earnings per share =profit of the period ÷ number of shares by end of period

2) Formula of weighted average Return on Equity is as follows:

$$ROE = \frac{P}{E_0 + NP \div 2 + E_i \times M_i \div M_0 - E_j \times M_j \div M_0}$$

P is profit in the period; NP is net profit; E_0 is Net Asset at beginning of period ; E_i :New Assets by new shares issuance or debt-to-equit swap; E_j Diminish of net asset by way of buyback or cash dividends; M_0 No. of months in the report period; M_i No. of months from next month to end of report month of the new assets; M_j No. of months from next month to end of report month of the diminished assets.

15、CHART OF FINANCIAL INDICES *(CONTINUED)*

(2)、Methods of calculation *(Continued)*

3) Formula of weighted average Earing Per Share is as follows:

$$EPS = \frac{P}{S_0+S_1+S_i \times M_i \div M_0-S_j \times M_j \div M_0}$$

P is profit in the period; S_0 - total shares at beginning of period; S_1 - increased shares by way of reserve-to-shares swap or share dividends allocation; S_i - No. of shares increased by new shares issuance or debt-to-equit swap in the period; S_j - No. of shares diminished by way of buyback or shares reduction; M_0 No. of months in the report period; M_i No. of months from next month to end of report month of the new shares; M_j No. of months from next month to end of report month of the diminished shares.

Consolidated Financial Report and relative notes in this report are presented by us according to Enterprise Accounting Standards´ andEnterprise Accounting Systems and the relative supplements, and is approved by the Board of Directors of the company.

Director Signature:

Mr.Qu Lin__________ Mr.Zhang Bin__________