



NEE

INTERIM REPORT 2007

输送光明和动力的桥梁



東北電氣發展股份有限公司
NORTHEAST ELECTRIC DEVELOPMENT CO., LTD.

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IMPORTANT NOTICE

This report is published in both Chinese and English Language. If there are any inconsistencies in content, the Chinese version shall prevail.

BASIC INFORMATION OF THE COMPANY

1. Basic information

- | | | |
|------|---|---|
| (1.) | Legal Chinese name of the Company | : 東北電氣發展股份有限公司 |
| | Legal English name of the Company | : Northeast Electric Development Company Limited |
| | Abbreviation in Chinese name of the Company | : 東北電氣 |
| | Abbreviation in English name of the Company | : NEE |
| (2.) | Place of listings, stock abbreviations, and stock code | |
| | H shares | : The Stock Exchange of Hong Kong Limited
Stock abbreviation: Northeast Electric
Stock code: 0042 |
| | A shares | : Shenzhen Stock Exchange
Stock abbreviation: Northeast Electric
Stock code:000585 |
| (3) | Registered address | : No. 78, Hunnan High and New Technology
Development Zone, Shenyang, the PRC |
| | Office Address | : 14F, Kingdom Hotel, No. 189 Taiyuan South Street,
Heping District, Shenyang, PRC |
| | Post Code | : 110001 |
| | Website | : www.nee.com.cn |
| | E-mail | : nee@nee.com.cn |
| (4) | Legal representative | : Mr. Sun Zhen |
| (5) | Company Secretary | : Mr. Shi Li |
| | Representative for securities affairs | : Mr. Zhu Xingunag |
| | Contact address | : 14F, Kingdom Hotel, No. 189 Taiyuan South Street,
Heping District, Shenyang, PRC |
| | Telephone | : (86)24-23501976 |
| | Fax | : (86)24-23527081 |
| | E-mail address | : nemm585@sina.com |
| (6) | PRC newspapers for information disclosure | : “China Securities Daily” “Securities Times” |
| | Hong Kong newspapers
for information disclosure | : “Sing Tao Daily” “The Standard” |
| | Website publishing the interim report
as designated by China Securities
Regulatory Commission | : www.cninfo.com.cn |
| | Website of the Stock
Exchange of Hong Kong Limited | : www.hkex.com.hk |
| | Place of inspection | : Office of the Board of Directors |
| (7) | Date of the Company’s first registration | : 16 February 1993 |
| | Place of registration | : No. 18, Er Zhong Road, Tie Xi District,
Shenyang, the PRC |
| | Date of the Company’s most recent
change of registration | : 29 June 2007 |
| | Place of registration | : No. 78, Hunnan High and New Technology
Development Zone, Shenyang, the PRC |
| | Registered number of the corporate legal
person business license | : Qi Gu Liao Shen Zong Zi NO. 111001448 |
| | Registered taxation number | : 210102243437397 |

2. Major financial data and financial indicators

(1) Major financial data and financial indicators prepared in accordance with the PRC Accounting Standards and Regulations

Unit: RMB

	As at 30 th June 2007	As at 31 st December 2006		Increment (%)	
			before adjustment	after adjustment	before adjustment
Total assets	1,302,065,632.03	1,293,246,201.34	1,309,853,712.23	0.68	-0.59
Shareholders' equity	831,546,793.98	829,159,133.77	845,766,644.66	0.29	-1.68
Net assets per share	0.95	0.95	0.97	0.00	-2.06
For the reporting period from Jan to Jun 2007					
		same period of last year		Increment (%)	
		before adjustment	after adjustment	before adjustment	after adjustment
Operating profit	-5,188,526.69	4,180,232.86	14,769,736.03	-224.12	-135.13
Total profit	-4,934,667.59	15,108,230.87	15,006,198.87	-132.66	-132.88
Net profit	751,542.66	9,663,612.79	9,561,580.79	-92.22	-92.14
Net profit after extraordinary items	-13,945,427.80	9,427,149.79	9,325,117.79	-247.93	-249.55
Earnings per share	0.0009	0.0111	0.0109	-91.89	-91.74
Diluted earnings per share	0.0009	0.0111	0.0109	-91.89	-91.74
Return on net assets (%)	0.09%	1.20%	1.17%	-1.11	-1.08%
Net cash flow from operating activities	-96,760,825.86		-66,064,947.94		-46.46
Net cash flow per share from operating activities	-0.1108		-0.0756		-46.56

Extraordinary profit and loss items

Unit: RMB

Extraordinary profit and loss items	Amount
Net non-operating income and expenses after ordinary provision for diminution in value of assets made under the Accounting Rules and Regulations for Enterprises	253,859.10
Income from stock transfer	54,443,111.36
Fixed asset impairment loss	-40,000,000.00
Total	14,696,970.46

- (2) The return on net assets and earnings per share prepared in accordance with No.9 of Rules for the Compilation and Submission of Information Disclosure by Public Offering Companies issued by China Securities Regulatory Commission are as follows:

Profit during the period under review	Return on net assets (%)		Earnings per share (RMB)	
	Fully diluted	Weighted average	Fully diluted	Weighted average
Operating profit	-0.62	-0.62	-0.0059	-0.0059
Net profit	0.09	0.09	0.0009	0.0009
Profit after deduction of extraordinary profit and loss	-1.68	-1.66	-0.0160	-0.0160

- (3) Condensed consolidated profit and loss statement and consolidated balance sheet prepared in accordance with Hong Kong Accounting Standards

Consolidated profit and loss statement

Unit: RMB'000

	For the Reporting period (Jan-Jun)	For the same period last year
Turnover	247,455	261,750
Profit before taxation	(4,935)	15,086
Taxation	(279)	(619)
Profit after taxation	(5,214)	14,467
Minority interests	(5,965)	4,826
Profit attributable to shareholders	751	9,641

Consolidated balance sheet

Unit: RMB'000

	At the end of the reporting period	At the end of last year
Total assets	1,302,065	1,308,168
Total liabilities	361,650	364,417
Shareholders' funds	940,415	943,751

- (4) Differences between Overseas Accounting Standards and the PRC Accounting Standards

During the reporting period, there were no differences between overseas accounting standards and the PRC accounting standards in the calculation of net profit.

CHANGE IN SHARE CAPITAL AND INFORMATION OF SHAREHOLDERS

1. Table of changes in the share capital

Unit: share

Items	pre-movement		Increase /decrease during the period					post-movement	
	Amount	Proportion (%)	New share	Bonus share	Conversion from reserves	others	Sub-total	Amount	Proportion (%)
A. Shares subject to trading moratorium	435,920,000	49.91				-200,594,897	-200,594,897	235,325,103	26.94
1. State-owned legal person shares	4,591,841	0.53				-4,591,841	-4,591,841		
2. Domestic non- legal person shares	431,328,159	49.38				-196,003,056	-196,003,056	235,325,103	26.94
B. Shares not subject to trading moratorium	437,450,000	50.09				200,594,897	200,594,897	638,044,897	73.06
1. PRC listed domestic shares	179,500,000	20.55				200,594,897	200,594,897	380,094,897	43.52
2. Overseas listed foreign shares	257,950,000	29.54						257,950,000	29.54
C. Total number of shares	873,370,000	100.00						873,370,000	100.00

Notes: After the implementation of reform scheme on equity distribution of A shares, the Company, on 15 May 2007, relieved 200,594,897 shares with trading restrictions, which added to the number of shares without trading restrictions.

2. Shareholders Information

Shareholdings of the top ten shareholders and top ten shareholders of freely transferable shares

Unit: share

Total number of shareholders As at 30 June 2007, the total number of registered shareholders was 100,708, of which 100,654 were holders of A shares and 54 were holders of H shares.

Shareholdings of the top ten shareholders						
Name of shareholders	Nature of shareholders	Percentage (%)	Number of shares held	Number of shares subject to sale restrictions at the end of the period	Number of shares pledged or frozen	
Hong Kong Securities Registration Co., Ltd	Overseas natural person shares	29.54	257,950,000			
New Northeast Electric Investment Co., Ltd.	State non -legal person shares	24.17	211,056,285	211,056,285	33,802,817	
Shanghai Bao Yu Real Estate Investment Consultant Co., Ltd.	State non -legal person shares	2.20	19,215,376	5,298,818		
Shanghai Xin Rang Trading Co., Ltd.	State non -legal person shares	1.12	9,756,700			
Shenyang Lida Construction Engineering Co., Ltd.	State non -legal person shares	1.06	9,239,117			
Shanghai Yibao Information & Technology Development Co.,Ltd	State non -legal person shares	0.57	5,000,000	5,000,000		
China Merchants Shekou Industrial Zone Co., Ltd	State legal person shares	0.53	4,591,841			
Shenzhen Zhongda Software Development Co., Ltd	State non -legal person shares	0.41	3,550,000	3,550,000		
Shanghai Zhizhen Investment Consulting Co., Ltd	State non -legal person shares	0.38	3,298,308			
Shanghai Zhihai Chemical Industry Co., Ltd	State non -legal person shares	0.34	3,000,000	3,000,000		

Top ten shareholders of freely transferable shares

Name of shareholders	Numbers of freely transferable shares	Nature of shares
HKSCC Nominees Limited	256,751,998	Overseas listed foreign shares
Shanghai Bao Yu Real Estate Investment Consultant Co., Ltd.	13,916,558	PRC Listed domestic shares
Shanghai Xin Rang Trading Co., Ltd.	9,756,700	PRC Listed domestic shares
Shenyang Lida Construction Engineering Co., Ltd.	9,239,117	PRC Listed domestic shares
China Merchants Shekou Industrial Zone Co., Ltd	4,591,841	PRC Listed domestic shares
Shanghai Zhizhen Investment Consulting Co., Ltd	3,298,308	PRC Listed domestic shares
Shanghai Kangrong Technology Development Co.,Ltd	1,349,062	PRC Listed domestic shares
Ruian Shuangjin Technical Attachment Factory	1,290,000	PRC Listed domestic shares
You Guo Nan	1,241,551	PRC Listed domestic shares
Shanghai Dajun Trading Co.,Ltd	1,150,000	PRC Listed domestic shares
Explanation for the connected relationships among the top ten share holders not subject to trading moratorium:	The Company was not aware of any relationship among the top ten shareholders or parties acting in concert within the meaning of the Regulation on Disclosure of Information on Changes in Shareholding of Listed Companies.	

Note: 1. On 12 February 2007, New Northeast Electric Investment Co., Ltd. pledged 33,802,817 non-circulating shares with Shenyang Jindu branch of Huaxia Bank of six months.

2. On 15 May 2007, New Northeast Electric Investment Co., Ltd withdrew totally 1,543,147 shares, an advancement for other non-tradable shareholders during the implementation of reform scheme on equity distribution of A shares.

3. During the reporting period, no changes were made over the controlling shareholders of the Company.
4. The number of shares with trading moratorium held by shareholders

Unit: share

Name of shareholders	Number of shares held	Time available for trading	Number of shares available for trading	Trading moratorium
New Northeast Electric Investment Co., Ltd	211,056,285	16 May 2009	211,056,285	The original non-circulating shares will not be sold or transferred on the Stock Exchange for listing and trading within 36 months since the day the reform scheme on equity distribution is implemented. Following the expiry of the above period of trading moratorium, the price of shares for listing and trading on the Stock Exchange will not be lower than RMB five.
Shanghai Baoyu Real Estate Investment and Consultation Co., Ltd	5,298,818	16 May 2008	5,298,818	The original non-circulating shares will not be sold or transferred on the Stock Exchange for listing and trading within 12 months since the day the reform scheme on equity distribution is implemented. Following the expiry of the above period of trading moratorium, the proportion of the number of shares for listing and trading on the Stock Exchange will not exceed 5% and 10% within 12 months and 24 months respectively.

INFORMATION ABOUT DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

1. MOVEMENTS IN SHAREHOLDINGS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

There was no movement in the number of shares held by the Company's directors, supervisors, and senior management during the reporting period.

2. Appointment or dismissal of directors, supervisors and senior management during the reporting period

The second extraordinary general meeting of 2007 held on 7 March 2007 voted 8 executive directors namely Mr. Sun Zhen, Mr. Zhang Bin, Mr. Su Weiguo, Mr. Liu Qingmin, Mr. Shi Li, Mr. Du Kai, Mr. Liu Tongyan and 5 independent non-executive directors namely Mr. Wu Qicheng, Mr. Lin Wenbin, Mr. Xiang Yongchun, Ms. Liang Jie and Mr. Liu Hongguang to compose the Fifth Session of the Board of Directors. Mr. Sun Zhen was voted as the Chairman; Mr. Zhang Bin was appointed to be the General Manager; Mr. Su Weiguo was appointed to be Deputy General Manager; Mr. Shi Li was appointed to be Deputy General Manager and Secretary of Board and Mr. Bi Jianzhong was appointed to be Chief Accountant of the Company.

The second extraordinary general meeting of 2007 held on 7 March 2007 voted 2 shareholder representatives, namely Mr. Fu Xiuheng, Ms. Dai Guiqing, and 1 employee representative, namely Mr. Dong Liansheng to compose the Fifth Session of the Supervisory Committee, and Mr. Dong Liansheng was re-appointed to be the Chairman of the Supervisory Committee.

3. Interests of directors, supervisors and senior management

As at 30 June 2007, at no time during the period under review had the Company been notified that any director, supervisor or member of senior management (including their spouses and children under 18 years of age) had any interest in, or had been granted, or exercised, and rights to subscribe for equity or debt securities of the Company and or associated corporations (within the meaning of the SFO), nor did they have any interest or short positions in the shares, underlying shares or debentures of the Company or its associated corporations which were required to be notified to the Company and Then Stock Exchange of Hong Kong Limited pursuant to section 341 of the SFO or the Model Code for Securities Transactions by Directors of Listed Issuers.

MANAGEMENT DISCUSSION AND ANALYSIS

1. Discussion and analysis on the company's operating performance in the reporting period

During the reporting period, under the leadership of the board of director, the Company adhered to the guideline of "consolidating the foundation and strengthening the principal operations" to conduct assets reorganization and resources optimization. At the same time, it laid emphasis on the operative efficiency and benefits, further improved the interior organization, and focused on the execution of major contracts and the expansion of markets, thus overcoming the difficulties in material supply and funds and continuing to steady growth in production and operation. In the first half of the year, the sales revenue from principal operations and net profit of the Company amounted to RMB 248,192,028.48 and RMB 751,542.66 respectively, representing decreases of 7.88% and 92.14% respectively. The earnings per share amounted to RMB 0.0009.

Under the calculation of the HK GAAP, the turnover was RMB 247,455,000, decreased by 5.46% compared with that of the same period last year; the profit attributable to shareholders after tax and interests of minority shareholders was RMB 751,000, decreased by 92.21% compared with that of the same period last year. The earnings per share amounted to RMB 0.0009.

2. Operation of the Company during the reporting period

(1) Scope of principal business and its operation

1. Scope of principal business and its position

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

2. Operational result for the reporting period

- (1) The company recorded a revenue of RMB248,192,028.48, costs of operating of RMB 199,192,577.54, gross profit margin of 19.74% and net profit of RMB 751,542.66.

Constitution of income and profit from principal operations of the Company by business, product and geographical segment:

Table of principal operations by business or product

Unit: RMB0'000

By business or by product	Income		Gross profit margin (%)	Increase / (decrease) in income from principal operations as compared with last year (%)	Increase / (decrease) in costs of principal operations as compared with last year (%)	Increase / (decrease) in gross profit margin as compared with last year (%)
	from principal operations	Costs of principal operations				
1. By Business						
Electric transmission and transformation	22,370.00	18,602.00	16.84	-5.56	-0.17	decreased by 4.49
Inventory and logistics	0.00	0.00	0.00	-	-	-
Accommodation and catering	1,393.00	277.00	80.11	-7.44	-77.00	Increased by 60.23
Of which: connected transactions	-	-	-	-	-	-
2. By Product						
High Voltage Switch circuit breaker	11,525.00	9,876.00	14.31	13.13	8.51	Increased by 3.65
Power capacitor	3,891.00	3,226.00	17.09	-41.90	-25.61	decreased by 18.16
Closed busbar	6,384.00	5,005.00	21.60	18.69	24.63	decreased by 3.74
others	570.00	496.00	12.98	-60.00	-58.03	decreased by 4.08
Of which: connected transactions	-	-	-	-	-	-

Principal operations by region segment

Unit: RMB0'000

Region	Income from principal operations	Increase/decrease (%) in income from principal operations over last year
Northeast China	11,379.00	96.83
Northern China (Shandong inclusive)	7,567.00	-43.80
Central China	949.00	75.42
East China	1,824.00	72.73
South China	1,076.00	-50.80
Southwest China	894.00	-6.68
Others	74.00	-87.85
Total	23,763.00	-3.39

(2) Analysis of financial conditions and operations results during the reporting period

Table of financial conditions and operations results

Unit: RMB

Item	At the end of the reporting period	At the beginning of the period	Increase/decrease (%)
Cash and bank balances	17,532,656.00	41,123,600.99	-57.39
inventories	109,548,678.12	68,520,854.75	59.88
Bills payable	25,970,000.00	9,540,800.00	172.20
Taxes payable	5,546,234.29	11,634,709.62	-52.33

1. Main reasons for drop of cash and bank balances: Purchased equipment and loan repayment

2. Main reasons for gain of inventories: The added in goods in stores

3. Main reasons for gain of bills payable: The increase of undue notes payable

4. Main reasons for drop of taxes payable: the decrease of value-added tax.

Item	Current period	Same period of last year	Increase/decrease (%)
Taxes and surcharges for operation	736,811.94	1,314,443.31	-43.94
Cost of sales	32,174,646.65	14,761,870.06	117.96
Loss from asset depreciation	40,651,128.60	975,162.40	4068.65
Investment income	58,782,244.08	10,589,503.17	455.10
Income tax	278,801.73	618,714.40	-54.94

1. Main reasons for decrease of Taxes and surcharges for operation : The decrease from operating tax compared with same period of last year.

2. Main reasons for increase of cost of sales: The increase from sales agent services expenses

3. Main reasons for change of loss from asset depreciation: The decrease from asset depreciation

4. Main reasons for gain of investment income: The gain from disposing stock of Jinhualvjian

5. Main reasons for drop of income tax: The decrease of profit.

(3) Business nature, major products or services and net profit of investee companies with investment income contributing over 10% (including 10%) to the Company's net profit.

New Northeast Electric (Shenyang) High-voltage Switchgears Co., Ltd specialized in manufacture of switchgear equipment with registered capital of 168 million US dollars. During the reporting period, it realized net profit of RMB 20.87 million. The Company held 20.8% of its shares, thus gaining the investment income of RMB 4.34 million.

(4) Problems and difficulties in operation and measures taken

During the reporting period, the main difficulties of operating activities are still the demand and supply of funds, expenditure control arising from high price of the raw materials as well as the expansion of productive capacity. The main measures taken are as follows:

1. Proper arrangements will be made for adjusting the product structure and marketing strategies according to the demand and supply of market so as to enable the quality of contracts and the security level of funds to make a remarkable increase, control the use of funds to a certain degree, and ensure the accounts receivable lower than the same period of last year.
2. Great efforts will be made to solve the bottlenecks restricting the promotion of productive capacity in production management through improving the productive structure, optimizing the process control and focusing on planning and management so as to further enhance the capacity of production. We will continue to bring about the ERP project and realize the information exchange and resources share in the hope of some advance in productive equilibrium and complete capacity due to the improvement of effective distribution of resources and multiple utilization.
3. We will lay more emphasis on interior control of material purchase while taking effective measures to relieve the pressure on the rising costs, such as optimizing process design, raising the utilization of materials, and practicing ration purchase for raw material.
4. New progress was made in R& D and application of new products and new technology as well as in quality improvement, and the qualified rate of products at one experiment also improved in subsidiaries.

3. Investments of the Company**(1) The use of proceeds during the reporting period**

No proceed was used during the reporting period or used during the previous reporting period and subsisted in the reporting period.

(2) The circumstances and actual progress for non-fundraising investment project

None of non-fundraising investment project was used during the reporting period or used during the previous reporting period and subsisted in the reporting period.

4. Analysis of the Company's financial status under generally accepted accounting principles in Hong Kong

As at the end of the reporting period, the balance of monetary fund was RMB 16,170,000

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

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

As at the end of the reporting period, the Company had bank loans amounting to RMB76, 450,000, representing 5.87% of the total assets. These bank loans bear fixed interests.

The Company's asset to liability ratio was 9.19% (asset to liability ratio=total bank loans/total share capital and reserve*100%).

As at the end of the reporting period, the Company had net assets of RMB156, 940,000 used as security.

Please refer to Note 11 to the Financial Statements for details of the Company's contingent items.



5. Economic outlook and operating plan in the second half year

In general, the continuous investment in Power industry, especially the transformation of urban and rural grids, electricity transmission from west to east, closedown and suspension of small thermal power plants, as well as production of newly established power plant, provided the Company with favorable market environment and development opportunity. The Company will complete the annual plan in an all round way through timely adjustment and improvement, further market development and reasonable configuration of various resources, and closer combination with market demands in the second half year.

6. Explanation of the management of the Company on the audit opinion given by auditors which involved changes of events and its treatment in 2006

The domestic and international auditors issued qualified audit opinions with emphasized matters for the 2006 financial statement. (Please refer to the 2006 Annual Report for details.)

1. For matters related to qualified opinions, as the Company had materially sold the equity of Jinzhou Power Capacitor Company Limited in 2005, the Board and the Supervisory Committee of the Company considered that the matters related to qualified opinions in 2006 audited report had been solved.
2. For matters related to emphasized matters, the Company's lawyer issued a legal opinion letter and commented that the Company was not the mentioned party of the Loan Agreement and Guarantee Agreement and should not bear respective liabilities thereof and unrelated to the loan dispute, and that the Company had fulfilled all her responsibilities for capital contribution. As the trial from the court has not been finalized up to now, the impact of the litigation on the Company will be determined according to the final decision of the court.

SIGNIFICANT EVENTS

1. Personnel movement

Please refer part IV "INFORMATION ABOUT DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT"

2. Staff of the Company and the remuneration policy

As at 30th June 2007, the number of employees on the payroll of the Company was 1,038. The remuneration of the employees of the Company includes their salaries, bonuses and other fringe benefits. The Company has different rates of remuneration for different employees, which are determined based on their performance, experience, position, and other factors in compliance with the relevant PRC laws and regulations.

3. The Corporate Governance Structure

During the reporting period, the Company conducted a special governance of listed company. Under the principle of seeking truth from facts, it carried out throughout the Company overall self-examination for corporate governance as well as the improvement and fulfillment of interior system in accordance with the Notice on Matters in Relation to Specific Activities Strengthening Governance of Listed Companies issued by the China Securities Regulatory Commission (Zheng Jian Gong Si Zi (2007) No.28), the related laws and administrative regulations including the Corporate Law and the Securities Law, and such interior rules and regulations as the Articles of Association, the Rule of Procedure of Shareholders' meeting, the Rule of Procedure of Board of Directors, the Rule of Procedure of Supervisory Committee and so on. A self-examination report and a corrective and remedial plan were made through special consideration at the fifth meeting of the fifth board of directors on 13 July 2007. (Please also refer to the designated newspaper disclosed on 17 July 2007 for details)

At present, the Company has improved and completed relative systems, such as Codes of Conduct for Directors, Administrative Measures of Shares Held by Directors, Supervisors and Management, Information Disclosure Management Bylaws and Board Secretary System, Internal Report System for Significant Information, System of Reception and Promotion, Management Methods of Foreign Guarantees, Management System of Related Transaction and so on, in accordance with the corrective and remedial plan. With the fulfillment of the systems above throughout the Company, an effective internal control system has been established. The corporate governance of the Company basically met the requirements of China Securities Regulatory Commission through self-examination and rectification. With the growth of the Company, the governance work will be further improved.

4. Profit appropriation plan and its implementation

During the reporting period, the Company recorded net profit of RMB751, 542.66 all of which was used to cover loss incurred in the previous year. Therefore, no profit appropriation was made nor any reserves were transferred to increase the share capital of the Company during the reporting period.

5. Material litigation and arbitration

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

Since it was disclosed in 2006 Annual Report, the litigation has not achieved any new progress. Please refer to the “Material Litigation and Arbitration” in 2006 Annual Report for details.

(2) Progress of Debt and equity case brought by Liaoning Trust and Investment Company (“Liaoning Trust”) on RMB12 million

Since it was disclosed in 2006 Annual Report, the litigation being tried by the Higher People’s Court of Liaoning Province has not achieved any new progress. Please refer to the “Material Litigation and Arbitration” in 2006 Annual Report and the designated newspaper disclosure dated 13 March 2007 for details.

6. Acquisitions and disposal of assets

The Swap Agreement: Approved by the board meeting held on 14 May 2007, Great Talent Technology Limited, a wholly-owned subsidiary of the Company, entered into the Swap Agreement with Prosper Power Company Ltd, for the acquisitions of Acquisition Interests, being 48% shareholdings in New Northeast Electric (Jinzhou) Power Capacitors Limited and 25.6% shareholdings in New Northeast electric (Shenyang) High-Voltage Isolator Switchgears Limited, at the consideration of RMB 180,000,000 to be satisfied by disposal to Prosper Power Company Ltd of the entire shareholdings in Kingdom owned by Great Talent Technology Limited. (Please refer to the designated newspaper disclosure dated 15 May 2007 for details.)

7. Connected transactions

During the reporting period, there were no connected transactions as defined under the Listing Rules of Shenzhen Stock Exchange (Revised in 2006) nor had creditor rights and debt with connected parties during the reporting period.

8. Use of capital of controlling shareholders for its subsidiaries

Controlling shareholders of the Company or its subsidiaries did not use any capital during the reporting period.

9. Guarantees for the holding subsidiaries of the Company

The Company did not offer any guarantee for its controlling shareholders and its subsidiaries during the reporting period.



10. Significant contracts and their executions

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

Approved by the board of directors on 24 April 2007, the Company offered a secured guarantee for the line of credit of RMB 40,000,000 granted by Shenzhen Development Bank Dalian Branch to New Northeast Electric (Shenyang) High-Voltage Switchgears Limited.

As of the end of the reporting period, the foreign guarantee of the company totaled RMB 249,900,000, including RMB 39,900,000 for Jinzhou Power Capacitors Co., Ltd with assets liabilities over 70%, accounting for 4.81 % of the audited net assets of the Company for 2006, which was formed when the company was still a holding subsidiary of the Company; RMB 210,000,000 for New Northeast Electric (Shenyang) High-voltage Switchgear Co., Ltd, which has obtained the bank loan of RMB 176,800,000.

As of the end of the reporting period, the guarantee of the Company for its holding subsidiaries and the mutual guarantee between subsidiaries totaled RMB 58,850,000.

11. Change of the auditors

On 20 April 2007, the 2006 Annual General Meeting considered and approved to reappoint Shenzhen Pengcheng Certified Public Accountants as the Company's domestic auditor, while rejected the resolution on the reappointment of Wong Lam Leung & Kwok C.P.A. Limited as the Company's international auditor under the Resolution in Relation to Reappointment of the Company's Auditors. On 20 April 2007, the second meeting of Board of Directors of the Fifth Session of Board proposed to appoint World Link C.P.A. Limited as the Company's international auditor. On 6 June 2007, the fourth EGM approved to appoint World Link C.P.A. Limited as the Company's international auditor for a term of one year, and authorized the Board to determine the remuneration.

12. Overseas investment

(1) Establishment of Shenyang Kaiyi Electric Co., Ltd

With registered capital of RMB 1,000,000, Shenyang Kaiyi Electric Co., Ltd is a wholly-owned subsidiary of the Company. Its scope of business includes the manufacture of high-voltage electric equipment, switchgears, power capacitors, die castings, machinery parts, hardware tools, insulating material, mechanical and electronic equipment, rubber products and metallic material. On 2 April 2007, its industrial and commercial registration was done.

(2) Establishment of Northeast Electric (Beijing) Co., Ltd

With registered capital of RMB 2,000,000, Northeast Electric (Beijing) Co., Ltd is a wholly-owned subsidiary of the Company. Its scope of business includes the sales of machinery equipment, electronic products, hardware & electric apparatus, metal material, chemical products (exclusive of dangerous chemical products); export and import business in goods, agent and technology. On 15 May 2007, its industrial and commercial registration was done.

13. Security investment

(1) Holders of other shares of the listed companies

Unit: RMB

Stock Code	Abbreviation	Initial Investment	Ratio of Equity of the Company	Closing Book Value	Profit and Loss during the Reporting Period	Owner Movement in Equity during the Reporting Period
000818	錦化氯碱 Jinhualujian	24,808,224.82	2.78%	0	54,443,111.36	54,443,111.36
Total		24,808,224.82	-	0	54,443,111.36	54,443,111.36

(2) Holders of non-listed financial enterprises, to be equity of listed companies

Unit: RMB

Name of Equity Owned	Initial Investment	Number of Equity Owned	Ratio of Equity of the Company	Closing Book Value	Profit and Loss during the Reporting Period	Owner Movement in Equity during the Reporting Period
Jinzhou Commercial Bank	10,000,000.00	10,000,000.00	4.35%	12,537,020.68	0	0
Total	10,000,000.00	10,000,000.00	-	12,537,020.68	0	0

14. Purchase, sale and redemption of shares

During the reporting period, the Company and its subsidiaries did not purchase, sell, and redeem any shares of the Company.

15. Corporate Governance

(1) Corporate Governance Practice Code

The Board of the Company confirmed that the Company has fully complied with the provisions of Code of Corporation Governance Practice for the six months ended 30 June 2007. The provision of the corporate governance practice code includes the terms set out on Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited ("Listing Rules").

(2) Audit Committee

The Company has established the Audit Committee in accordance with Rules 3.21 of the Listing Rules.

The Audit Committee, together with the management, has reviewed the accounting principles, accounting standards and methods adopted by the Company and have studied matters in relation to auditing, internal control, and financial reporting, including the financial accounting principles, standards and methods adopted in preparing the unaudited accounts for the six months ended 30 June 2007.

The Audit Committee has given its consent to the financial accounting principles, standards and methods adopted by the Company for preparing the unaudited accounts for the six months ended 30 June 2007.



(3) Independent non-executive directors

The Company has complied with the requirement of Rule 3.10 (1) and 3.10(2) of the Listing Rules regarding the appointment of adequate number of independent non-executive director, and at least one independent non-executive director has the necessary suitable professional qualification or has suitable accounting or relevant financial management expertise. The Company has appointed five independent non-executive directors, of which one independent non-executive director has the expertise of financial management. Details of the profile of independent non-executive director can be referred to the 2006 annual report of the Company.

(4) Model Code for the Securities Transaction carried out by Directors of Listed Company (“Model Code”)

During the reporting period, the Company has adopted a set of behavioral code not lower than such standard set out in the Model Code. Having made specific enquiries, no directors and supervisors of the Company were in breach of the standard of requirement in securities transaction of directors set out in the Model Code of appendix 10 of the Listing Rules.

16. Commitments of shareholders with over 5% shares of the Company (including 5%)

In accordance with the relevant requirements as set out in the “Guidelines of Share Reform of Listed Companies” issued by the five commissions including China Securities Regulatory Commission, and authorized by Shenzhen Stock Exchange, the Company implements the Share Reform Scheme on 16 May 2006. Non-circulating Shares Shareholders of the Company undertook to comply with the requirement of laws, regulations, and rules to perform statutory undertaking of obligations. To implement the Share Reform Scheme of the Company smoothly, new Northeast Electric Investment Co., Ltd, the controlling shareholder of the Company made a special undertaking that it will not sell or transfer the shares of Northeast Electric Development Co., Ltd on Shenzhen Stock Exchange within 36 months from the date for implementation of the Share Reform Scheme. Following the expiry of the said 36 months, the original Non-circulating Shares which are publicly sold on stock exchange will not less than RMB5, and it will pay the consideration in advance to non-circulating Shares Shareholders who have not yet indicated their consents to the participation in the Share Reform. Shanghai Baoyu Real Estate Investment and Consultation Co., Ltd committed itself on fulfilling the legal obligation in accordance with provisions of laws, rules, and regulations.

During the reporting period, both New Northeast Electric Investment Co., Ltd and Shanghai Baoyu Real Estate Investment and Consultation Co., Ltd strictly fulfilled their own commitments, and the latter also made timely disclosure for decrease of shares it held.

17. Reception to the activities of field survey, communication and interview during the reporting period

During the reporting period, the Company strictly complied with the related regulations and requirements specified in the Guidelines for Fair Information Disclosure of Listed Companies of Shenzhen Stock Exchange. It has not solely disclosed, revealed, or divulged any significant private information to special objects in selective, private, or advance ways when the investors visited the Company for field survey or the media came to interview, thus ensuring the fairness of information disclosure.

The Company's main activities of reception, communication, and interview during the reporting period are as follows:

Reception Date	Reception Place	Reception Way	Reception Object	Details
5 April 2007	Office of the Board	Field survey	Ruian Shuangjin Technical Attachment Factory	Inquire about the operation of the Company
13 April 2007	Office of the Board	telephone communication	Shanghai Kunling Industry and Trade Co.,Ltd	Inquire about the consideration repayment and trading moratorium release of the Company
17 April 2007	Office of the Board	telephone communication	South China Refrigerating & Ice Manufacturing Co.,Ltd	Inquire about the consideration repayment and trading moratorium release of the Company
19 April 2007	Office of the Board	telephone communication	Yixing Changfeng Water Treatment Equipment Co., Ltd	Inquire about the consideration repayment and trading moratorium release of the Company
24 April 2007	Office of the Board	Field survey	Shenyang Huayan Wood Industry Co., Ltd	Inquire about the consideration repayment and trading moratorium release of the Company
25 April 2007	Office of the Board	telephone communication	Shanghai Ruzheng Trading Co. Ltd.	enquire about the consideration repayment and trading moratorium release of the Company
25 June 2007	Office of the Board	telephone communication	Shareholder Chen Yalai from Shenzhen	Consign the Company to handle and confirm all affairs related to listing of its employee's shares

- 18. During the reporting period, the Company, the Board of Directors, and the Directors have not been investigated, under administrative penalty, criticized by notice by the China Securities Regulatory Commission, and openly reprimanded by the stock exchange. The Company's Directors and Supervisors were not subject to any compulsory procedures.**

19. Taxation

The Company is subject to income tax at the statutory rate of 33%, and the Company had no taxable profit in Hong Kong during the reporting period. Please refer to notes to the financial statement "6. Taxation"

20. Announcements of major matters published in the first half year of 2007

All announcements of the Company were published on "China Securities Journal", "The Securities Times" and on the website of CNINFO (<http://www.cninfo.com.cn>). The main information disclosure is as follows:

Announcement Date	Announcement No.	Announcement Matters
14 March 2007	2007-016	Announcement on progress of recovery of material debt and litigation
5 April 2007	2007-017	Announcement on handling the procedures of circulating shares with trading moratorium for listing
25 April 2007	2007-024	Announcement on Foreign Guarantee
15 May 2007	2007-025	Indicative announcement on releasing shares with trading moratorium
	2007-026	Announcement on investment in entity acquisition and disposal



21. Subsequent events

(1) Progress of the Swap Agreement

The Swap Agreement was considered and approved at the fifth EGM on 16 August 2007.

(2) Establishment of Shenyang Jiatai Machinery Equipment Co., Ltd

With registered capital of RMB 5,000,000, Shenyang Jiatai Machinery Equipment Co., Ltd is a wholly-owned subsidiary of the Company. Its scope of business includes manufacture of general machinery equipment, manufacture, installation, and maintenance of metal cabinet, spinning products, and drying equipment as well as the machining of corresponding parts. On 2 July 2007, its industrial and commercial registration was done.

DOCUMENTS AVAILABLE FOR INSPECTION

The following documents are available for inspection at the office of the Board of Directors of the Company:

1. The interim report as signed by the Chairman;
2. The financial report as signed and sealed by legal representative, the person in-charge of finance and the head of the financial department;
3. The originals of all of the documents and announcements of the Company which have been disclosed in prescribed newspapers during the reporting period.

FINANCIAL STATEMENT (UNAUDITED)**PREPARED IN ACCORDANCE WITH THE PRC ACCOUNTING RULES AND REGULATIONS****Balance Sheet**

At 30 June 2007

Assets	Closing		Opening	
	group	Holding company	group	Holding company
Current assets				
Cash and bank balances	17,532,656.00	3,274,054.69	41,123,600.99	14,066,308.79
Trading financial assets	0.00	0.00	0.00	0.00
Bills receivable	3,970,000.00	0.00	2,180,800.00	0.00
Accounts receivable	233,865,212.06	34,061,531.20	233,856,936.75	17,429,051.60
Prepayments	72,965,844.64	659,850.00	56,962,918.82	3,519,572.76
Interests receivable	0.00	0.00	0.00	0.00
Dividend receivable	2,026,668.80	0.00	2,087,881.75	0.00
Other receivables	189,936,755.58	650,788,640.99	150,454,251.93	535,499,773.73
Inventories	109,548,678.12	1,705,834.59	68,520,854.75	1,879,090.38
Non-current assets due within one year	0.00	0.00	0.00	0.00
Other current assets	0.00	0.00	0.00	0.00
Total current assets	629,845,815.20	690,489,911.47	555,187,244.99	572,393,797.26
Non-current assets:	0.00	0.00	0.00	0.00
Available-for-sale financial assets	0.00	0.00	39,679,396.56	0.00
Held-to-maturity investment	0.00	0.00	0.00	0.00
Long-term receivable	0.00	0.00	0.00	0.00
Long-term equity investments	337,221,595.59	330,258,239.85	332,882,462.87	434,464,668.81
Investment real property	0.00	0.00	0.00	0.00
Fixed assets	269,411,709.62	4,015,265.85	315,408,448.39	4,304,169.84
Construction in progress	1,430,285.53	0.00	552,016.05	0.00
Construction material	0.00	0.00	0.00	0.00
Liquidation of fixed assets	0.00	0.00	0.00	0.00
Biological assets	0.00	0.00	0.00	0.00
Petroleum and Nature gas assets	0.00	0.00	0.00	0.00
Intangible and other assets	59,898,396.78	0.00	60,608,634.04	0.00
Development expenditure	0.00	0.00	0.00	0.00
Goodwill	0.00	0.00	0.00	0.00
Amortization of long-term deferred expenses	2,996,485.23	0.00	4,274,165.25	0.00
Borrowing of deferred taxes	1,261,344.08	0.00	1,261,344.08	0.00
Other Non-current assets	0.00	0.00	0.00	0.00
Total Non-current assets	672,219,816.83	334,273,505.70	754,666,467.24	438,768,838.65
Total assets	1,302,065,632.03	1,024,763,417.17	1,309,853,712.23	1,011,162,635.91



Balance Sheet (continued)*(Unaudited)*

At 30 June 2007

Liabilities and owners equity	Closing		Opening	
	group	Holding company	group	Holding company
Current liabilities :				
Short-term loans	76,450,000.00	0.00	68,300,000.00	0.00
Trading financial liabilities	0.00	0.00	0.00	0.00
Bills payable	25,970,000.00	0.00	9,540,800.00	0.00
Accounts payable	69,186,142.50	11,741,054.34	79,608,362.25	9,332,058.00
Advances from customers	41,803,601.63	6,315,750.00	34,614,796.47	2,315,750.00
Salaries and wages payable	1,385,566.25	63,895.80	2,064,289.39	171,739.38
Taxes payable	5,546,234.29	2,694,675.07	11,634,709.62	2,910,261.51
Interests payable	0.00	0.00	0.00	0.00
Dividends payable	40,017.86	0.00	40,017.86	0.00
Other payable	86,058,213.09	115,984,173.48	88,669,048.33	104,995,103.55
Non-current liabilities due within one year		0.00	0.00	0.00
Other current liabilities		0.00	0.00	0.00
Total current liabilities	306,439,775.62	136,799,548.69	294,472,023.92	119,724,912.44
Non-current liabilities:	0.00	0.00	0.00	0.00
long-term loans	0.00	0.00	0.00	0.00
Bonds payable	0.00	0.00	0.00	0.00
Long-term accounts payable	0.00	0.00	0.00	0.00
Specific accounts payable	500,000.00	0.00	500,000.00	0.00
Provisions	54,711,289.00	54,711,289.00	54,711,289.00	54,711,289.00
Deferred income tax liabilities	0.00	0.00	0.00	0.00
Other Non-current liabilities	0.00	0.00	0.00	0.00
Total Non-current liabilities	55,211,289.00	54,711,289.00	55,211,289.00	54,711,289.00
Total liabilities	361,651,064.62	191,510,837.69	349,683,312.92	174,436,201.48
Owners equity:	0.00	0.00	0.00	0.00
Paid-up capital (shares)	873,370,000.00	873,370,000.00	873,370,000.00	873,370,000.00
Capital reserve	974,554,647.84	997,226,799.86	989,425,819.58	997,226,799.86
less: treasury share	0.00	0.00	0.00	0.00
Surplus reserve	110,190,073.58	108,587,124.40	110,190,073.98	108,587,124.40
Undistributed profit	-1,126,749,687.67	-1,145,931,344.78	-1,127,501,230.33	-1,142,457,489.79
Translation reserve	181,760.23	0.00	281,981.43	0.00
Minority equity	108,867,773.43	0.00	114,403,754.65	0.00
Total owner' equity	940,414,567.41	833,252,579.48	960,170,399.31	836,726,434.47
Total liabilities and owners equity	1,302,065,632.03	1,024,763,417.17	1,309,853,712.23	1,011,162,635.91

Profit and Loss Statement*(Unaudited)*

For the period from Jan. to Jun. 2007

Items	Current period		Same period last year	
	Group	Holding company	Group	Holding company
1. Revenues from operations	248,192,028.48	59,268,919.04	269,417,360.64	76,733,377.68
Less: Costs of operations	199,192,577.54	55,045,025.41	210,733,068.86	73,114,540.20
Taxes and surcharges for operations	736,811.94	0.00	1,314,443.31	0.00
Costs of sales	32,174,646.65	1,253,860.00	14,761,870.06	737,345.00
General and administrative expenses	33,992,325.92	6,474,950.18	35,716,796.35	6,608,143.96
Finance costs	5,415,308.60	-37,191.56	1,735,786.80	-19,038.86
Impairment losses	40,651,128.60	0.00	975,162.40	0.00
Add: income from the changes of fair value (“-” refer to loss)	0.00	0.00	0.00	0.00
Investment income (“-” refer to loss)	58,782,244.08	0.00	10,589,503.17	0.00
Including: investment income from associates and joint venture companies	0.00	0.00	0.00	0.00
2. Operating profit / (“-” refer to loss)	-5,188,526.69	-3,467,724.99	14,769,736.03	-3,707,612.62
add: Non-operating income	358,579.95	0.00	432,122.90	0.00
Less: Non-operating expenses	104,720.85	6,148.00	195,660.06	57,277.88
Including: Losses on disposal of non-current assets	0.00	0.00	0.00	0.00
3. Total profit (“-” refer to loss)	-4,934,667.59	-3,473,872.99	15,006,198.87	-3,764,890.50
Less: Income tax	278,801.73	0.00	618,714.40	0.00
Minority interests	-5,965,011.98	0.00	4,825,903.68	0.00
4. Net profit (“-” refer to loss)	751,542.66	-3,473,872.99	9,561,580.79	-3,764,890.50
5. Earnings per share:	0.00	0.00	0.00	0.00
(1) Basic earnings per share	0.0009	0.00	0.0109	0.00
(2) Diluted earnings per share	0.0009	0.00	0.0109	0.00

Cash flow statement*(Unaudited)*

For the period from Jan. to Jun. 2007

Items	Group		Holding company	
	Current period	Same period last year	Current period	Same period last year
1. Cash flows from operating activities:				
Cash received from sales of goods or rendering services	295,476,003.17	263,208,162.10	56,712,155.68	61,452,415.00
Refund of taxes	0.00	0.00	0.00	0.00
Other cash received relating to operating activities	25,481,951.13	27,316,621.17	10,989,069.89	6,180,643.00
Sub-total of cash inflows	320,957,954.30	290,524,783.27	67,701,225.57	67,633,058.00
Cash paid for goods and services	269,217,365.85	223,070,518.10	58,960,704.84	69,124,703.00
Cash paid to and on behalf of employees	17,096,880.69	22,598,446.68	1,622,753.83	1,927,275.00
Tax payments	15,735,817.73	19,972,667.76	2,928,359.05	1,037,347.00
Other cash paid relating to operating activities	115,668,715.89	90,948,098.67	14,977,111.95	5,029,425.00
Sub-total of cash outflows	417,718,780.16	356,589,731.21	78,488,929.67	77,118,750.00
Net cash lows from operating activities	-96,760,825.86	-66,064,947.94	-10,787,704.10	-9,485,692.00
2. Cash flows from investing activities:				
Cash received from disposal of investment	24,808,223.82	0.00	0.00	0.00
Cash received from return on investments	54,443,111.36	0.00	0.00	0.00
Net cash receipts from disposal of fixed assets, intangible assets and other long-term assets	161,452.07	49,038.46	0.00	0.00
Net cash received from disposal of subsidiary	0.00	0.00	0.00	0.00
Other cash flows relating to investing activities	0.00	0.00	0.00	0.00
Sub-total cash inflows	79,412,787.25	49,038.46	0.00	0.00
Cash paid to acquire fixed assets, intangible assets and other long-term assets	12,480,834.30	2,507,139.09	4,550.00	302,099.00
Cash payments for investments	0.00	0.00	0.00	0.00
Net cash flow from subsidiaries	0.00	0.00	0.00	0.00
Other cash payments relating to financing activities	0.00	0.00	0.00	0.00
Sub-total cash inflows	12,480,834.30	2,507,139.09	4,550.00	302,099.00
Net Cash flows from investing activities	66,931,952.95	-2,458,100.63	-4,550.00	-302,099.00
3. Cash flows from financing activities:				
Cash received from equity investments	0.00	0.00	0.00	0.00
Cash received from borrowings	24,800,000.00	10,700,000.00	0.00	0.00
Other cash receipts relating to financing activities	24,580.09	0.00	0.00	0.00
Sub-total of cash inflows	24,824,580.09	10,700,000.00	0.00	0.00
Repayments of borrowings	16,650,000.00	21,300,000.00	0.00	0.00
Dividends paid, profit distributed or interest paid	1,875,767.08	1,557,660.58	0.00	0.00
Other cash payments relating to financing activities	60,885.09	0.00	0.00	0.00
Sub-total of cash outflows from financing activities	18,586,652.17	22,857,660.58	0.00	0.00
Net cash flows from financing activities	6,237,927.92	-12,157,660.58	0.00	0.00
4. Effect of foreign exchange rate changes on cash and cash equivalents				
5. Net Increase in cash and cash equivalents	-23,590,944.99	-80,680,709.15	-10,792,254.10	-9,787,791.00
Add: cash and cash equivalents balance at the beginning of the period	41,123,600.99	112,448,651.46	14,066,308.79	13,344,545.00
6. Cash and cash equivalents balance at the end of the period	17,532,656.00	31,767,942.31	3,274,054.69	3,556,754.00

Consolidated statement of changes in equity (1)

At 30 June 2007

Northeast Electric Development Company Limited

Item

The first half year of 2007

Unit: RMB

Item	Share capital		Owner's equity attributable to the parent company		Undistributed earnings	Others	Minority interest	Total shareholders' equity
	Share capital	Capital reserve	Less: Treasury share	Surplus reserve				
I Ending balance of last year	873,370,000.00	975,304,036.72	110,190,073.98	110,190,073.98	-1,129,986,958.36	281,981.43	829,159,133.77	
Add: changes in accounting policies		14,121,782.86			2,485,728.03		114,403,754.65	
Adjustment to prior accounting errors								
II Beginning balance of this year	873,370,000.00	989,425,819.58	110,190,073.98	110,190,073.98	-1,127,501,230.33	281,981.43	960,170,399.31	
III Changes during the period(“+” refers to increase)								
(1) Net profit	0.00	0.00	0.00	0.00	751,542.66	0.00	-5,965,011.98	
(2) Profit and losses directly recorded in owner's equity	0.00	0.00	0.00	0.00	0.00	0.00	0.00	
1. Net changes in fair value of available-for-sale financial assets	0.00	0.00	0.00	0.00	0.00	0.00	0.00	
2. Influence of changes in other owner's equity of investees under equity method	0.00	0.00	0.00	0.00	0.00	0.00	0.00	
3. Impact of income tax in relation to translation into the item of owner's equity	0.00	0.00	0.00	0.00	0.00	0.00	0.00	
4. Others	0.00	-14,871,171.74	-0.40	-0.40	0.00	0.00	429,030.76	
Subtotal of (1) and (2)	0.00	-14,871,171.74	-0.40	-0.40	751,542.66	-100,221.20	-19,755,831.90	
(3) addition and reduction of shareholder's capital	0.00	0.00	0.00	0.00	0.00	0.00	0.00	
1. Addition of shareholder's capital	0.00	0.00	0.00	0.00	0.00	0.00	0.00	
2. Amount of shares payment translated into owner's equity	0.00	0.00	0.00	0.00	0.00	0.00	0.00	
3. Others	0.00	0.00	0.00	0.00	0.00	0.00	0.00	
(4) Distribution of profit	0.00	0.00	0.00	0.00	0.00	0.00	0.00	
1. Withdraw Surplus reserve	0.00	0.00	0.00	0.00	0.00	0.00	0.00	
2. Appropriation of general risk provision	0.00	0.00	0.00	0.00	0.00	0.00	0.00	
3. Distribution to shareholders	0.00	0.00	0.00	0.00	0.00	0.00	0.00	
4. Others	0.00	0.00	0.00	0.00	0.00	0.00	0.00	
(5) Transfer within shareholders' equity	0.00	0.00	0.00	0.00	0.00	0.00	0.00	
1. Conversion of capital reserve into capital (or stock)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	
2. Conversion of surplus reserve into capital (or stock)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	
3. Surplus reserve to make up losses	0.00	0.00	0.00	0.00	0.00	0.00	0.00	
4. Others	0.00	0.00	0.00	0.00	0.00	0.00	0.00	
IV. Ending balance	873,370,000.00	974,554,647.84	110,190,073.58	110,190,073.58	-1,126,749,687.67	181,760.23	940,414,567.41	

Consolidated statement of changes in equity (2)

At 30 June 2006

Northeast Electric Development Company Limited

Item

Unit: RMB

Item	The first half year of 2006							Minority interest	Total shareholders' equity
	Share capital	Capital reserve	Owner's equity attributable to the parent company Less: Treasury share	Surplus reserve	Ordinary risk reserve	Undistributed earnings	Others		
I. Ending balance of last year	873,370,000.00	972,123,038.66	108,587,124.40	108,587,124.40	-1,157,605,354.19	854,932.83	854,932.83	797,329,741.70	
Add: changes in accounting policies	0.00	0.00	0.00	0.00	0.00	0.00	0.00	98,713,869.59	98,713,869.59
Adjustment to prior accounting errors	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
II. Beginning balance of this year	873,370,000.00	972,123,038.66	108,587,124.40	108,587,124.40	-1,157,605,354.19	854,932.83	854,932.83	896,043,611.29	
III. Changes during the year(“-” refers to decrease)									
(1) Net profit	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
(2) Profit and losses directly recorded in owner's equity	0.00	0.00	0.00	0.00	9,561,580.79	0.00	0.00	4,825,903.68	14,387,484.47
1. Net changes in fair value of available-for-sale financial assets	0.00	0.00	0.00	0.00	0.00	-403,385.64	0.00	0.00	-387,944.24
2. Influence of changes in other owner's equity of investees under equity method	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
3. Impact of income tax in relation to translation into the item of owner's equity	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
4. Others	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Subtotal of (1) and (2)	0.00	15,441.40	0.00	0.00	0.00	-403,385.64	0.00	-387,944.24	
(3) addition and reduction of shareholder's capital	0.00	15,441.40	0.00	0.00	9,561,580.79	-403,385.64	4,825,903.68	13,999,540.23	
1. Addition of shareholder's capital	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
2. Amount of shares payment translated into owner's equity	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
3. Others	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
(4) Distribution of profit	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
1. Withdraw Surplus reserve	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
2. Appropriation of general risk provision	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
3. Distribution to shareholders	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
4. Others	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
(5) Transfer within shareholders' equity	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
1. Conversion of capital reserve into capital (or stock)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
2. Conversion of surplus reserve into capital (or stock)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
3. Surplus reserve to make up losses	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
4. Others	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
IV. Ending balance	873,370,000.00	972,138,480.06	108,587,124.40	108,587,124.40	-1,148,043,773.40	451,547.19	103,539,773.27	910,043,151.52	

NOTES TO THE FINANCIAL STATEMENTS

At 30 June 2007

Unit: RMB

I. Introduction of the Company

Northeast Electric Development Company Limited (formerly known as Northeast Electrical Transmission & Transformation Machinery Manufacturing Company Limited) (the “Company”) is a joint stock limited company established through fixed capital raising with the approval of the Shenyang Enterprise System Reform Commission (Shen Ti Gai Fa (1992) No. 81) and with Northeast Electrical Transmission & Transformation Equipment Group Corporation being the lead promoter. The Company was established on 18th February 1993. The initial total share capital was 824,540,000 shares, which was adjusted to 585,420,000 shares in 1995. The Company issued 257,950,000 H Shares in Hong Kong and the shares commenced trading on the Stock Exchange of Hong Kong Limited on July 6, 1995. In the same year, the Company issued 30,000,000 A Shares in Shenzhen and the shares commenced trading on the Shenzhen Stock Exchange on 13th December 1995. The total share capital of the Company is 873,370,000 shares.

The state share sale reform of the Company has been completed by May 15, 2006; details of classifications of shares and the amounts are set out in Notes 8-24.

The principal operations of the Company are the manufacturing of transmission and transformation machinery and the provision of relevant services and hotel and catering services.

The financial statement was approved at the sixth meeting of the fifth board of directors of the Company on 27 August 2007 before it was issued.

2. Basis of Preparation of the Financial Statement

The financial statements of the Company have been prepared on an on-going basis in accordance with actual transaction and events and in conformity with the Accounting Principles for Business Enterprise issued by the Ministry of Finance on 15 February 2006 and the requirements of the “public offering of securities of companies standardize information disclosure Quiz No. 7-old and new accounting standards during the transition period will be more financial or the preparation of the information and disclosure” issued by China Securities Regulatory Commission on 15 February 2007 under the significant accounting polices and accounting evaluation described below.

3. Announcement under the Accounting Standards for Enterprises

The financial statements prepared by the Company in accordance with the above basis met the requirements of Accounting Standards for Enterprises. It truly and fully reflected the Company’s financial status, operating results, cash flow, and other related information.

4. Principal Accounting Policies, Accounting Estimates, and Basis of Consolidation

1. Accounting regulations

The Company adopts the “Accounting Standards for Enterprises”, the “Accounting Systems for Enterprises” and their supplementary regulations.

2. Accounting year

The Company adopts the calendar year as its accounting year, i.e. from 1 January to 31 December.



3. *Reporting currency*

The Company adopts Renminbi as its reporting currency.

4. *Accounting Principles*

The accrual basis is adopted as the basis of accounting. During the measurement of accounting elements, available-for-sale financial assets are calculated at fair value, along with assets and liabilities acquired through the business combination not under the common control, assets acquired or delivered in the implementation of debt reorganization and assets surrendered or received in the exchange of non-monetary assets with non-related parties, while other assets and liabilities are calculated at historical cost.

Fair value refers to the money used voluntarily by parties who are familiar with the open traction to exchange assets or settle reliabilities. It is acquired from the open market quotation in an active market, including reference to the latest market traction, or calculated by some valuation methods.

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 Renminbi using the foreign exchange interim rates by the People's Bank of China at the beginning of the operation month.

The daily translation of the balance sheet is handled under the following principles (1) the foreign currency monetary items are translated at the spot exchange rate on the balance sheet date. The exchange difference arising from the difference between the spot exchange rate on the balance sheet date and the spot exchange rate at the time of initial recognition or prior to the balance sheet date is recorded in the profits and losses in the current period. (2) The foreign currency non-monetary item calculated at historical cost are translated into Renminbi using the foreign exchange interim rates by the People's Bank of China at the beginning of he operation month.(3) The foreign currency non-monetary item calculated at fair value are translated at the spot exchange rate on the fixing date of fair value. (4) Exchange difference arising from the foreign currency loans in relation to assets, which meet the requirements of capitalization for the cost of production or purchase and construction is handled under the principle of loan capitalization; the hedge of foreign currency item under the principle of hedging; the translation of foreign currency in cash flow statement under the principle of cash flow statement.

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 & 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 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.

7. *Definition of Cash and Cash Equivalent*

Cash in hand, cash in bank which can be used for payment at any time without restriction of pledge and freeze, and other monetary fund are considered as cash.; Cash equivalents as defined by the Company represent short-term highly liquid investments which are easily converted into cash of the known amount with low valuation risk.

8. *Accounting Method of Financial Assets and Financial Liabilities*

(1) Recognition and calculation of financial assets and financial liabilities

- a. Financial assets or financial liabilities that are calculated at fair value of which variations is charged to current profits and losses.

The financial assets such as stocks, bonds and securities that are calculated at fair value of which variations are charged to the current profits and losses, as well as the derivatives disregarded as operative hedge tools, act as initial recognition amount as per the fair value when gained, and the relevant transaction cost is charged to the current profits and losses when occurring. The paid purchase price covers the cash dividends notified but still retained or the bond interests at maturity but unclaimed, which are recognized as receivable items separately.

It is recognized as investment proceedings for the interests or cash dividends obtained when maintaining financial assets measured at fair value of which variations are included in current profits and losses. On the day of assets balance sheet, the enterprise charges to current profits and losses the financial assets or financial liabilities that are calculated at fair value of which variations are included in current profits and losses.

In disposal of the financial assets or financial liabilities, the difference between its fair value and initial entry amount will be confirmed as investment proceedings, and the varied profits and losses of fair value will be regulated at the same time.

- b. Investment held to maturity

The investment held to maturity is considered as initial recognition amount according to the sum of fair value and its related transaction cost when gained. The paid purchase price covers the bond interests at maturity but unclaimed, which is confirmed as receivable items separately.

During possession of investment held to maturity, it should calculate and confirm the interest income based on amortized cost and the effective interest rate, which is defined when gaining the investment held to maturity and remains unchanged in the continued existence period expected for the investment or shorter period applicable. Where little difference in effective interest rate and nominal rate, the interest income can be measured at nominal rate and then charged to investment proceedings.

In disposal of investment held to maturity, the difference between gained purchase price and book value of the investment is charged to investment proceedings.

- c. Accounts receivable

The financial claim receivable from external sales and rendering labor service is considered as initial recognition amounts based on the contract or agreement price receivable from the purchaser. In recovery or disposal of accounts receivable, the enterprise charges to current profits and losses the difference between purchase price gained and nominal value of the accounts receivable.

d. Available-for-sale financial assets

Those financial assets fall into this sort such as undivided financial assets calculated at fair value of which variations are charged to the current profits and losses, or investment held to maturity.

Available-for-sale financial assets will be considered as initial recognition amount based on the sum of fair value and its related transaction cost when gained. The paid purchase price covers the cash dividends notified but still retained or the bond interests at maturity but unclaimed, which will be confirmed as receivable items separately.

The interests and cash dividends obtained when holding the salable financial assets are charged to investment proceedings. As of the day of assets balance sheet, the salable financial assets will be calculated at fair value of which variations in fair value are charged to capital accumulation (other capital accumulation).

In disposal of the available-for-sale financial assets, the difference between purchase price and book value of the financial assets is charged to profits and losses on investment; meanwhile, to shift out the amounts in the corresponding disposal part of accumulated varying amounts of faired value that directly is included in the owners' equity, and then charge to the profits and losses on investment.

e. Other financial liabilities

Other financial liabilities are considered as recognition amount based on the sum of its fair value and related transaction cost. Other financial liabilities are conducted subsequent measurement with amortized cost.

(2) Impairment losses of financial assets

Where the company inspects on the balance sheet date, the book value of financial assets other than those measured at fair value of which variations are included in the current profits and losses, and there are objective evidence of impairment of financial assets, provisions for impairment are made.

a. Objective evidence of impairment on financial asset includes those listed as follows:

- ① Issuers or debtors encounter severe financial difficulties;
- ② Debtors violate terms of contract;
- ③ Debtors give way to those under financial difficulty accounting on economic or legal reasons;
- ④ Debtors may go into liquidation or conduct other financial reorganization;
- ⑤ Transaction of the financial assets ceases in the active market as the issuer encounters great financial difficulties;
- ⑥ Any reduction in cash flow of certain assets among a group of financial assets cannot be identified, while it is discovered that the estimated future cash flow of the financial assets has been reduced and can be measured since initial recognition after an overall evaluation based on disclosed information;
- ⑦ Significant and adverse changes have taken place in the technological, market, economic or legal environments in which the debtor operates, making investors of equity instruments difficult to recover the investment cost;
- ⑧ Substantial or non-temporary reduction of the fair value of investment on equity instruments;
- ⑨ Other objective evidence showing signs of impairment on financial assets.

b. Impairment disposal of financial assets

- ① Where the financial assets measured at amortized cost depreciate, its book value will be written off to the present value of future cash expected and the amount to be written off will be confirmed as impairment loss of assets, which will be charged in the current profits and losses.
- ② For separate material financial assets, impairment test needs to be conducted separately. If there is any objective evidence of impairment, impairment loss will be figured in profits or losses.
- ③ For financial assets of which separate amount is of minor significance and for those without ever incurring impairment as tested separately, the impairment test needs to be conducted in combination of financial assets with similar credit risk characteristics.

For accounts receivable (including account receivable and other receivables), shares of provisions for loss bad debts are as follows:

Ageing analysis	Shares of provisions
Within 2 years	-
2to 3 years	40%
3 to 4years	60%
Over 4 years	100%

- ④ After the company recognizes the impairment loss on financial assets measured at amortized cost, if there is an objective evidence showing that the value of the financial assets has been restored which objectively relates to the events incurred upon the recognition of loss, the impairment loss initially recognized will be reversed through profit and loss, yet the book value so reversed will not exceed the amortized cost of the financial assets on the date of reversal as if no provisions for impairment has been made.

c. Transfer of financial assets

When the company has virtually transferred all risks and rewards arising from all or part of its ownership of the financial assets to the transferee or give us the control of these financial assets, it will terminate to recognize the financial assets.

9. *Inventories*

Inventories are divided into four categories: raw material (including auxiliary material), work in progress, finished goods, and 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 area appropriated from the differences of cost over realizable net worth, the estimated loss of inventories depreciation are recognized as expenses.

10. *Long-term investment in equity*

(1) Initial measurement of Long-term investment in equity

- (a) For the long-term equity investment acquired upon merger of companies under joint control, the initial investment cost is based on share of carrying value of owner's equity of the acquiree acquired on the date of merger; while the differences between the cost of acquisition and the initial investment cost are used to adjust capital reserves. Any capital reserve which is insufficient to be released will be retained in profit upon adjustment.

Where there are various expenses directly related to merger including the audit cost, evaluation cost and legal service cost that are paid for merger, those will be figured in the current profits and losses; where there are bonds issued for merger or other service charge and commission incurred from paying debts, it will be charge to initial measurement amount of bonds issued and other debts; where the service charge and commission are incurred from equity securities in merger, it will be offset for the gain from equity securities, and any such expense which is insufficient to offset will be retained in profit upon offset.

- (b) For the long-term equity investment acquired upon merger of companies not under joint control, its initial investment cost is the fair value of assets, equity instrument issued and liabilities incurred or undertaken on the transaction date, in addition to the cost of merger measured at cost directly related to the acquisition. Goodwill is the amount of the cost of merger in excess of the share of fair value of identifiable net assets of the acquiree acquired by the Company. Amount less than the share of fair value of the identifiable net assets of the acquirer is directly recognized in the combined profit and loss account.

The various costs directly related to merger are figured in the merger cost.

- (c) Besides the long-term equity investment acquired upon merger of company, those gained by paid cash and non-monetary assets or equity security issued, will be considered as the initial investment cost of long-term equity investment with reference to its fair value; for the long-term equity investment gained through debts restructure, it will be recognized as initial investment cost of long-term equity investment based on fair value of shares obtained by transfer of creditor's right to stock right; initial investment cost is long-term equity investment of investors with reference to the value stipulated agreed under an investment contract or an agreement. Those under a contract or agreement without a fair value will be measured at fair value.

The price paid in fact or the cash dividends included in consideration and notified but unclaimed are separately accounted as receivable items.

(2). Subsequent measurement of long-term equity investment

- (a) Cost accounting method will be adopted for long-term equity investment and those without joint control or material influence where there are no quotations and where the fair value cannot reliably measured in an active market.

If the subsidiary makes long-term equity investment in the parent company, the individual financial statement will be accounted by cost accounting method, and the parent company will, in light of equity method, make adjustment in compilation of combined financial statement.

- (b) Long-term equity investment in joint ventures or associated companies is calculated by equity method. Where initial investment cost more than investment should enjoy the fair value share of cognizable net assets of company to be invested, the initial investment cost will be unadjusted, or it will be charge to the current profits and losses as well as the cost of long-term equity investment will be adjusted. After acquisition of long-term equity investment, the investment profit and loss will be recognized and the book value of long-term equity investment will be adjusted according to the share of net profit and loss realized by the investor and to be enjoyed or shared. In cognition of the share of net profit and loss to be enjoyed by investors, the net profit of the investor will be adjusted and then cognized on the basis of fair value of various cognizable assets of investor when obtaining the investment.
- (c) For long-term equity investment with no significant influence, where there are no quotations and where the fair value cannot reliably measured in an active market, it will present in the item of available-for-sale financial assets and will be measured at fair value, and its variations on fair value will be charge to the shareholder's equity.

11. *Properties held for investment*

- (1) Recognition standard of properties held for investment:

The properties held for investment will be recognized where satisfying the following simultaneously:

- (a) The economic benefit involved in properties held for investment is very possible to flow to the enterprise;
- (b) The cost of properties held for investment could be reliably recognized.

- (2) Recognition of properties held for investment:

The initial measurement is made based on the cost when gained.

12. *Fixed assets and its depreciation*

- (1). Recognition standard of fixed assets

Fixed assets referred to the tangible assets of the following natures: production of products, provision of labor, holding for lease or operating, assets of useful life exceeding one year of accounting period. The fixed assets will be recognized when satisfying the flowing simultaneously: the economic benefit involved in properties held for investment is very possible to flow to the enterprise; the cost of properties held for investment could be reliably recognized.

- (2). Measurement of fixed assets

The fixed assets is measured based on cost. Where involved in disposal of fixed assets, the discard expense will be defined to charge to the cost of fixed assets and corresponding expected liabilities as per the present value.

(3). Classification and depreciation method of fixed assets:

Accrual of depreciation by month will be made on fixed assets and will be charge to the cost of relevant assets or the current profits and losses according to the usage. Save for fixed assets fully provided and still in use and fixed assets fully accrued with depreciation provisions, the accrual of depreciation will be made on all fixed assets. The depreciation method is average year method, and the expected residual value of fixed assets will be 3% of the assets original value. The following is the form for classification of fixed assets, depreciation life, and rate:

Category of fixed assets	Residual value	Useful life	Annual depreciation rate
Buildings	3%	20-40 years	2.43-4.85%
plant and machinery	3%	8-20 years	4.85-12.13%
Transportation equipment and others	3%	6-17 years	5.71-16.17%

If accrual of depreciation by month will be made on fixed assets, the fixed assets added in the month will be undergone accrual of depreciation from the following month; the accrual of depreciation on the fixed assets reduced in the month will cease from the month.

(4). The subsequent expenses of fixed assets refer to the renewal and reconstruction expense incurred from use of fixed assets and repair expenses.

The subsequent expense of fixed assets such as expense for renewal and construction will be charge to the cost of fixed assets if it can reach the recognition requirements of fixed assets, and if any part needs to be replaced, its book value will be deducted. If failure to satisfy the recognition requirements, the repair expense of fixed assets will be charge to the current profits and losses upon occurrence.

13. *Project under Construction*

- (1) Calculation of construction prices of projects under construction: project costs are determined on the basis of the expenses actually incurred.
- (2) Timing of converting projects under construction into fixed assets: from the date on which the fixed assets built come into an expected usable state, the projects under construction are converted into fixed assets on the basis of the estimated value of project estimates or pricing or project actual costs, etc. Depreciation is calculated from the next month. Further adjustments are made after final accounting is completed upon completion of projects.

14. *Intangible assets*

- (1) Valuation of intangible assets: actual costs are calculated upon acquisition of intangible assets.
- (2) Amortization method and term of intangible assets: the intangible assets with limited useful life are amortized commencing from the current month of benefiting year and then included in the current profits and losses. The intangible assets with uncertain useful life will not be amortized, but should be made impairment test at the end of each accounting period.

As of the end of the fiscal year, the company will recheck the intangible assets with limited useful life and the consumption mode of future economic benefits. Where the expectant useful life of intangible assets and the expectant consumption mode of future economic benefits are different from the former expectation, it should alter amortization period and method.

At each accounting period, the company rechecks the useful life of intangible assets with uncertain useful life. If there is evidence of limited useful life, it should estimate the useful life of intangible assets and make disposal as per the previous stipulations.

- (3) Expenditure in research stage of internal special research project should be included in the profit or loss for the current period in which they are incurred; expenditure in development stage of internal special research project should be recognized as intangible assets when the Company satisfies the following conditions:
- (a) The intangible assets are completed for the purpose of their uses or the sale or their technical feasibility;
 - (b) The Company has an intention to complete the intangible assets for their uses or the sale;
 - (c) Proof of existing market of the products manufactured by use of intangible assets or the existing market of intangible assets;
 - (d) The Company has sufficient technical and financial resources and other supporting resources to complete the research and development of such intangible assets and is capable of using or selling such intangible assets;
 - (e) Expenditure incurred in the development stage of such intangible assets can be accurately calculated.

15. *Long-term deferred expenses*

Long-term deferred expenses refer to various expenses that are paid out, but with over one-year (excluded) amortization period for the amortization expense at the current period or each latter period. The expenses will be amortized on average within the beneficial terms. If the long-term deferred expense items can't benefit the latter accounting period, the amortized value of the unamortized items will be totally transfer to the current profits and losses.

16. *Impairment preparation of assets*

As of the end of accounting period, judgment should be given to see whether there are any possibilities of impairment of assets. If any, the assets with any impairment indication will be made the impairment test. The commodity credit formed due to merger and the intangible assets with uncertain useful life will be made impairment test every year, whether an indication of impairment exists or not.

The impairment of assets might have occurred when the following indication appears;

- (1) Where the assets prices fall substantially in the current period, the price fall is obviously higher than the estimated decrease from the passage of time or normal use of such assets.
- (2) Where a dramatic change in the economic, technology and legal environment in which the Company operates and the markets in which the assets are located occurs in the period or recent period, a negative effect is imposed on the enterprise.
- (3) Increase in market interest rates or investment return in other markets results in a significant decrease of recovered amount of such assets.
- (4) It is proved that the assets are obsolete or are damaged.
- (5) The assets have been or will be idle, no longer used or intended to be disposed of ahead of schedule.
- (6) It is proved that the economic benefits of the assets have been or will be lower than expectation, such as the net cash flow brought with assets or the realized sales profit (or loss).

If there is impairment indication, the recoverable amount should be estimated, the measurement result of which shows that if the recoverable amount of an asset is less than its carrying value, and the carrying value of the asset is reduced to its recoverable amount. The reduced amount is recognized as an impairment loss in the profit or loss, and a relevant impairment provision of the asset is made. The recoverable amount will be determined based on the higher one, the net amount after the fair value of assets debits the disposal expenses or the present value of expectant cash flow of assets.

Upon recognition of impairment losses of assets, the depreciation of impairment assets or amortization expense will be made corresponding adjustment in the future so that the assets could be systematically allocated the book value of assets after adjustment within the rest useful life (expectant net residual value deducted).

The assets impairment test estimates the recoverable amounts on the basis of single assets. Where the recoverable amounts of single assets are difficult to be estimated, the recoverable amounts of assets group will be determined based on the group to which the assets belong.

17. *Borrowing expenses*

(1) Conditions of Reorganization 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. Where assets expenses have occurred, it will include the cash paid for building or producing assets in compliance with capitalization, transferred non-cash assets or the expenses incurred when taking on debts with interests;
- b. Borrowing expenses have occurred;
- c. Purchases or Construction to render assets usable have started.

(2) The capitalization period refers to the period from the commencement to the cessation of capitalization of the borrowing costs, excluding the period of suspension of capitalization of the borrowing costs.

(3) The calculation of the capitalization of the borrowing costs:

For a specifically borrowed fund for the acquisition, construction or production activities for preparing an asset eligible for capitalization, the to-be-capitalized amount of interests shall be determined according to the actual costs incurred less any income earned on the unused borrowing fund as a deposit in the bank or as a temporary investment. Where a general borrowing is used for the acquisition, construction and production of an asset eligible for capitalization, the enterprise shall calculate and determine the to-be-capitalized amount of interests on the general borrowing by multiplying the part of the accumulative asset disbursements in excess of the weighted average asset disbursement for the specifically borrowed fund by the capitalization rate of the general borrowing used. The capitalization rate shall be calculated and determined according to the weighted average interest rate of the general borrowing.

(4) The company calculates interests with reference to the benchmark interest rate issued by the People's Bank, and the interest is final as agreed in the loan contract by financial institutions.

Other loan interest, the amortization and exchange difference of discount or premium will be cognized where occurrence.

(5) 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.

(6) Capitalization Cut-off

Borrowing expenses capitalization is 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.

18. *Staff salary*

- (1) Staff salary of the Company primarily includes:
 - (a) Staff salary, bonus, allowance and subsidies;
 - (b) Welfare provision;
 - (c) Social insurance such as medical insurance, pension insurance, unemployment insurance, work injury insurance;
 - (d) Housing reserve fund, labor union expenditures and staff education expenditures;
 - (e) Benefits not in monetary value;
 - (f) Compensation paid for the termination of employment contracts with employees;
 - (g) Relevant expenditures relating to the provision of other services by employees.
- (2) Accounting method of employee compensation

During the accounting period when employee render service for the company, the employee compensation to be paid will be cognized as liabilities. Except for the compensation for dissolution of labor relations with employee, the compensation should be separately charge to the fixed assets cost, intangible assets cost, product cost or labor service cost in light with the beneficiary to be served. The compensations other than the above will be included in the current losses and profits.

The company should calculate and pay, as stipulated by relevant regulations of the State, the employee's medical insurance, endowment insurance, unemployment insurance, work-related injury insurance, public housing accumulation fund, trade union expense, educational expense, which it should pay for.

19. *Principles of Reorganization of Estimated liabilities*

- (1) Obligations related to contingent items that fall under the following conditions are recognized as liabilities:
 - (a) Such obligations contemporary;
 - (b) Execution of such obligation will probably lead economic benefits out of the Company;
 - (c) Amounts of such obligation can be measured certainly.

The contingencies refer to the uncertain items that form in the past trades or items and whose result fixes on the occurrence or nonoccurrence of the future items.

- (2) Expectant liabilities measurement method: The initial measurement should be conducted according to the best estimates on expenses required when performing existing obligations related.

The expenses required has a successive range, in which the possibilities of occurrence of each result are the same, and the best estimate should be determined as the middle value.

20. *Principles of income recognition*

The Company's sales revenues is mainly comprised of revenue form sales of goods, revenue form provision of labor and revenue from assignment of asset use rights. The principle of recognition of such revenue is as follows:

(1) Sales of goods:

The sales revenue can be cognized when satisfying the following requirements simultaneously:

- (a) When the major risk and rewards in the ownership of the goods have been transferred to the purchaser;
- (b) The Company no longer exercises continuing management and actual control over the goods in connection with ownership;
- (c) The relevant revenue and costs are reliably measurable;
- (d) Economic benefits in connection with transactions can flow in the enterprise;
- (e) Related or already happened and will be happened costs are reliably measurable.

(2) Revenue from provision of labor: where the result of labor service can be reliably estimated on the balance sheet day, it will be cognized as revenue from provision of labor as per the percentage-of-completion method.

The results of the labor service provision transaction are reliably estimated, which means to meet the following requirements simultaneously:

- (a) The revenue amount is reliably measured.
- (b) The relevant economic benefits are possible to flow to the company;
- (c) The completion progress of transaction can be reliably cognized.
- (d) The occurred or to-be-occurred cost in the transaction can be reliably cognized.

Where the labor service provision transaction can't be reliably estimated on the balance sheet day, it will be tacked with separately according to the following circumstances:

- (a) Where the occurred labor service cost can be compensated as expected, the revenue should be cognized according to the labor service cost occurred and the cost will be carried forward based on the identical amount.
- (b) Where the occurred labor service cost cannot be compensated as expected, the labor service cost will be charge to the present profits and losses and will not be cognized as the revenue form provision of labor.

(3) Revenue from assignment of asset use rights

Revenue from assignment of asset use rights includes revenue from interest, revenue from usage fee, dividend revenue subscribed before. It can be cognized when satisfying the following requirements simultaneously:

- (a) The relevant economic benefits are possible to flow to the company;
- (b) The revenue amount can be reliably measured.

21. *Leasing*

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

Payment of rents under operation leasing is 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.

22. *Accounting method for the calculation of income tax*

The balance sheet obligation method is adopted to calculate the income tax.

Where the Company obtains any asset or liability, it shall determine its tax base. The taxable or deductible differences between the carrying amount of the asset or liability and its tax base, the deferred income tax asset or the deferred income tax liability shall be determined. The Company recognizes the accrued income tax of the current period and prior periods as a liability and shall recognize the part of the income tax already paid in excess of the payable amount as an asset.

If the applicable tax rate changes, the deferred income tax liabilities which have been recognized shall be re-measured, excluding the deferred income tax assets and deferred income tax liabilities arising from any transactions or events directly recognized as the owners' equities, the amount affected by them shall be recorded in the income tax expenses of the current period during which the change occurs.

The carrying amount of deferred income tax assets shall be reviewed at each balance sheet date. If it is unlikely to obtain sufficient taxable income to offset against the benefit of the deferred income tax asset, the carrying amount of the deferred income tax assets shall be written down. Any such write-down should be subsequently reversed where it becomes probable that sufficient taxable income will be available.

23. *Consolidated financial statements*

- (1) The company will establish the merger scope of the combined financial statement based on control. If the company holds over 50% of the voting capital in the invested company, or it still has actually executed control to the invested company in spite of less 50% of the voting capital, the company should regard those invested units as its subsidiaries. When compilation of combined financial statement, those subsidiaries should be included in the merger scope.
- (2) The subsidiaries newly added through merger of enterprises under the same control, should be included in the combined financial statements from the beginning of the merger and should adjust the amount at the beginning of the current year or amount of last year; The subsidiaries newly added through a merger of enterprises not under the same control should be included in the combined financial statements from purchase day. The subsidiary executes its control right during the reporting period of company will not be included in the merger scope from the day when it losses the actual control right.
- (3) In compilation of financial statement, the company will adjust its accounting policies against its subsidiaries and accounting period so as to be in line with the company.

When the company purchase by merger of enterprises not under the same control, if the subsidiary has any discrepancy between the fair vale of cognizable assets and liabilities and the book value on purchase day, the company will make adjustment on financial statement of its subsidiary with reference to the fair value of cognizable assets and liabilities on purchase of the subsidiary, after that it will be used as a base for compilation of the combined financial statement.

Before compilation of combined financial statement, the company will adjust cost method of long-term equity investment in its subsidiary to equity method.

- (4) All the material balance from business between the company and its subsidiaries and among its subsidiaries, and internal transaction and unrealized profits and losses will be amortized upon compilation of combined financial statement.

5. Impact of accounting policy, change of accounting valuation, correction of accounting errors and change of scope of consolidated report

Since 1 January 2007, the Company has been implementing the system and guide of the accounting standards for enterprises issued by the State. It has made the following adjustments in accordance with related provisions specified in the Accounting Standard for Business Enterprises No. 38-First time adoption of Accounting Standards for Business Enterprises and the Notice, proceeding from specific conditions of the Company.

1. As at 31 December 2006, an increase of RMB 2,485,728.03 in retained income was made due to the difference of long-term equity investment and the adjustment of deferred income tax assets under the common control of the Company; an increase of RMB 14,121,782.86 in capital surplus at beginning of the year was made due to the calculation of long-term equity investment adjusted from cost method to available-for-sale financial assets as well as a change in fair value; an increase of RMB 114,403,754.65 in owner's equity was made due to minority equity reclassified to owner's equity. All adjustments above attributed to an increase of RMB 131,011,265.54 in owner' equity of the Company as at 1 January 2007.
2. The Company made retrospective adjustments for the profit of the same period last year in accordance with the provision of Accounting Standard for Business Enterprises No. 38 - First time adoption of Accounting Standards for Business Enterprises.

For matters that do not require retrospective adjustments, except the ones specified in Article 5 to 19 under Accounting Standard for Business Enterprises No. 38 - First time adoption of Accounting Standards for Business Enterprises, we founded that there is no material difference in net profit of the same period last year between new accounting standards and former accounting standards when assuming that the new Accounting standards for Business Enterprises No. 1 to 37 has been implemented since the beginning of the year.

3. No accounting estimate and accounting error correction occurring during this period.
4. Please refer to the changes of consolidated financial statement in Note 7 for details.

6. TAXES

Items	Tax base	Tax rate %
Value-added tax	Sales tax less deductible purchase sales	17
sales tax	Income subject to tax	5-20
City Construction tax	Amount subject to Value-added tax and sales tax	4
Income tax	Amount subject to income tax	Note. 1,2

Note1: The Enterprise Income Tax Law of the People's Republic of China has been adopted at the 5th Session of the 10th National People's Congress of the People's Republic of China on March 16, 2007. It will go into effect as of January 1, 2008. It is promulgated in Article 57 under this Law that in case an enterprise has already been set up before the promulgation of the present Law and enjoys low tax rates in accordance with the provisions of the tax laws and administrative regulations in force at that time, it may, in accordance with the provisions of the State Council, continue to enjoy the preferential treatments within five years as of the promulgation of the present Law and gradually transfer to the tax rate as prescribed in the present Law. In case an enterprise enjoys the preferential treatment of tax exemption for a fixed term, it may, after the promulgation of this Law, continue to enjoy such treatment in accordance with the provisions of the State Council until the fixed term expires. However, if an enterprise has failed to enjoy the preferential treatment by virtue of failure to make profits, the term of preferential treatment may be counted as of the year when the present Law is promulgated.

Note 2. Income tax rate of the company, and its subsidiaries - Shenyang Jindu Restaurant Co., Ltd. (referred as Jindu Restaurant), Jinzhou Capacitor Co., Ltd., , and Fuxin Closed Busbar Co., Ltd. are 33%. The income tax rate will be 25% after the implementation of newly issued Enterprise Income Tax Law of the People's Republic of China. Fuxin Closed Busbar Co., Ltd has obtained a favorable tax policy of "exempt 2 (years) and reduce 3(years)" from 2006.

The company's subsidiary- New Northeast (Shenyang) High-voltage Isolator Switchgears Limited (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, Isolator 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.

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. The preferential tax rate will be enjoyed within five years after the implementation of newly issued Enterprise Income Tax Law of the People's Republic of China.

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). The preferential tax rate will be enjoyed within five years after the implementation of newly issued Enterprise Income Tax Law of the People's Republic of China.

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.

7. 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		Amount invested	Major operation	Y/N consolidated
			directly	indirectly			
Shenyang Jindu Restaurant Co.,Ltd	Shenyang	USD18.07M	-	100%	USD18.07M	Hotel, restaurants	Y
Northeast Electric (HK) Co., Ltd	Hong Kong	HK USD0.9M	100%	-	HK 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 Isolator Switchgears Co., Ltd.(note)	Shenyang	USD21.5M	74.4%	-	USD16M	Dry high-voltage Capacitors, Switches	Y
Shenyang Gaodongjia Desiccation Equipment Co., Ltd	Shenyang	USD0.7785M	70%	-	USD0.54495M	Metal box and desiccation equipment	Y
Shenyang Kaiyi Electric Co., Ltd	Shenyang	RMB 1,000,000	10%	90%	RMB 1,000,000	Note 2	Y
Northeast Electric (Beijing) Co., Ltd	Beijing	RMB 2,000,000		100%	RMB 2,000,000	Note 3	Y
New Northeast Electric (Jinzhou) Power Capacitor Co., Ltd.	Jinzhou	USD10M	-	52%	USD5.2M	Capacitor	Y

Note 1: The above mentioned subsidiaries are consolidated into the consolidated report by method of Equity. There is no left out in consolidation.

Note 2: The Company and Fuxin .Closed Bus bars Company Limited contributed RMB 100,000 and RMB900, 000 respectively to established Shenyang Kaiyi Electric Co., Ltd .With registered capital of RMB 1,000,000, Shenyang Kaiyi Electric Co., Ltd is a wholly-owned subsidiary of the Company. Its scope of business includes the manufacture of high-voltage electric equipment, switchgears, power capacitors, die castings, machinery parts, hardware tools, insulating material, mechanical and electronic equipment, rubber products and metallic material. On 2 April 2007, its industrial and commercial registration was done.

Note 3: Establishment of Northeast Electric (Beijing) Co., Ltd With registered capital of RMB 2,000,000, Northeast Electric (Beijing) Co., Ltd is a wholly-owned subsidiary of the Company. Its scope of business includes the sales of machinery equipment, electronic products, hardware & electric apparatus, metal material, chemical products (exclusive of dangerous chemical products); export and import business in goods, agent and technology. On 15 May 2007, its industrial and commercial registration was done.

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., Ltd	Shenyang	Sheng Dongsheng	USD168M	USD3.4944M	20.8%	Production of equipments of switch control
Great Power Technology Co., Ltd.	Hong Kong	Lo Yuet	USD12,626	USD1,626,208	20.8%	investment

8. Notes to the consolidated financial statement

(1) Cash and deposits

1. Cash and bank balance

Item	At the end of the period			At the beginning of the period	
	Currency	Currency of transaction	Translation into RMB	Currency of transaction	Translation into RMB
Cash	RMB	287,866.69	287,866.69	490,774.56	490,774.56
	USD	1,162.34	9,076.36	1,162.34	9,076.36
Sub-total			296,943.05		499,850.92
Deposit with banks	RMB	9,231,600.32	9,231,600.32	38,838,329.74	38,838,329.74
	HKD	8,213,805.83	8,003,761.42	124,771.72	125,261.23
	USD	42.39	351.21	38,336.78	300,159.10
Sub-total			17,235,712.95		39,263,750.07
Other cash equivalents	RMB			1,360,000.00	1,360,000.00
Sub-total					1,360,000.00
Total			<u>17,532,656.00</u>		<u>41,123,600.99</u>

Note: The balance at end of the period is down RMB 23,590,944.99 by 57% compared with that at the beginning of the period, mainly resulting from an advance payment of equipment purchase.

2. Bills receivable

Item	At the end of the period	At the beginning of the period
Bank accepted bills of exchange	3,970,000.00	2,180,800.00

Note 1: The balance at end of the period is up RMB 1,789,200 by 82% compared with that at the beginning of the period, mainly resulting from an increase of issued financial instruments.

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. Available-for-sale financial assets

Item	Fair value at end of the period	Fair value at beginning of the period
Available-for-sale Financial assets	-	39,679,396.56
Total	<u>-</u>	<u>39,679,396.56</u>

4. Account Receivables

Age	At the end of the period			
	Amount	proportion	Provisions for bad debts	Net amount
Within 1 year	179,235,654.46	73%	-	179,235,654.46
1-2 years	33,321,512.75	13%	-	33,321,512.75
2-3 years	18,713,727.86	8%	1,040,774.20	17,672,953.66
3-4 years	7,840,373.01	3%	4,700,053.13	3,140,319.88
Over 4 years	6,819,137.55	3%	6,324,366.24	494,771.31
Total	<u>245,930,405.63</u>	<u>100%</u>	<u>12,065,193.57</u>	<u>233,865,212.06</u>

Age	At the beginning of the period			
	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	<u>245,621,001.72</u>	<u>100%</u>	<u>11,764,064.97</u>	<u>233,856,936.75</u>

Total amount due from top 5 debtors	Percentage in total Account Receivable(%)
80,453,330.36	32.71%

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.

5. Other Receivables

Age	At the end of the period			
	Amount	proportion	Provisions for bad debts	Net amount
Within 1 year	51,744,232.03	24%	-	51,744,232.03
1-2 years	43,696,703.85	21%	38,755.78	43,657,948.07
2-3 years	8,311,006.44	4%	3,631,124.44	4,679,882
3-4 years	18,059,454.74	8%	10,774,601.27	7,284,853.47
Over 4 years	90,778,808.07	43%	8,208,968.06	82,569,840.01
Total	<u>212,590,205.13</u>	<u>100%</u>	<u>22,653,449.55</u>	<u>189,936,755.58</u>

Age	At the beginning of the period			
	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	24%	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 4 years	91,676,789.89	53%	7,683,942.13	83,992,847.76
Total	<u>172,768,160.08</u>	<u>100%</u>	<u>22,313,908.15</u>	<u>150,454,251.93</u>

Total amount due from top 5 debtors	Percentage in total Account Receivable(%)
179,647,393.31	84.5%

Note 1: Balances at end of period has increased 39,822,045.05 by 23.05%, mainly due to the added of borrowing.

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.

Note3: Balance of other receivables involves credit by the company to Benxi Steel (Group) Co., Ltd. (Referred to as Ben Steel), of which principal is RMB 76,090,000.00. Such credit arise when Liaoning Trust Investment Co. (referred to as Liao Trust) paid back the company's deposits (RMB 74,424,671.45) entrusted with it with its account receivables of RMB76,090,000.00 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. please refer to Annual Report of 2006 for details.

6. Prepayment

Age	at the end of the period		at the beginning of the period	
	Amount	Proportion	Amount	proportion
Within 1 year	57,142,362.55	78.31%	56,349,321.64	98.9%
1-2years	15,823,482.09	21.69%	613,597.18	1.1%
Total	<u>72,965,844.64</u>	<u>100%</u>	<u>56,962,918.82</u>	<u>100%</u>

Total amount due from top 5 debtors	Percentage in total Account Receivable (%)
53,560,520.06	73.4%

Note 1: There is no payment due from the shareholder company that occupies 5% or more of the company shares in the balances of Prepayment.

7. Inventories and Provisions for Depreciation of Inventories

Item	at the end of the period			at the beginning of the period		
	Amount	Provisions for depreciation	Net amount	Amount	Provisions for depreciation	Net amount
Raw material	40,498,554.97	841,861.31	39,656,693.66	28,961,687.12	841,861.31	28,119,825.81
Work in progress	17,111,123.94	124,245.33	16,986,878.61	18,455,183.80	124,245.33	18,330,938.47
Goods in store	52,905,105.85	-	52,905,105.85	22,070,090.47	-	22,070,090.47
Low value articles	-	-	-	-	-	-
Total	<u>110,514,784.76</u>	<u>966,106.64</u>	<u>109,548,678.12</u>	<u>69,486,961.39</u>	<u>966,106.64</u>	<u>68,520,854.75</u>

Provisions for Depreciation of inventories:

Item	At the beginning of the period	Increase in the period	Reversal in the period	At the end of the period
Raw material	841,861.31	-	-	841,861.31
Work in progress	124,245.33	-	-	124,245.33
Goods in store	-	-	-	-
Total	<u>966,106.64</u>	<u>-</u>	<u>-</u>	<u>966,106.64</u>

8. Long-term investment

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

Items	at the beginning of the reporting period	Increase in the period	Decrease in the period	at the end of the reporting period
Long-term investment in shares	332,882,462.87	4,339,132.72	-	337,221,595.59,
Less: provisions for depreciation	-	-	-	-
Net amount of long-term investment in shares	<u>332,882,462.87</u>	<u>4,339,132.72</u>	<u>-</u>	<u>337,221,595.59</u>

(2) Other investments in equity shares

Company invested	Period of investment	Proportion of shares	Initial amount of investment	At the beginning of the period	Adjustment of profit and loss in the period	Increase/decrease in the period	At the end of the period
1. company using method of Equity							
New Northeast (Electric)							
Shenyang High-voltage Switchgears Co., Ltd.	Long-term	20.80%	223,456,630.42	245,664,331.46	4,339,132.72	-	250,003,464.18
Great Power							
Technology Ltd.	Long-term	20.80%	67,322,731.52	74,681,110.41	-	-	74,681,110.41
Sub-total				<u>320,345,441.87</u>	<u>4,339,132.72</u>	<u>-</u>	<u>324,684,574.59</u>
2. company using method of Cost							
Jinzhou City Commercial Bank Ltd.							
Bank Ltd.	Long-term	4.35%	-	12,537,021.00	-	-	12,537,021.00
Sub-total				<u>-</u>	<u>12,537,021.00</u>	<u>-</u>	<u>12,537,021.00</u>
Total				<u>-</u>	<u>332,882,462.87</u>	<u>-</u>	<u>337,221,595.59</u>

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

9. Fixed Assets and Accumulated Depreciation

Types	At the			At the end of the period
	beginning of the period	Increase in the period	decrease in the period	
Fixed Assets - Cost				
Buildings	427,945,832.26	-	-	427,945,832.26
Motor Vehicles	55,992,643.41	1,238,984.39	28,250.21	57,203,377.59
Machinery	39,082,293.56	616,170.78	346,924.68	39,351,539.66
Total	<u>523,020,769.23</u>	<u>1,855,155.17</u>	<u>375,174.89</u>	<u>524,500,749.51</u>
Accumulated depreciation:				
Buildings	81,799,155.77	5,099,281.57	-	86,898,437.34
Motor Vehicles	22,778,597.10	1,547,954.48	6,250.39	24,320,301.09
Machinery	20,450,980.75	1,043,205.82	207,472.43	21,286,714.14
Total	<u>125,028,733.62</u>	<u>7,690,441.87</u>	<u>213,722.82</u>	<u>132,505,452.67</u>
Net Amount	<u>397,992,035.61</u>			<u>391,995,296.84</u>

Note: Details of pledges of the fixed assets will be shown in Notes 13.

10. Provisions for Depreciation of Fixed Assets

Types	At the			At the end of the period
	beginning of the period	Increase in the period	Reversal in the period	
Buildings	80,782,444.79	40,000,000	-	120,782,444.79
Motor Vehicles	1,638,888.83	-	-	1,638,888.83
Machinery	162,253.60	-	-	162,253.60
Total	<u>82,583,587.22</u>	<u>40,000,000</u>	<u>-</u>	<u>122,583,587.22</u>

11. Construction in progress

Name of construction	Budgeted amount	Real payment				At the end of the period	Sources of funds	items progress
		at the beginning of the period	Increase in the period	Charge into fixed assets in the period	Other decreases			
Photo electricity mutual inductance	300,000.00	339,325.60	-	-	-	339,325.60	Self-fund, appropriating fund	50%
Reform on power technology	25,000.00	8,017.09	174,760.18	-	-	182,777.27	Self-fund	100%
Capacitors with mega-capacity	-	204,673.36	12,000	-	-	216,673.36	Self-fund	90%
Housing renovation project			250,738			250,738	Self-fund	10%
Power supply and air conditioning transformation project			234,254.30			234,254.30	Self-fund	5%
Over wrapping machine project			206,517			206,517	Self-fund	5%
Total		<u>552,016.05</u>	<u>878,269.48</u>	-	-	<u>1,430,285.53</u>	<u>Self-fund</u>	<u>5%</u>

Note: the balance at end of the period is up by RMB 878,269.48, or by 159 % compared with that at the beginning of the period, mainly resulting from a few newly added projects including power supply and air conditioning transformation project.

12. Intangible Assets

Unit: RMB

Items	Opening balance	Increase in the period	Decrease in the period	Closing balance
A. Total original prices	66,622,604.12			66,622,604.12
1.Land user rights	65,965,604.12			65,965,604.12
2.ERP software	105,000.00			105,000.00
3.CAXA	102,000.00			102,000.00
4.Technology	450,000.00			450,000.00
B. Total accumulated amortization	6,013,970.08	710,237.26		6,724,207.34
1.Land user rights	5,683,386.65	656,987.24		6,340,373.89
2.ERP software	2,916.67	17,500.02		20,416.69
3.CAXA	57,666.68	17,000.00		74,666.68
4.Technology	270,000.08	18,750.00		288,750.08
C. Total accumulated impairment reserve of intangible assets	-	-		-
D. Total book value of intangible assets	60,608,634.04	-710,237.26		59,898,396.78
1.Land user rights	60,282,217.47	-656,987.24		59,625,230.23
2.ERP software	102,083.33	-17,500.02		84,583.31
3.CAXA	44,333.32	-17,000.00		27,333.32
4.Technology	179,999.92	-18,750.00		161,249.92
Total	60,608,634.04	-710,237.26		59,898,396.78

Details of pledges of the intangible assets will be shown in Notes 13.

13. Long-term deferred Expenses

Items	opening balance left(month)	Increase in the period	Amortization in the period	Closing balance	Terms of amortization
Expenses of leasing	4,274,165.25		1,277,680.02	2,996,485.23	18months

14. Deferred income tax assets

Item	At the end of the period	At the beginning of the period
Adjustment of bad debt provision not allowed by tax law	1,261,344.08	1,261,344.08
Total	1,261,344.08	1,261,344.08

15. Short-term Bank Loans

Types of borrowings	Closing balance		Opening balance	
	Currency of the transaction	Translation into RMB	Currency of the transaction	Translation into RMB
Bank Loan				
Inclu.: collateral	5,000,000.00	5,000,000.00	6,000,000.00	6,000,000.00
Guaranteed	63,450,000.00	63,450,000.00	62,300,000.00	62,300,000.00
Impawn	8,000,000.00	8,000,000.00		
Total	<u>76,450,000.00</u>	<u>76,450,000.00</u>	<u>68,300,000.00</u>	<u>68,300,000.00</u>

Note: Among the above-mentioned bank loans, RMB29 million loans from ICBC Shenyang Yinxin sub branch to Kingdom Hotel - a subsidiary of the company is overdue, of which loan interest 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.

16. Bills Payable

Item	Closing balance	Opening balance
Bank-Accepted Bills of Exchange	25,970,000.00	9,540,800.00
Total	<u>25,970,000.00</u>	<u>9,540,800.00</u>

Note 1: At end of period balance has increase RMB16, 429,200 by 172%, mostly due to increase of undue bills payable.

17. Account Payable

Age	Closing balance	Opening balance
Within 1 year	44,646,806.83	63,611,848.02
1-2 years	13,528,383.15	5,195,549.43
2-3 years	9,355,659.50	8,146,059.17
Over 3 years	1,655,293.02	2,654,905.63
Total	<u>69,186,142.50</u>	<u>79,608,362.25</u>

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.

18. Payment in Advance

Age	Closing balance	Opening balance
Within 1 year	37,134,259.17	26,448,657.02
1-2 years	4,669,342.46	8,166,139.45
Total	<u>41,803,601.63</u>	<u>34,614,796.47</u>

Note 1: The balance at end of the period is up by RMB 7,188,805.16, or by 20.77% compared with that at the beginning of the period, mainly resulting from an increase in advance sales receipts of some large sales contracts.

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.

19. Staff salary payable

Items	Opening balance	Increase in the period	Decrease in the period	Closing balance
1. staff salary, bonus, allowance and subsidies		10,804,434.47	10,804,434.47	
2. welfare provision	154,541.23	642,606.18	642,606.18	154,541.23
3. social insurance	659,310.36	3,771,793.43	3,864,686.24	566,417.55
4. housing reserve fund	464,630.19	162,856.53	213,058.53	414,428.19
5. labor union expenditures and staff education expenditures	383,972.17	794,356.95	1,168,834.29	9,494.83
6. benefits not in monetary value		108,373.29	108,373.29	
7. compensation paid for the termination of employment contracts with employees				
8. others	401,835.44	993,158.44	1,154,309.43	240,684.45
Include: share payable in cash				
Total	<u>2,064,289.39</u>	<u>17,277,579.29</u>	<u>17,956,302.43</u>	<u>1,385,566.25</u>

20. Tax Payable

Type of taxes	Closing	Opening
Income tax -enterprise	-317,485.31	330,001.22
Value-added tax	1,456,481.15	6,673,085.74
Sales tax	159,316.37	140,492.78
City construction tax		16,402.36
Income tax - person	15,941.04	237,586.48
Housing tax	4,240,691.81	4,076,191.20
Land use tax	-105,171.50	
Others	96,460.73	160,949.84
Total	<u>5,546,234.29</u>	<u>11,634,709.62</u>

21. Other Payables

Age	Closing	Opening
Within 1 year	21,454,540.78	24,211,588.51
1-2 years	36,902,893.56	22,541,876.02
2-3 years	1,844,151.74	1,349,299.53
Over 3 years	25,856,627.01	40,566,284.27
Total	<u>86,058,213.09</u>	<u>88,669,048.33</u>

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.

22. Estimated Liabilities

Item	Closing	Opening
Guarantee for loans	54,711,289.00	54,711,289.00

Note 1: 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 judgment the 1st sentence should be carried on. The company has estimated liabilities of RMB30,993,929.00.

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.

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 Shanxi Province has ruled on May 30, 2005, that the company should use the subject houses to undertake joint obligation of repayment for the abovementioned debts. The Company has filed appeal on Jun. 15, 2005 to the Higher People's Court of Shanxi Province. On Oct. 18, 2005, the Higher Court has made its final judgment 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.

23. Payables for specific purposes

Item	Opening	Increase in the period	Decrease in the period	Closing
Allocation of technology expenses	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 and transfer to capital reserves.

24. Share Capital

Item	Opening	Change in the period(+_-)				Closing
		Rights offering shares	Complimentary shares	Capitalization on reserve	others	
1. shares with limited sales conditions						
1) legal person shares	4,591,841	-	-	-	-4,591,841	-
2) Domestic non- legal person shares	431,328,159	-	-	-	-196,003,056	235,325,103
Total shares with limited sales conditions	435,920,000	-	-	-	-200,594,897	235,325,103
2. freely tradable shares						
1) common RMB shares (A share)	179,500,000	-	-	-	200,594,897	380,094,897
2) foreign shares listed abroad(H share)	257,950,000	-	-	-	-	257,950,000
Total freely tradable shares	437,450,000	-	-	-	-	638,044,897
3. Total shares	873,370,000	-	-	-	-	873,370,000

25. Capital Reserve

Item	At the beginning of the period	Increase in the year	Decrease in the year	At the end of the period
Share premium	115,431,040.00	-	-	115,431,040.00
Other capital reserve	873,994,779.58	-	14,871,171.74	859,123,607.84
Total	989,425,819.58	-	14,871,171.74	974,554,647.84

Note: Decrease of capital surplus was made due to the fact that the available-for-sale financial assets held by the Company were sold, causing an impact of the change in fair value during this period.

26. Reserve on earnings

Item	Opening balance for the year	Increase in the year	Decrease in the year	Closing balance for the period
Legal Reserve on Earnings	81,631,170	-	-	81,631,170
Other Reserve on Earnings	28,558,904	-	-	28,558,904
Total	110,190,074	-	-	110,190,074

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

27. Undeclared Profit

Unit: RMB

Item	Opening balance	Increase in the period	Decrease in the period	Closing balance
Undeclared profit	-1,127,501,230.33	751,542.66		-1,126,749,687.67

28. Operating Revenue and Costs

Business	Operating Revenue		Operating Costs	
	Amount in the current period	Amount in the same period of last year	Amount in the current period	Amount in the same period of last year
High-voltage switchgear	115,254,287.18	101,876,369.13	98,755,168.61	91,006,338.40
Capacitors	38,906,373.77	66,963,514.01	32,258,529.54	43,363,094.41
Closed bus bars	63,839,263.23	53,786,461.57	50,045,123.09	40,153,658.07
Restaurants Hotels	13,930,982.10	15,050,420.43	2,774,260.49	12,062,466.75
Transformer	577,162.41		466,890.58	
Sale of material	8,351,058.15	6,352,575.46	8,256,624.17	5,864,777.27
Others	7,332,901.64	25,388,020.04	6,635,981.06	18,282,733.96
Total	<u>248,192,028.48</u>	<u>269,417,360.64</u>	<u>199,192,577.54</u>	<u>210,733,068.86</u>

29. Taxes and surcharges for operations

Types	Tax rate	amount in this period	Amount of the same period last year
Tax for operations	5%-20%	705,039.93	1,204,299.78
City construction fee	7%	20,345.84	70,091.34
Education surcharge	4%	11,426.17	40,052.19
Total		<u>736,811.94</u>	<u>1,314,443.31</u>

30. Costs of sales

Types	Amount in this period	Amount of the same period last year
Costs of sales	32,174,646.65	14,761,870.06

Note: Costs of sales increased RMB 17,412,776.59 by 117.96% compared to the same period of last year, mainly due to the increase from sales agent expenses.

31. General and administrative expenses

Types	Amount in this period	Amount of the same period last year
General and administrative expenses	33,992,325.92	35,716,796.35

32. Financial Expenses

Types	Amount in this period	Amount of the same period last year
interests expenses	1,974,551.40	1,627,468.73
less: interest Revenue	104,661.87	170,009.74
Loss on Exchange	3,370,672.57	11,052.27
Less: gain on Exchange	21,985.67	
Others	196,732.17	267,275.54
Total	<u>5,415,308.60</u>	<u>1,735,786.80</u>

Note: financial expenses increase RMB3,679,521.80 by 211.98% compared to the same period of last year, mainly due to loss on exchange increase.

33. Investment income

Types	Amount in this period	Amount of the same period last year
Stock investment income	54,443,111.36	
Shares of investee's profit recognized under equity method	4,339,132.72	10,589,503.17
Total	<u>58,782,244.08</u>	<u>10,589,503.17</u>

Note: Investment income increase RMB48,192,740.91 by 455% compared to the same period of last year, mainly due to gain from disposing Jinhualujian stock.

34. Other Income

Item	Amount in this period	Amount of the same period last year
Income of disposal of fixed assets	38,984.17	49,038.46
Sales of disused material		163,061.55
Income of fines	7,639.40	56,125.00
Others	311,956.38	163,897.89
Total	<u>358,579.95</u>	<u>432,122.90</u>

35. Other Expenses

Item	Amount in this period	Amount of the same period last year
Income of fines	48,084.12	87,290.75
Others	56,636.73	108,369.31
Total	<u>104,720.85</u>	<u>195,660.06</u>

36. Income tax expenses

Item	Amount in this period	Amount of the same period last year
Current income tax expenses	270,096.58	618,714.40
Deferred income tax expenses	8,705.15	
Total	<u>278,801.73</u>	<u>618,714.40</u>

37. Other cash received related to operations

In this period balance under account of “other cash received related to operations” is RMB 25, 481,951.13, mainly comprise of payment of transactions.

38. Other operational expenses paid

Item	Jan to Jun 2007
Transaction	63,832,503.65
Traveling	2,612,303.23
Insurance	3,579,056.29
Intermediary agents fees like audit fees	2,860,871.51
Transportation	7,942,299.50
Sales	5,649,995.60
Consultancy	3,008,119.00
Entertainment	1,621,318.66
Office	1,414,105.14
Fuel	1,539,424.50
Others	21,608,718.81
Total	115,668,715.89

39. Cash flow supplementary information

Supplementary information	Current period	Same period of last year	Current period	Same period of last year
1. Reconciliation of net profit to net cash flows from operating activities:				
Net profit	751,542.66	9,561,580.79	-3,473,872.99	7,904,973.66
Add: Provision for assets impairment	40,651,128.60	1,000,000.00	0.00	123,000.00
Minority interests	-5,965,011.98	4,825,903.68	0.00	0.00
Depreciation of fixed assets, Depletion of oil and gas assets,				
Depreciation of capitalized biological assets	7,476,719.05	10,066,164.95	293,453.99	362,624.00
Amortization of intangible assets	710,237.00	113,411.74	0.00	0.00
Amortization of long term deferred expenses	1,277,680.02	0.00	0.00	0.00
Loss arising from disposal of fixed assets, intangible assets and other long term assets(income is represented by “-”)				
	-38,984.17	-49,038.00	0.00	0.00
Loss from fixed assets scrapped (income is represented by “-”)				
	0.00	0.00	0.00	0.00
Loss from change in fair value(income is represented by “-”)				
	0.00	0.00	0.00	0.00
Financial expenses(income is represented by “-”)				
	5,415,308.60	80,860.42	-37,191.56	0.00
Loss on investment(income is represented by “-”)				
	-58,782,244.08	-10,691,535.17	0.00	-11,669,864.00
Decrease in deferred income tax assets (increase is represented by “-”)				
	0.00	0.00	0.00	0.00
Increase in deferred income tax liabilities (decrease is represented by “-”)				
	0.00	0.00	0.00	0.00
Decrease in inventories (increase is represented by “-”)				
	-41,027,823.37	11,078,270.01	173,255.79	3,773,173.00
Decrease in trade debtors (increase is represented by “-”)				
	-55,168,206.2	-70,896,641.50	-24,817,985.54	3,242,475.00
Increase in trade creditors(decrease is represented by “-”)				
	3,817,751.7	-18,605,000.28	17,074,636.21	-13,222,073.66
Others	4,121,076.31	-2,650,956.58	0.00	0.00
Net cash flow from operating activities	-96,760,825.86	-66,064,947.94	-10,787,704.10	-9,485,692.00
2. Investment and financial activities not involving cash				
Debt capitalization				
Convertible bonds due within one year				
Lease of fixed assets by financing				
3. Net change in cash and cash equivalents				
Cash balance as at end of the period	17,532,656.00	31,767,942.31	3,274,054.69	3,556,754.00
Less: cash balance as at beginning of the period	41,123,600.99	112,448,651.46	14,066,308.79	13,344,545.00
Add: balance of cash equivalents as at the end of the period	0.00	0.00	0.00	0.00
Less: balance of cash equivalents as at the beginning of the period	0.00	0.00	0.00	0.00
Net increase in cash and cash equivalents	-23,590,944.99	-80,680,709.15	-10,792,254.10	-9,787,791.00

9. Notes to the parent company report

1. Accounts Receivables

Age	At the end of the reporting period			
	Amount	proportion	Provision for bad debts	Net amount
Within 1 year	29,168,488.60	86%	-	29,168,488.60
2-3 years	4,922,525.20	14%	29,482.60	4,893,042.60
Total	<u>34,091,013.80</u>	<u>100%</u>	<u>29,482.60</u>	<u>34,061,531.20</u>

Age	At the beginning of the reporting period			
	Amount	proportion	Provision for bad debts	Net amount
Within 1 year	15,927,195.60	91%	-	15,927,195.60
2-3 years	1,530,160.00	9%	28,304.00	1,501,856.00
Total	<u>17,457,355.60</u>	<u>100%</u>	<u>28,304.00</u>	<u>17,429,051.60</u>

2. Long-term Investment

(1) Long-term Investment are laid out as follows:

Items	Opening balance	Increase in the period	Decrease in the period	Closing balance
Long-term investment in equity stocks	434,464,668.81		104,206,428.96	330,258,239.85
Less: provisions for depreciation	-			-
Net amount of long-term investment in equity stocks	<u>434,464,668.81</u>		<u>104,206,428.96</u>	<u>330,258,239.85</u>

(2) Long-term Investments in Shares

Other investment in equity stocks:

Company invested	Period of investment	Proportion of shares	Opening balance	Increase in the period	Decrease in the period	Closing balance
I. company using method of cost						
Northeast Electric(HK) Ltd	long-term	100%	82,772,402.36			82,772,402.36
Jinzhou Jinrong Electric Equipment Co., Ltd	long-term	69.75%	10,804,798.42			10,804,798.42
Shenyang Gaodongjia Desiccation Co., Ltd.	long-term	70%	3,249,272.04			3,249,272.04
New Northeast Electric(Shenyang) High-voltage Isolator Switchgears Co., Ltd	long-term	74.4%	104,206,428.96			
Shenyang Kingdom Hotel Ltd.	long-term	100%	220,894,746.35			220,894,746.35
Jinzhou City Commercial Bank Co., Ltd	long-term	4.35%	12,537,020.68			12,537,020.68
Total			<u>434,464,668.81</u>			<u>330,258,239.85</u>

3. *Operating Revenue and Costs*

Business	Operating Revenue		Operating Costs		Operating Gross Profit	
	Current period	Same period	Current period of last year	Same period of last year	Current period of last year	Same period
High-voltage switchgears	59,268,919.04	76,733,377.68	55,045,025.41	73,114,540.20	4,223,893.63	3,618,837.48

10. **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 person	Relationship	Nature	Rep. of legal
New Northeast Electric Investment Co., Ltd	Shenyang	135M	24.17%	Investment	Controlling shareholder	Limited company	Tian Li

Registered capital and its change of the controlling related parties.

Name of company	Opening balance	Increase/decrease in the period	Closing balance
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	Opening balance	Proportion	Increase/decrease in the period	Closing balance	Proportion
Northeast Electric Investment Co., Ltd	209,513,138	23.99%	1,543,147	211,056,285	24.17%

2. Non-controlling related parties with transactions

Name of company	Relationship
New Northeast Electric (Shenyang) High-voltage Switchgears Co Ltd	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:

Name of related party	Jan to Jun 2007		Jan to Jun 2006	
	Amount	Percentage in total annual purchase	Amount	Percentage in total annual purchase
New Northeast Electric (Shenyang)	47,044,803.84	21.18%	48,288,205.12	20.47%
High-voltage Switchgears Co Ltd				

Transactions prices are decide according to marketing price between the Company and related parties.

2. Sales of good

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

Name of related party	Jan to Jun 2007		Jan to Jun 2006	
	Amount	Percentage in total annual sales	Amount	Percentage in total annual sales
New Northeast Electric (Shenyang)	58,161,645.12	23.43%	51,467,316.98	19.10%
High-voltage Switchgears Co Ltd				

Transactions prices are decide according to marketing price between the Company and related parties.

3. Major Related Parties Transactions occur in the year

	2007 (Jan to Jun.)	2006 (Jan to Jun.)
purchase products from related parties	47,044,803.84	48,288,205.12
purchase raw material and appliances from related parties	56,450	1,991,358.90
sale products to related parties	58,161,645.12	28,673,660.00
provide industrial service to related parties		22,349,940.01
hotel service		443,716.97

Transactions prices are decide according to marketing price between the Company and related parties.

4. Events of guarantee

(1) Details of the Company has provided guarantee for related parties, bank loan at the end of June 30, 2007

Name of related party	Amount	Term
New Northeast Electric (Shenyang)	210,000,000.00	1year
High-voltage Switchgears Co Ltd		

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

Name of related parties	Amount		Percentage in balances of each item	
	Closing	Opening	Closing	Opening
Dividends receivables:				
Great Power Technology Co., Ltd	2,026,668.80	2,087,881.75	100%	100%
Account receivables:				
New Northeast Electric (Shenyang)				
High-voltage Switchgears Co Ltd	46,494,671.76	82,579,594.17	19.86%	33.62%
Prepayments:				
New Northeast Electric (Shenyang)				
High-voltage Switchgears Co Ltd		2,085,512.76		6.00%
Other payables:				
New Northeast Electric (Shenyang)				
High-voltage Switchgears Co Ltd		3,404,590.00		4.09%
Great Power Technology Co., Ltd		803,031.44		0.97%

11. 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) Isolator Switchgears Co., Ltd. (hereinafter referred as Isolator 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 Isolator 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_ Isolator 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 Isolator 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 judgment 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 Transformers) & Northeast Construction and Installation Co., and of De-Bank vs. Shenyang High-voltage & Isolator 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 ,Isolator 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 judgment made by the Beijing High Court. The contents of this paragraph do not affect our opinion issued in this audit report.
- (2) The company has provided RMB39.9 million guarantee for Jinzhou Power Capacitor Co.,Ltd., and has provided RMB210 million guarantee for New Northeast Electric(Shenyang) High-voltage Switchgear Co., Ltd.

12. Commitments

No commitments should be disclosed by the company.

13. Pledges of assets

Pledges of assets by end of 30 June 2007 are as follows:

Unit: RMB

Asset pledged	Book value	Amount of bank loan/bills
Fuxin IPB-land and buildings	15,556,507.93	5,000,000.00
Kingdom Hotel-Main building	323,244,000.00	170,000,000.00

14. Non-adjust post balance sheet event**Establishment of Shenyang Jiatai Machinery Equipment Co., Ltd**

With registered capital of RMB 5,000,000, Shenyang Jiatai Machinery Equipment Co., Ltd is a wholly-owned subsidiary of Shenyang Kaiyi Electric Co., Ltd. Its scope of business includes manufacture of general machinery equipment, manufacture, installation and maintenance of metal cabinet, spinning products and drying equipment as well as the machining of corresponding parts. On 2 July 2007, its industrial and commercial registration was done.

15. Other major events

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

16. Detailed charts of provisions for assets depreciation

Items	Opening balance	Increase in the period	Reversal in the period	Closing balance
1. provisions for bad debts	34,077,973.12	651,128.60	10,458.60	34,718,643.12
Inclu.: For account receivables	11,764,064.97	301,128.60		12,065,193.57
For other receivables	22,313,908.15	350,000	10,458.60	22,653,449.55
2. provisions for inventories depreciation	966,106.64	-	-	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		-	-	-
3. provisions for fixed assets depreciation	82,583,587.22	40,000,000.00	-	122,583,587.22
Inclu.: Buildings	80,782,444.79	40,000,000.00	-	120,782,444.79
Motor Vehicles and others	1,638,888.83	-	-	1,638,888.83
Machinery	162,253.60	-	-	162,253.60
Total	117,627,666.98	40,651,128.60	10,458.60	157,268,336.98

17. Chart of Financial indices*1. Return on equity and Earnings per share at the end of June 30 2007*

Profit of report period	Return on Equity		Earnings per share	
	Overall diluted	Weighted average	Overall diluted	Weighted average
Operating profit	-0.62%	-0.62%	-0.0059	-0.0059
Net profit	0.09%	0.09%	0.0009	0.0009
Profit less non-recurring profit and loss	-1.68%	-1.66%	-0.0160	-0.0160

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:

$$ROE = \frac{P}{E0 + NP \div 2 + E_i \times M_i \div M0 + E_j \times M_j \div M0}$$

P is profit in the period; NP is net profit; E0 is Net Asset at beginning of period; E_i: New Assets by new shares issuance or debt-to-equity swap; E_j: Diminish of net asset by way of buyback or cash dividends; M0 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.

- 3) Formula of weighted average Earning per Share is as follows:

$$EPS = \frac{P}{S0 + S1 + S_i \times M_i \div M0 - S_j \times M_j \div M0}$$

P is profit in the period; S0 - total shares at beginning of period; S1 - 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-equity swap in the period; S_j - No. of shares diminished by way of buyback or shares reduction; M0 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.

18. **Impacts on the Company's net profit and shareholders' interest by the difference between the new accounting standards and former accounting standards and systems are as follows:**

- (1) *Adjustments to the comparative income statement*

Items	Adjusted Item of Profit and Loss account From Jan to Jun., 2006	
	pre-adjustment	post-adjustment
Investment income	10,691,535.17	10,589,503.17
Income tax expenses	618,714.40	618,714.40
Net profit	<u>9,663,612.79</u>	<u>9,561,580.79</u>

- (2) *Reconciliation of profit (pro forma) for the six months ended 30 June 2006 under the new accounting standards to the net profit disclosed in the Interim Report for 2006 is as follows:*

Reconciliation of profit for the six months ended 30 June 2006

Item	Amount
Net profit for Jan-Jun 2006 (under former accounting standards)	9,663,612.79
Plus: Total impact of retrospective adjustments	0
Including: income tax expenses	0
Investment income	-102,032.00
Minus: impact of retrospective adjustments on minority interest income	0
Net profit attributable to the owners of the parent for Jan-Jun 2006 (under new accounting standards)	9,561,580.79
Pro forma information assuming completely adopting new accounting standards	
Plus: Total impacts of other items	0
Including: operating cost	0
Management expenses	0
Income tax expenses	0
Plus: impact of retrospective adjustments on minority interest income	0
Plus: Minority interest income in former interim financial statements	4,825,903.68
Net profit (pro forma) for Jan-Jun 2006	14,387,484.47

- (3) *Owner's equity stated under the former accounting system was adjusted to owner's equity under the Accounting Standards for Business Enterprises.*

- ① Liabilities and owners' equity adjustment on 1 Jan. 2006.

Items	pre-adjustment	post-adjustment
paid-up capital	873,370,000	873,370,000
capital reserve	972,123,038.66	976,851,533.6
surplus reserve	108,587,124.4	108,587,124.4
undistributed profit	-1,157,605,354.19	-1,154,827,252.09
Total	<u>796,474,808.87</u>	<u>803,981,405.91</u>

- ② Liabilities and owners' equity adjustment on 30 Jun 2006.

Items	pre-adjustment	post-adjustment
paid-up capital	873,370,000	873,370,000
capital reserve	972,138,480.06	983,219,162.61
surplus reserve	108,587,124.4	108,587,124.4
undistributed profit	-1,147,941,741.4	-1,145,265,671.3
Total	<u>806,153,863.06</u>	<u>819,910,615.71</u>

1. Differences between the accounting principles generally accepted in Hong Kong and PRC accounting regulations

Date	From January to June of 2007	As at 30 June 2007
Item	Net Profit	Net Assets
Unit	RMB	RMB
Under the PRC accounting regulations	751,542.66	940,414,567.41
Adjustment in accordance with HK GAAP	-	-
Under generally accepted accounting principles in Hong Kong	751,542.66	940,414,567.41

Above the Consolidated Financial Report and relative notes in this report at 30 June 2007 are presented by us according to Enterprise Accounting Standards and Enterprise Accounting Systems and the relative supplements, and is approved by the Board of Directors of the company.

I. FINANCIAL STATEMENT PREPARED UNDER ACCOUNTING PRINCIPLES GENERALLY ACCEPTED IN HONG KONG (UNAUDITED)

(1) Condensed Consolidated Income Statement

For the six months ended 30 June 2007

	Notes	1 Jan.2007 to 30 Jun.2007 RMB'000 (Unaudited)	1 Jan.2006 to 30 Jun.2006 RMB'000 (Unaudited)
Turnover	3	247,455	261,750
Cost of sales		<u>(199,193)</u>	<u>(204,868)</u>
Gross profit		48,262	56,882
Other income		486	1,090
Distribution costs		(32,175)	(14,762)
Administrative expenses		(74,643)	(36,714)
Other expenses		<u>(3,672)</u>	<u>(196)</u>
Profit from operations	4	(61,742)	6,300
Interest on bank borrowings		(1,975)	(1,906)
Investment income from associates		<u>4,339</u>	<u>10,692</u>
Profit from disposal of shares		<u>54,443</u>	<u> </u>
Profit before taxation		(4,935)	15,086
Taxation	5	<u>(279)</u>	<u>(619)</u>
Profit after taxation		(5,214)	14,467
Profit attributable to minority shareholders		<u>(5,965)</u>	<u>4,826</u>
Net profit attributable to shareholders		<u>751</u>	<u>9,641</u>
Earnings per share - basic	7	<u>0.09 仙</u>	<u>1.10 仙</u>

(2) Condensed Consolidated Balance Sheet

At 30 June 2007

	At 30.June.2007 RMB'000 (Unaudited)	At 31 December2006 RMB'000 (Audited)
Non-current assets		
Property, plant and equipment	270,842	316,382
Prepaid lease payments	59,898	58,204
Interests in associates	324,685	320,346
Available-for-sale investments	12,537	37,345
Other prepayments	4,257	4,274
	<u>672,219</u>	<u>736,551</u>
Current assets		
Inventories	109,549	68,521
Trade and bill receivables	8 191,340	153,458
Other receivables, deposits and prepayments	256,902	219,741
Amounts due form associates	54,522	88,773
Pledged bank deposits	1,360	1,360
Bank balance and cash	16,173	39,764
	<u>629,846</u>	<u>571,617</u>
Current Liabilities		
Trade and bill payables	9 95,156	89,149
Other payables, advances form customers and accruals	129,287	147,219
Amounts due to associates	-	4,208
Provision for loss on guarantees	54,711	54,711
Tax payable	5,546	330
Bank borrowings due within one year	76,450	68,300
	<u>361,150</u>	<u>363,917</u>
Net current (liabilities) assets	<u>268,696</u>	<u>207,700</u>
Total assets less current liabilities	<u>940,915</u>	<u>944,251</u>

Condensed Consolidated Balance Sheet (continued)

At 30 June 2007

		At 30. June.2007 RMB'000 <i>(Unaudited)</i>	At 31 December2006 RMB'000 <i>(Audited)</i>
Capital and reserves			
Share capital	11	873,370	873,370
Reserves		<u>(41,823)</u>	<u>(44,023)</u>
Equity attributed to equity holders of the parent		831,547	829,347
Minority interests		<u>108,868</u>	<u>114,404</u>
Total equity		940,415	943,751
Non-current liability		<u> </u>	<u> </u>
Bank borrowings due within one year		<u> </u>	<u> </u>
Government grant		<u>500</u>	<u>500</u>
		<u>940,915</u>	<u>944,251</u>

The condensed financial statements were approved by the board of directors on 27 August 2007 and are signed on its behalf by:

Sun Zhen
Director

Zhang Bin
Director



(3) Condensed Consolidated Statement of Changes in Equity

	Attributable to equity holders of the parent										
	Share Capital RMB'000	Capital reserve RMB'000	Capital contribution RMB'000	Statutory		Discretionary common reserve RMB'000	Translation reserve RMB'000	Accumulated losses RMB'000	Total RMB'000	Minority interests RMB'000	Total RMB'000
				common reserve RMB'000	public welfare reserve RMB'000						
At 1 January 2007	873,370	603,394	50,391	81,631	-	32,699	233	(812,371)	829,347	114,404	943,751
Exchange differences	-	-	-	-	-	-	(51)	-	(51)	-	(51)
Net Profit of current period	-	-	-	-	-	-	-	2,251	2,251	(5,536)	(3,285)
At 30 June 2007	873,370	603,394	50,391	81,631	-	32,699	182	(810,120)	831,547	108,868	940,415
At 1 January 2006	873,370	603,394	186,419	48,091	32,212	32,424	806	(976,336)	800,380	98,714	899,094
Exchange differences	-	-	-	-	-	-	452	-	452	-	452
Net profit of current period	-	-	-	-	-	-	-	9,641	9,641	4,826	14,467
At 30 June 2006	873,370	603,394	186,419	48,091	32,212	32,424	1,258	(966,695)	810,473	103,540	914,013

(4) Condensed Consolidated Cash Flow Statement

For the six months ended 30 June 2007

	1 Jan.2007 to 30 Jun.2007 RMB'000 (Unaudited)	1 Jan.2006 to 30 Jun.2006 RMB'000 (Unaudited)
Net cash flows (inflows) from operating activities	(96,761)	(66,050)
Net cash flows (inflows) from investing activities	66,932	(2,458)
Net cash flows (inflows) from financing activities	6,238	(12,158)
Decrease (increase) of cash and cash equivalents	(23,591)	(80,681)
Cash and cash equivalents at the beginning of the period	39,764	112,449
Effects of exchange rate changes		
Cash and cash equivalents at the end of the period		
Bank balances and cash	16,173	31,768

II. NOTES TO THE CONDENSED FINANCIAL STATEMENTS*For the six months ended 30 June 2007***1. Bases of preparation**

The condensed financial statements are prepared under of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“ Listing Rules”), together with the relevant disclosure requirements of the HongKong Accounting Standard No. 34 “ Interim Financial Reporting” (HKAS 34).

2. Principal accounting policies

The condensed financial statements have been prepared under the historical cost convention.

The accounting policies adopted in preparing interim financial information for the six months ended 30 June 2007 are consistent with those followed in preparing the financial statements for the year ended 31 December 2006.

3. Segment information

The Group’s turnover and gross profit from operations for the six months ended 30 June 2007 and 2006, analysed by business segments and by geographical segments, are as follows:

Business segments

For the six months Ended 30 June 2007	Continued operation High-voltage switchgear/busbar/ Power capacitor RMB'000	Hotel/catering/ entertainment services RMB'000	Others RMB'000	Total RMB'000
Turnover	229,104	13,226	5,125	247,455
Segment results	(10,615)	(44,157)	(6,970)	(61,742)

For the six months Ended 30 June 2006	Continued operation			Discontinued operation	
	High-voltage switchgear/busbar/ Power capacitor	Hotel/catering/ entertainment services	Others	Storage and transportation	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Turnover	222,626	14,292	14,192	10,640	261,750
Segment results	15,208	(2,535)	(6,768)	395	6,300

In October 2006, the Group disposed its owned equities of Shenyang Suntime Storage and Logistics Company Limited and Shenyang Chengtai Energy Power Company Limited, so the data in relation to the two companies for the six months from 1 January 2006 to 30 June 2006 were shown in the item of discontinued operations.

Most of the Group's incomes are derived from the PRC and the income earned outside the PRC is insignificant.

4. Profit from operations

	The Group	
	2007 RMB'000	2006 RMB'000
Profit from operations has been arrived at after deducting:		
Depreciation and amortization and charging	9,464	10,260
Interest income on bank deposits	128	170

5. Taxation

Apart from one subsidiary enjoying the tax-exemption period of income tax, the two subsidiaries enjoying the policy of 50% reduction of income tax and one subsidiary enjoying an income tax at the real rate of 25.5% according to the domestic tax law, the Company and its subsidiaries are subject to income tax at the statutory rate of 33%.

The Company had no taxable profit for the period (2006: Nil). The charge for the period mainly represents provision for income tax rate calculated upon the assessable income the assessable income of certain PRC subsidiaries.

No Hong Kong profits tax has been provided as the Company and its subsidiaries had no taxable profit in Hong Kong (2006: Nil).

As at 30 June 2007, the Company and the Group had no significant deferred tax (2006: Nil).

6. Interim dividend

No dividends were paid during the period. The directors did not recommend the payment of any interim dividend.

7. Earnings per share

The calculation of earnings per share is based on the net profit attributable to shareholders of RMB751,000 (2006: RMB9,641,000) and the total number of shares in issue amounting to 873,370,000 shares (2006: 873,370,000 shares) at the end of the period.

8. Account Receivable

Generally, the Group gives different period of credit to its customers in accordance with their signing of individual contracts as well as their financial situation. In order to control the credit risks in relation to account receivable effectively, the Group will make a regular credit assessment to its customers. The following is the age of account receivable.

The following is the account receivable from the third parties (exclusive of the related parties).

	Group	
	As at 30 June 2007	As at 31 December 2006
	RMB'000	RMB'000
Within 1 year	132,741	119,993
1 to 2 years	33,322	25,017
2 to 3 years	18,714	8,544
Over 3 years	14,659	9,486
	<u>199,436</u>	<u>163,040</u>
Provisions for bad debts	<u>12,065</u>	<u>11,764</u>

9. Account Payable

The following is the age of the account payable to the third parties (exclusive of the related parties).

	Group	
	As at 30 June 2007	As at 31 December 2006
	RMB'000	RMB'000
Within 1 year	44,647	60,207
1 to 2 years	13,528	5,196
2 to 3 years	9,356	8,146
Over 3 years	1,655	2,655
	<u>69,186</u>	<u>76,204</u>

10. Capital Shares

The following is the change of capital share structure during the period from 31 December 2006 to 30 June 2007.

Unit:RMB

Item	Beginning of the period	Increase or Decrease during the period(+,-)				Sub-total	End of the period
		Rights offerings	Complim- entary shares	Capitaliz- ation on reserve	Others		
1. Shares subject to trading moratorium							
1) Legal person shares	4,591,841	-	-	-	-4,591,841	-	-
2) Domestic Non-legal-person shares	431,328,159	-	-	-	-196,003,056	235,325,103	235,325,103
Total shares subject to trading moratorium	435,920,000	-	-	-	-200,594,897	235,325,103	235,325,103
2. Shares not subject to trading moratorium							
1) Common RMB shares (A shares)	179,500,000	-	-	-	200,594,897	380,094,897	380,094,897
2) Foreign shares listed abroad (H shares)	257,950,000	-	-	-	-	257,950,000	257,950,000
Total shares not subject to trading moratorium	437,450,000	-	-	-	-	638,044,897	638,044,897
3. Total shares	873,370,000	-	-	-	-	-	873,370,000

There was no change in total shares of the Company during this period.

11. Post Balance Sheet Events

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

12. Related Transactions

1. Controlling shareholders of the Group

Name of related party	Registration place	Major operations	Relationship	Nature	Proportion of shares owned
New Northeast Electric Investment Co., Ltd	Shenyang	Equity investment	Single top1 shareholder	Limited company	24.17%

2. Non-controlling related parties with transactions

New Northeast Electric (Shenyang) High-voltage Switchgear Co.,Ltd	Shenyang	High-voltage Switchgears	Associate	Limited company	20.8%
Great Power Technology Limited	Hong Kong	Investment	Associate	Limited company	20.8%

3. *Purchases and sales of related parties*

During the period, the Group had entered into the following transactions with its associates and subsidiaries:

	As at 30 June 2007	As at 30 June 2006
	RMB'000	RMB'000
Sales of products to related parties	58,162	28,674
Purchase of products and spare parts from related parties	47,101	50,279
Provision of industrial services to related parties	-	22,350
Provision of hotel services to related parties	-	444

The above transactions had been entered into by the parties on normal commercial terms.

4. *Creditors' rights and debts between the Group, its associates and subsidiaries during the period*

Item	Related party	At the end of the period	At the beginning of the year
		RMB'000	RMB'000
Dividends receivable	Great Power Technology Limited	2,027	2,141
Account receivables	New Northeast Electric (Shenyang) High-voltage Switchgear Co., Ltd	46,495	82,580
Prepaid account	New Northeast Electric (Shenyang) High-voltage Switchgear Co., Ltd	-	2,086
Account payables and other payables	New Northeast Electric (Shenyang) High-voltage Switchgear Co., Ltd Great Power Technology Limited	- - -	3,405 803 -
		<u>-</u>	<u>4,208</u>

5. *Events of guarantee*

At the end of 30 June 2007, the Group had provided the following guarantee for its associate:

Related party	Amount	Term
New Northeast Electric (Shenyang) High-voltage Switchgear Co., Ltd	210,000,000	1 year