ANNUAL REPORT 2008 年報

NEE

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.

# CONTENTS



※ This report is published in both Chinese and English. If there are any inconsistencies in content, other than the consolidated financial statements prepared in accordance with Hong Kong Financial Reporting Standards set out on pages 88 to 180 where the English version shall prevail, the Chinese version shall prevail in all other aspects.

※ Unless otherwise stated, Renminbi is the only monetary unit in this report.

# BASIC INFORMATION OF THE COMPANY

| | | |
|---|---|---|
| 1. Legal Chinese name | : | 東北電氣發展股份有限公司 |
| Legal English name | : | Northeast Electric Development Company Limited |
| Chinese abbreviation | : | 東北電氣 |
| English abbreviation | : | NEE |
| 2. Legal representative | : | Su Weiguo |
| 3. Executive directors | : | Su Weiguo ,Wang Shouguan, Bi Jianzhong , Zhang Zhaozhong, Liu Qingmin, Du Kai, |
| 4. Independent Non-executive Directors | : | Wu Qicheng, Lin Wenbin, Xiang Yongchun, Liang Jie, Liu Hongguang. |
| 5. Supervisors | : | Dong Liansheng, Fu Xiuheng, Dai Guiqing |
| 6. Secretary to the Board | : | Zhang Zhaozhong |
| Joint Company Secretaries and authorized representative for receipt of summons and notices | : | Mak Yee Chuen |
| Representative for securities affairs | : | Zhu Xinguang |
| 7. Registered address | : | No. 78, Hunnan High and New Technology Development Zone, Shenyang, PRC |
| Office address | : | No. 38 Jingxing North Street, Tiexi District, Shenyang. the PRC |
| Postal Code | | 110025 |
| Telephone: | | (86)24-23501976<br>(86)24-23527080 |
| Fax | : | (86)24-23527081 |
| Website | : | www.nee.com.cn www.nee.hk |
| E-mail address | : | nee@nee.com.cn nemm585@sina.com |

| | | |
|---|---|---|
| 8. PRC newspapers for information disclosure | : | "China Securities Journal" "Securities Times" |
| Website containing the annual report | : | www.cninfo.com.cn www.hkex.com.hk www.nee.hk |
| Place for inspection of annual report | : | Office of the Board of Directors |
| 9. Place of listing, stock names and codes | : | |
| | | H Share - Hong Kong Stock Exchange |
| | | - Stock Name : Northeast Electric |
| | | - Stock Code : 0042 |
| | | A Shares - Shenzhen Stock Exchange |
| | | - Stock Name : Northeast Electric |
| | | - Stock Code : 000585 |
| 10. Date of Company' s first registration | : | 16 February 1993 |
| Place of registration | : | No. 18 North Er Zhong Road, Tie Xi District, Shenyang, PRC |
| Date of the Company's Latest Change of registration | : | 14 July 2008 |
| Place of registration | : | No. 78 Hunnan High and New Technology Development Zone, Shenyang, PRC |
| Registered number of corporate legal person business licence | : | Qi Gu Liao Shen Zong Zi No. 311001001(1-1) |
| Registered taxation numbe | : | 20132243437397 |
| 11. Auditing Institutions | | |
| Domestic auditors | : | Shenzhen Pengcheng Certified Accountants Co., Ltd. |
| Office address | : | No. 2006, Office Tower 5, Baofeng Plaza, Dong Men South road, Luohu District, Shenzhen PRC (Postal code518002) |
| International auditors | : | TING HO KWAN & CHAN Certified Public Accountants (Practising) |
| Office address | : | 9th Floor, Tung Ning Building, 249-253 Des Voeux Road Central, Hong Kong. |

## (I) TOTAL PROFIT AND STRUCTURE FOR THE YEAR PREPARED UNDER THE PRC ACCOUNTING STANDARDS AND REGULATIONS

*Unit: RMB*

| | |
|---|---|
| Operating profit | -69,760,685.96 |
| Total profit | -69,549,292.62 |
| Net profit that belongs to shareholders of listed company | -69,112,495.33 |
| Net profit that belongs to shareholders of listed company after non-recurring profit and loss | 3,244,738.80 |
| Net cash flow arising from operating activities | 15,241,679.50 |

**Note: after extraordinary items and the related amount:**

*Unit: RMB*

| Extraordinary items | Amount | Cause |
|---|---|---|
| Profits and losses on disposal of non-current assets | -72,854,445.58 | mainly caused by losses on disposal of equity investment |
| Other net amount of non-operating income and expense except the items above | 499,552.59 | mainly cost by income on disused material |
| The corresponding income tax of extraordinary items | -2,341.14 | |
| Total | -72,357,234.13 | |

## (II) ACCOUNTING DATA AND FINANCIAL INDICATORS OF THE COMPANY FOR THE PAST THREE YEARS PREPARED UNDER PRC ACCOUNTING RULES AND REGULATIONS

### 1 Principle accounting data

*Unit: RMB*

| | 2008 | 2007 | Increase/ decrease of the year over last year(%) | 2006 |
|---|---|---|---|---|
| Operating income | 517,717,563.70 | 639,700,849.31 | -19.07 | 560,207,377.16 |
| Total profit | -69,549,292.62 | -350,788,631.18 | 80.17 | 40,880,423.46 |
| Net profit that belongs to shareholders of listed company | -69,112,495.33 | -340,874,097.62 | 79.72 | 29,529,236.62 |
| Net profit that belongs to shareholders of listed company after extraordinary items | 3,244,738.80 | -117,105,282.35 | - | 13,548,235.43 |
| Net cash flow arising from operating activities | 15,241,679.50 | -25,695,727.14 | - | -13,197,000.88 |

| | As at 31st December 2008 | As at 31st December 2007 | Increase/decrease of the year over last year | As at 31st December 2006 |
|---|---|---|---|---|
| Total assets | 847,016,256.07 | 1,044,977,793.85 | -18.94% | 1,282,102,227.11 |
| Fund attributable to the owners of parent company (shareholders' fund) | 311,137,033.20 | 484,195,364.55 | -35.74% | 830,895,472.92 |
| Share capital | 873,370,000.00 | 873,370,000.00 | 0 | 873,370,000.00 |

## 2 Principal financial indicators

*Unit: RMB*

| | 2008 | 2007 | Increase/decrease of the year over last year(%) | 2006 |
|---|---|---|---|---|
| Basic earnings per share(Yuan/Share) | -0.08 | -0.39 | 79.49 | 0.03 |
| Diluted earnings per share(Yuan/Share) | -0.08 | -0.39 | 79.49 | 0.03 |
| Basic earnings per share after extraordinary item (Yuan/Share) | 0.004 | -0.13 | - | 0.02 |
| Earnings/net assets ratio (fully diluted)(%) | -22.21 | -70.40 | increase 48.19 percent | 3.55 |
| Earnings/net assets ratio (weighted average)(%) | -17.38 | -51.84 | increase 34.46 percent | 3.63 |
| Earnings/net assets ratio (fully diluted) after extraordinary item (%) | 1.04 | -24.19 | - | 1.63 |
| Earnings/net assets ratio (weighted average) after extraordinary item(%) | 0.82 | -17.81 | - | 1.66 |
| Net cash flow from operating activities per share(Yuan/Share) | 0.017 | -0.029 | - | -0.015 |

| | As at 31st December 2008 | As at 31st December 2007 | Increase/decrease of the year over last year(%) | As at 31st December 2006 |
|---|---|---|---|---|
| Net assets per share that belongs to shareholders of listed company (Yuan/Share) | 0.36 | 0.55 | -34.55 | 0.95 |

## 3 Assets Devaluation Preparation Sheet

### As at 31 December 2008

*Unit: RMB*

| Item | Initial balance | Increase in current period | Decrease in current period | | Total | Final balance |
|---|---|---|---|---|---|---|
| | | | Transfer in from assets value increase | Transfer out from other reasons | | |
| 1.Bad debt preparation in total | 98,461,237.99 | 5,597,884.96 | 625,055.60 | 7,436,400.65 | 8,061,456.25 | 95,997,666.70 |
| Including: Accounts receivable | 13,514,369.95 | 3,188,247.15 | 621,977.73 | 875,817.30 | 1,497,795.03 | 15,204,822.07 |
| Other receivables | 84,946,868.04 | 2,409,637.81 | 3,077.87 | 6,560,583.35 | 6,563,661.22 | 80,792,844.63 |
| 2.Short-term investment devaluation preparation in total | | | | | | |
| Including: Investment in equity | | | | | | |
| Ivestment in bond | | | | | | |
| 3.Inventory devaluation preparation in total | 1,936,121.94 | 1,310,641.17 | | 1,811,793.26 | 1,811,793.26 | 1,434,969.85 |
| Including: Merchandise inventory | | 1,310,641.17 | | | | 1,310,641.17 |
| Product in production | 124,245.33 | | | 124,245.33 | 124,245.33 | |
| Raw material | 1,811,876.61 | | | 1,687,547.93 | 1,687,547.93 | 124,328.68 |
| 4.Long-term investment devaluation preparation in total | 2,537,020.68 | | | 2,537,020.68 | 2,537,020.68 | |
| Including: Long-term investment in equity | 2,537,020.68 | | | 2,537,020.68 | 2,537,020.68 | |
| Long-term investment in bond | | | | | | |
| 5.Fixed assets devaluation preparation in total | 2,118,787.22 | | | 7,089.22 | 7,089.22 | 2,111,698.00 |
| Including: Houses, buildings | 317,644.79 | | | | | 317,644.79 |
| Transportation and others | 1,638,888.83 | | | | | 1,638,888.83 |
| Machinery and equipment | 162,253.60 | | | 7,089.22 | 7,089.22 | 155,164.38 |
| 6. Intangible assets devaluation preparation in total | | | | | | |
| Including: Patent right | | | | | | |
| Trade mark right | | | | | | |
| 7. Total devaluation preparation for construction in progress | | | | | | |
| 8. Entrust loan devaluation preparation in total | | | | | | |
| 9. Total | 105,053,167.83 | 6,908,526.13 | 625,055.60 | 11,792,303.81 | 12,417,359.41 | 99,544,334.55 |

## (III) PREPARED UNDER HONG KONG FINANCIAL REPORTING STANDARDS

*Unit:RMB*

| Items | 2008 | 2007 | 2006 | 2005 | 2004 |
|---|---|---|---|---|---|
| 1. Turnover ('000) | 517,717 | 618,496 | 465,989 | 546,135 | 342,338 |
| 2. Profit/(loss) before taxation ('000) | (69,438) | (292,246) | 34,892 | 44,897 | 30,437 |
| 3. Profit/(loss) attributable to shareholders ('000) | (70,458) | (344,907) | 29,540 | 26,761 | 20,934 |
| 4. Total assets ('000) | 856,704 | 937,160 | 1,295,288 | 1,267,674 | 1,352,303 |
| 5. Total liabilities ('000) | 542,771 | 543,467 | 364,417 | 368,580 | 475,315 |
| 6. Shareholders' fund ('000) | 313,933 | 393,693 | 829,347 | 800,380 | 771,180 |
| 7. Earnings/(loss) per share (RMB) | (0.08) | (0.39) | 0.034 | 0.031 | 0.024 |
| 8. Net assets per share (RMB) | 0.36 | 0.45 | 0.95 | 0.92 | 0.88 |
| 9. Return on net assets (%) | (22.44) | (87.61) | 3.56 | 3.34 | 2.71 |
| 10. Shareholders' interest ratio(%) | 36.64 | 42.01 | 63.40 | 63.14 | 57.03 |
| 11. Current ratio (%) | 101.75 | 109.20 | 157.07 | 174.16 | 133.55 |
| 12. Gearing ratio (%) | 63.36 | 57.99 | 28.13 | 29.08 | 35.15 |

## (IV) DIFFERENCES BETWEEN HONG KONG FINANCIAL REPORTING STANDARDS AND THE PRC STANDARDS IN THE CALCULATION OF THE NET LOSS

*Unit:RMB'000*

| | |
|---|---|
| Net loss calculated under the Hong Kong Financial Reporting Standards (attributable to the owners of the parent company) | (69,001) |
| Others | (111) |
| Net loss calculated under the PRC accounting standards (attributable to the owners of the parent company) | (69,112) |

## (I) TABLE OF CHANGES IN SHARE CAPITAL

*Unit: Share*

| | Beginning of the year | Increase/ (decrease) (+/-) | End of the year |
|---|---|---|---|
| 1. Shares subject to trading moratorium | 223,970,228 | -5,575,991 | 218,394,237 |
| A shares | 223,970,228 | -5,575,991 | 218,394,237 |
| 2. Shares not subject to trading moratorium | 649,399,772 | 5,575,991 | 654,975,763 |
| A Shares | 391,449,772 | 5,575,991 | 397,025,763 |
| H Shares | 257,950,000 | 0 | 257,950,000 |
| 3. Total shares | 873,370,000 | 0 | 873,370,000 |

Notes: On 18 August 2008 , the Company relieved 5,575,991 shares with trading restrictions, which increase shares without trading restrictions to 654,975,763 shares .

## (II) TABLE OF SHAREHOLDING OF TOP TEN SHAREHOLDERS

Total number of shareholders at the end of the reporting period was 136,998 , including 136,925 shareholders of A shares and 73 shareholders of H shares.

### Shareholdings of the top ten shareholders

*Unit: share*

| Name of shareholders (full name) | Increase/ decrease within the year | Number of shares held at the end of the year | Percentage ( %) | Stock category | Number of shares pledged or frozen | Nature of shareholders |
|---|---|---|---|---|---|---|
| HKSCC Nominees Limited | -8,454,000 | 247,851,998 | 28.38 | tradable | unknown | H shares |
| New Northeast Electric Investment Co., ltd.(note) | +22,827 | 212,014,237 | 24.28 | untradable | 208,000,000 | A shares subject to trading moratorium |
| Shanghai Bao Yu Real Estate Investment Consultation Co., Ltd. | -2,515,485 | 9,234,515 | 1.06 | tradable | unknown | A shares not subject to trading moratorium |
| Hu Li | +3,925,060 | 3,925,060 | 0.45 | tradable | unknown | A shares not subject to trading moratorium |
| Shenzhen Zhongda Software Development Co., Ltd | 0 | 3,550,000 | 0.41 | untradable | unknown | A shares subject to trading moratorium |
| Shanxi Qinjian Science and Technology Investment Co., Ltd | 0 | 1,420,000 | 0.16 | untradable | unknown | A shares subject to trading moratorium |
| Beijing Yangxuan Trading Co., Ltd | +1,055,839 | 1,055,839 | 0.12 | tradable | unknown | A shares not subject to trading moratorium |
| Du Shiming | +420,000 | 900,000 | 0.10 | tradable | unknown | A shares not subject to trading moratorium |
| Zeng Longjia | +802,000 | 802,000 | 0.09 | tradable | unknown | A shares not subject to trading moratorium |
| Tong Yanchun | +220,000 | 720,000 | 0.08 | tradable | unknown | A shares not subject to trading moratorium |

**Note:**

(1) So far as the Company is aware, there is no connected relationship among the top ten shareholders or are parties acting in concert as required in “Methods of Information Disclosure of Shareholding Changes of Listed Companies”.

(2) On 9 July 2008, New Northeast Electric Investment Co., Ltd. carried out the registration of the pledge of stocks with Bank of Communications Shenyang Branch, so 90,000,000 A shares subject to trading moratorium have been frozen since 9 July 2008.

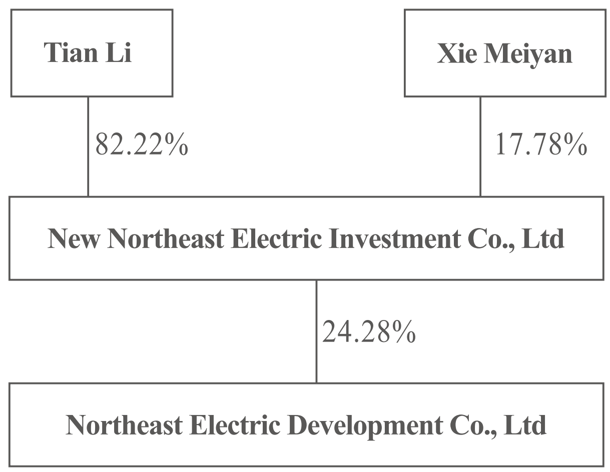
(3) On 29 December 2008, New Northeast Electric Investment Co., Ltd. carried out the registration of the pledge of stocks with China CITIC Bank Corporation Limited Shenyang Branch, so 118,000,000 A shares subject to trading moratorium have been frozen since 29 December 2008.

(4) On 28 May 2008, New Northeast Electric Investment Co., Ltd withdrew totally 22, 827 shares, an advancement for other non-tradable shareholders during the implementation of reform scheme on equity distribution of A shares.

## (III) INFORMATION ON THE CONTROLLING SHAREHOLDERS AND THE ACTUAL CONTROLLER

| | | |
|---|---|---|
| Name of the controlling Shareholder | : | New Northeast Electric Investment Co., Ltd. |
| Legal representative | : | Tian Li |
| Incorporation date | : | 8 February 2002 |
| Registered capital | : | RMB135 million |
| Scope of business | : | Investment holding, trading of motors and spare parts, electrical and mechanical equipment , metals and electrical appliances, wires and cables, electrical transmission and transformation equipment, building materials ,ferrous materials, rubber products, plastic products, livestock produces, necessities products, wholesaling and retailing of knitting and weaving products; vehicles repairs and maintenance, science and technology development. |
| Equity structure | : | Ms. Tian Li, the natural person, contributed RMB111 million, representing 82.2% of the registered capital; and Ms. Xie Meiyan, the natural person, contributed RMB24 million, representing 17.8% of the registered capital. |

## (IV) FRAMEWORK OF ASSET RIGHTS AND CONTROLLING RELATIONSHIP BETWEEN THE COMPANY AND THE ACTUAL CONTROLLER



## (I) PROFILE OF DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT

### 1. Basic information

| Name | Sex | Age | Position | Terms of office | Number of shares held at the beginning of the year | Number of shares held at the end of the year | Remuneration *RMB 0'000* |
|---|---|---|---|---|---|---|---|
| Su Weiguo | M | 47 | Chairman | 2007/3/7-2010/3/6 | 0 | 0 | 12.4 |
| Wang Shouguan | M | 65 | Vice Chairman | 2007/3/7-2010/3/6 | 0 | 0 | 7.2 |
| Bi Jianzhong | M | 32 | Director/General manager | 2007/10/12-2010/3/6 | 0 | 0 | 11.5 |
| Zhang Zhaozhong | M | 30 | Director/Secretory to the Board | 2008/8/20-2010/3/6 | 0 | 0 | 14.2 |
| Liu Qingmin | M | 46 | Director | 2007/3/7-2010/3/6 | 0 | 0 | 9.4 |
| Du Kai | M | 41 | Director | 2007/3/7-2010/3/6 | 0 | 0 | 7.4 |
| Wu Qicheng | M | 64 | Independent Director | 2007/3/7-2010/3/6 | 0 | 0 | 3.5 |
| Lin Wenbin | M | 65 | Independent Director | 2007/3/7-2010/3/6 | 0 | 0 | 3.5 |
| Xiang Yongchun | M | 66 | Independent Director | 2007/3/7-2010/3/6 | 0 | 0 | 3.5 |
| Liang Jie | F | 48 | Independent Director | 2007/3/7-2010/3/6 | 0 | 0 | 3.5 |
| Liu Hongguang | M | 42 | Independent Director | 2007/3/7-2010/3/6 | 0 | 0 | 3.5 |
| Dong Liansheng | M | 62 | Chairman of the Supervisory Committee | 2007/3/7-2010/3/6 | 0 | 0 | 0 |
| Fu Xiuheng | M | 61 | Supervisor | 2007/3/7-2010/3/6 | 0 | 0 | 5.0 |
| Dai Guiqing | F | 40 | Supervisor | 2007/3/7-2010/3/6 | 0 | 0 | 0 |
| Sun Zhen | M | 33 | Resigned Director | 2007/3/7-2008/7/6 | 0 | 0 | 7.5 |
| Zhang Bin | M | 42 | Resigned Director | 2007/3/7-2008/7/6 | 0 | 0 | 7.4 |
| Shi Li | M | 41 | Resigned Director | 2007/3/7-2008/6/3 | 0 | 0 | 7.8 |

Note: The remuneration of the above members includes insurance and accumulation fund paid according to state and local policies.

**2. Directors and supervisors holding positions in the shareholders unit**

| **Name** | **Name of shareholders** | **Position held** | **Period of employment** |
|---|---|---|---|
| Wang Shouguan | New Northeast Electric Investment Co., Ltd | Vice Chairman | 2004/02/14 to present |
| Dai Guiqing | New Northeast Electric Investment Co., Ltd | Financial Controller | 2005/04/18 to present |

**3. Biographical details of directors, supervisors and senior management in the past 5 years**

(1) Directors

**Mr. Su Weiguo**, born in 1962, a Senior Economist, graduated from Harbin University of Science and Technology in Heat Treatment and later from Dalian Marine University in International Economics with a bachelor degree in Engineering and a master degree in Law. He is currently the Chairman of the Company. He has served as the Director of the Operations Department of the Company, the Director of the Operations Department and Assistant to the President of Northeast Electrical Transformation and Transformation Equipment Group Co., Ltd.

**Mr. Wang Shouguan**, born in 1944, a university graduate, graduated from Beijing Iron and Steel College with major in Metallurgical Machinery Design and Manufacturing. He is currently the Vice Chairman of the Company. He has served as the Vice Mayor of Yingkou City, the Deputy Director of the Department of Foreign Trade and Economic Cooperation of Liaoning Province.

**Mr. Bi Jianzhong**, born in 1977, a university graduate, graduated from Shenyang Industrial University majoring in Accounting. He is currently the General Manager of the Company.. He has served as Secretary of President in Northeast Electrical Transformation and Transformation Equipment Group Co., Ltd, Office Director of Kingdom Hotel, Chief Accountant in New Northeast Electric (Shenyang) High-voltage Isolator Co., Ltd, Deputy General Manager and Chief Accountant of the Company.

**Mr. Zhang Zhaozhong**, born in 1979, a university graduate, graduated from Material and Engineering College of Xi'an University of Science and Technology in 2003, and now is studying in Shenyang Industrial University for master degree. He join Shenyang High-voltage Switchgears Company Limited in 2003 and has served as Engineer of Technical Department Insulation Laboratory, Secretary of the Board and Deputy Director of General Manager Office of New Northeast Electric (Shenyang) High-voltage Switchgears Limited in Feburary 2004, Deputy General Manager of New Northeast Electric (Jinzhou) Power Capacitors Co., Ltd. in May 2006, General Manager of Fuxin

Closed Busbars Company Limited in September 2007. He is currently the Deputy General Manager and Secretary to the Board of the Company.

**Mr. Liu Qingmin**, born in 1963, a senior engineer with a master degree of engineering, graduated from Liaoning Technology & Engineering University specializing in Mechanical Manufacturing in mechanical department. He has served as Technical Engineer, Head of the Sales Department, Chief Engineer, and Deputy General Manager of Fuxin Closed Busbars Company Limited. He is currently the Executive Director of that company.

**Mr. Du Kai**, born in 1968, is currently the Chairman of New Northeast Electric (Jinzhou) Power Capacitors Co., Ltd. He is an Economist who graduated from Northeast University specializing in Mechanical Manufacturing Techniques. He has served as Assistant of the General Manager in Shenyang New District Development and Construction Company Limited and the Office Director of the Company.

(2) Independent Directors

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

**Mr. Lin Wenbin**, born in 1944, is currently the Chairman of Shenyang Taiyu Mechanical Equipment Co., Ltd. He is a senior engineer and postgraduate. He has studied Metallurgy in Anshan Iron and Steel College and was postgraduate in Economic Management of Chinese Academy of Social Science. He has been the Head of Metallurgy Bureau, Chairman of Shenyang Economic and Trade Commission, Chairman of Shenyang Public Utilities Development Company Limited and Chairman of Shenyang Heat and Electricity Company Limited.

**Mr. Xiang Yongchun**, born in 1943, a professor of engineering, graduated from the Department of Mechanic Manufacture of Shenyang Industrial University in Mechanic Manufacture. He has served as the Workshop Director, Vice Factory Director and

Factory Director of Shenyang High-voltage Switchgears Co., Ltd, the General Manager of Shenyang Tool Industry Company and the Chairman of the Company.

**Ms. Liang Jie**, born in 1961, graduated from a postgraduate course. She is serving at the Management College of Shenyang Industrial University as the Director of Research Institute, the Professor of Accounting and the Tutor of Master Students. She is also the Vice Chairperson of Education Guide Committee under the PRC Accounting Association for Higher Science Universities and an Independent Director of Shenyang New District Development and Construction Company Limited.

**Mr. Liu Hongguang**, born in 1967, currently serves in Guangdong Development Bank, Dalian Branch. He is a senior economist, studying doctoral degree in Technical Economics and Management in Dalian Polytechnic University. He has majored in Architecture and Environmental Engineering in Shenyang Agriculture University, and Technical and Management in Dalian Polytechnic University, and has respectively obtained a bachelor degree in Engineering and a master degree in Business Management. He has served the positions of Deputy Head of Shenyang Branch of China Construction Bank. He joined Shenyang Branch of Hua Xia Bank and has served the positions of Branch Manager and General Manager of the Banking Division. He served as Assistant of the Dean of Chinese Academy of Science, Shenyang Branch.

(3) Supervisors

**Mr. Dong Liansheng**, born in 1947, a college graduate. He graduated from the Chinese Department of Liaoning University and is currently Deputy General Manager of Shenyang Kingdom Hotel Company Limited and Chairman of the Company's Supervisory Committee.

**Mr. Fu Xiuheng**, born in 1948, a college graduate, and a senior engineer. He has served as Designer and Deputy Chief Engineer of Shenyang High-voltage Switchgear Co., Ltd, and is currently the Chief Engineer of New Northeast Electric (Shenyang) High-voltage Isolators Company Limited.

**Ms. Dai Guiqing**, born in 1969. She graduated from the Mongolian Clan Teachers' College of Liaoning Province and was a teacher and she has served as Staff in the headquarters of Shenyang Military District of Construction and Installation. She is currently the Financial Controller of New Northeast Electric Investment Co., Ltd.

(4) Senior management

**Mr. Bi Jianzhong**, is currently the General Manager of the Company.

**Mr. Zhang Zhaozhong**, is currently the Deputy General Manager and Secretary for the Board of the Company.

**Mr. Zhu Xinguang**, born in 1970, a bachelor degree holder, graduated from Shenyang Industrial University majoring in High-voltage Electrical Apparatus. He is currently the Assistant to General Manager and Director of the Board Office of the Company. He has served as a Technician of Design Department in Shenyang High-voltage Switchgear Co., Ltd, Office Secretary, Deputy Director of Office and Director of Office of the Company.

(5) Positions of independent directors held in other units

| Name | Name of unit | Position | Any allowances and remuneration paid |
|---|---|---|---|
| Lin Wenbin | Shenyang Taiyu Mechanical Equipment Co., Ltd | Chairman | yes |
| Liang Jie | Economic Management College of the Industrial University of Shenyang | Superintendent | yes |
| Liu Hongguang | Dalian Branch of Guangdong Development Bank | Manager | yes |

## 4. Annual remuneration

(1) Policy making procedure for remuneration of directors, supervisors and senior management: the remuneration committee under the Board of the Company, in accordance with the duties of directors, supervisors and senior management, the Company's performance and remuneration level of relevant positions in the trade, is responsible for establishing and reviewing the Company's plans and proposals of remuneration.

(2) Remuneration basis of directors, supervisors and senior management: The Company's remuneration committee, in accordance with remuneration management system and annual performance appraisal, has established remuneration standard based on positions and duties. During the reporting period, each director's remuneration was not over RMB 300,000 averagely; each supervisor's not over RMB 80,000; each independent director's not over RMB 50,000.

**5. The appointment and resign instance of directors, supervisors and senior management during the reporting period**

Approved by the board of directors on 3 June 2008, Mr. Shi Li resignd as Executive Director, Deputy General Manager and Secretary for the Board due to work replacement.

Approved by the board of directors on 6 July 2008, Mr. Sun Zhen and Mr. Zhang Bin resignd as Executive Director, on 2 July 2008, Mr. Sun Zhen has resigned as Chairman and Lgeal Representative of the Company and Mr. Zhang Bin has resigned as Vice Chairman and General Manager of the Company due to work adjustment.

Approved by the board of directors on 6 July 2008, the Company voted exective director Mr. Su Weiguo as the Chaiman and appointed Mr. Bi Jianzhong as the General Manager, in the meantime excused his positions of Deputy General Manager and Chief Accountant, appointed Mr. Zhang Zhaozhong as Deputy General Manager.

Approved by the extraordinary general meeting on 20 August 2008, the Company appointed Mr. Zhang Zhaozhong as a new position of Executive Director.

Approved by the board of directors on 16 October 2008, the Company appointed Mr. Zhang Zhaozhong as the Secretary for the Board.

**6. Interest of directors, supervisors and senior management**

As at 31st December 2008, 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 more than 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 The 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.

## (II) STAFF OF THE COMPANY AND REMUNERATION POLICY

| **Occupational structure of the Company's staff** | | **Education level of company's staff** | |
|---|---|---|---|
| Salesman | 60 | Bachelor degree or higher | 140 |
| Technical staff | 97 | College | 160 |
| Financial staff | 20 | Technical certificate | 29 |
| Administrative staff | 96 | Others | 391 |
| Production staff | 391 | | |
| Others | 56 | | |
| Total | 720 | Total | 720 |

As at the end of the reporting period, the number of employees on the payroll of the Company was 720 staff. 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.

## (I) CORPORATE GOVERNANCE

During the reporting period, the Company, in accordance with relevant provisions as specified in the Notice on Relevant Matters of the Special Activities to Enhance the Governing the Listed Company (Zheng Jian Gong Si Zi [2007] No.28) issued by China Securities Regulatory Commission and the Notice on Relevant Work of the Special Activities to Enhance the Governing the Listed Company made by Shenzhen Stock Exchange, continued to conduct reorganizing activities in relation to corporate governance.

### 1 Continuous improvement of the Company's internal control system

Considering the latest requirements of relevant laws and regulations made by the Securities Regulatory Commission and stock exchanges, the Company updated and improved such internal control systems as Basic Internal Control System, Risk Control Management System, Management System for Subsidiaries, Management System for Significant Investment, Management System for Foreign Guarantee, Management System for Related Transaction, Management for Raised Capital, Information Processing and Significant Information Reporting System and Management System of Information Disclosure in all round way. The above-said management systems were adopted at the 13th meeting of the fifth session of the Board of Directors on 21 August 2008.

### 2 Special Emphasis on the Training of New Directors and Supervisors

Since the reelection of the Company's Board on 7 March 2007, especially the significant personnel changes in the Company's Board and management on 6 July 2008, the Company, considering the fact that some new executive directors had no experiences to be directors of a listed company, organized related directors to participate in the training classes for directors and supervisors held by the Securities Regulatory Bureau of Liaoning Province in June 2008, as well as the training classes for secretaries to the board of directors held by Shenzhen Stock Exchange in October 2008 so as to enhance continuous training for current directors. By specially taking part in professional training in relation to the Listing Rules, Directors' Declaration and Undertaking, and corporate governance, directors fully understand their responsibilities, have rich experience in performing their duties, increase their competence, thus ensuring that the Listing Rules and related provisions of regulators can be observed by all of directors, and the goal of corporate governance can be achieved.

Besides trainings required by domestic regulators, the Company still organized some directors to participate in a training class for directors and a continuous training class for secretaries to the board of directors held in Hangzhou in July 2008 by The Hong Kong Institute of Chartered Secretaries recognized by Hong Kong Exchanges.

The newly reelected board of directors and management give great praise to and lay emphasis on the careful and objective work of regulators who have responsibilities of investors and protect medium and small investors. The Company is devoted to achieve standard, transparent and efficient corporate governance system by means of continuous improvement of internal control.

**3 Improvement of management for investors' relationship**

In terms of the tightened interaction with investors, the Company strengthens its website construction through website safety examination and timely information updating. At the same time, it perfects the investor reception system and makes good records. To further protect investors' legal rights and interests, we will make full efforts to create multiple ways and approaches to make it possible for more and more investors to have full knowledge of the Company through interview, results presentation or road show.

In a word, special activities of corporate governance make the Company's operation more standard and related systems more perfect. During the reporting period, the Company strictly complies with the Company Law, the Securities Law and related laws and regulations of China Securities Regulatory Commission in strengthening information disclosure, constantly improving corporate governance structure, and standardizing the Company's operation. The board of directors believes that there are no clear differences between the real situation of corporate governance and the requirements of related documents issued by China Securities Regulatory Commission and other authorities concerned.

## (II) EXECUTION OF DUTIES BY INDEPENDENT DIRECTORS

**1 Board meetings attendance of independent directors**

| Name of independent directors | Attendance of board meeting in the year | Attendance (times) | Attending by proxies (times) | Absentness (times) |
|---|---|---|---|---|
| Wu Qicheng | 9 | 9 | 0 | 0 |
| Lin Wenbin | 9 | 9 | 0 | 0 |
| Xiang Yongchun | 9 | 9 | 0 | 0 |
| Liang Jie | 9 | 9 | 0 | 0 |
| Liu Hongguang | 9 | 9 | 0 | 0 |

**2 The dissenting opinions of independent directors to related matters of the Company**

During the reporting period, the independent directors considered various resolutions in the Board meeting seriously and no dissenting opinion to the approved resolutions.

During the reporting period, the Company's independent directors, in accordance with related provisions of Work System of Independent Directors, earnestly implemented relevant duties, positively understood the Company's situation in production and operation, paid closer attention to changes in operating strategies of the Company, and actively asked responsible persons for information when in doubt.

Each independent directors paid active attention to participating in board meetings and general meetings of shareholders during the reporting period. At these meetings, each of them made objective and fair judgments of such matters as investment strategies, assets acquisition, appointment of management, foreign guarantee from financial, legal and operating aspects, and presented their professional advice, issued independent opinions, thus playing an active role in the Board's scientific decision-making and the Company's sound development.

As independent directors, they have effectively protected the lawful rights and interests of the Company and medium and small investors.

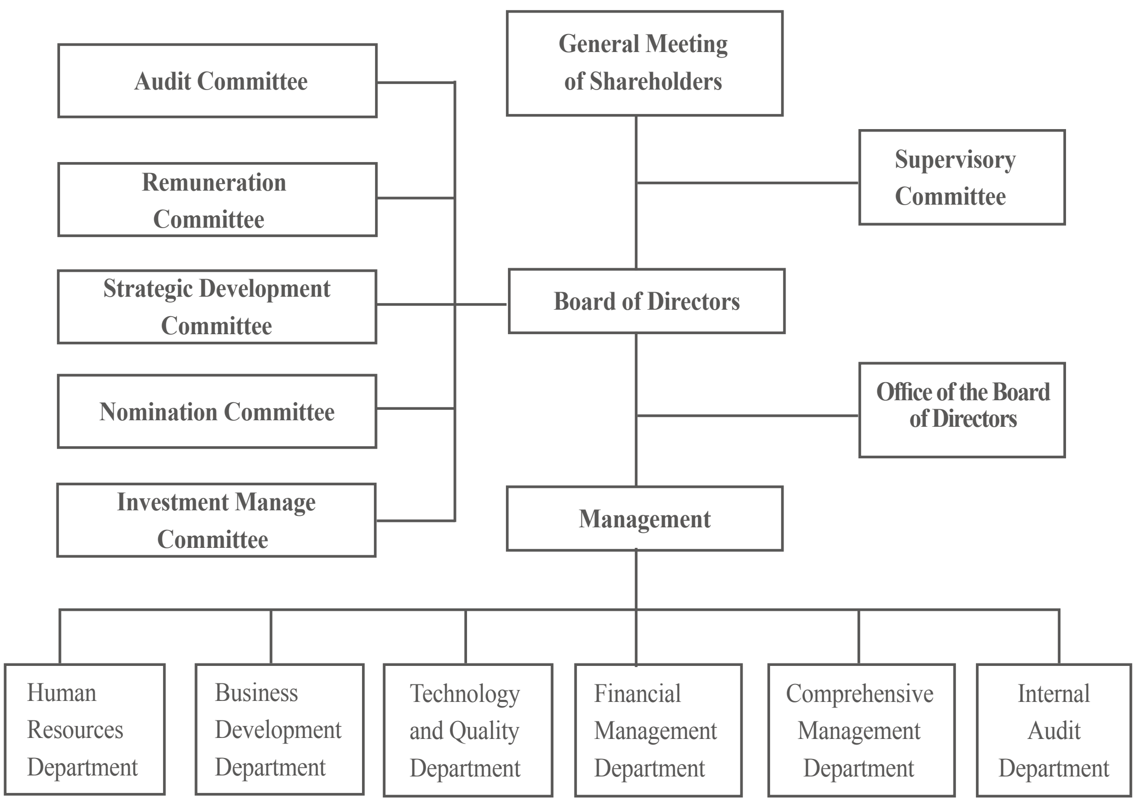
## (III) INDEPENDENCE OF BUSINESS, PERSONNEL, ASSETS, ORGANIZATIONAL STRUCTURE, AND FINANCE AMONG THE COMPANY AND ITS CONTROLLING SHAREHOLDERS

The Company operated independently from its controlling shareholders in terms of business, personnel, assets, organizational structure and finance.

## (IV) ESTABLISHMENT AND IMPROVEMENT OF THE COMPANY'S INTERNAL CONTROL SYSTEM

### 1 Key Activities of the Company's Internal Control

#### (1) Organizing Structure of the Company



**(2) Establishment and Improvement of the Company's Internal Control System**

Pursuant the latest requirements of relevant laws and regulations made by the Securities Regulatory Commission and stock exchanges, the Company has established and improved such internal control systems as Basic Internal Control System, Risk Control Management System, Management System for Subsidiaries, Management System for Significant Investment, Management System for Foreign Guarantee, Management System for Related Transaction, Management for Raised Capital, Information Processing and Significant Information Reporting System and Management System of Information Disclosure.

**(3) Establishment of the Company's Internal Audit Department and its Main Duties**

The Company's internal audit department is responsible for supervision and examination of internal control and independent execution of audit supervision power. The personnel involved in internal audit must have professional knowledge of accounting so as to ensure the effective operation of the Company's internal audit. Under the supervision and guidance of the board of directors, the Company's internal audit and supervision are brought about by adopting regular and irregular examinations to audit and check the financial affairs, significant matters and productive and operating activities of the Company and its subsidiaries, as well as supervise the implementation of the Company's internal management system and its subsidiaries' internal control systems.

**(4) The Company's work for the establishment and improvement of internal control in 2008 and its effects**

Please refer to Corporate Governance of this Annual Report.

**2 Key Control Activities**

**(1) Internal Control on the Company's holding Companies**

① Control Structure and Shareholding Ratio of Main Holding Companies

| No. | Name of Holding Companies | Direct or Indirect Holding Ratio |
|---|---|---|
| 1 | New Northeast Electric (Jinzhou) Power Capacitors Co., Limited | 100% |
| 2 | Fuxin Enclosed Busbars Company Limited | 100% |
| 3 | Northeast Electric (Hong Kong) Limited | 100% |
| 4 | Northeast Electric (Beijing) Company Limited | 100% |
| 5 | Shenyang Kaiyi Electric Company Limited | 100% |
| 6 | Shenyang Zhaolida Machinery Equipment Co., Ltd | 100% |
| 7 | Shenyang Gaodongjia Desiccation Equipment Company Limited | 70% |

② Internal Control on the Company's Holding Companies

Under the requirements of the Management System of Holding Companies, the Company's holding companies relied on their own operation situations and referred to the Basic System of Internal Control to prepare special management systems. The Company, in accordance with the overall operation objective, carried out unified management to its holding companies in organization, capital allocation, staffing, employee recruitment, training, assignment as well as appointment and removal. During the reporting period, the Company, considering the provisions of regulators, has made a strict, full and effective internal control on its holding companies without any breach of the System of Internal Control.

**(2) Internal Control on the Company's Connected Transactions**

The Board of the Company, in accordance with provisions of relevant documents such as Listing Rules of Stocks on Shenzhen Stock Exchange and Hong Kong Stock Exchange, Guideline for Internal Control and Articles of Association, has effectively controlled the Company's principles of connected transaction, connected parson and connected relation, connected transaction, its decision making procedures and disclosures. During the reporting period, the Company has made a strict, full and effective internal control on its connected transactions without any breach of the Guideline for Internal Control.

**(3) Internal Control on the Company's Foreign Guarantees**

The Company has established and improved the Management System of Foreign Guarantee, which clearly specifies the basic principle of foreign guarantee, the examination procedure for the objectives of foreign guarantee, the approval procedure and management procedure for foreign guarantee. During the reporting period, the Company has not provided any foreign guarantees except for ones to its joint stock companies. The Company has strictly complied with corresponding approval and authority procedures to provide its guarantees for its joint stock companies and all guarantees have been approved through the review and discussion of the Board of the Company. The Company has made a strict, full and effective internal control on its foreign guarantee without any breach of the Guideline for Internal Control.

**(4) Internal Control on the Company's Use of Raised Capital**

The Company has established and improved the Management System of the Use of Raised Capital, which clearly specifies the management and use of raised capital and its information disclosure. During the reporting period, the Company has not used any raised capital. The Company has made a strict, full and effective internal control on the use of raised capital without any breach of the Guideline for Internal Control.

**(5) Internal Control on the Company's Significant Investments**

The Company has established and improved the Management System of Investment, which clearly specifies the basic principle of investment, the approval limit and procedure of investment, and the study and evaluation on the investment. During the reporting period, the Company has made a strict, full and effective internal control on its significant investments without any breach of the Guideline for Internal Control.

**(6) Internal Control on the Company's Information Disclosures**

The Company has established and improved the Management System of Information Disclosure, and made an overall and effective control on its open information disclosure, thus ensuring that its information can be disclosed on a timely, correct, full and fair basis. During the reporting period, the Company has made a strict, full and effective internal control on its information disclosure without any breach of the Guideline for Internal Control.

### 3 Problems of the Company's Internal Control and the Rectification

Upon the requirements of Methods for the Inspection of Listed Companies, China Securities Regulatory Commission Liaoning Regulatory Bureau (the "Liaoning Securities Regulatory Bureau") conducted a tour inspection to the Company since 13 October 2008, and issued a Notice of Rectification within a Fixed Period (Liao Zheng Jian Shang Shi Zi [2008] No. 69) (the "Notice").

The Company laid top emphasis on problems set out in the Notice, and made timely arrangements for all of directors, supervisors, management and related personnel to carefully study and discuss the Notice. By referring to the provisions of the Guideline for the Articles of Association of the Listed Company, Rules Governing Listing of Stocks, the Guideline for Internal Control, and other laws, regulations and internal systems, the Company conducted deep examination ranging from internal management system to capital management work. On 12 December 2008, the Tour Inspection Rectification Report was reviewed and adopted at the 16th meeting of the fifth session of the board of directors.

Aiming at these problems, the Company achieved staged effect by making explanation item by item, establishing and rapidly implementing rectification measures. By the end of 28 February 2009, the single ending balance of other receivables over RMB one million totaled RMB 10,290,000, a decrease of 91.89% over that by the end of 31 August 2008. Other problems have been solved.

### 4 Overall Assessment of Internal Control

The Company made full efforts to ensure effective operation by establishing and implementing all kinds of internal control systems, three kinds of meetings, and the responsibilities of management and check-and-balance systems. The Company established democratic and transparent decision-making programs and rules of procedure, basically improved the internal supervision and feedback system, clearly specified its corporate governance structure, organization control, business control, information system control, accounting management control and internal audit, thus ensuring an integral and effective internal control system, and its standard, safe and successful operation.

Under the internal control principle of separating the incompatible duties, the Company made detailed assignment of responsibilities, thus enabling it to separate assets keeping from accounting, operating responsibilities from accounting responsibilities, and authority from implementation, keeping, review and record.

Significant matters of the Company, such as major investment, connected transactions, foreign guarantee and use of raised capital, can be approved by the general manager, the board of directors or general meetings of shareholders according to amount of money and jurisdiction, thus effectively controlling the risk of operating activities under various complex conditions.

The company has established and effectively implemented an internal control system, which can ensure the effective business activities, protect the safety and integrity of assets, prevent, find and correct errors and frauds, thus enabling it to achieve the objective of true, correct and integral accounting information.

## (V) ASSESSMENT AND INCENTIVE MECHANISM FOR SENIOR MANAGEMENT

The Company has adopted position-related salary system and floating annual salary system for senior management. The floating annual salary was linked with the Company's overall results. The senior management was assessed on basis of overall individual performance and the realization of assigned operational target.

## (VI) CORPORATE GOVERNANCE

The Company has fully complied with the provisions of Code of Corporate Governance Practice as set out in Appendix 14 to the Listing Rules of the Stock Exchange of Hong Kong Limited and certain proposed code of best practice. The board of directors has also thoroughly reviewed the internal control system during the reporting period and is of the opinion that the systems are effective and sufficient and secured the achievement of the targets the Company's corporate governance. For details about coporate governance adopted by the Company shall be seen in Coporate Govenance Structure of Annual Report 2008 sending to shareholders.

### 1 Independent non-executive directors

The Company has complied with Rules 3.10(1) and 3.10(2) of the Listing Rules in relation to the appointment of a sufficient number of independent non-executive directors, and at least 1 independent non-executive director with appropriate professional qualifications or expertise in accounting or relevant financial management. The Company has appointed 5 independent non-executive directors, one of whom has expertise in financial management.

**2 Model Code for Securities Transactions by Directors of Listed Companies (the" Model Code")**

During the reporting period, the Company has adopted a code of behavior on terms no less exacting than the required standard set out in the Model Code in connection with rules governing securities transactions of directors and supervisors. It was confirmed, upon specific enquiries, that no director or supervisor of the Company has breached the standards as required by the Model Code as stated in Appendix 10 to the Listing Rules in relation to securities transactions by directors.

The board of directors has formulated a written guideline for transactions of securities of listed companies by "directors and related employees". The boards of directors have given written notices in advance to directors stating that no transactions of company securities should be carried out within one month prior to results announcement. All directors have confirmed that they did not carry out transactions of company securities during the Year and have complied with the guidelines.

**3 Board of Directors**

The 5th session of the board of directors comprises 11 directors, including 6 executive directors, namely Mr. Su Weiguo, Mr. Wang Shouguan, Mr. Bi Jianzhong, Mr.Zhang Zhaozhong, Mr. Liu Qingmin, Mr. Du Kai and 5 independent directors namely Mr.Wu Qicheng, Mr.Lin Wenbin, Mr.Xiang Yongchun, Ms. Liang Jie and Mr. Liu Hongguang. For biographies about them please refer to section 4(1) of the Annual Report. Terms of office of the members of the current session last until 6 March 2010.

The Company has set up an audit committee, strategic development committee, a remuneration committee, a nomination committee and an investment management committee pursuant to Rules 3.2.1 of the Listing Rules. Work of all committees was carried out orderly in accordance with the rules of work.

All directors of the Board shall regard all shareholders' interests as their top priority and discharge their duties as directors to the best of their ability pursuant to related legislation and regulations. Duties and major work of the board of directors include: to decide on operating plans and investment plans of the Company, to formulate profits appropriation plans and supplemental compensation plans, to set up capital operation plans and put into force the resolutions made in the general meeting.

Chairman of the board of directors ensures that all directors discharge their duties and engage in timely discussions about relevant matters of importance so as to ensure that the board operates effectively. The Chairman also has talks with independent non-executive directors separately in order to thoroughly understand their views and opinions about the Company's operation and work of the board of directors.

Office of the board of directors provides full service to directors. It provides directors with sufficient information allowing them to understand on timely basis to the Company's position. Certain modes are used to maintain effective liaison with shareholders to ensure that shareholders' views can be conveyed to the board of directors.

The Company has complied with the Listing Rules to appoint 5 sufficient independent non-executive directors as fully required including appointment of independent non-executive directors with appropriate professional qualifications including accounting or related financial management expertise. The 5 independent non-executive directors are totally independent of each other. They come from business management and financial sectors with ample experience in their own professions, providing time and honest professional advice to facilitate stable operation and development of the Company while taking up responsibility for supervision and co-ordination so as to protect interests of the Company and all shareholders.

Pursuant to Rule 3.13 of the Listing Rules, the Company has requested all independent non-executive directors to submit written confirmations about their independency on an annual basis and confirmed that the independent non-executive directors were independent indeed.

During 2008, a total of 8 regular board meetings were held, with full attendance by all directors or their proxies on their behalf.

Notices on board meetings were ensured to be sent 7 days prior to each meeting. Proposals of the board were sent in advance to directors to give them sufficient time to study all the proposals. Staffs were sent to each meeting for exclusive recording purposes. All matters passed in the meetings became resolutions, and records were kept pursuant to related legislation and regulations.

Remunerations for directors of 2008 totaled RMB1,023,000 including basic salary, results-pegged salary, incentive salary and insurance (or bonus paid on discretion). Independent non-executive directors were only paid remuneration without any other salaries or returns. For details about remuneration of each director, please refer to the Annual Report section 4(1).

**4 Audit Committee**

Duties and main work of the Committee include scrutiny of the Company's financial reports, appointment of independent auditors, approval of auditing and audit-related services and monitoring of internal financial reporting procedure and management policies. The committee comprises 5 independent non-executive directors of the Company with Mr. Wu Qicheng, Mr. Lin Wenbin, Mr. Xiang Yongchun, Ms. Liang Jie, and Mr. Liu Hongguang, and accounting professional Ms. Liang Jie serves as chief member.

During the reporting period, all independent non-executive directors submit written confirmations about their independency, and the Company confirm these 5 independent non-executive directors as independent persons.

The Committee convenes no less than 2 audit committee meetings each year to collectively scrutinize the accounting principles adopted by the Company, internal control system and related financial matters so as to ensure the integrity, fairness and accuracy of the Company's financial statements and other related information. During 2008, a total of 4 meetings were held by the audit committee to respectively scrutinize the Company's annual and interim reports, the first quarterly results and the third quarterly results. All 5 independent directors attended the meetings to hear reports on internal controls while issuing related auditing reports and putting forward their views.

The Audit Committee has, together with the management, reviewed the accounting principles, accounting standards and methods adopted by the Company and have studied matters relating to auditing, internal controls, and financial reporting. The Audit Committee has given its consent to the financial accounting principles, standards and methods adopted by the Company for the audited annual accounts for the year ended 31 December 2008.

Board meeting held on 3 March 2009, the Audit Committee reviewed and approved annual financial accounts and results announcement of 2008.

### 5 Remuneration Committee

Duties and major work of the Committee include formulation of remuneration policies for directors and senior management and approval of terms of directors' service contracts. In 2008, the committee convened one committee meetings all of which were attended by all members. Chief member of the Committee is Mr. Lin Wenbin while other members include Mr. Su Weiguo, Mr. Bi Jianzhong and Mr. Zhang Zhaozhong.

### 6 Nomination Committee

Duties and major work of the Committee include assessment of performance of directors and senior management, nomination of candidates for executive directors and independent directors of each new session, to review regularly the framework, membership and work of the board of directors. The chief member of the Committee is Mr. Su Weiguo while other members include Mr. Wang Shouguan, Mr. Bi Jianzhong and Mr. Zhang Zhaozhong. One committee meeting was held in 2008, which were attended by all members of the committee.

### 7 Strategic Development Committee

Duties and major work of the Committee include scrutiny and assessment of the Company's development, finacial budget, investment and business operations. Chief member of the Committee is Mr. Su Weiguo, while other members include Mr. Wang Shouguan, Mr. Bi Jianzhong and Mr. Xiang Yongchun. In 2008, a total of 2 committee meetings were held, which were attended by all members of the committee.

### 8 Investment Management Committee

Duties and major work of the Committee include scrutiny and assessment of the Company's strategic plans on annual investment return. Chief member of the Committee is Mr. Su Weiguo, while other members include Mr. Wang Shouguan, Mr. Bi Jianzhong and Mr. Zhang Zhaozhong. In 2008, a total of 2 committee meetings were held, which were attended by all members of the committee.

## 9 Supervisory Committee

The supervisory committee comprises 3 members including 1 supervisor, who is elected by staff, to represent company staff. The supervisory committee is responsible for supervising the board of directors and its members and senior management to prevent their abuse of power or infringement upon lawful interests of shareholders, the Company and company staff.

In 2008, a total of 9 meetings were held by the supervisory committee, attending in Board meeting, which were attended by all members of the committee, to review the Company's financial status, corporate operation pursuant to law and senior management's discharge of duties. According to the principle of honesty, the committee members carried out their work proactively.

## 10 Management of information disclosure

The Company attaches particular importance to truthfulness, timeliness, fairness, impartiality and openness of information disclosure, and complies with stipulations pertaining to disclosure under the Listing Rules. All information disclosed to outsiders (including annual, interim results, the first quarterly results and the third quarterly results) must be reviewed and approved by the board of directors. For related contents of financial statements disclosed, the Chief Accountant must ensure that they are in compliance with the Accounting Principles adopted and related legislation which require that the Company's results and financial status are reflected truthfully and fairly.

## 11 Relationship between general meeting and investors

The profile of general meeting held in this reporting period,for details please refer to "6.PARTICULARS OF SHAREHOLDERS' GENERAL MEETING".

The Office of the Board undertakes the exclusive responsibility for managing relationship with investors. A set of "Methods of Management of Investors" was formulated for standard operation.

On 31 December 2008, market value of Company H shares was HKD 550,000,000.00. For details about categories of shareholders and their shareholdings, please refer to section 3 (1) of this Annual Report.

### 12 Remunerations of Auditors

The 2007 Shareholder's General Meeting held on 16 June 2008 vetoed the reappointment of Shenzhen Pengcheng Certified Accountants Co., Ltd. as domestic auditors and the reappointment of World Link C.P.A. Limited as international auditors.

The first Extraordinary General Meeting of Shareholders of 2009 held on 3 February 2009 approved the appointment of Shenzhen Pengcheng Certified Accountants Co., Ltd. as domestic auditors and the appointment of TING HO KWAN & CHAN Certified Public Accountants (Practising) as the international auditors for a term of one year. And the total auditing remuneration paid by the Company amounted to RMB1,550,000.

### 13 The appointment of professional advisor

Pursuant to the Rule 3A.20 in the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Ltd (the "Listing Rules"), the Company appointed Tanrich Capital Limited as its compliance advisor to provide guidance and advice to the Company in relation to the compliance with the Listing Rules with a term of two years from 31 December 2008. At the same time, the Company also appointed Tanrich Capital Limited as its financial advisor with effect from 31 December 2008.

## (I) DURING THE REPORTING PERIOD, THE COMPANY HELD ONE ANNUAL GENERAL MEETING OF SHAREHOLDERS

The Company issued the notice on 29 April 2008 and convened the 2007 annual general meeting of shareholders on 16 June 2008. (For details, please refer to announcements dated 29 April 2008 and 16 June 2008.)

The Company took a vote by disclosed ballot item by item with the following results:

1. To considerate and approve the Report of the Annual Results for the year ended 31 December 2007;

2. To considerate and approve the net profit appropriation proposal for the year ended 31 December 2007;

3. To considerate and veto the Reappointment of the Company's Domestic Auditors;

4. To considerate and veto the Reappointment of the Company's International Auditors;

5. To considerate and approve Amendment of Articles of Association

## (II) DURING THE REPORTING PERIOD, THE COMPANY HELD TWO EXTRAORDINARY GENERAL MEETING OF SHAREHOLDERS ("EGM")

1. The Company issued the notice on 6 July 2008 and convened the 1st EGM of 2008 on 20 August 2008. (For details, please refer to announcements dated 6 July 2008 and 20 August 2008.)

   The EGM took a vote by disclosed ballot item by item with the following results:

   (1) To considerate and approve the Resolution on Appointing Mr. Zhang Zhaozhong as the Executive Director of the Company;

   (2) To considerate and approve the Resolution on Providing Foreign Guarantees.

2. The Company issued the notice on 20 August 2008 and convened the 2nd EGM of 2008 on 8 October 2008. (For details, please refer to announcements dated 20 August 2008 and 8 October 2008.)

   The EGM took a vote by disclosed ballot item by item with the following results:

   (1) To considerate and veto Resolution on Appointing Mr. Liu Bing as a new position of Executive Director;

   (2) To considerate and veto the Resolution on Appointing Mr. Wang Haiyang as a new position of Executive Director;

   (3) To considerate and veto the Resolution on Amendment of Articles of Association of the Company.

## (I) DISCUSSION AND ANALYSIS OF THE SENIOR MANAGEMENT

### 1. Discussion and analysis of overall operations for the reporting period

During the reporting period, facing serious natural disasters that occurred successively in China, difficult economic situation with a financial turmoil throughout the world, as well as increasingly fierce market competition at home and abroad, the board of directors of the Company and its management sized up the situation, worked as a team, and pursed changes actively. A series of powerful measures were taken such as further perfecting various internal control systems through strict management and standard operation, improving the Company's own technologies and efficiency by constantly optimizing the structure of products, expanding its domestic market share through fully seizing the market development opportunities and augmenting the productivity, strengthening quality management and deepening cost control, and overcoming many unfavorable factors like continuing price shock of raw material, RMB appreciation, increase of loan interest rate and global financial crisis. As a result, the development trend of the Company remained stable in the complex economic environment.

During the reporting period, the Company realized operating income of RMB517,720,000, operating profit of RMB-69,760,000, and net profit attributable to owners of the parent company of RMB-69,110,000. After deducting such factors as extraordinary profit loss arising from problems left by history like disposal of equity and execution of judicial decisions, the Company achieved operating profit of RMB 3,090,000 and net profit attributable to owners of the parent company of RMB3,240,000. As there were significant changes in the Company's consolidated range during the reporting period, the operating income and net profit in this period is not comparable with those in the same period last year.

During the reporting period, market operation mainly presented the following features:

(1) Production continued keeping steady growth, and the structure of products was better optimized.

By further strengthening of plan coordination and field management, and more efforts to exploit productive potential, initial success was scored in technological transformation, productive balance and complete set ability increased to some extent, and there was a handsome increase in productive capacity. The Company realized the total industrial output value (the current rate) RMB 375,980,000, increase by 7% compared with the same period of last year after deducting the factor of consolidated range reduction.

(2) Sales revenue from principal business in main subsidiaries and their order level were increased.

The Company expanded its productive capacity and marketing by fully seizing the opportunities of the development of power market boosted by macroeconomic policies. Its main subsidiaries nearly hit a new high in their sales revenue, which further consolidated the Company's core competitive power. During the reporting period, in accordance with market demand, the Company properly adjusted the product structure and marketing strategy, perfected the sales service system and made its sales management more systematic and standard. As a result, its order quantity had a handsome increase with an increase by 54% in capacitors and 77% in busbars compared to the same period last year.

(3) Speeding up technical innovation, increasing productive capacity and quality

During the reporting period, the Company continued to pay more attention to new product research and development, made investments in productive enterprises for technical renovation, vigorously promoted the source quality, laid emphasis on the prevention of quality, and achieved good results in the quality assurance ability of products.

**2. Impacts of credit policy adjustment, exchange rate changes, price changes of cost elements and natural disasters on the Company's financial situation and operating results this year and in the future.**

(1) Credit policy adjustment

During the reporting period, the State implemented proactive fiscal policies and moderately relaxed monetary policies, which provided relatively relaxed financing environment for enterprises' capital demands for the expansion of production.

(2) Exchange rate changes

There was no significant impact of exchange rate changes on the Company's operating results because the products of the Company focused on the domestic market with a few export-related sales amount and lower asset-liability ratio and financial cost.

(3) Price changes in cost factors

During the reporting period, average annual price of raw materials needed by the Company in production was fluctuated widely. To effectively respond to the adverse influence of wide fluctuation in raw material price increase on the Company, the Company took a series of measures to optimize the structure of product and enhance the competitiveness of product. At the same time, the Company carried out fine management of cost and brought about such activities as reducing cost and increasing efficiency, and eliminated the impact of price changes in cost factors on the Company's profit to a certain extent.

(4) Natural disasters

During the reporting period, the freezing disasters in South China resulted in delayed delivery of part of our customers, bringing difficulties in the Company's production, operation and cash flow. Therefore, the Company actively took many measures to minimize the impacts on the Company. There were no significant impacts of the natural disasters on the Company's 2008 annual financial situation and operating results.

## (II) OPERATION OF THE COMPANY DURING THE REPORTING PERIOD

1 Scope of principal business and its operation

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

(2) Operational results for the year

The Company recorded revenue of RMB517, 717,563.70, total profit of RMB-69,549,292.62 and the loss of RMB 70,569,433.41.

## Operational results in principal operations:

### Principal operations by business and product segment

*Unit:RMB*

| By Business or Product | Income from principal operations | Costs of principal operations | Profit ratio of principal operations (%) | Increase / decrease in income from principal operations as compared with last year (%) | Increase / decrease in cost of principal operations as compared with last year (%) | Increase / decrease in gross profit margin as compared with last year |
|---|---|---|---|---|---|---|
| **1. By Business** | | | | | | |
| Electrical transmission and allocation and control facilities manufacturing | 513,760,000 | 400,810,000 | 21.98 | -13.91 | -18.29 | increase 4.18 percent |
| **2. By Product** | | | | | | |
| High-voltage isolated switch | 233,120,000 | 202,700,000 | 13.05 | -28.16 | -28.03 | decrease 0.15 percent |
| Power capacitor | 182,440,000 | 123,320,000 | 32.41 | 16.23 | 5.06 | increase 7.18 percent |
| Closed busbars | 87,790,000 | 67,070,000 | 23.60 | -17.14 | -19.66 | increase 2.40 percent |
| Others | 10,410,000 | 7,720,000 | 25.82 | 11.40 | -3.31 | increase 11.28 percent |

### (3) Principal operations by region segment

*Unit: RMB0'000*

| Region | Income from principal operations | Increase /decrease in income from principal operations compared with last year |
|---|---|---|
| Northeast China | 14,973 | -37.5% |
| Northern China (Shandong inclusive) | 18,758 | 20.70% |
| Central | 7,548 | -10.29% |
| East China | 1,732 | -42.96% |
| South China | 3,720 | -12.14% |
| Southwest China | 1,208 | -14.51% |
| Others | 3,437 | -30.41% |
| Total | 51,376 | -16.53% |

*Note:*

Compared with the same period last year, the decline of income from principal operations by region segment in the reporting period is caused by the changes in current period consolidated range.

## 2 Operations and results of major controlling company and investee company

*Unit: RMB 0'000*

| Name | Principal Business | Registered Capital | Percentage of share held by the Company (%) | Total assets | Net assets | Income from principal operations | Net profit |
|---|---|---|---|---|---|---|---|
| Fuxin Enclosed Busbars Company Limited | Closed busbar | US$2,800,000 | 100 | 24,212 | 5,663 | 8,779 | 755 |
| New Northeast Electric (Jinzhou) Power Capacitors Co., Ltd | Lightning arrester, power capacitor | US$10,000,000 | 100 | 29.069 | 7,933 | 18,072 | 978 |
| Jinzhou Jinrong Electric Company Limited | High-voltage capacitor | 300 | 69.75 | 813 | 488 | 172 | -474 |
| Shenyang Gaodongjia Desiccation Equipment Company Limited | Desiccation equipment | US$778,500 | 70 | 635 | 461 | - | -8 |
| Northeast Electric (Beijing) Co., Ltd | Sales of machinery equipment | 200 | 100 | 1,182 | 193 | 2,876 | 0.1 |
| Northeast Electric (Hong Kong) Limited | Investment and Trading | US$20,000,000 | 100 | 34,736 | 17,875 | 3,418 | -839 |
| Great Talent Technology Limited | Investment | US$1 | 100 | 9,260 | -4 | - | -0.6 |
| Shenyang Kaiyi Electric Co., Ltd | High-voltage equipment | 100 | 100 | 8,110 | 101 | - | 41 |
| Shenyang Zhaolida Machinery Equipment Co., Ltd | Machinery Equipment | 10 | 100 | 10 | 9.9 | - | -0.1 |
| New Northeast Electric (Shenyang) High-voltage Switchgears Co., Ltd. | Manufacture of switches and equipment | US$168,000,000 | 17.09 | 324,485 | 147,277 | 264,883 | 8,297 |
| New Northeast Electric (Shenyang) High-voltage Isolators Switchgears Co., Limited | Isolated switchgears | US$21,500,000 | 25.6 | 23,312 | 17,631 | 8,140 | 159 |
| Great Power Technology Limited | Investment | US$12,626 | 20.8 | 21,573 | 9,546 | 851 | 849 |

### 3 Major suppliers and customers

| | | | |
|---|---|---|---|
| Total amount of purchase from the top five suppliers | RMB115,620,000 | Percentage to the Company's total amount of purchase | 43.45% |
| Total amount of sales to the top five customers | RMB135,790,000 | Percentage to the Company's total amount of sales | 26.43% |

## (III)TECHNICAL INNOVATION OF THE COMPANY

During the reporting period, the Company made better efforts to research and develop new products with wide varieties. High-voltage parallel/filter capacitors made by New Northeast Electric (Jinzhou) Power Capacitors Co., Ltd have reached the international level. The product with single capacity of 500-800kv is strong in field provision and low in cost. It has been used in the real project of Xiangjiaba-Shanghai Fulong Station and Hulunbuir-Liaoning DC Electricity Transmission convertor station, which the design of product has been completed. In terms of capacitor voltage transformer, its main task is to promote newly innovated products while launching Model 500kv product and RI coupling capacitor. In 2008, the Company won the bid again in the CVT tender of the hydropower department, Los Angeles, America, of which there were two new-type products. This expanded our overseas market.

In order to expand the capacity and improve product quality, in 2008, the Company invested funds in manufacturing enterprises for technical transformation. New Northeast Electric (Jinzhou) Power Capacitors Co., Ltd imported two automatic rolling machines from America Hilton, and two sets of vacuum drying and dipping equipment from Germany, which solved bottlenecks in production caused by two main processes of rolling and dipping, thus enhancing its productivity. At the same time, the Company optimized and designed the layout of machining equipment and the product line, purchased new machines, adjusted process so that its flow control was fully improved, and its production efficiency was increased.

In terms of quality improvement, beginning with enhancing product quality, product reliability and customer satisfaction, the Company paid more attention to source quality management and laid stress on quality prevention, as a result, good headway has been scored in the product quality assurance, and the company's reputation and competitive force has been increased greatly.

## (IV) INVESTMENTS DURING THE REPORTING PERIOD

1. During the reporting period, the Company had neither raised capital nor situation under which the usage of raised capital prior to the reporting period needed to extend to the reporting period.

2. The investment of non-raised capital, progress and benefits of the main invested projects, and the information of investments and asset acquisitions during the reporting period are detailed in section 10(2) of this Annual Report.

## (V) FINANCIAL CONDITIONS AND OPERATING RESULTS DURING THE REPORTING PERIOD

### 1 Table of financial situation and operating results

*Unit: RMB*

| Items | As at 31 December 2008 | As at 31 December2007 | Increase/ decrease(%) |
|---|---|---|---|
| 1. Total assets | 847,016,256.07 | 1,044,977,793.85 | -18.94 |
| 2. Shareholders' equity (excluding minority interests) | 311,137,033.20 | 484,195,364.55 | -35.74 |
| 3. Operating profit | -69,760,685.96 | -110,882,382.14 | -37.09 |
| 4. Net Profit | -70,569,433.41 | -347,904,234.51 | 79.72 |
| 5. Net increase in cash and cash equivalents | -34,840,869.85 | 24,454,208.56 | - |

### 2 Measurement Attribute adopted by the Company's Main Assets during the Reporting Period

In accordance with the provisions of New Accounting Standards for Business Enterprises, during the reporting period, the Company has adopted the following measurement attribute to main assets: the inventories have been measured based on the lower one of cost and net realizable value; long-term equity investment, fixed assets and intangible assets based on initial investment cost; and real estate investment based on cost mode.

## 3 Analysis of assets with greater changes

*Unit: RMB*

| Items | As at 31 December 2008 | As at 31 December 2007 | Change(±%) |
|---|---|---|---|
| Dividend Receivables | 20,084,734.00 | 4,117,670.40 | 387.77 |
| Other Receivables | 98,780,319.84 | 149,042,934.98 | -33.72 |
| Intangible Assets | 5,114,463.37 | 14,706,722.48 | -65.22 |

Note:

1) Main reasons for the ending balance of dividend receivables increasing by RMB 15,967,063.60, an increase of 388% over the beginning of the period: dividend distribution of New Northeast Electric (Shenyang) High-voltage Switchgear Co., Ltd, a joint stock company of the Company.

2) Main reasons for the ending balance of other receivables decreasing by RMB 50,262,615.14, a decrease of 34% over the beginning of the period: more efforts to collect debt by the Company and changes in the scope of consolidated financial statements.

3) Main reasons for the ending balance of intangible assets decreasing by RMB 9,592,259.11, a decrease of 65% over the beginning of the period: changes in the scope of consolidated financial statements.

## 4. Analysis of liabilities with greater changes

*Unit: RMB*

| Items | As at 31 December 2008 | As at 31 December 2007 | Change(±%) |
|---|---|---|---|
| Short-term Borrowing | 22,450,000.00 | 50,368,876.60 | -55.43 |
| Bills Payable | 6,000,000.00 | 4,406,000.00 | 36.18 |
| Accounts Payable | 78,484,781.19 | 126,038,398.43 | -37.73 |
| Advances Receivable | 60,610,993.70 | 91,848,322.95 | -34.01 |
| Taxes and Dues Payable | 2,0 44,217.23 | 4,579,843.56 | -55.36 |
| Other Payables | 236,970,590.90 | 152,410,523.33 | 55.48 |
| Converted Margin of Foreign Currency | -17,608,232.54 | -8,306,330.32 | -111.99 |
| Minority shareholders' Interests | 2,858,638.45 | 4,315,576.53 | -33.76 |

Note:

1) Main reasons for the ending balance of short-term borrowing decreasing by RMB 27,918,876.60, a decrease of 55% over the beginning of the period: repayment of bank loan.

2) Main reasons for the ending balance of bills payable increasing by RMB1, 594,000.00, an increase of 36% over the beginning of the period: issuance of bank acceptance.

3) Main reasons for the ending balance of accounts payable decreasing by RMB47, 553,617.24, a decrease of 38% over the beginning of the period: changes in consolidated scope.

4) Main reasons for the ending balance of advances receivable decreasing by RMB31, 237,329.25, a decrease of 34% over the beginning of the period: decrease in advances receivable.

5) Main reasons for the ending balance of taxes and dues payable decreasing by RMB 2,535,626.33, a decrease of 55% over the beginning of the period: decrease in the ending balance of value added tax.

6) Main reasons for the ending balance of other payables increasing by RMB84, 560,067.57, an increase of 55% over the beginning of the period: changes in consolidated scope.

7) Main reasons for the ending balance of converted margin of foreign currency decreasing by RMB9, 301,902.22, a decrease of 112% over the beginning of the period: changes in foreign currency exchange rate.

8) Main reasons for the ending balance of minority shareholders' interests decreasing by RMB 1,456,938.08, a decrease of 34% over the beginning of the period: loss of holding companies of minority shareholders.

## 5 Analysis of profit and loss with greater changes

*Unit: RMB*

| Items | 2008 | 2007 | Change(±%) |
|---|---|---|---|
| Sales Tax and Extra Charges | 177,497.32 | 1,049,054.75 | -83.08 |
| Financial Expenses | 2,036,205.61 | 5,614,952.51 | -63.74 |
| Impairment Loss of Assets | 6,283,470.53 | 143,359,489.98 | -95.62 |
| Investment Income | -65,621,029.62 | 54,934,754.81 | - |
| Non-operating revenue | 753,117.21 | 1,441,472.61 | -47.75 |
| Non-operating Expenses | 541,723.87 | 241,347,721.65 | -99.78 |
| Income Tax Expenses | 1,020,140.79 | -2,884,396.67 | - |

Note:

1) Main reasons for the data of the current period of sales tax and extra charges decreasing by RMB 871,557.43, a decrease of 83% over that of the previous period: decrease in sales tax.

2) Main reasons for the data of the current period of financial expenses decreasing by RMB 3,578,746.90, a decrease of 64% over that of the previous period: increase in exchange gain of the current period.

3) Main reasons for the data of the current period of impairment loss of assets decreasing by RMB 137,076,019.45, a decrease of 96% over that of the previous period: decrease in translated provision for bad debts and impairment loss of fixed assets.

4) Main reasons for the data of the current period of investment income decreasing by RMB 120,555,784.43 over that of the previous period: investment loss arising from equity swap.

5) Main reasons for the data of the current period of non-operating revenue decreasing by RMB 688,355.40, a decrease of 48% over that of the previous period: decrease in the income of fixed assets disposal.

6) Main reasons for the data of the current period of non-operating expenses decreasing by RMB 240,805,997.78, a decrease of 100% over that of the previous period: decrease in excepted litigation and compensation loss of the current period.

7) Main reasons for the data of the current period of income tax expenses increasing by RMB 3,904,537.46 over that of the previous period: changes in consolidated scope of the current period.

## 6 Fluctuation of cash flow during the reporting period

*Unit: RMB*

| **Items** | **2008** | **2007** | **Change(±%)** |
|---|---:|---:|---:|
| Cash flows from operating activities | 15,241,679.50 | -25,695,727.14 | - |
| Cash flows from investing activities | -15,137,965.45 | 59,310,148.99 | - |
| Cash flows from financing activities | -31,391,585.35 | -8,955,583.06 | -251 |

Note:

1) Main reasons for changes in cash flows from operating activities: litigation and compensation loss in last year, and no such costs in 2008;

2) Main reasons for changes in cash flows from investment activities: big gain from stock investment in the previous year;

3) Main reasons for changes in cash flows from financing activities: repayment of bank loan.

## (VI) EXPLANATION OF THE BOARD ON THE CORRECTION OF SIGNIFICANT ACCOUNTING ERRORS

### 1 Changes in accounting policy

Related provisions in Interpretation 2 to Accounting Standards for Enterprises published on 7 August 2008 are as follows.

When the accounting standards for mainland enterprises and the Hong Kong financial reporting standards are equivalent, a listed company issuing both A shares and H shares, except for two differences of the switch back of partial long-term asset impairment losses and of the related party disclosure shall adopt the same accounting policy and accounting estimate to recognize, measure and disclose the same transaction in the Company's A shares and H shares financial reports. Different accounting treatments are prohibited in the A shares and H shares financial reports.

When preparing the consolidated financial statements, the parent company shall offset against the owners' equity (the capital reserve) for the difference between the new long-term equity investment on minority interest transaction and the net asset share of the subsidiary company due to the parent company upon the new shareholding ratio which shall be continuously calculated since the date of purchase or the date of merger. If the capital reserve is insufficient to dilute, the retained earnings shall be adjusted. The above provisions shall only apply to the minority interest transactions with its subsidiary company carried out after 7 August 2008. Retrospective adjustment shall not be made to the transactions that have been carried out before the date but not dealt with under the above principle.

In accordance with the above provisions, the Company changed the accounting policy related to minority interest transactions, but did not make retrospective adjustment to the minority interest transactions carried out.

**2 Correction and Effect of Significant Accounting Errors of the Previous Period**

In the 2008 auditing, the Company found that it made an error in 2007 consolidated statements in which it used the equity method to calculate its long-term equity investment in New Northeast Electric (Shenyang) High-voltage Switchgears Co., Ltd (the "NNE (Switchgears)") by an equity proportion of 20.8 % of the NNE (Switchgears). Due to the changes in the NNE (Switchgears) paid-up capital structure on 11 January 2007, 17.09% of the NNE (Switchgears) voting shares were held directly by the Company or indirectly by its subsidiaries, less than 20%. In accordance with the Accounting Standards for Enterprises, the Company should calculate its long-term equity investment in the NNE (Switchgears) by using the cost method instead of the original equity method.

When calculating the voting shares of its long-term equity investment in the NNE (Switchgears), the Company made an error in 2007 financial report in which it mistook 20.8% the voting shares of the NNE (Switchgears) indirectly and directly held by Great Power Technology Limited, one of the Company's associate , for its own shares. As a result, the Company adopted the equity method in its statements because it mistakenly believed that it held 20.8% voting shares of the NNE (Switchgears).

The above accounting errors gave rise to more calculation of RMB 28,996,546.06 in the long-term equity investment in the NNE (Switchgears), less calculation of RMB 1,625.52 in translation reserve, and more calculation of RMB 28,998,171.58 in investment income in the Company's 2007 consolidated statements. The Company calculated RMB 28,998,171.58 more in retained earnings at the beginning of the period in 2008 consolidated statements, and RMB 28,998,171.58 more in total profit and net profit in 2007 consolidated statements. It has corrected this error when preparing 2007-2008 comparable financial statements in the reporting period.

**3 Explanation of the Board on the Correction of Significant Accounting Errors**

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

## (VII) OPERATING PLANS FOR THE NEW FISCAL YEAR

### 1. Impacts of external environment on the Company's operation

Due to the spread of financial crisis in America and the economic slowdown in the world, in 2009, there are many uncertainties in the world's economic development. The domestic development in China is full of both challenges and opportunities. The central government implements proactive financial policies and moderately relaxed monetary policies and launch a series of measures to ensure growth, expand domestic demand, adjust structure, which facilitate the development in our trade. All of these create favorable conditions for enterprises to continue to speed up their development.

### 2. The situation of the industry and its growth trend

To protect the adverse impacts of international economic environment on China's economy, the State has launched a policy to stimulate economic development, planning to invest 4 trillion yuan in expanding domestic demand and promoting steady economic growth. Grid investment, an important part of infrastructure investment, must be accelerated. To respond to the national macroeconomic policies for expanding domestic demand, the State Grid Corporation and the South Grid Corporation has released many favorable policies in succession that they will invest one trillion yuan and 0.4 trillion yuan in grid transformation in the next few years. It is expected that there will be sound and sustained development in the domestic electricity transmission and transformation market in the future, which will provide a good opportunity for the Company's expansion in principal business.

### 3. Corporate development strategies and operational objective

Facing the opportunities and challenges brought by the industry's growth trend and competitive pattern, the Company will continue to carry out overall, coordinated and sustained development strategies based on principal business for steady operation. Adhering to taking science and technology as the guidance, management as the backing, and market-benefit as two cores, the Company will further increase its productivity, expand its size, improve technical quality, enhance market share so as to promote its comprehensive competitive force and profits.

In 2009, its operational objective is to keep high increase in sales revenue from principal business, turn losses into gains, thus forming a firm basis for further continuing operation and leap development.

**4. Measures to be taken**

In 2009, the Company will take diversified measures to respond to challenges, laying stress on the followings.

(1) To advance the construction of corporate governance, further standardize and improve the Company's internal control, lay top emphasis on strict, constant, effective internal control and monitoring management, and improve the Company's operation management level and risk prevention ability.

(2) To make better efforts to adjust product structure, improve the overall profitability of the Company's products, strengthen product quality control and promote brand values.

(3) To adjust sales strategy, highlight the importance of sales area, and establish good information channels; to strengthen market mechanism cultivation, follow up key projects, expand marketing efforts in necessary market areas and spaces for stable market share.

(4) To continue to advance comprehensive budget management, and strengthen the control of purchase cost and production process so as to reduce cost and increase efficiency.

(5) To invest more money in technical transformation, research and development, realize upgrade of existing products as well as standard and serial production, and increase ability of continuing innovation so as to improve technology competitiveness.

(6) To strengthen human resources management, recruit more talents suitable for the Company's development, optimize the configuration of personnel structure, and improve human resources reserve.

**5 Potential risks of the company and its countermeasures**

**(1) Macropolicy risk**

The industrial development of the Company's products is closely related to the national macroeconomic policies and industrial policies, which is easily affected by relevant national industrial policies, especially, the changes in these polices may have impact on the Company's production and operation.

Countermeasures: the company will further research and forecast the development policies for our industry, power industry, and related industries, grasp the dynamic changes of industrial policies, make prospective business decision timely in accordance with judgment for the change trend of industrial policies so as to consolidate the Company's status in the industry and the stable development.

**(2) Market risk**

Although the domestic market is broad, and its overall environment is relatively favorable for the development of our industry, the new enterprises and constant expansion in this industry at home and abroad make market competition fiercer, which may slow down the increase of the Company's market share and sales size.

Countermeasures: the company will further enhance the ability of independent innovation, and constantly improve the technology and quality of high-end products. At same time, the company will, in accordance with the changes in market factors, timely adjust the structure of products and market strategies, and make great efforts to development high-tech products so as to achieve the fast growth in market share and sales scale.

**(3) Fund and financial risks**

In 2009, due to better expansion of the Company's scale of production and sale, funds and production conditions are playing an outstanding role in restricting the Company's production, and the pressure of purchase and the difficulties in the auxiliary will be further increased, which may bring some risks in the Company's normal production and operation.

Countermeasures: first, to strengthen financial management, control fund risk, lay stress on capital management, further intensify the collection of accounts receivable so as to ensure the Company's cash flow and prevent financial risk; second, to enhance financial monitoring and budget, improve the efficient utilization of funds, strengthen the check and control of productive cost and all sorts of expenses so as to exploit potential and increase efficiency, and relieve pressures on funds and productivity, thus keeping stable increase in production.

**(4) Price risk in raw material and energy**

In 2008, the prices of main raw materials and energy rose first and then fell with wide fluctuation, which had great impacts on enterprises' purchase and costing, and brought big pressures on scientific control of cost and expenses. It is expected in 2009 that there will be a giant fluctuation in commodity exchanges like oil, especially there is a larger price fluctuation remaining in main raw materials and energy due to such factors as the emergence of steel futures trading at home, which may bring some risks in the Company's cost control of products.

Countermeasures: to strengthen source control, and reduce purchase cost. The Company will pay more attention to the long-term partnerships with major suppliers so as to ensure the stable supply of raw material and energy.

**(5) Management risk**

Now, it is impossible to forecast the breadth, depth and time of the influence of global financial crisis on entity economy, and in 2009, the Company is further expanding its operational scale, which requires higher management and coordination abilities of the Company's management, and will bring some risks in the Company's strategic investment management.

Countermeasures: the business quality and management level of the Company's management should adapt to increasingly complex market environment and fast expansion of scale; the organization mode and management system will make time adjustment and improvement with market chances and the Company's larger scale. The board of directors, external independent directors and supervisors will play a full role in ensuring scientific decision making and avoiding management risk.

By order of the Board
**Su Weiguo**
Chairman
30 March 2009

## (I) DAILY WORK OF THE BOARD OF DIRECTORS

During the reporting period, the board of directors has convened 9 meetings, details of which are as follows:

1 On 9 January 2008, the 8th meeting of the fifth session of the board of directors was held to consider and approve the report on the progress of the significant litigation and the significant loss of 2007 annual results.

2 On 29 April 2008, the 9th meeting of the fifth session of the board of directors was held to consider and approve the 2007 Annual Results, the proposal of net profit distribution, the Resolution on Reappointment of the Company's International Auditors, the Resolution on Reappointment of the Company's Domestic Auditors, the amendment to Articles of Association, the proposal of convincing the AGM of 2008 on 16 June 2008, as well as the first quarterly report of 2008.

3 On 3 June 2008, the 10th meeting of the fifth session of the board of directors was held to approve the resignation of Mr. Shi Li as an executive Director, Vice General Manager and the secretary to the Board.

4 On 2 July 2008, the 11th meeting of the fifth session of the board of directors was held to review and approve the resignation of Mr. Sun Zhen as the chairman and legal representative ,Mr. Zhang Bin as the vice chairman and general manager, and to authorize Mr. Su Weiguo as the interim convener of the board of directors, deputy chairman and general manager.

5 On 6 July 2008, the 12th meeting of the fifth session of the board of directors was held to consider and approve the election of Mr. Su Weiguo as the chairman, the appointment of Mr. Zhang Zhaozhong as the candidate of executive director, the appointment of Mr. Bi Jianzhong as the general manager, the dismissal of Mr. Bi Jianzhong from his position as deputy general manager and chief accountant, the appointment of Mr. Zhang Zhaozhong as vice general manager and deputy secretary to the board of directors, the provision of guarantee against a loan of RMB 60,000,000 in integrated credit line for New Northeast Electric (Shenyang) High-Voltage Switchgears Co., Ltd, the resignation of Mr. Sun Zhen and Mr. Zhang Bin as the executive directors, and the proposal of convincing the first EGM of 2008 on 20 August 2008.

6 On 20 August 2008, the 13th meeting of the fifth session of the board of directors was held to consider and approve the 2008 interim report, the net profit distribution plan, the nomination of Mr. Liu Bing and Mr. Wang Haiyang as the candidates of new executive directors of the Company, the movement of the legal address, the amendments to the Articles of Association of the Company, the reappointment of Mr. Mak Yee Chuen as Joint Company Secretaries and Authorized Representative for Receipt of Summons and Notices, and the proposal of convincing the second EGM of 2008 on 8 October 2008.

7 On 26 September 2008, the 14th meeting of the fifth session of the board of directors was held to consider and approve the acceptance of the final judgment of the Supreme Court in relation to the litigation of China Development Bank.

8 On 16 October 2008, the 15th meeting of the fifth session of the board of directors was held to consider and approve the third quarterly report of 2008 and the appointment of Mr. Zhang Zhaozhong as secretary to the board of directors.

9 On 12 December 2008, the 16th meeting of the fifth session of the board of directors was held to consider and approve the appointment of a professional advisor, the appointment of an international auditor, the appointment of a domestic auditor, the provision of guarantee against a loan of RMB75,000,000 in integrated credit line for New Northeast Electric (Shenyang) High-voltage Switchgears Co., Ltd, the amendments to the Articles of Association of the Company, and the proposal of convincing the first EGM of 2009 on 3 February 2009.

## (II) EXECUTION OF RESOLUTIONS OF GENERAL MEETING BY THE BOARD OF DIRECTORS

During the reporting period, the Board of Directors attentively executed the resolutions approved by the General Meeting and timely completed the tasks assigned by the General Meeting.

## (III) THE PERFORMANCE OF DUTIES OF THE AUDIT COMMITTEE OF THE BOARD OF THE COMPANY

### 1 The Work of the Audit Committee of the Board of Directors

The audit committee of the Board of the Company comprises 5 independent non-executive directors with Ms. Liang Jie, an accounting professional, as the presiding member.

During the reporting period, the audit committee, in accordance with the relevant provisions of China Securities Regulatory Commission and Shenzhen Stock Exchange and the Implementation Details of the Audit Committee made by the Company, performed the following duties earnestly and diligently:

(1) The audit committee established the audit procedure of the 2008 Annual Report of the Company after reading carefully the Notice concerning Doing a Good Job for the 2008 Annual Report of the Listed Companies, and negotiating with Shenzhen Pengcheng Certified Public Accountants Limited Company and TING HO KWAN & CHAN Certified Public Accountants (Practising) the Company's domestic and international auditor respectively, on the plan, content and schedule of the audit of 2008;

(2) The audit committee had reviewed thoroughly the Company's primary financial statement and given its own audit opinions before the auditors entered;

(3) When the auditors entered, the audit committee communicated and exchanged with certified public accountants in charge of the audit of the Company on the problems found in the course of the audit and the time to submit the audit report;

(4) The audit committee reviewed the 2008 financial statements of the Company again and gave written audit opinions after the auditor gave their primary audit opinions.

(5) The audit committee convened meetings to sum up the auditors' audit and vote for the Company's financial statements of 2008 and the proposals in relation to the appointment of accounting firms in the next year and then to adopt a final resolution.

**2 Audit opinions given by the audit committee on the Company's financial statements before the certified public accountants in charge of the Company's annual audit entered.**

We have reviewed the financial statements submitted by the financial department of the Company on 9 January 2009, including balance sheets, profit and loss statements, cash flow statements, statements of shareholder's equity changes and some notes to the financial statements ended 31 December 2008.

Pursuant to the provisions of 38 specific standards as specified in Accounting Standard for Business Enterprises No.38-First time adoption of Accounting Standards for Business Enterprises and Accounting Standard for Business Enterprises No.1–Inventories, we pay more attention to such problems as the accuracy and integrity of the accounting information and whether or not the financial statements are prepared in accordance with the New Accounting Standards

After communicating with the director of the Company's financial department, relevant financial personnel and management, examining the related accounting documents of the Company and testing the software that could make the financial data, we conclude that all of the Company's transactions have been recorded with true transaction matters, complete information, proper adoption of accounting policy, reasonable accounting estimate, and we have found nothing in relation to fund appropriation of major shareholders and violation in guarantee and connected transactions and so on.

Because there are still a few days between the primary review of this financial statement and the final audit of the annual report, we advise the financial department to pay more attention to the provisions of new accounting standards and make proper adjustments in accordance with them so as to ensure the accuracy and integrity of the financial statements.

Audit Committee of the Board
9 January 2009

**3 Audit opinions given by the audit committee on the Company's financial statements after the certificate public accountants in charge of the Company's audit issued their primary audit opinions.**

We have reviewed the financial statements submitted by the Company's financial department on 18 March 2009, which has been audited by the certificated public accountants in charge of the Company's annual audit. These financial statements include balance sheets, profit and loss statements, cash flow statements, statements of shareholder's equity changes and some notes to the financial statements ended 31 December 2008. At the same time, we have also paid more attention to the adjusted part of the audited financial statements of the Company. After communicating with the certificated public accountants in charge of the Company's annual audit, and reviewing the additional information related to accounts and vouchers, we conclude that:

We argee our previous opinions, and opine that the Company's financial statements are prepared in accordance with the provisions of the new accounting standards and the relevant financial systems of the Company, which truly and correctly reflect the Company' financial status and operating results of 2008. The management of the Company has made proper disclosure in the notes to the financial statements regarding such significant matters as income recognition, sustained operation, subsequent events of balance sheet, and connected transactions.

Audit Committee of the Board
18 March 2009

**4 Summary report given by the audit committee on the audit of the Company's auditors**

On 9 January 2009, we established the audit procedure of the 2008 Annual Report of the Company after negotiating with the Company's finance department and auditing bodies on the plan, content and schedule of the audit of 2008 and reaching an agreement.

On 10 February 2009, upon the schedule of the audit procedure, the C.P.A., in accordance with the provisions of CICPA Auditing Standard No. 1151-Communications with Management, made written communication with management independently, and exchanged views in terms of accounts of material matters. Both of the C.P.A. and management believe that keeping effective communication is good for them to perform their own obligations.

On 18 March 2009, after the certificated public accountants in charge of the Company's audit gave their primary audit opinions, we fully communicated with the head of auditors on the following significant contents of the Company's financial statements:

(1) Opinions on the accounting policy, accounting estimate and financial statements disclosure adopted by the Company;

(2) Significant accounting errors required to be corrected;

(3) Establishment of the Company's internal control mechanism.

We opines that the auditors have done a good job in its audit relying on enough time, reasonable staffing, and practicing competency, and that its audit statement fully reflects the Company's financial status, operating results and cash flow in 2008 and its audit conclusion meets the real condition of the Company.

Audit Committee of the Board

30 March 2009

**5 Resolution approved by the audit committee on the appointment of accounting firms in 2009**

The audit committee of the Board of Northeast Electric Development Co., Ltd held a meeting at the conference room of the Company, F14, Kingdom Hotel, at 9.00 a.m. on 30 March 2009. All of five persons attended the meeting. The meeting was presided over by Ms. Liang Jie, the presiding member of the audit committee. All members of the audit committee agree to approve the following resolutions:

(1) The Company's 2008 financial accounting report;

(2) Summary report on the annual audit of this year of the Company's auditors;

(3) As the Company's auditing bodies, Shenzhen Pengcheng Certified Public Accountants and TING HO KWAN & CHAN Certified Public Accountants (Practising), the Company's domestic and international auditor respectively, under the principles of faithfulness and carefulness, completed the audit of the Company's financial report on a high-quality scale so that a good relationship has been established between them. We advise to reappoint them as the Company's domestic and international auditors in 2009.

Audit Committee of the Board
30 March 2009

## (IV) THE PERFORMANCE OF DUTIES OF THE REMUNERATION COMMITTEE OF THE BOARD OF THE COMPANY

The remuneration committee of the board of the Company is mainly responsible for studying the appraisal standards for directors and management, conducting the appraisal and putting forward its proposals; responsible for studying and reviewing the remuneration policies and programs for directors and senior management. This remuneration and appraisal committee is composed of four directors with Mr. Lin Wenbin, an independent director, as its chief member.

During the reporting period, the remuneration committee of the board reviewed the remunerations disclosed by the Company's directors, supervisors, and senior management.

The remuneration committee, in accordance with the relevant provisions of China Securities Regulatory Commission and Shenzhen Stock Exchange, the internal system of the Company and the Implementation Details of the Remuneration Committee made by the Company, review the remunerations in 2008 disclosed by the Company's directors, supervisors, and senior management and give the following opinions:

In 2008, in accordance with their main duties, their business results and their accomplishments of appraisal index in 2008, we made an annual examination of performance appraisal for the Company's directors, supervisors and senior management, and determined their compensation standards in 2008. We considered that the compensations of the Company's directors, supervisors and senior management disclosed in the 2008 annual report were in conformity with the relevant laws, regulations and the Company's system of compensation without any circumstances in relation to violation of laws and regulation or nonconformity with the Business Objective Guarantee.

Remuneration Committee of the Board

30 March 2009

## (V) FINANCIAL HIGHLIGHTS

The financial highlights are detailed in section 2(1) of this Annual Report.

The material difference between PRC accounting standard and HK GAPP is detailed in section 2(4) of this Annual Report.

## (VI) RESERVES

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

## (VII)BANK LOANS AND OTHER LOANS

Bank loans and other loans are detailed in Notes to the Financial Statements of this Report.

## (VIII)FIXED ASSETS

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

## (IX) RETIREMENT WELFARE

During the year, the Company adopted Statements of Standard Accounting Practice (SSAP) No. 34 "Staff benefits" which standardized the Company's policy on staff welfare like retirement welfare plans. Since the Company only participated in the staff retirement insurance system regulated by the state government, the application of SSAP No. 34 did not impose significant impact on the Company's financial status.

## (X) SHARE CAPITAL

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

## (XI) PRE-EMPTIVE RIGHT

There are no provisions of pre-emptive right in accordance with the Articles of Association of the Company and PRC laws and regulations.

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

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

## (XIII) INCOME TAX: During the reporting period, the applicable income tax of the Company is 25%, and there is no taxable income in Hong Kong. Please see the Notes to the Financial Statements for details.

## (XIV) 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.

## (XV) PLAN OF PROFIT APPROPRIATION AND TRANSFER OF CAPITAL RESERVES TO INCREASE THE SHARE CAPITAL FOR THE YEAR

The Board recommended to distribute the profit for the year ended 31 December 2008 as follows:

During the reporting period, the Company recorded loss of RMB 69,112,495.33 and distributable profit of shareholders at the end of the year up to RMB -1,536,634,262.58. Therefore the Board resolved not to make any profit distribution and nor to transfer any capital reserve into share capital during the reporting period.

The Company's cash dividends in the past three years

*Unit: RMB*

| | Amount of cash dividends (inclusive of tax) | Net profit attributable to equity holders of the parent company | Proportion of net profit attributable toequity holders of in the consolidated statements |
|---|---|---|---|
| In 2007 | 0.00 | -340,874,097.62 | 0.00% |
| In 2006 | 0.00 | 29,529,236.62 | 0.00% |
| In 2005 | 0.00 | 23,625,686.63 | 0.00% |

## (XVI) FOREIGN EXCHANGE RISK

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

## (XVII) FINANCIAL ANALYSIS OF THE COMPANY UNDER HONG KONG FINANCIAL REPORTING STANDARDS

During the reporting period, cash liquidity, financial resources, capital structure and assets pledged:

As at end of the year, the balance of monetary fund was RMB30,216,000.

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

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

As at the end of the year 2008, the Company had bank loans amounting to RMB22,450,000, representing 2.62 % of the total assets. These bank loans bear fixed interests.

The debt equity ration of the Company was 7.22% (debt equity ration= total bank loan/total share capital reserve * 100%)

As at the end of the year 2008, the Company had net asset of RMB 22,092,000 as security.

Please see the Notes to the Consolidated Financial Statements about Subsequent Event for details.

## (XVIII) SPECIFIC EXPLANATIONS AND INDEPENDENT OPINIONS GIVEN BY THE INDEPENDENT DIRECTORS

As the independent directors of Northeast Electric Development Co., Ltd (the "company"), Mr. Wu Qicheng, Mr. Lin Wenbin, Mr. Xiang Yongchun, Ms. Liang Jie and Mr. Liu Hongguang, in accordance with the relevant requirements set out in "Guiding Opinions on the Establishment of Independent Directors System by Listed Companies", "Notice of Certain Issues in relation to the Regulation on Capital Flow between Listed Companies and its Connected Parties and Foreign guarantees of Listed Companies "(Zheng Jian Fa [2003]No. 56), "Notice on Regulation of Foreign guarantees Acts of Listed Companies" (Zheng Jian Fa [2005]No. 120) and based on the relevant information available by the Board to the Company, the Board has reviewed the information provided and issued the following specific explanations and independent opinions in a pragmatic manner on the basis that the information available are true, accurate and complete:

### 1 Independent opinion on appointment of senior management

(1) We agreed to engage Mr. Bi Jianzhong as the general manager, Mr. Zhang Zhaozhong as the Vice general manager and the Secretary to the Board. The above approval process is in accordance with the provisions as specified in Articles of Association;

(2) Through review of the resumes and other documents related to our engaged management, we didn't find out they had involved in any conditions stipulated in Article 147 of Company Law, or they had been banned from the market by China Securities Regulatory Commission and are still undergoing this ban. Talented with the professional knowledge and capable of decision-making, supervision and coordination, they are satisfied with the requirements of relevant duties as well as employment qualifications for senior management stipulated in Company Law and Articles of Association.

**2 Independent opinion on nomination of adding a candidate for Executive Director**

(1) We, the independent directors of the Company, have made enquiries to other directors and the secretary to the board about relevant matters before careful reading of the resume of Mr. Zhang Zhaozhong provided by the Secretary to the Board. On the basis of our independent judgment, we consider that his employment qualification has not any conditions as forbidden in Company Law and Articles of Association, and he is satisfied with the requirements of relevant duties. We agree to add Mr. Zhang Zhaozhong as the candidate for Executive Director of the fifth board of directors of the Company, and submit it to the general meeting of shareholders for voting.

(2) The nomination, recommendation, consideration and voting procedure of the Board of Directors for Mr. Zhang Zhaozhong are in accordance with the provisions as specified in Company Law and Articles of Association.

**3 Independent opinion on self-assessment of internal control of the Company**

During the report period, the board of the Company revised, considered and adopted a series of managements like the Internal Control System, which is improved and complete, and in accordance with the provisions of relevant national laws and regulations as well as the requirements of supervision departments. The Company's key internal control activities are conducted under the provisions of all internal control systems. The Company's internal control on subsidiaries, connected transactions, foreign guarantees, use of raised capital, significant investments and information disclosures is strict, full and effective, thus ensuring the normal business management of the Company with rationality, integrity and validity. The self-assessment of internal control of the Company is in accordance with real conditions of the Company's internal control.

**4 Special representation and independent opinion on the Company's foreign guarantees**

In 2008, the foreign guarantees amount of the company amounts to RMB 348,300,000.00, and the guarantee amount for its holding subsidiary RMB 15,000,000.00. The total guarantee amounts to RMB 363,300,000, taking up 116.77% of net assets (exclusive minority shareholders interest) in consolidated statement for 2008.

During the reporting period, the Company cautiously treated and handled the foreign guarantees matters and made complete information disclosure in accordance with relevant provisions of supervision departments, thus making full disclosure and effective control of foreign guarantees. It hasn't made any guarantee for its shareholders, effective controller as well as the parties concerned. From now on, the Company will continue to strictly execute the provisions of the Articles of Association to enhance management on foreign guarantees and to properly solve the problems of the guarantees provided.

**5 Independent opinions on asset acquisitions and disposals as well as connected transactions**

In the opinion of independent directors, no insider dealings was found during the course of asset acquisition and disposal, the act was open, fair, reasonable and in the interests of the listed company and shareholders as a whole. There had been no damage to minority interests or caused any loss to the Company's assets. The Company is operated in accordance with law, and there is no problem in its financial situation, asset acquisitions and disposals as well as connected transactions.

**6 Independent opinion on current profit appropriation proposal**

During the reporting period, the Company recorded loss of RMB 69,112,495.33 and distributable profit of shareholders at the end of the year up to RMB -1,536,634,262.58. Therefore the Board resolved not to make any profit distribution and not to transfer any capital reserve into share capital during the reporting period.

In accordance with the provisions of Company Law and Articles of Association on loss remedy, the Company could not make any profit appropriation as its undistributed profit was recorded loss, so we agreed that the Company should not make its profit appropriation in 2008.

**7 Independent opinion on correction of significant accounting errors**

All of independent directors have recognized the matter in advance and issued their independent opinions to agree with the board of directors. We believe that:

(1) The correction of accounting errors complies with relevant provisions of Accounting Standards for Enterprises-Accounting Policy, Changes in Accounting Estimate, and Correction of Errors, and Rules for the Compilation and Submission of Information Disclosure by Companies that Offer Securities to the Public (No. 19) , and the correction of errors accords with related procedures.

(2) In our opinion, the board of directors has made a special explanation for the matter above, reflecting an objective and impartial correction on the Company's accounting errors in the previous year.

## (I) MEETING OF THE SUPERVISORY COMMITTEE

During the reporting period, the supervisory committee has convened 8 meetings, details of which are as follows:

1. The 7th meeting of the 5th session of the supervisory committee was held on 9 January 2008 to report the progress of the litigation of China Development Bank, and hear the board's report in relation to annual results.

2. The 8th meeting of the 5th session of the supervisory committee was held on 29 April 2008 to consider and approve the 2008 Supervisory Committee's Work Report, and the board's resolutions on related matters.

3. The 9th meeting of the 5th session of the supervisory committee was held on 3 June 2008 to consider and approve the board's resolution on admitting the resignation of Mr. Shi Li as an executive Director, Vice General Manager and the Secretary to the Board.

4. The 10th meeting of the 5th session of the supervisory committee was held on 2 July 2008 to consider and approve the board's resolutions on related matters and agree the appointment of Mr. Su Weiguo as the interim convener of the board of directors, deputy chairman and general manager.

5 The 11th meeting of the 5th session of the supervisory committee was held on 6 July 2008 to consider and approve the provision of guarantee against a loan of RMB 60,000,000 in integrated credit line for New Northeast Electric (Shenyang) High-Voltage Switchgears Co., Ltd and the board's resolutions on related matters.

6. The 12th meeting of the 5th session of the supervisory committee was held on 20 August 2008 to consider and approve the 2008 interim report and the board's resolutions on related matters.

7. The 13th meeting of the 5th session of the supervisory committee was held on 28 October 2008 to consider and approve the third quarterly report of 2008 and the board's resolutions on related matters.

8. The 14th meeting of the 5th session of the supervisory committee was held on 12 December 2008 to consider and approve the provision of guarantee against a loan for New Northeast Electric (Shenyang) High-voltage Switchgears Co., Ltd, and the board's resolutions on related matters.

## (II) THE SUPERVISORY COMMITTEE PROVIDED INDEPENDENT OPINION ON THE RELATED MATTERS OF THE COMPANY

### 1. The Company's legal operation

The Supervisory Committee opines that during the reporting period, the Company has established a fairly comprehensive corporate governance framework and internal control system. Decision-making procedure of the Annual General Meeting and each of the board meetings are lawful. Directors, independent directors, managers and other senior management strictly observe the law in performing their duties. They had no acts in breach of discipline, law, Articles of Association nor had damaged interests of the Company.

### 2. The Company's financial status

The supervisory committee opines that during the reporting period, the financial department of the Company has established a sound internal control and management system by attentively performing related accounting system and codes of the State to integrate operation and financial management, so as to protect interests of investors. The 2008 financial statements truly reflect the Company's financial status and operating results. The auditors report with an opinion qualified issued by the Company's auditor is true and objective, which truly reflect the Company's financial status and operating results in 2008.

### 3. Asset acquisitions and disposals

The supervisory committee opines that no insider dealings was found during the course of asset acquisition and disposal, the act was open, fair, reasonable and in the interests of the listed company and shareholders as a whole. There had been no damage to minority interests or caused any loss to the Company's assets.

### 4. Connected transactions

The Supervisory Committee opines that no insider dealings between the associates and the Company, and connected transactions that damage the interests of medium and small shareholders or the Company are found.

**5. Opinions on the self-assessment of the Company's internal control**

The Company's supervisory committee, in accordance with the relevant provisions as specified in the Guideline for Internal Control and the Notice of concerning Doing a Good Job for the 2008 Annual Report of the Listed Companies published by Shenzhen Stock Exchange, gives the following opinions on self-assessment of the Company's internal control:

(1) In accordance with relevant provisions of China Securities Regulatory Commission and Shenzhen Stock Exchanges, the Company, under the basic principles of internal control, has established and improved the internal control systems covering all of links of the Company based on its own real situation, ensuring its normal business activities and protecting the security and integrity of its assets.

(2) The Company has a whole internal control organization with an internal audit department and complete staff, ensuring full and effective implementation and supervision of key internal control activities.

(3) During the reporting period, the Company had no breach of the Guideline for Internal Control of Shenzhen Stock Exchanges and the System of Internal Control of the Company.

The supervisory committee opines that the self-assessment of internal control of the Company is full, true and correct, which reflects the real situation of the Company's internal control.

**6. Opinions on the Correction of Significant Accounting Errors**

In the opinion of the board of supervisors, the Company's correction on the significant accounting errors of 2007 is proper, and in accordance with relevant provisions of related standards and systems, facilitating the improvement of the Company's quality of accounting information, and reflecting its real financial situation.

By order of the Supervisory Committee
**Dong Liansheng**

China, Shenyang
30 March 2009

## (I) MATERIAL LITIGATION AND ARBITRATION

### 1. Litigation lodged by China Development Bank (CDB) for the debt of RMB 150 million

According to the announcements dated 9 January 2008, 30 April 2008, 26 September 2008, and 9 January 2009, CDB lodged litigation against Shenyang High-voltage Switchgears Company Limited (the "Shenyang High-voltage") on dispute over a loan contract and also against the Company for acceptance of joint compensation. On 19 July 2007, Beijing Higher Court made a civil written order ((2004) Gao Min Chu Zi No. 802). According to the order, Beijing Higher Court canceled the contract signed by the Company and Shenyang High-voltage in relation to swapping the Company's creditor's rights of RMB76, 660,000 for the equity of Shenyang High-voltage. Beijing Higher Court ruled out that the Company should return the related equity to Shenyang High-voltage, and if not, the Company should compensate for loss to Shenyang High-voltage within limit of the value of share capital of RMB247,120,000; Shenyang High-voltage should return the creditor's rights of RMB76,660,000 to the Company, and if not, Shenyang High-voltage should compensate for loss to the Company within limit of RMB76,660,000.

On 23 August 2007, CDB filed an appeal to the Supreme Court. On 5 September 2008, the Supreme Court made a civil written order ((2008) Min Er Zhong Zi No. 23). On the basis of upholding the civil written order ((2004) Gao Min Chu Zi No. 802) issued by Beijing Higher Court, the Supreme Court ruled to cancel the agreement in relation to swapping the 98.5% share equity interests in Shenyang Tiansheng Communication Equipment Limited held by the Company for the 74.4% share equity interests in New Northeast Electric (Shenyang) High-voltage Isolators Switchgears Limited held by Shenyang High-voltage.

The Company accepted the final judgment made by the Supreme Court, and agreed to return to the Shenyang High-voltage the 74.4% equity in New Northeast Electric (Shenyang) High-voltage Isolators Switchgears Limited (former Shenyang Suntime High-voltage Electric Company Limited). At the same time, the Company agreed to accept from the Shenyang High-voltage the 98.5% equity in Shenyang Taisheng Industry and Trading Co., Ltd (Shenyang Tiansheng Communication Equipment Limited).

**2 Progress of debt and equity case brought by Liaoning Trust and Investment Company ("Liaoning Trust") on US$ 12 million**

According to the announcements dated 13 December 2007, 12 August 2008, and16 February 2009:

With regard to the case of RMB15,900,000, on 10 April 2008, the Higher People's Court of Liaoning Province (Liaoning Higher Court) made a civil judgment ((2008) Liao Shen Min Zhong Zi No.2). According to the judgment, the liquidation team of Liaoning Trust should be a third party to the litigation, so the court quashed the civil judgment ((2005) Liao Min Er Zhong Zi No.220) and the civil judgment ((2005) Shen Zhong Min Si He Chu Zi No.13), and remanded the case to Shenyang Intermediate Court for retrial. On 16 February 2009, the Company received from its lawyer a civil judgment ([2008] Shen Zhong Shen Min Chu Zai Zi No. 2) made by Shenyang Intermediate Court. According to the judgment, the Company's claim was rejected. On 23 February 2009, the Company filed an appeal to Liaoning Higher Court.

As for the case of RMB 60,190,000, on 14 May 2008, Liaoning Higher Court made a civil judgment ((2006) Liao Min Er Zhong Zi No. 214, 215 and 216). According to the judgment, the liquidation team of Liaoning Trust should be a third party to the litigation, so the court quashed the civil judgment ([2005] Shen Zhong Min Si He Chu Zi No.21, 22 and 23), and remanded the case to Shenyang Intermediate Court for retrial.

**3 Litigation lodged by Paradise Field Holding (Paradise) for the debt of RMB 74.8 million**

According to the announcements dated 6 February 2009, on 4 February 2009, the Company received from its lawyer a notification calling for response to the (2009) Liao Min San Chu Zi No.1 civil suit made by the Higher People's Court of Liaoning Province. The Paradise brought a lawsuit to the Higher Court on 24 November 2008 against the Company for repayment of the accounts payable of RMB 74,806,911 including principal and interest. The case is in the course of the first instance.

**To the best knowledge of the directors, the Company had no any material pending or threatened litigations and claims except the litigations above.**

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

(1) Foreign Investment

The Company wholly invested in the establishment of Shenyang Zhaolida Machinery Equipment Co., Ltd with the registered capital of RMB100,000 and the scope of business including 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 26 September 2008, its industrial and commercial registration was done.

(2) Disposal of assets

Approved by the Board Meeting held on 10 November 2008, the Company agreed to transfer 100 % equity of Shenyang Jiatai Machinery Equipment Co., Ltd held by Shenyang Kaiyi Electronic Co., Ltd, a wholly-owned subsidiary of the Company, to New Northeast Electric Group Power Mechanical Equipment Co., Ltd (the company and its wholly-funded shareholder, New Northeast Electric Group are third parties independent of the Company and its subsidiaries) at a consideration of RMB 5,970,000. On 13 November 2008, the industrial and commercial change registration was done.

The disposal of equity brought the transferred return of RMB -720,000 to current period, which had no impact on the continuity of the Company's business and on the stability of the management level.

## (III) CONNECTED TRANSACTIONS

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

## (IV) USE OF CAPITAL FOR CONNECTED PARTIES

Controlling shareholders did not use any capital during the reporting period. Please see Relation and Transaction of Connected Parties of Notes to the Financial Statements for details on use of capital for other connected parties.

## (V) SIGNIFICANT CONTRACTS AND THEIR EXECUTIONS

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

2. **Guarantees**

(1) Foreign guarantees of the Company

By the end of 2008, the foreign guarantees of the company totaled RMB 348,300,000, including RMB 280,000,000 for New Northeast Electric (Shenyang) High-voltage Switchgears Co., Ltd; RMB 39,900,000 for Jinzhou Power Capacitors Co., Ltd; RMB 28,400,000 for Shenyang Kingdom Hotel Co., Ltd.

(2) Guarantees for the holding subsidiaries of the Company

In 2008, the Company offered guarantees of RMB 15,000,000 for its holding subsidiaries New Northeast (Jinzhou) Power Capacitors Co., Ltd. .

(3) Guarantees of the Company for the guaranteed company with assets liabilities over 70%

As of the end of the reporting period, the guarantee of the Company for Jinzhou Power Capacitors Co., Ltd with assets liabilities over 70% was RMB 39,900,000, accounting for 12.82% of the audited net assets of the Company for 2008, which was translated into liabilities in total in 2007.

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

## (VI)PERFORMATION OF COMMITMENTS OF THE COMPANY, SHAREHOLDER AND EFFECTIVE CONTROLLER

New Northeast Electric Investment Co., Ltd, the controlling shareholder of the Company made a special commitment during the Share Reform Scheme 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 Shenzhen Stock Exchange will not less than RMB5.

New Northeast Electric Investment Co., Ltd fully complied with the commitments.

## (VII)EMPLOYMENT AND DISMISSAL OF CERTIFIED PUBLIC ACCOUNTANT

Please refer to Annual Report section V(VI) 12.

## (VIII)THE COMPANY HAS NOT ISSUED ANY EQUITY INCENTIVE PLANS

## (IX)DURING THE REPORTING PERIOD, THE COMPANY, THE BOARD OF DIRECTORS AND THE DIRECTORS HAD NOT BEEN INVESTIGATED, UNDER ADMINISTRATIVE PENALTY, CRITICIZED AND OPENLY REPRIMANDED BY NOTICE BY THE CHINA SECURITIES REGULATORY COMMISSION THE COMPANY'S DIRECTORS AND SUPERVISORS WERE NOT SUBJECT TO ANY COMPULSORY PROCEDURES.

The Company and related directors were publicly censured by the listing committee at the press release dated 3 December 2008 for breach of the Exchange Listing Rules in relation to review provisions of connected transaction. (Please refer to the press release or the Company's announcement dated 4 December 2008.)

Pursuant to the Rule 3A.20 in the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Ltd (the "Listing Rules"), the Company appointed Tanrich Capital Limited as its compliance advisor to provide guidance and advice to the Company in relation to the compliance with the Listing Rules with a term of two years from 31 December 2008. At the same time, the Company also appointed Tanrich Capital Limited as its financial advisor to provide review and instructive advice in terms of the compliance of the Company's internal control systems with effect from 31 December 2008.

## (X) NO SIGNIFICANT EVENTS AS LISTED IN SECTION 67 OF THE SECURITIES LAW AND SECTION 30 OF DETAILS FOR ADMINISTRATION ON INFORMATION DISCLOSURE OF LISTED COMPANIES.

## (XI) 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.

## (XII) ANNOUNCEMENT INDEX ON MAJOR MATTERS IN 2008

During the reporting period, all of the Company's announcements were published on China Securities Journal, Securities Times and information disclosure websites. Please visit www.cninfo.com.cn, http://www.hkexnews.hk [column on the latest information of listed company] and www.nee.hk (the Company's website )for details. The major information is disclosed as follows:

| Publishing Date | Announcement Matters |
|---|---|
| 9 January 2008 | Announcement on Progress of Significant Litigation and Performance Loss for the year of 2007 |
| 10 January 2008 | Announ m ent on Foreign Guarantee |
| 2 July 2008 | Announcement of the Board's Resolution on Material Personnel Changes |
| 20 August 2008 | Announcement on Appointment of Directors |
| 16 October 2008 | Suggestive Announcement on Performance Loss Prediction for the Third Quarter of 2008 |
| 28 October 2008 | Suggestive Announcement on Performance Loss Prediction for the year of 2008 |
| 31December 2008 | Announcement on Appointment of Professional Advisor |

## (XIII)SUBSEQUENT EVENTS

1 Contingent liabilites

Approved by the Board meeting held on 12 December 2008 and the first EGM in 2009 held on 3 February 2009, the Company provided guarantee against a loan of RMB75, 000,000 in integrated credit line in the Shenyang Branch of Industrial Bank Co., Ltd for New Northeast Electric (Shenyang) High-Voltage Switchgears Limited with the term of two years from the due date of debt. (Please refer to the announcements dated 16 December 2008 and 4 February 2009 for details).

2 Capital increase of US$5,450,000 in New Northeast Electric (Jinzhou) Power Capacitors Co., Ltd

Approved by the board meeting held on 2 January 2009, the Company, in accordance with the need of strategic business development, agreed that New Northeast Electric (Jinzhou) Power Capacitors Co., Ltd, a wholly-owned subsidiary of the Company, increased its total investment and registered capital from US$10,000,000 to US$15,450,000. At the same time, the Company also agreed that Shenyang Kaiyi Electronic Co., Ltd, a wholly-owned subsidiary of the Company, invested RMB37,600,000 (approximately US$5,450,000) in cash in subscribing all of the new share capital. On 9 March 2009, the industrial and commercial change registration was done.

3 Personnel movement

Upon the approval at the board meeting held on 30 March 2009, Mr. Zhang Zhaozhong resigned as an executive Director, Vice General Manager and the secretary to the Board due to the change of work.

Notice is hereby given that the 2008 Annual General Meeting (the "AGM") of Northeast Electric Development Company Limited ("the Company") will be held in the conference room, No. 38 Jingxing North Street, Tiexi District, Shenyang, PRC at 9.00 am on 15 May 2009 for the following purposes:

1 To approve the report of the annual results for the year ended 31 December 2008.

2 To approve the net profit appropriation proposal for the year ended 31 December 2008.

During the reporting period, the Company recorded loss of RMB 69,112,495.33, and the accrued profit distributable to shareholders at the end of the year is RMB -1,536,634,262.58. Therefore the Board resolved not to make any profit distribution and not to transfer any capital reserve into share capital during the reporting period.

3 To approve the Resolution in Relation to Reappointment of the Company's domestic Auditors

It was proposed to reappoint Shenzhen Pengcheng Certified Public Accountants as the domestic auditor of the Company for the year of 2009 for a term of one year, and authorized the Board to determine the remuneration.

4 To approve the Resolution in Relation to Reappointment of the Company's international Auditors

It was proposed to reappoint TING HO KWAN & CHAN Certified Public Accountants (Practising) as the international auditor of the Company for the year of 2009 for a term of one year, and authorized the Board to determine the remuneration.

Notes:

(1) Any holder of A shares who has registered on the register of the Company at China Securities Depository and Clearing Company Limited Shenzhen Branch by the close of business on 8 May 2009 is entitled to attend the Meeting.

(2) In order to confirm the list of holders of H shares who is entitled to attend the meeting, the register of shareholders of the Company will be closed from 15 April 2009 to 15 May 2009 (both days inclusive), during which period no transfer of shares will be registered. The shareholders whose names appear on the register by the closes of business on 14 April 2009 are entitled to attend the meeting and vote at the meeting. Holders of H shares who intend to attend the meeting shall deposit the transfers and relevant share certificates at the Company's H shares registrar, Hong Kong Registrars Limited located at 17/F Hopewell Center, 183 Queen's Road East, Hong Kong not later than 4:30 pm on 14 April 2009.

(3) Shareholders who intend to attend the meeting shall lodge the reply slips for attending the meeting to the Company before 25 April 2009.

(4) Any shareholder entitled to attend and vote at the meeting is entitled to appoint one or more proxies (whether or not shareholder of the Company) to attend and vote at the meeting on his/her behalf.

(5) In order to be valid, the proxy forms of shareholders and other notarially certified documents (if any) should be deposited at the Company not less than 24 hours before the time for holding the meeting.

(6) The meeting is expected to last for half a day. Shareholders or their proxies attending the meeting shall bear their own travel and accommodation expenses.

By order of the Board
**Su Weiguo**
Chairman
30 March 2009

# LIST OF DOCUMENTS AVAILABLE FOR INSPECTION

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

(1) Accounting Statements bearing signatures and seals of the Chairman, Chief Accountant and Head of Financial Department of the Company;

(2) Originals of auditor's reports bearing seals of the Accountants and signatures and seals of the Certified Public Accountants;

(3) Originals of all company documents and originals of announcements, which have been disclosed on the designated newspapers during the reporting period;

(4) Original of the Company's annual report.

**TO THE SHAREHOLDERS OF**
**NORTHEAST ELECTRIC DEVELOPMENT COMPANY LIMITED**
(A sino-foreign joint stock company established in the People's Republic of China with limited liability)

We have audited the consolidated financial statements of Northeast Electric Development Company Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 88 to 180, which comprise the consolidated balance sheet as at 31 December 2008, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

## DIRECTOR'S RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

## AUDITOR'S RESPONSIBILITY

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

## AUDITOR'S RESPONSIBILITY(Continued)

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

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

## OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of the Group's affairs as at 31 December 2008 and of its loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

**TING HO KWAN & CHAN**
Certified Public Accountants (Practising)

Hong Kong, 30 March 2009

# CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2008 (Prepared in accordance with Hong Kong Financial Reporting Standards)

| | Notes | 2008 | As restated 2007 |
|---|---|---|---|
| | | *Rmb'000* | *Rmb'000* |
| **Continuing operations** | | | |
| **Turnover** | 6 | 517,717 | 618,496 |
| Cost of sales | | (404,605) | (510,785) |
| Gross profit | | 113,112 | 107,711 |
| Other income | 8 | 9,633 | 7,105 |
| Distribution costs | | (48,123) | (52,396) |
| Administrative expenses | | (67,675) | (163,886) |
| **Operating profit/(loss)** | | 6,947 | (101,466) |
| Finance costs | 12 | (3,443) | (3,685) |
| Share of results of associates | | (376) | (821) |
| Loss on disposal of a subsidiary | 37 | (720) | - |
| Gain on disposal of available-for-sale investments | | - | 54,443 |
| Provision for loss on guarantee obligations | | - | (70,257) |
| Losses on share exchange scheme | 42 | (71,846) | (170,460) |
| **Loss before taxation** | 11 | (69,438) | (292,246) |
| Taxation | 9 | (1,020) | 4,146 |
| **Loss for the year from continuing operations** | | (70,458) | (288,100) |
| **Discontinued operations** | | | |
| Loss for the year from discontinued operations | 10 | - | (56,807) |
| **Loss for the year** | | (70,458) | (344,907) |

| | Notes | 2008 | As restated 2007 |
|---|---|---|---|
| | | *Rmb'000* | *Rmb'000* |
| **Attributable to:** | | | |
| Equity holders of the Company | | (69,001) | (337,877) |
| Minority interests | | (1,457) | (7,030) |
| | | (70,458) | (344,907) |
| **Loss per share - basic** | 15 | | |
| From continuing and discontinued operations (Rmb per share) | | (0.08) | (0.39) |
| From continuing operations (Rmb per share) | | (0.08) | (0.32) |

The notes on pages 96 to 180 are an integral part of these consolidated financial statements.

# CONSOLIDATED BALANCE SHEET

As at 31 December 2008 (Prepared in accordance with Hong Kong Financial Reporting Standards)

| | Notes | 2008 | As restated 2007 |
|---|---|---|---|
| | | *Rmb'000* | *Rmb'000* |
| **NON-CURRENT ASSETS** | | | |
| Property, plant and equipment | 16 | 84,331 | 110,247 |
| Prepaid lease payments | 17 | 5,013 | 14,493 |
| Interests in associates | 20 | 89,753 | 59,397 |
| Available-for-sale investments | 21 | 216,055 | 233,434 |
| Trade and other receivables | 24 | 844 | - |
| Deferred tax assets | 36 | 5,120 | 5,289 |
| | | 401,116 | 422,860 |
| **CURRENT ASSETS** | | | |
| Inventories | 23 | 67,539 | 92,783 |
| Trade and other receivables | 24 | 336,821 | 355,939 |
| Non-current assets held for sale | 27 | 1,300 | - |
| Pledged bank deposits | 28 | 19,712 | 28,943 |
| Cash and cash equivalents | 29 | 30,216 | 36,635 |
| | | 455,588 | 514,300 |
| **CURRENT LIABILITIES** | | | |
| Trade and other payables | 30 | 289,103 | 253,510 |
| Amounts due to associates | 25 | 8,094 | - |
| Amount due to an investee company | 26 | 2,252 | 42,000 |
| Tax payable | | 901 | 124 |
| Bank borrowings | 31 | 22,450 | 50,369 |
| Provision for loss on guarantee obligations | 32 | 124,968 | 124,968 |
| | | 447,768 | 470,971 |
| **NET CURRENT ASSETS** | | 7,820 | 43,329 |
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | | 408,936 | 466,189 |

| | Notes | 2008 | As restated 2007 |
|---|---|---|---|
| | | *Rmb'000* | *Rmb'000* |
| **CAPITAL AND RESERVES** | | | |
| Share capital | 33 | 873,370 | 873,370 |
| Share premium and reserves | 34 | (562,295) | (483,992) |
| Equity attributable to equity holders of the Company | | 311,075 | 389,378 |
| Minority interests | | 2,858 | 4,315 |
| **TOTAL EQUITY** | | 313,933 | 393,693 |
| **NON-CURRENT LIABILITIES** | | | |
| Amount due to an associate | 25 | 32,176 | - |
| Amount due to an investee company | 26 | 62,827 | 72,496 |
| | | 95,003 | 72,496 |
| | | 408,936 | 466,189 |

The consolidated financial statements were approved and authorised for issue by the Board of Directors on 30 March 2009 and are signed on its behalf by:

**Chairman: Su Weiguo** **Director: Bi Jianzhong**

The notes on pages 96 to 180 are an integral part of these consolidated financial statements.

## CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2008 (Prepared in accordance with Hong Kong Financial Reporting Standards)

| | Notes | 2008 | As restated 2007 |
|---|---|---|---|
| | | *Rmb'000* | *Rmb'000* |
| **OPERATING ACTIVITIES** | | | |
| Loss for the year | | (70,458) | (344,907) |
| Adjustments for: | | | |
| Interest income | 8 | (639) | (1,214) |
| Dividend income | 8 | (7,321) | - |
| Government grant income | 8 | - | (162) |
| Taxation | 9 | 1,020 | (4,146) |
| Amortisation of prepaid lease payments | 11 | 135 | 493 |
| Depreciation of property, plant and equipment | 11 | 7,899 | 13,694 |
| Impairment loss on available-for-sale investments | 11 | - | 2,537 |
| Impairment loss on property, plant and equipment | 11 | - | 40,000 |
| Allowance of impairment loss on trade and other receivables | 11 | 4,973 | 99,852 |
| Loss on disposal of property, plant and equipment | 11 | 288 | 583 |
| Interest expense | 12 | 3,443 | 3,965 |
| Share of results of associates | | 376 | 821 |
| Gain on disposal of available-for-sale investments | | - | (54,443) |
| Provision for loss on guarantee obligations | | - | 70,257 |
| Loss on disposal of a subsidiary | 37 | 720 | - |
| Losses on share exchange scheme | 42 | 71,846 | - |
| **Operating profit/(loss) before changes in working capital** | | 12,282 | (172,670) |

| | Notes | 2008 | As restated 2007 |
|---|---|---|---|
| | | *Rmb'000* | *Rmb'000* |
| Decrease/(increase) in inventories | | 3,568 | (25,607) |
| Increase in trade and other receivables | | (61,345) | (91,855) |
| Decrease in amount due from an associate | | - | 88,773 |
| Increase in trade and other payables | | 93,314 | 41,709 |
| Increase/(decrease) in amounts due to associates | | 8,094 | (4,208) |
| (Decrease)/increase in amount due to an investee company | | (39,748) | 42,000 |
| Cash generated from/(used in) operations | | 16,165 | (121,858) |
| Income tax paid | | (1,340) | (1,349) |
| Interest paid | | (3,443) | (3,965) |
| **NET CASH GENERATED FROM/(USED IN) OPERATING ACTIVITIES** | | 11,382 | (127,172) |
| **INVESTING ACTIVITIES** | | | |
| Net cash inflow/(outflow) from disposal of subsidiaries | 37 | 3,918 | (2,322) |
| Dividend received | | - | 19,956 |
| Proceeds from disposal of property, plant and equipment | | 43 | 3,597 |
| Interest received | | 639 | 1,214 |
| Purchase of property, plant and equipment | | (32,035) | (13,323) |
| Increase in investment in available-for-sale investments | | - | (2,337) |
| Proceeds from disposal of available-for-sale investments | | - | 79,251 |
| Decrease/(increase) in pledged bank deposits | | 9,231 | (27,583) |
| **NET CASH (USED IN)/GENERATED FROM INVESTING ACTIVITIES** | | (18,204) | 58,453 |

| | 2008<br>*Rmb'000* | As restated<br>2007<br>*Rmb'000* |
|---|---|---|
| **FINANCING ACTIVITIES** | | |
| New bank borrowings raised | 35,450 | 60,169 |
| Repayments of bank borrowings | (63,369) | (44,150) |
| Increase in amount due to an associate | 32,176 | 72,496 |
| Decrease in amount due to an investee company | (2,100) | - |
| Dividend paid to minority shareholders | - | (21,120) |
| **NET CASH GENERATED FROM FINANCING ACTIVITIES** | 2,157 | 67,395 |
| | | |
| **NET DECREASE IN CASH AND CASH EQUIVALENTS** | (4,665) | (1,324) |
| **CASH AND CASH EQUIVALENTS AT 1 JANUARY** | 36,635 | 39,764 |
| Effect of changes in foreign exchange rate | (1,754) | (1,805) |
| **CASH AND CASH EQUIVALENTS AT 31 DECEMBER** | 30,216 | 36,635 |

The notes on pages 96 to 180 are an integral part of these consolidated financial statements.

| | Attributable to equity holders of the Company | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Share capital | Capital reserve | Capital contribution | Statutory surplus reserve | Discretionary surplus reserve | Translation reserve | Accumulated losses | Total | Minority interests | Total equity |
| | *Rmb '000* | *Rmb '000* | *Rmb '000* | *Rmb '000* | *Rmb '000* | *Rmb '000* | *Rmb '000* | *Rmb '000* | *Rmb '000* | *Rmb '000* |
| | *(Note 33)* | *(Note 34)* | *(Note 34)* | *(Note 34)* | *(Note 34)* | | | | | |
| At 1 January 2007, as previously reported | 873,370 | 603,394 | 50,391 | 81,631 | 32,699 | 233 | (812,371) | 829,347 | 101,524 | 930,871 |
| Correction of accounting errors (Note 2(iii)) | - | - | 136,028 | - | - | - | (136,028) | - | - | - |
| Change in accounting policy (Note 2(i)) | - | 1,170 | - | - | - | - | (1,170) | - | - | - |
| At 1 January 2007, as restated | 873,370 | 604,564 | 186,419 | 81,631 | 32,699 | 233 | (949,569) | 829,347 | 101,524 | 930,871 |
| Acquisition of additional interests in subsidiaries | - | (93,504) | - | - | - | - | - | (93,504) | (69,059) | (162,563) |
| Dividend paid to minority shareholders | - | - | - | - | - | - | - | - | (21,120) | (21,120) |
| Exchange differences arising from translation of foreign operations recognised directly in equity | - | - | - | - | - | (8,588) | - | (8,588) | - | (8,588) |
| Loss for the year | - | - | - | - | - | - | (337,877) | (337,877) | (7,030) | (344,907) |
| At 31 December 2007 | 873,370 | 511,060 | 186,419 | 81,631 | 32,699 | (8,355) | (1,287,446) | 389,378 | 4,315 | 393,693 |
| At 1 January 2008, as previously reported | 873,370 | 603,394 | 54,131 | 81,631 | 32,699 | (8,357) | (1,123,850) | 513,018 | 4,315 | 517,333 |
| Correction of accounting errors (Note 2(iii)) | - | - | 132,288 | - | - | - | (133,428) | (1,140) | - | (1,140) |
| Change in accounting policy (Note 2(i)) | - | (92,334) | - | - | - | - | (1,170) | (93,504) | - | (93,504) |
| Correction of accounting treatment (Note 2(ii)) | - | - | - | - | - | 2 | (28,998) | (28,996) | - | (28,996) |
| At 1 January 2008, as restated | 873,370 | 511,060 | 186,419 | 81,631 | 32,699 | (8,355) | (1,287,446) | 389,378 | 4,315 | 393,693 |
| Exchange differences arising from translation of foreign operations recognised directly in equity- | - | - | - | - | - | (9,302) | - | (9,302) | - | (9,302) |
| Loss for the year | - | - | - | - | - | - | (69,001) | (69,001) | (1,457) | (70,458) |
| At 31 December 2008 | 873,370 | 511,060 | 186,419 | 81,631 | 32,699 | (17,657) | (1,356,447) | 311,075 | 2,858 | 313,933 |

The notes on pages 96 to 180 are an integral part of these consolidated financial statements.

## 1 GENERAL INFORMATION

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

The principal activities of the Company are investment holding and sale of electrical equipment. The principal activities of its subsidiaries (the "Group") are described in note 19.

## 2 PRIOR PERIOD ADJUSTMENTS

### (i) Change in accounting policy

During the year, the Group changed its accounting policy on recognition of the difference between the cost of additional interests in subsidiaries and minority interest's share of assets and liabilities reflected in the consolidated balance sheet at the date of acquisition of minority interest. Such difference is now dealt with in equity directly as the acquisition of minority interest is considered as an equity transaction. In prior years, the difference arising from the acquisition of minority interest is either recognised as goodwill or recognised directly in the income statement. In accordance with HKAS 8, this change has been applied retrospectively and comparative amounts have been restated.

| | **As at 31 December 2006** | **During year ended 31 December 2007** | **As at 31 December 2007** |
|---|---|---|---|
| | *Rmb'000* | *Rmb'000* | *Rmb'000* |
| | Increase/(decrease) | Increase/(decrease) | Increase/(decrease) |
| Goodwill | - | (93,504) | (93,504) |
| Capital reserve | 1,170 | (93,504) | (92,334) |
| Accumulated losses | 1,170 | - | 1,170 |

## 2 PRIOR PERIOD ADJUSTMENTS (Continued)

### (ii) Correction of accounting treatment

The investment in New Northeast Electric (Shenyang) High-Voltage Switches Co., Limited ("New High-Voltage") had been regarded as investment in an associate in previous years and had been equity accounted for accordingly. In the current year, the directors have discovered that the proportion of paid-up capital indirectly held by the Group through its subsidiaries in New High-Voltage should be 21.36% and 17.09% as at 31 December 2006 and 31 December 2007 respectively instead of 20.80% as stated in the annual reports for both 2006 and 2007.

After the due and careful consideration on whether the significant influence over the management of New High-Voltage was in existence or not , including participation in the financial and operating policy decisions, the Board of directors are of the opinion that the previous accounting treatment for investment in New High-Voltage in 2007 was inappropriate.

The Board of directors determined that the errors need to be corrected through restatement of previously issued consolidated financial statements in respect of the classification of investment in New High-Voltage in 2007, the details of prior period adjustments for the correction of the above accounting treatment are summarised as below.

| | As at 31 December 2006 | During year ended 31 December 2007 | As at 31 December 2007 |
|---|---|---|---|
| | *Rmb'000* | *Rmb'000* | *Rmb'000* |
| | Increase/(decrease) | Increase/(decrease) | Increase/(decrease) |
| Interests in associates | (245,665) | (6,765) | (252,430) |
| Available-for-sale investments | 245,665 | (22,231) | 223,434 |
| Translation reserve | - | 2 | 2 |
| Share of results of associates | - | (28,998) | - |
| Accumulated losses | - | - | 28,998 |

## 2 PRIOR PERIOD ADJUSTMENTS (Continued)

### (iii) Correction of accounting errors

During reconciliation of other major accounts, the management has identified other material errors relating to prior periods and has determined that the correction of the cumulative effect of the prior period errors in the current period is material to the consolidated financial statements for the year ended 31 December 2008. Accordingly, the Company determined that these errors need to be corrected through restatement of previously issued consolidated financial statements.

Details of prior period adjustments for the correction of the above accounting errors are summarised as below:

| | As at 31 December 2006 | During year ended 31 December 2007 | As at 31 December 2007 |
|---|---|---|---|
| | *Rmb'000* | *Rmb'000* | *Rmb'000* |
| | Increase/(decrease) | Increase/(decrease) | Increase/(decrease) |
| **Goodwill** | | | |
| - Note c | - | (1,140) | (1,140) |
| **Capital contribution** | | | |
| - Note a | 136,028 | - | 136,028 |
| - Note c | - | (1,140) | (1,140) |
| - Note d | - | (2,600) | (2,600) |
| | 136,028 | ( 3,740) | 132,288 |
| **Accumulated losses** | | | |
| - Note a | 136,028 | - | 136,028 |
| - Note d | - | - | (2,600) |
| | 136,028 | - | 133,428 |
| **Share of results of associates** | | | |
| - Note b | - | (899) | - |
| **Tax charge** | | | |
| - Note b | - | (899) | - |
| **Other income** | | | |
| - Note d | - | 2,600 | - |

## 2 PRIOR PERIOD ADJUSTMENTS (Continued)

### (iii) Correction of accounting errors (Continued)

Notes on prior period errors:

a Capital contribution wrongly released to accumulated losses upon disposal of subsidiaries in 2006.

b Share of associates' taxation wrongly included in income tax of the Group.

c Revenue wrongly credited to capital contribution.

d Error in recording a capital contribution movement during the year of 2007.

### (iv) Effect of the correction of the accounting treatment and errors in calculation of basic loss per share

The combined effect of the correction of the accounting treatment and errors have resulted in an increase in basic loss per share by 3 cents.

## 3 APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

In the current year, the Group has applied the following amendments and interpretations (new HKFRSs) issued by the Hong Kong Institute of Certified Public Accountants (HKICPA) which are or have become effective.

| | |
|---|---|
| HKAS 39 & HKFRS 7 (Amendments) | Reclassification of financial assets |
| HK(IFRIC) - Int 11 | HKFRS 2: Group and Treasury Share Transactions |

HK(IFRIC)-Int 11, 'HKFRS 2 - Group and treasury share transactions', provides guidance on whether share-based transactions involving treasury shares or involving group entities (for example, options over a parent's shares) should be accounted for as equity-settled or cash-settled share-based payment transactions in the stand-alone accounts of the parent and group companies. This interpretation does not have an impact on the group's financial statements.

The application of the new HKFRSs had no material effect on how the results and financial position for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment was required.

The following interpretations to published standards are mandatory for accounting periods beginning on or after 1 January 2008 but are not relevant to the group's operations:

| | |
|---|---|
| HK(IFRIC) - Int 12 | Service Concession Arrangements |
| HK(IFRIC) - Int 14 | HKAS19 The Limit on a Defined Benefit Asset,Minimum Funding Requirements and their Interaction |

## 3 APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

The Group has not early applied the following new and revised standards or interpretations that have been issued but are not yet effective.

| | |
|---|---|
| HKFRSs (Amendments) | Improvements to HKFRSs[1] |
| HKAS 1 (Revised) | Presentation of Financial Statements[2] |
| HKAS 23 (Revised) | Borrowing Costs[2] |
| HKAS 27 (Revised) | Consolidated and Separate Financial Statements[3] |
| HKAS 32 & HKAS 1 (Amendments) | Puttable Financial Instruments and Obligations Arising on Liquidation[2] |
| HKAS 39 (Amendment) | Eligible hedged items[3] |
| HKFRS 1 & HKAS 27 (Amendments) | Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate[2] |
| HKFRS 2 (Amendment) | Vesting Conditions and Cancellations[2] |
| HKFRS 3 (Revised) | Business Combinations[3] |
| HKFRS 8 | Operating Segments[2] |
| HK(IFRIC) - Int 13 | Customer Loyalty Programmes[4] |
| HK(IFRIC) - Int 15 | Agreements for the Construction of Real Estate[2] |
| HK(IFRIC) - Int 16 | Hedges of a Net Investment in a Foreign Operation[5] |
| HK(IFRIC) - Int 17 | Distribution of Non-cash Assets to Owners[3] |

1 Effective for annual periods beginning on or after 1 January 2009 except for the amendments to HKFRS 5, effective for annual periods beginning on or after 1 July 2009

2 Effective for annual periods beginning on or after 1 January 2009

3 Effective for annual periods beginning on or after 1 July 2009

4 Effective for annual periods beginning on or after 1 July 2008

5 Effective for annual periods beginning on or after 1 October 2008

## 3 APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

The application of HKFRS 3 (Revised) may affect the accounting for business combination for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. HKAS 27 (Revised) will affect the accounting treatment for changes in a parent's ownership interest in a subsidiary. The directors of the Company anticipate that the application of the other new and revised standards, amendments or interpretations will have no material impact on the results and the financial position of the Group.

## 4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A summary of significant accounting policies applied in the preparation of these consolidated financial statements is set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

**Statement of compliance and basis of preparation of the financial statements**

The consolidated financial statements of the Group have been prepared in accordance with HKFRSs, which also include Hong Kong Accounting Standards ("HKAS") and Interpretations ("Int") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of Hong Kong Companies Ordinance. These consolidated financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules"). The consolidated financial statements have been prepared under the historical cost convention, except for certain financial investments which are carried at fair value.

The preparation of consolidated financial statements in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in note 5.

## 4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Basis of consolidation

The consolidated financial statements include the financial statements of the Company and all its subsidiaries made up to 31st December.

#### (i) Subsidiaries

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interests. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Minority interests represent the interests of outside shareholders in the results and net assets of the subsidiaries.

## 4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Basis of consolidation (Continued)

#### (ii) Associates

Associates are all entities, not being a subsidiary or a jointly controlled entity, over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for by the equity method of accounting and are initially recognised at cost. The Group's investments in associates include goodwill (net of any accumulated impairment loss) identified on acquisition.

The Group's share of its associates' post-acquisition results is recognised in the income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interests in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

Dilution gains and losses in associates are recognised in the consolidated income statement.

## 4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary/associate at the date of acquisition. Goodwill on acquisitions of subsidiaries is shown separately in the consolidated balance sheet. Goodwill on acquisitions of associates and jointly controlled entities is included in investments in associates and jointly controlled entities respectively. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

### Revenue recognition

Revenue comprises the fair value for the sale of goods and services, net of value-added tax, rebates and discounts and after eliminating sales within the Group. Revenue is recognised as follows:

Sales of goods are recognised when a Group entity has delivered products to the customer and the customer has accepted the products and collectibility of the related receivables is reasonably assured.

Dividend income is recognised when the right to receive payment is established prior to the balance sheet date.

Interest income is recognised as it accrues using the effective interest method.

## 4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Leases

#### (i) Operating lease (as the lessee)

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Where the Group is the lessee, payments made under operating leases (net of any incentives received from the lessor) are expensed in the consolidated income statement on a straight-line basis over the period of the lease.

#### (ii) Finance lease (as the lessee)

Leases of assets where the Group has substantially obtained all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in current and non-current bank and other borrowings. The interest element of the finance cost is recognised in the consolidated income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases are depreciated over the shorter of the useful lives of the assets or the lease terms.

## 4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Foreign currency translation

#### (i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in Renminbi ("Rmb"), which is the Group's functional and presentation currency.

#### (ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated income statement, except when deferred in equity as qualifying cash flow hedges or qualifying net investment hedges.

Translation differences on non-monetary items, such as equity instruments held at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation differences on non-monetary items, such as equities classified as available-for-sale investments, are included in the fair value reserve in equity.

## 4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Foreign currency translation (Continued)

#### (iii) Group companies

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(a) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

(b) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

(c) all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is sold, such exchange differences are recognised in the consolidated income statement as part of the gain or loss on sale.

## 4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

**Borrowing costs**

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised.

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

**Retirement benefit costs**

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

## 4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the income statement or in equity if it relates to items that are recognised in the same or a different period, directly in equity.

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, if the deferred tax arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not accounted for. Deferred tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled. Deferred tax assets and liabilities are not discounted.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. Deferred tax assets also arise from unused tax losses and unused tax credits.

At each balance sheet date, the Group reviews and assesses the recognised and unrecognised deferred tax assets and the future taxable profit to determine whether any recognised deferred tax assets should be derecognised and any unrecognised deferred tax assets should be recognised.

Deferred tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

## 4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

**Property, plant and equipment**

Property, plant and equipment are stated at historical cost less accumulated depreciation and accumulated impairment losses, if any. Historical cost includes expenditures that are directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are expensed in the consolidated income statement during the financial period in which they are incurred.

Depreciation of property, plant and equipment is calculated using the straight-line method to allocate cost or revalued amounts to their residual values (if any) over their estimated useful lives, as follows:

| | |
|---|---|
| Buildings | 20-40 years |
| Plant, machinery and equipment | 8-20 years |
| Motor vehicles and others | 6-17 years |

The assets' residual values (if any) and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. The gain or loss on derecognition of the asset, calculated as the difference between the net disposal proceeds and the carrying amount of the item, is included in the income statement in the period the item is derecognised.

Construction in progress represents buildings, structures, plant and machinery and other fixed assets under construction or installation and is stated at cost less any accumulated impairment losses, and is not depreciated. Cost comprises direct costs of construction, installation and testing as well as capitalised borrowing costs on related borrowed funds during the period of construction or installation. Construction in progress is reclassified to the appropriate category of fixed assets or investment properties when completed and ready for use.

## 4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

**Property, plant and equipment (Continued)**

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

**Prepaid lease payments**

Prepaid lease payments are lump sum upfront payments to acquire long-term land use rights in lessee-occupied properties.

Prepaid lease payments relating to buildings of the Group are stated at cost and are amortised over the period of the lease on the straight-line basis to the consolidated income statement.

**Research and development expenditure**

Expenditure on research activities is recognised as an expenses in the period in which it is incurred. Expenditure on development activities is capitalised if the product or process is technically and commercially feasible and the Group has sufficient resources and the intention to complete development. The expenditure capitalised includes the cost of materials, direct labour, and an appropriate proportion of overheads and borrowing costs, where applicable. Capitalised development costs are stated at cost less accumulated amortisation and impairment losses. Other development expenditure is recognised as an expense in the period in which it is incurred.

## 4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Impairment of assets

#### (i) Impairment of investments in equity securities and other receivables

Investments in equity securities (other than investments in subsidiaries and associates) and other current and non-current receivables that are stated at cost or amortised cost or are classified as available-for-sale investments are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

- significant financial difficulty of the debtor;

- a breach of contract, such as a default or delinquency in interest or principal payments;

- it becoming probable that the debtor will enter bankruptcy or other financial reorganisation;

- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and

- a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

## 4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Impairment of assets (Continued)

#### (i) Impairment of investments in equity securities and other receivables (Continued)

If any such evidence exists, any impairment loss is determined and recognised as follows:

- For trade and other current receivables and other financial assets carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where financial assets carried at amortised cost share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

  If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

## 4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

**Impairment of assets (Continued)**

**(i) Impairment of investments in equity securities and other receivables (Continued)**

- For available-for-sale investments, the cumulative loss that has been recognised directly in equity is removed from equity and is recognised in profit or loss. The amount of the cumulative loss that is recognised in profit or loss is the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that asset previously recognised in profit or loss.

  Impairment losses recognised in profit or loss in respect of available-for-sale investments are not reversed through profit or loss. Any subsequent increase in the fair value of such assets is recognised directly in equity.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade debtors and bills receivable included within trade and other receivables, whose recovery is considered doubtful but not remote. In this case, the allowance for impairment of bad and doubtful debts are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade debtors and bills receivable directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

## 4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Impairment of assets (Continued)

#### (ii) Impairment of other assets

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased:

- property, plant and equipment (other than properties carried at revalued amounts);
- prepaid lease payments classified as being held under an operating lease; and
- investments in subsidiaries and associates (except for those classified as held for sale or included in a disposal group that is classified as held for sale).

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, intangible assets that are not yet available for use and intangible assets that have indefinite useful lives, the recoverable amount is estimated annually whether or not there is any indication of impairment.

- Calculation of recoverable amount

The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

## 4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

**Impairment of assets (Continued)**

**(ii) Impairment of other assets (Continued)**

- Recognition of impairment losses

An impairment loss is recognised in profit or loss whenever the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

- Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

## 4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Financial guarantees issued, provisions and contingent liabilities

#### (i) Financial guarantees issued

Financial guarantees are contracts that require the issuer (i.e. the guarantor) to make specified payments to reimburse the beneficiary of the guarantee (the "holder") for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Where the Group issues a financial guarantee, the fair value of the guarantee (being the transaction price, unless the fair value can otherwise be reliably estimated) is initially recognised as deferred income within trade and other payables. Where consideration is received or receivable for the issuance of the guarantee, the consideration is recognised in accordance with the Group's policies applicable to that category of asset. Where no such consideration is received or receivable, an immediate expense is recognised in profit or loss on initial recognition of any deferred income.

The amount of the guarantee initially recognised as deferred income is amortised in profit or loss over the term of the guarantee as income from financial guarantees issued. In addition, provisions are recognised in accordance with this note (iii) below if and when (i) it becomes probable that the holder of the guarantee will call upon the Group under the guarantee, and (ii) the amount of that claim on the Group is expected to exceed the amount currently carried in trade and other payables in respect of that guarantee i.e. the amount initially recognised, less accumulated amortisation.

## 4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Financial guarantees issued, provisions and contingent liabilities (Continued)

**(ii) Contingent liabilities acquired in business combinations**

Contingent liabilities acquired as part of a business combination are initially recognised at fair value, provided the fair value can be reliably measured. After their initial recognition at fair value, such contingent liabilities are recognised at the higher of the amount initially recognised, less accumulated amortisation where appropriate, and the amount that would be determined in accordance with this note (iii) below. Contingent liabilities acquired in a business combination that cannot be reliably fair valued are disclosed in accordance with this note (iii) below.

**(iii) Other provisions and contingent liabilities**

Provisions are recognised for other liabilities of uncertain timing or amount when the Group or the Company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

## 4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

### Cash and cash equivalents

Cash and cash equivalents comprise cash at banks and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated cash flow statement.

### Financial assets

The Group classifies its financial assets in the following two categories: available-for-sale investments and loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition and re-evaluates their classification at every balance sheet date.

## 4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

**Financial assets (Continued)**

(i) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Trade and other receivables and cash and cash equivalents in the balance sheet are classified as loans and receivables.

Loans and receivables are recognised initially at fair value, plus transaction costs incurred. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

(ii) Available-for-sale investments

Available-for-sale investments are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

Regular purchases and sales of investments are recognised on the trade-date - the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all investments not carried at fair value through profit or loss. Investments carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the income statement. Investments are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale investments and investments at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are carried at amortised cost using the effective interest method.

## 4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

**Financial assets (Continued)**

(ii) Available-for-sale investments (Continued)

Changes in the fair value of monetary securities denominated in a foreign currency and classified as available-for-sale are analysed between translation differences resulting from changes in amortised cost of the security and other changes in the carrying amount of the security. The translation differences on monetary securities are recognised in profit or loss; translation differences on non-monetary securities are recognised in equity. Changes in the fair value of monetary and non-monetary securities classified as available-for-sale are recognised in equity.

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the income statement as 'gains and losses from investment securities'.

Interest on available-for-sale investments calculated using the effective interest method is recognised in the income statement as part of other income. Dividends on available-for-sale equity instruments are recognised in the income statement as part of other income when the Group's right to receive payments is established.

The fair values of quoted investments are based on current bid prices. If the market for an investment is not active (and for unlisted securities), the Group established fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis and option pricing models, making maximum use of market inputs and relying as little as possible on entity-specific inputs.

## 4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

**Financial liabilities and equity**

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

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

**Financial liabilities**

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

**Equity instruments**

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

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

## 4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

**Related parties**

For the purposes of these consolidated financial statements, a party is considered to be related to the Group if:

(i) the party has the ability, directly or indirectly through one or more intermediaries, to control the Group or exercise significant influence over the Group in making financial and operating policy decisions, or has joint control over the Group;

(ii) the Group and the party are subject to common control;

(iii) the party is an associate of the Group;

(iv) the party is a member of key management personnel of the Group or the Group's parent, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals;

(v) the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals; or

(vi) the party is a post-employment benefit plan which is for the benefit of employees of the Group or of any entity that is a related party of the Group.

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

**Segment reporting**

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

## 5 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The selection of critical accounting policies, the judgements and other uncertainties affecting application of those policies and the sensitivity of reported results to changes in conditions and assumptions are factors to be considered when reviewing the consolidated financial statements. The Group believes the following critical accounting policies involve the most significant judgements and estimates used in the preparation of the consolidated financial statements.

### (a) Useful lives of property, plant and equipment

The Group's management determines the estimated useful lives of its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. Management will adjust the depreciation charge where useful lives vary with previously estimated lives, or they will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold. It is reasonably possible, based on existing knowledge, that outcomes within the next financial year that are different from assumptions could require a material adjustment to the carrying amount of property, plant and equipment.

## 5 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

### (b) Fair value of financial instruments

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Group uses its judgement to select a variety of methods and make assumptions that are mainly based on market conditions existing at each balance sheet date.

### (c ) Current taxation and deferred taxation

The Group is subject to income taxes in various jurisdictions. Judgement is required in determining the provision for income taxes in each of these jurisdictions. There are many transactions and calculations during the ordinary course of business for which the ultimate tax determination is uncertain. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the periods in which such determination are made.

Deferred tax assets relating to certain temporary differences and tax losses are recognised as management considers it is probable that future taxable profit will be available against which the temporary differences or tax losses can be utilised. Where the expectation is different from the original estimate, such differences will impact the recognition of deferred tax assets and taxation in the periods in which such estimates are changed.

## 5 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

### (d) Provision for loss on guarantee obligations

At 31 December 2008, the Group's outstanding litigations are set out in note 32. Based on court ruling and legal advice obtained, an aggregate amount of Rmb124,968,000 was accounted for as provision for loss on guarantee obligations up to 31 December 2008. Certain litigations are still in progress and the final outcome of the appeal, if any, may result in adjustment to the amount of provision for loss on guarantee obligations being accounted for.

### (e) Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs to completion and selling expenses. These estimates are based on the current market condition and the historical experience of manufacturing and selling products of similar nature. It could change significantly as a result of changes in customer preferences and competitor actions in response to severe industry cycles. Management reassesses these estimates at each balance sheet date.

### (f) Allowance for impairment of trade and other receivables

The Group's management determines the allowance for impairment of trade and other receivables based on past payment records, the credit history of the customers and the current market condition. Management reassesses the adequacy of such allowance on a regular basis.

## 5 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

### (g) Going concern

As at 31 December 2008, the Group had net current assets of Rmb7,820,000 (2007: net current assets of Rmb43,329,000 as restated) and outstanding bank borrowings of Rmb22,450,000 (2007: Rmb50,369,000). The Group recorded a loss of Rmb70,458,000 for the year ended 31 December 2008 (2007 : Loss of Rmb344,907,000 as restated). These conditions indicate the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern.

The directors are satisfied that the Group will be able to meet its financial obligations as and when they fall due for the twelve months from 31 December 2008. The directors are also confident that the Group will continue to obtain the ongoing support from its bankers and accordingly, the directors are of the opinion that it is appropriate to prepare the consolidated financial statements on a going concern basis. The consolidated financial statements do not include any adjustments relating to the carrying amounts and reclassification of assets and liabilities that might be necessary should the Group be unable to continue as a going concern.

## 6 TURNOVER

An analysis of the Group's revenue for the year, for both continuing and discontinued operations, is as follows:

| | 2008 | 2007 |
|---|---|---|
| | *Rmb'000* | *Rmb'000* |
| **Continuing operations** | | |
| Sales of transmission machinery | 517,717 | 618,496 |
| **Discontinued operations** | | |
| Revenue from provision of hotel, catering and entertainment services | - | 18,741 |
| **Total** | 517,717 | 637,237 |

## 7 SEGMENTS REPORT

The Group's turnover and operating results are almost entirely generated from the production and sales of transmission machinery. Accordingly, no business segment information is provided.

More than 90% of the Group's income are derived from the PRC and the income earned outside the PRC is insignificant. More than 90% of the carrying amount of segment assets, and additions to property, plant and equipment are located in the PRC and the assets outside the PRC is insignificant. Accordingly, geographical segment information has not been presented.

## 8 OTHER INCOME

| | 2008 | As restated 2007 |
|---|---|---|
| | *Rmb'000* | *Rmb'000* |
| **Continuing operations** | | |
| Dividend from available-for-sale investments | 7,321 | - |
| Interest income on bank deposits | 639 | 1,188 |
| Exchange gain | 1,174 | - |
| Government grant income (Note 35) | - | 162 |
| Rental income | - | 2,464 |
| Sales of wastage | 93 | 489 |
| Others | 406 | 2,802 |
| | 9,633 | 7,105 |
| **Discontinued operations** | | |
| Interest income on bank deposits | - | 26 |
| Others | - | 225 |
| | - | 251 |
| **Total** | 9,633 | 7,356 |

## 9 TAXATION

The provision for the PRC income tax is calculated at 25% (2007: 27% to 33%) of the estimated assessable profits in accordance with the relevant income tax rules and regulations of the PRC. Two subsidiaries located in the PRC are entitled to exemption from PRC Enterprise Income Tax for two years commencing from their first profit-making year of operation and thereafter, they are entitled to a 50% relief from PRC Enterprise Income Tax for the following three years. The first profit-making year of the subsidiaries in the PRC commenced in 2005 and 2006 respectively.

No provision for Hong Kong profits tax is made in the financial statements as the Group has sustained a loss for the year in respect of its operation in Hong Kong (2007: Nil).

| | | **As restated** |
|---|---|---|
| | **2008** | **2007** |
| | *Rmb'000* | *Rmb'000* |
| The tax charge/(credit) comprises: | | |
| Income tax provision for the year | 2,832 | 1,143 |
| Deferred tax (Note 36) | (1,812) | (5,289) |
| | 1,020 | (4,146) |

Details of unrecognised deferred tax assets are set out in Note 36.

## 9 TAXATION (Continued)

Reconciliation between tax expense and accounting loss at applicable tax rate:

| | 2008 | As restated 2007 |
|---|---|---|
| | *Rmb'000* | *Rmb'000* |
| Loss before taxation: | | |
| Continuing operations | (69,438) | (292,246) |
| Discontinued operations | - | (56,807) |
| | (69,438) | (349,053) |
| Tax at the statutory income tax rate of 25% (2007: 33%) | (17,359) | (115,187) |
| Effect of different tax rates of subsidiary operating under different tax jurisdiction | 713 | (6,019) |
| Effect of changes in income tax rate | 1,282 | - |
| Income not subject to tax | (10,854) | (8,307) |
| Expenses not deductible for tax | 28,442 | 102,013 |
| Tax losses utilised | (755) | - |
| Tax losses not recognised | 1,460 | 27,111 |
| Income tax on concessionary rate | (1,909) | (3,757) |
| Tax charge/(credit) | 1,020 | (4,146) |

## 10 DISCONTINUED OPERATIONS

On 14 May 2007, the Group entered into a swap agreement with Prosper Power Company Limited ("Prosper Power") in which the Group would acquire the 48% of the equity interests of New Northeast Electric (Jinzhou) Power Capacitors Co., Limited and the 25.6% of the equity interests of New Northeast Electric (Shenyang) High-Voltage Isolator Switchgears Co., Limited owned by Prosper Power (the "minority interests" ). The acquisition consideration was Rmb180,000,000 and satisfied by way of disposing to Prosper Power the entire shareholding interests in Kingdom Hotel Shenyang Company Limited ("Kingdom Hotel Shenyang"). The transaction was approved by the shareholders on 16 August 2007 and completed on 31 August 2007.

| | **2008** | **2007** |
|---|---|---|
| | *Rmb'000* | *Rmb'000* |
| **Loss for the year from discontinued operations** | | |
| Kingdom Hotel Shenyang | | |
| Revenue | - | 18,992 |
| Expenses | - | (75,799) |
| Loss before taxation | - | (56,807) |
| Taxation | - | - |
| **Loss for the year from discontinued operations** | - | (56,807) |
| | | |
| **Cash flows from discontinued operations** | | |
| Net cash flows used in operating activities | - | (2,591) |
| Net cash flows used in investing activities | - | (19) |
| Net cash flows used in financing activities | - | (370) |
| **Net cash outflows** | - | (2,980) |

## 11 LOSS BEFORE TAXATION

Loss before taxation is arrived at after charging:

| | Continuing operations | Discontinued operations | Total |
|---|---|---|---|
| | *Rmb'000* | *Rmb'000* | *Rmb'000* |
| **2008** | | | |
| Depreciation | 7,899 | - | 7,899 |
| Amortisation of prepaid lease payments | 135 | - | 135 |
| Loss on disposal of property, plant and equipment | 288 | - | 288 |
| Research and development costs | 472 | - | 472 |
| Auditors' remuneration | 1,700 | - | 1,700 |
| Allowances for impairment of trade and other receivables | 4,973 | - | 4,973 |
| Staff costs (including directors' emoluments) | 16,891 | - | 16,891 |
| Operating lease - office premises | 4,648 | - | 4,648 |
| **2007** | | | |
| Depreciation | 8,345 | 5,349 | 13,694 |
| Amortisation of prepaid lease payments | 493 | - | 493 |
| Loss on disposal of property, plant and equipment | 583 | - | 583 |
| Research and development costs | 311 | - | 311 |
| Impairment loss on property, plant and equipment | - | 40,000 | 40,000 |
| Allowances for impairment of trade and other receivables | 99,852 | - | 99,852 |
| Impairment loss on available-for-sale investments | 2,537 | - | 2,537 |
| Auditors' remuneration | 2,893 | 6 | 2,899 |
| Staff costs (including directors' emoluments) | 25,889 | 3,755 | 29,644 |
| Operating lease - office premises | 2,900 | - | 2,900 |

## 12 FINANCE COSTS

Interest on bank borrowings wholly repayable within five years

| | Continuing operations | Discontinued operations | Total |
|---|---|---|---|
| | *Rmb'000* | *Rmb'000* | *Rmb'000* |
| **2008** | | | |
| Bank loan interest | 3,443 | - | 3,443 |
| **2007** | | | |
| Bank loan interest | 3,685 | 280 | 3,965 |

## 13 DIRECTORS' EMOLUMENTS

Directors' emoluments disclosed pursuant to the disclosure requirement of the Listing Rules are as follows:

(a) Directors' emoluments

The emoluments paid or payable to each of the 14 (2007: 13) directors were as follows:

| 2008 | Sun[2] Zhen | Wang Shouguan | Zhang[2] Bin | Liang[4] Jie | Su Weiguo | Liu[4] Hongguang | Liu Qingmin | Shi[3] Li | Du Kai | Bi[5] Jianzhong | Wu[4] Qicheng | Lin[4] Wenbin | Xiang[4] Yongchun | Zhang[1] Zhaozhang | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | *Rmb'000* | *Rmb'000* | *Rmb'000* | *Rmb'000* | *Rmb'000* | *Rmb'000* | *Rmb'000* | *Rmb'000* | *Rmb'000* | *Rmb'000* | *Rmb'000* | *Rmb'000* | *Rmb'000* | *Rmb'000* | *Rmb'000* |
| Fees | - | - | - | 35 | - | 35 | - | - | - | - | 35 | 35 | 35 | | 175 |
| Other emoluments | | | | | | | | | | | | | | | |
| Salaries and other benefits | 63 | 72 | 62 | - | 104 | - | 94 | 66 | 62 | 97 | - | - | - | 119 | 739 |
| Bonus | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Contributions to retirement benefit schemes | 12 | - | 12 | - | 20 | - | - | 12 | 12 | 18 | - | - | - | 23 | 109 |
| Total emoluments | 75 | 72 | 74 | 35 | 124 | 35 | 94 | 78 | 74 | 115 | 35 | 35 | 35 | 142 | 1,023 |

| 2007 | Sun Zhen | Wang Shouguan | Zhang Bin | Liang Jie | Su Weiguo | Liu Hongguang | Liu Qingmin | Shi Li | Du Kai | Bi Jianzhong | Wu Qicheng | Lin Wenbin | Xiang Yongchun | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | *Rmb'000* | *Rmb'000* | *Rmb'000* | *Rmb'000* | *Rmb'000* | *Rmb'000* | *Rmb'000* | *Rmb'000* | *Rmb'000* | *Rmb'000* | *Rmb'000* | *Rmb'000* | *Rmb'000* | *Rmb'000* |
| Fees | - | - | - | 35 | - | 35 | - | - | - | - | 35 | 35 | 35 | 175 |
| Other emoluments | | | | | | | | | | | | | | |
| Salaries and other benefits | 131 | 72 | 104 | - | 77 | - | 115 | 77 | 44 | 45 | - | - | - | 665 |
| Bonus | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Contributions to retirement benefit schemes | 14 | - | 14 | - | 14 | - | - | 14 | 10 | 11 | - | - | - | 77 |
| Total emoluments | 145 | 72 | 118 | 35 | 91 | 35 | 115 | 91 | 54 | 56 | 35 | 35 | 35 | 917 |

The amount disclosed above include directors' fees of Rmb175,000 (2007: Rmb175,000) payable to independent non-executive directors.

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

Notes: (1) Appointed on 20 August 2008

(2) Resigned on 6 July 2008

(3) Resigned on 30 May 2008

(4) Independent non-executive directors

(5) Appointed on 12 October 2007

## 13 DIRECTORS' EMOLUMENTS (Continued)

### (b) Five highest-paid individuals

During the year, the five highest-paid individuals all were (2007: five) directors of the Company and details of their emoluments are set out in (a) above.

| | **2008** | **2007** |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| Salaries and other benefits | 480 | 504 |
| Contributions to retirement benefit schemes | 73 | 56 |
| | 553 | 560 |

## 14 DIVIDEND

The Board of directors of the Company does not recommend the payment of a dividend in respect of the year ended 31 December 2008 (2007: Nil).

## 15 BASIC LOSS PER SHARE

**From continuing and discontinued operations**

The calculation of basic loss per share attributable to the equity holders of the Company is based on the following data:

| | 2008 | As restated 2007 |
|---|---|---|
| | *Rmb'000* | *Rmb'000* |
| **Loss** | | |
| Loss for the year attributable to equity holders of the Company for the purpose of calculation of basic loss per share | (69,001) | (337,877) |
| **Number of shares** | | |
| Weighted average number of ordinary shares for the purpose of calculation of basic loss per share | 873,370 | 873,370 |

## 15 BASIC LOSS PER SHARE (Continued)

### From continuing operations

The calculation of basic loss per share attributable to the equity holders of the Company is based on the following data:

| | 2008 | As restated 2007 |
|---|---|---|
| | *Rmb'000* | *Rmb'000* |
| Loss for the year attributable to equity holders of the Company | (69,001) | (337,877) |
| Less: | | |
| Loss for the year from discontinued operations | - | 56,807 |
| Loss for the purpose of calculating basic loss per share from continuing operations | (69,001) | (281,070) |

The denominator used for calculating the basic loss per share from continuing operations is same as those detailed above.

Diluted loss per share is not presented as there were no dilutive potential ordinary shares outstanding for both years.

## 16 PROPERTY, PLANT AND EQUIPMENT

| | Buildings | Hotel property | Plant, machinery and equipment | Motor vehicles and others | Construction in progress | Total |
|---|---|---|---|---|---|---|
| | *Rmb'000* | *Rmb'000* | *Rmb'000* | *Rmb'000* | *Rmb'000* | *Rmb'000* |
| **Cost** | | | | | | |
| At 1 January 2007 | 101,880 | 371,361 | 77,679 | 17,397 | 552 | 568,869 |
| Reclassifications | (3,698) | - | (17,397) | 21,095 | - | - |
| | 98,182 | 371,361 | 60,282 | 38,492 | 552 | 568,869 |
| Reversal of fair value adjustment | 786 | - | - | - | - | 786 |
| Additions | 53 | - | 1,521 | 8,806 | 2,943 | 13,323 |
| Transferred from construction in progress | - | - | 1,198 | - | (1,198) | - |
| Transferred from government grant (Note 35) | - | - | - | - | (338) | (338) |
| Disposal of a subsidiary (Note 37) | - | (371,361) | (11,009) | (15,998) | - | (398,368) |
| Disposals and written off | - | - | (108) | (5,263) | (959) | (6,330) |
| At 31 December 2007 | 99,021 | - | 51,884 | 26,037 | 1,000 | 177,942 |
| Additions | 30 | - | 2,969 | 3,549 | 25,487 | 32,035 |
| Transferred from construction in progress | - | - | 25,787 | - | (25,787) | - |
| Disposal of subsidiaries (Note 37) | (49,879) | - | (5,492) | (4,245) | - | (59,616) |
| Disposals and written off | - | - | (731) | (1,026) | - | (1,757) |
| At 31 December 2008 | 49,172 | - | 74,417 | 24,315 | 700 | 148,604 |

## 16 PROPERTY, PLANT AND EQUIPMENT (Continued)

| | Buildings | Hotel property | Plant, machinery and equipment | Motor vehicles and others | Construction in progress | Total |
|---|---|---|---|---|---|---|
| | *Rmb'000* | *Rmb'000* | *Rmb'000* | *Rmb'000* | *Rmb'000* | *Rmb'000* |
| **Accumulated depreciation and impairment losses** | | | | | | |
| At 1 January 2007 | 34,992 | 127,618 | 39,177 | 5,825 | - | 207,612 |
| Reclassifications | (2,729) | - | (1,044) | 3,773 | - | - |
| | 32,263 | 127,618 | 38,133 | 9,598 | - | 207,612 |
| Charge for the year | 3,657 | 4,655 | 3,229 | 2,153 | - | 13,694 |
| Impairment loss | - | 40,000 | - | - | - | 40,000 |
| Disposal of a subsidiary (Note 37) | - | (172,273) | (17,673) | (1,515) | - | (191,461) |
| Written back on disposals and written off | - | - | (39) | (2,111) | - | (2,150) |
| At 31 December 2007 | 35,920 | - | 23,650 | 8,125 | - | 67,695 |
| Charge for the year | 2,163 | - | 3,354 | 2,382 | - | 7,899 |
| Disposal of subsidiaries (Note 37) | (7,163) | - | (1,231) | (2,467) | - | (10,861) |
| Written back on disposals and written off | - | - | (323) | (137) | - | (460) |
| At 31 December 2008 | 30,920 | - | 25,450 | 7,903 | - | 64,273 |
| **Net book value** | | | | | | |
| At 31 December 2008 | 18,252 | - | 48,967 | 16,412 | 700 | 84,331 |
| At 31 December 2007 | 63,101 | - | 28,234 | 17,912 | 1,000 | 110,247 |

At 31 December 2008, the Group has pledged buildings and plant, machinery and equipment with net book value of approximately Rmb5,566,000 and Rmb16,526,000 respectively (2007: Rmb5,842,000 and Rmb16,368,000) to secure general banking facilities granted to the Group and an investee company.

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

No building of the Group is in the process of application for the relevant building ownership certificate (2007: net book value of Rmb24,581,000).

## 17 PREPAID LEASE PAYMENTS

| | 2008 | 2007 |
|---|---|---|
| | *Rmb'000* | *Rmb'000* |
| **Net book value** | | |
| At 1 January | 14,493 | 14,986 |
| Disposal of a subsidiary (Note 37) | (9,345) | - |
| Amortisation for the year | (135) | (493) |
| At 31 December | 5,013 | 14,493 |

The Group's prepaid lease payments represent payments for medium-term land use rights on land located in the PRC.

At 31 December 2008, the Group has pledged its land use rights with net book value of approximately Rmb5,013,000 (2007: Rmb5,149,000) to secure banking facilities granted to the Group.

## 18 GOODWILL

| | | As restated |
|---|---|---|
| | 2008 | 2007 |
| | *Rmb'000* | *Rmb'000* |
| At 1 January | | |
| - as previously reported | 94,644 | - |
| - correction of accounting errors (Note 2(iii)) | (1,140) | - |
| - change in accounting policy (Note 2(i)) | (93,504) | - |
| At 1 January, as restated and at 31 December | - | - |

## 19 SUBSIDIARIES

Details of the subsidiaries at 31 December 2008 are as follows:

| Name of subsidiaries | Place of establishment/ registration and operation | Registered capital | Percentage of registered capital held by the Company | | Principal activity |
|---|---|---|---|---|---|
| | | | Directly | Indirectly | |
| Northeast Electric (Hong Kong) Limited | Hong Kong | US$20,000,000 | 100% | - | Investment holding and general trading |
| Shenyang Gaodongjia Desiccation Equipment Co., Limited | The PRC (note b) | US$778,500 | 70% | - | Manufacture of metallic case and desiccation equipment |
| Shenyang Zhaolida Machinery Equipment Co., Limited. | The PRC (note a) | Rmb100,000 | 100% | - | Sales of machinery and electrical transmission equipment |
| Shenyang Kaiyi Electric Co., Limited | The PRC (note a) | Rmb1,000,000 | 10% | 90% | Manufacture of high-voltage electrical equipment, switch and capacitor |
| Northeast Electric (Beijing) Co., Limited | The PRC (note a) | Rmb2,000,000 | - | 100% | Sales of machinery and electronic equipment |

## 19 SUBSIDIARIES (Continued)

| Name of subsidiaries | Place of establishment/ registration and operation | Registered capital | Percentage of registered capital held by the Company | | Principal activity |
|---|---|---|---|---|---|
| | | | Directly | Indirectly | |
| Great Talent Technology Limited | British Virgin Islands | US$1 | - | 100% | Investment holding |
| Fuxin Enclosed Busbars Co., Limited | The PRC (note c) | US$2,800,000 | - | 100% | Manufacture of enclosed busbars |
| New Northeast Electric The (Jinzhou) Power Capacitors Co., Limited | The PRC (note b) | US$10,000,000 | - | 100% | Manufacture of power capacitors |
| Jinzhou Jinrong Electric Co., Limited | The PRC (note a) | Rmb3,000,000 | - | 69.75% | Manufacture of high-voltage capacitors |

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

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

## 20 INTERESTS IN ASSOCIATES

| | 2008 | As restated 2007 |
|---|---|---|
| | *Rmb'000* | *Rmb'000* |
| **Unlisted shares, at cost** | | |
| At 1 January | | |
| - as previously reported | 265,977 | 269,838 |
| - correction of accounting treatment (Note 2(ii)) | (220,482) | (222,760) |
| At 1 January, as restated | 45,495 | 47,078 |
| Exchange adjustment | (2,645) | (1,583) |
| Subsidiary classified as associate after partial disposal (Note 37) | 33,377 | - |
| At 31 December | 76,227 | 45,495 |
| **Share of post-acquisition profits and reserves** | | |
| At 1 January | | |
| - as previously reported | 45,850 | 37,628 |
| - correction of accounting treatment (Note 2(ii)) | (31,948) | (22,905) |
| At 1 January, as restated | 13,902 | 14,723 |
| Share of associates' losses for the year | (376) | (821) |
| At 31 December | 13,526 | 13,902 |
| | 89,753 | 59,397 |

## 20 INTERESTS IN ASSOCIATES (Continued)

Details of the associates of the Group at 31 December 2008 are as follows:

| Name of associates | Place of establishment/ registration and operation | Particulars of issued and paid up capital / re-gistered capital | Proportion of registered capital indirectly held by the Group | Principal activity |
|---|---|---|---|---|
| Great Power Technology Limited | British Virgin Islands | US$12,626 | 20.80% | Investment holding |
| Smart Power Technology Limited | British Virgin Islands | US$1 | 20.80% | Investment holding |
| New Northeast Electric (Shenyang) High-Voltage Isolator Switchgears Co., Limited ("New High-Voltage Isolator") | The PRC | US$21,500,000 | 25.60% | Manufacture of electrical transmission and transformation equipment |
| Shenyang Hongyue Electric Co., Limited | The PRC | Rmb100,000 | 25.60% | Not yet commenced business |

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

| | 2008 | As restated 2007 |
|---|---|---|
| | *Rmb'000* | *Rmb'000* |
| Total assets | 451,867 | 220,898 |
| Total liabilities | (56,841) | (17) |
| Net assets | 395,026 | 220,881 |
| Group's share of associates' net assets | 89,753 | 59,397 |
| Revenue | 32,442 | 11 |
| Profit/(loss) for the year | 540 | (3,944) |
| Group's share of associates' losses for the year | (376) | (821) |

## 21 AVAILABLE-FOR-SALE INVESTMENTS

| | | As restated |
|---|---|---|
| | **2008** | **2007** |
| | *RMB'000* | *RMB'000* |
| **Unlisted equity securities, at cost** | | |
| At 1 January | | |
| - as previously reported | 12,537 | 12,537 |
| - correction of accounting treatment (Note 2(ii)) | 223,434 | 245,665 |
| At 1 January, as restated | 235,971 | 258,202 |
| Exchange adjustment | (4,430) | (4,613) |
| Increase in investment | - | 2,337 |
| Return on investment | (2,949) | (19,955) |
| Disposal | (12,537) | - |
| At 31 December | 216,055 | 235,971 |
| | | |
| **Impairment loss** | | |
| At 1 January | 2,537 | - |
| Additions | - | 2,537 |
| Written back on disposal | (2,537) | - |
| At 31 December | - | 2,537 |
| | | |
| | 216,055 | 233,434 |

## 21 AVAILABLE-FOR-SALE INVESTMENTS (Continued)

Unlisted securities are not stated at fair value but at cost less any accumulated impairment loss, because they do not have a quoted market price on active market, the range of reasonable fair value estimates is significant and the probabilities of the various estimates cannot be reasonably assessed.

The available-for-sale investments comprised:

| | 2008 | As restated 2007 |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| 0.78% equity investment in Jinzhou City Commercial Bank* | - | 10,000 |
| 17.09% equity investment in New High-Voltage (Note 2(ii)) | 216,055 | 223,434 |
| | 216,055 | 233,434 |

*The investment in Jinzhou City Commercial Bank (the "investment") are measured at cost less impairment at the balance sheet date. Under an agreement signed with an independent third party, the investment should be transferred to the third party to settle an amount of Rmb10,000,000 due to that third party by a subsidiary of the Company. An impairment loss of Rmb2,537,000 was made for the year ended 31 December 2007. The transfer has been completed during the year.

## 22 AMOUNT DUE FROM A NON-BANK FINANCIAL INSTITUTION

The amount was originally a long-term deposit of US$20,000,000 (equivalent to Rmb165,532,000), placed with Liaoning Trust and Investment Company ("Liaoning Trust") as a condition for Liaoning Trust granting a guarantee for a syndicated loan of US$40,000,000. Liaoning Trust was a third party non-bank financial institution registered in the PRC. In November 2001, the People's Bank of China withdrew Liaoning Trust's Financial Institution Legal Person Licence (金融機構私人許可證) and Financial Institution Business Licence (金融機構營業許可證). Its entire financial activities were suspended with effect from the date of notice for a liquidation process. The Company registered with the Liaoning Trust Liquidation Team (遼寧信託投資公司清算組) its deposits of US$20,000,000 previously placed with Liaoning Trust with the relevant proof of debt.

Up to the year ended 31 December 2004, Liaoning Trust repaid US$8,000,000 to settle part of the debt owing to the Company and the remaining balance was US$12,000,000 (equivalent to approximately Rmb99,233,000) at 31 December 2004.

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

(a) The Company obtained 12,124,346 non-circulating shares of 錦化氯城 which represent approximately 3.57% shareholding in 錦化氯城. At 13 March 2006, the Company's shares in 錦化氯城 were converted into 10,553,031 A shares which represent 3.10% interest in 錦化氯城 after conversion. 錦化氯城 is a company listed on the Shenzhen Stock Exchange and is engaged in manufacture of chemical products. The investment in 錦化氯城 was recorded as available-for-sale investments at a carrying value of Rmb24,808,000 at 31 December 2006 and was disposed of during 2007 with a net gain of Rmb54,443,000.

## 22 AMOUNT DUE FROM A NON-BANK FINANCIAL INSTITUTION (Continued)

(b) In 2005, the Company obtained an aggregate of Rmb76,090,000 receivable due from Benxi Iron & Steel (Group) Limited ("Bengang Group"). Subsequently, the Company commenced litigation against Bengang Group for the repayment of the debts of Rmb76,090,000.

(i) On 2 November 2005, a judgement ((2005) Shen Zhong Min Si He Chu Zi No. 13) made by the Liaoning Province Shenyang Intermediate People’s Court ("Liao Shen Intermediate Court"), but Bengang Group not agreed and filed an appeal to the Liaoning Province High People's Court ("Liao High Court"). On 16 December 2005, a civil judgement order ((2005) Liao Min Er Zhong Zi No. 220) made by the Liao High Court ruled that Bengang Group was liable to repay the principal of Rmb15,900,000 and the accrued interest thereon to the Company. On 10 March 2006, a Notice of Execution was issued by Liao Shen Intermediate Court and delivered to Bengang Group for the outstanding debts of Rmb15,900,000. On 30 April 2006, Bengang Group filed an appeal to the Liao High Court.

Regarding to the above-mentioned judgement order ((2005) Liao Min Er Zhong Zi No. 220 involving the principal of Rmb15,900,000 and the related interest), a civil judgement order ((2007) Liao Li Min Jian Zi No. 56) dated 20 June 2007 made by the Liao High Court stated that the case would be returned to the Liao High Court for rehearing by setting an another collegial panel and the execution of the original judgement would be suspended during the rehearing. On 10 April 2008, referred to Liao High Court's conclusion in (2008) Zi Liao Shen Min Zhong Zi No. 2, judgement made in first and second instance should be withdrawn and returned to Liao Shen Intermediate Court for rehearing. On 10 November 2008, the Liao Shen Intermediate Court commenced the public hearing proceeding upon the Company's litigation request. On 6 February 2009, a civil judgement order ((2008) Shen Zhong Shen Min Chu Zai Zi No. 2) made by the Liao Shen Intermediate Court objected the Company’s litigation request.

## 22 AMOUNT DUE FROM A NON-BANK FINANCIAL INSTITUTION (Continued)

(ii) Regarding to the remaining debt of Rmb60,190,000, the Liao Shen Intermediate Court made in first instance by (2005) Shen Zhong Min Si He Chu Zi No. 21, 22 and 23 dated 30 March 2006 and ruled that Bengang Group should repay the principal and the accrued interest thereon to the Company. Subsequently, Bengang Group filed an appeal to the Liao High Court on 30 April 2006. On 14 May 2008, the judgements ((2006) Liao Min Er Zhong Zi No. 214, 215 and 216) made by the Liao High Court stated that the above-mentioned judgements ((2005) Shen Zhong Min Si He Chu Zi No. 21, 22 and 23) should be repealed and the case would be returned to the Liao Shen Intermediate Court for rehearing. The final judgement has not been completed up to the date of this report.

(iii) In view of above mentioned paragraphs (i) and (ii), the directors opined that the probability of recovering the debts of Rmb76,090,000 was remote. Accordingly, the Company has made a full impairment for the whole amount of Rmb76,090,000 in 2007 (Note 24).

## 23 INVENTORIES

| | 2008 | 2007 |
|---|---|---|
| | *Rmb'000* | *Rmb'000* |
| Raw materials and consumables | 22,299 | 30,920 |
| Work in progress | 8,600 | 8,865 |
| Finished goods | 38,075 | 54,934 |
| | 68,974 | 94,719 |
| Less: Write-down of inventories | 1,435 | 1,936 |
| | 67,539 | 92,783 |

The cost of inventories recognised as expense and included in the consolidated income statement amounted to approximately Rmb404,605,000 (2007: Rmb510,785,000).

## 24 TRADE AND OTHER RECEIVABLES

| | 2008 | 2007 |
|---|---|---|
| | *Rmb'000* | *Rmb'000* |
| Trade and bills receivables | 203,000 | 198,909 |
| Less: allowances for impairment of doubtful debts | 15,205 | 13,514 |
| | 187,795 | 185,395 |
| Receivable from Bengang Group (Note 22(b)) | 76,090 | 76,090 |
| Other receivables | 103,532 | 138,288 |
| | 179,622 | 214,378 |
| Less: allowances for impairment of doubtful debts | 80,793 | 84,947 |
| | 98,829 | 129,431 |
| Purchase deposits to suppliers | 26,751 | 28,240 |
| Prepayments | 4,216 | 2,597 |
| Dividend receivables | 20,074 | 10,276 |
| | 51,041 | 41,113 |
| Prepayments - non-current portion | (844) | - |
| Net trade and other receivables | 336,821 | 355,939 |

## 24 TRADE AND OTHER RECEIVABLES (Continued)

The directors consider that the carrying amounts of the trade and other receivables approximate to their fair values. The Group does not hold any collateral over all the receivable balances.

The credit terms given to the customers vary which are based on the sales contracts signed with individual customers and are generally based on their financial strengths. The ageing analysis of trade and bills receivables is as follows:

| | **2008** | **2007** |
|---|---|---|
| | *Rmb'000* | *Rmb'000* |
| Within 1 year | 153,016 | 152,605 |
| 1 year to 2 years | 27,153 | 28,277 |
| 2 years to 3 years | 11,922 | 7,648 |
| Over 3 years | 10,909 | 10,379 |
| | 203,000 | 198,909 |

The amounts within 1 year presented in the ageing analysis above represented the trade and bills receivables that are neither past due nor impaired.

The credit quality of receivables that are neither past due nor impaired can be assessed by reference to the counterparty's default history. There is no history of default of these customers.

At 31 December 2008, trade and other receivables of Rmb376,977,000 (2007: Rmb413,287,000) were impaired. The amount of the allowances was Rmb95,998,000 as at 31 December 2008 (2007: Rmb98,461,000). The individually impaired receivables mainly related to debtors, which are in unexpectedly difficult economic situations. It was assessed that a small portion of the receivables is expected to be recovered. The ageing analysis of these receivables is as follows.

## 24 TRADE AND OTHER RECEIVABLES (Continued)

| | **2008** | **2007** |
|---|---|---|
| | *Rmb'000* | *Rmb'000* |
| Within 1 year | 1 | 6,561 |
| 1 year to 2 years | 150 | 12 |
| 2 years to 3 years | 7,260 | 3,936 |
| Over 3 years | 88,587 | 87,952 |
| | 95,998 | 98,461 |

Movements in the allowances for impairment of doubtful debts are as follows:

| | **2008** | **2007** |
|---|---|---|
| | *Rmb'000* | *Rmb'000* |
| At 1 January | 98,461 | 34,078 |
| Impairment loss recognised | 4,973 | 99,852 |
| Uncollectible amounts written off | (7,436) | (35,469) |
| At 31 December | 95,998 | 98,461 |

Included in trade and other receivables are the following amounts denominated in currencies other than the functional currency of the entity to which they relate:

| | **2008** | **2007** |
|---|---|---|
| | *'000* | *'000* |
| Hong Kong dollars | 4,567 | - |
| Euro | 10 | 225 |
| Japanese Yen | 692 | 7 |
| Swiss Franc | 2,638 | 98 |

## 25 AMOUNTS DUE TO ASSOCIATES

| | 2008 | As restated 2007 |
|---|---|---|
| | *Rmb'000* | *Rmb'000* |
| Amounts due to associates | 40,270 | - |
| Less: Non-current portion | 32,176 | - |
| | 8,094 | - |

The amounts are unsecured, interest free and, except for non-current portion, are repayable on demand. The directors consider that the carrying amounts of amounts due to associates approximate to their fair values.

## 26 AMOUNT DUE TO AN INVESTEE COMPANY

| | 2008 | As restated 2007 |
|---|---|---|
| | *Rmb'000* | *Rmb'000* |
| Amount due to an investee company | 65,079 | 114,496 |
| Less: Non-current portion | 62,827 | 72,496 |
| | 2,252 | 42,000 |

The amount is unsecured, interest free and, except for non-current portion, is repayable on demand. The directors consider that the carrying amount of amount due to an investee company approximates to its fair value.

## 27 NON-CURRENT ASSETS HELD FOR SALE

| | 2008 | 2007 |
|---|---|---|
| | *Rmb'000* | *Rmb'000* |
| Unlisted equity securities, at fair value | 1,300 | - |

As detailed in the note 42 to the consolidated financial statements, the Group received 98.5% equity interest in Shenyang Tai Sheng Trading Co., Limited ("Tai Sheng Trading") on 22 September 2008. The interest in Tai Sheng Trading was initially recognised at its fair value of Rmb37,506,000. On 23 September 2008, Tai Sheng Trading commenced its winding-up process and has made an initial distribution of assets (including debts of Rmb47,100,000 assigned to the Group and liabilities of Rmb10,894,000 assumed by the Group) with net assets value of Rmb36,206,000. After the above distribution, the net assets value of Tai Sheng Trading was reduced to Rmb1,300,000 and it will be returned to the Group after the completion of winding-up. The winding-up process has not been completed up to the date of this report.

## 28 PLEDGED BANK DEPOSITS

| | 2008 | 2007 |
|---|---|---|
| | *Rmb'000* | *Rmb'000* |
| Restricted bank deposits denominated in | | |
| - Renminbi | 19,712 | 500 |
| - United States dollars | - | 28,443 |
| | 19,712 | 28,943 |

The restricted bank deposits are held in subsidiaries as pledge for general banking facilities granted to the Group.

The effective interest rates on restricted bank deposits, with maturities ranging from June 2010 to August 2011, were 4.50% to 5.40% per annum (2007: 4.40% to 6.57% per annum).

## 29 CASH AND CASH EQUIVALENTS

| | **2008** | **2007** |
|---|---|---|
| | *Rmb'000* | *Rmb'000* |
| Cash at banks and on hand | 30,216 | 36,635 |
| Denominated in: | | |
| - Renminbi | 29,159 | 34,769 |
| - United States dollars | 382 | 87 |
| - Euro | 5 | 309 |
| - Hong Kong dollars | 670 | 806 |
| - Others | - | 664 |
| | 30,216 | 36,635 |

Cash at banks denominated in Rmb are deposited with banks in China. The conversion of these Rmb denominated balances into foreign currencies is subject to the rules and regulations of foreign exchange control promulgated by the PRC government.

## 30 TRADE AND OTHER PAYABLES

| | 2008 | As restated 2007 |
|---|---|---|
| | *Rmb'000* | *Rmb'000* |
| Trade and bills payables | 84,485 | 130,444 |
| Other payables | 204,618 | 123,066 |
| | 289,103 | 253,510 |

The ageing analysis of trade and bills payables is as follows:

| | 2008 | As restated 2007 |
|---|---|---|
| | *Rmb'000* | *Rmb'000* |
| Within 1 year | 76,880 | 114,194 |
| 1 year to 2 years | 4,142 | 6,406 |
| 2 years to 3 years | 1,661 | 907 |
| Over 3 years | 1,802 | 8,937 |
| | 84,485 | 130,444 |

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

The average credit period on purchase is 6 months. The Group has proper financial risk management policies to ensure that all payables are paid within the credit timeframe.

Approximately 97% of trade and other payables are denominated in Rmb.

## 31 BANK BORROWINGS

| | 2008 | 2007 |
|---|---|---|
| | *Rmb'000* | *Rmb'000* |
| Rmb bank loans repayable within 1 year or on demand - secured | 22,450 | 50,369 |

The bank borrowings are secured by certain property, plant and equipment, land use rights and bank deposits of the Group as set out in notes 16, 17 and 28 respectively. Also, the bank borrowings are guaranteed by a director. All bank borrowings are with floating interest rates ranging from 6.95% to 9.22% (2007: 6.57% to 9.59%) per annum.

## 32 PROVISION FOR LOSS ON GUARANTEE OBLIGATIONS

| | 2008 | 2007 |
|---|---|---|
| | *Rmb'000* | *Rmb'000* |
| Provision for loss on guarantee obligations given to: | | |
| "Northeast Electrical Transmission Group Corporation("NET")(note a) | 30,994 | 30,994 |
| Jinzhou Power Capacitors Limited ("Jinzhou Power")(note b) | 60,722 | 60,722 |
| Shuangjia Insulator & Electric Co. Ltd ("Shuangjia") (note c) | 9,252 | 9,252 |
| Kingdom Hotel Shenyang Limited ("Kingdom Hotel Shenyang")(note d) | 24,000 | 24,000 |
| | 124,968 | 124,968 |

| | NET | Jinzhou Power | Shuangjia | Kingdom Hotel Shenyang | Total |
|---|---|---|---|---|---|
| | *Rmb'000* | *Rmb'000* | *Rmb'000* | *Rmb'000* | *Rmb'000* |
| At 1 January 2008 and 31 December 2008 | 30,994 | 60,722 | 9,252 | 24,000 | 124,968 |

## 32 PROVISION FOR LOSS ON GUARANTEE OBLIGATIONS (Continued)

Notes:

(a) The Company acted as the guarantor for a 10-months loan amounting to Rmb30,000,000 which was entered into by NET and the China Everbright Bank in June 1998 and this guarantee was not approved by the Company's Board of directors and shareholders. In December 2001, the China Everbright Bank commenced litigation against the Company and NET for the repayment of loan principal of Rmb26,402,000 and the related interest.

On 13 May 2003, the Company received a verdict of final trial from the Beijing Higher People's Court which ruled that the Company be jointly held responsible for the repayment of the loan principal of Rmb26,402,000 and the related interest of Rmb4,592,000. Accordingly, a provision for loss on guarantee given to NET of Rmb30,994,000 has been made during the year ended 31 December 2003. The Group is in the process of negotiating with China Everbright Bank for the settlement plan.

(b) In 2004, the Company acted as the guarantor for a 12-months loan amounting to Rmb13,000,000 which was entered into by its entire interest in Jinzhou Power, a subsidiary at that time, and a bank. In March 2005, the Company disposed of its entire interest in Jinzhou Power. At the loan fall due date, Jinzhou Power did not repay the loan principal and the related interest. The bank commenced litigation against Jinzhou Power and the Company.

On 20 May 2005, the Company received a verdict from the Shenyang Intermediate People’s Court which ruled that the Company be jointly held responsible for the repayment of the loan principal and interest accrued thereon. Accordingly, provision for loss on guarantee given to Jinzhou Power of Rmb14,465,000 and accrued interest thereon has been made during the year ended 31 December 2005.

## 32 PROVISION FOR LOSS ON GUARANTEE OBLIGATIONS (Continued)

(b) In April 2004, the Company acted as the guarantor for a bank loan amounting to Rmb17,000,000 which was entered into by Jinzhou Power, a subsidiary at that time, and Jinzhou City Commercial Bank. At the loan fall due date, Jinzhou Power did not repay the loan principal and the related interest. The bank commenced litigation against Jinzhou Power and the Company.

In June 2007, the Jinzhou Intermediate People's Court ruled that the Company be jointly held responsible for the repayment of the loan principal Rmb17,000,000 and interest accrued up to 20 January 2007 of Rmb2,890,000. Accordingly, provision for loss on guarantee given to Jinzhou Power of Rmb19,890,000 and accrued interest thereon has been made during the year ended 31 December 2007.

In December 2003, the Company acted as the guarantor for Rmb22,900,000 for a bank loan amounting to Rmb42,900,000 which was entered into by Jinzhou Power, a subsidiary at that time, and Industrial and Commercial Bank of China Jinzhou Branch. At the loan fall due date, Jinzhou Power did not repay the loan principal and the related interest. The bank commenced litigation against Jinzhou Power and the Company and requesting the Company to be responsible for the guarantee amount of Rmb22,900,000 and interest accrued of Rmb3,467,000. Accordingly, provision for loss on guarantee given to Jinzhou Power of Rmb26,367,000 and accrued interest thereon has been made during the year ended 31 December 2007.

## 32 PROVISION FOR LOSS ON GUARANTEE OBLIGATIONS (Continued)

(c) In April 2004, Shuangjia commenced litigation against Shenyang High-Voltage, the goods receiving party, in relation to the disputes on payment of goods. In July 2004, the Company, being a former shareholder of Shenyang High-Voltage, was included as additional joint defendants. On 18 October 2005, the Company received a verdict from the Shanxi Higher People's Court which ruled that the Company shall undertake the joint repayment liability for amount equivalent to the fair value of certain properties in question. Accordingly, provision for loss of Rmb9,252,000 has been made during the year ended 31 December 2005.

(d) The Company acted as the guarantor for a bank loan amounting to Rmb24,000,000 which was entered into by Kingdom Hotel, a subsidiary of the Company, and Industrial and Commercial Bank of China Shenyang Branch. As the loan was not yet repaid when due, the bank commenced litigation against Kingdom Hotel and the Company for the repayment of the loan principal Rmb24,000,000 and interest and the responsibility as the guarantor. The Shenyang Intermediate People's Court ruled that the Company be held responsible for the repayment of the loan principal and interest accrued thereon. The Company has based on the Court judgement to make a loss on guarantee of Rmb24,000,000 during the year ended 31 December 2007. Up to the financial statements approval date, the Company had not repaid this debt.

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

## 33 SHARE CAPITAL

| | 2008 | 2007 |
|---|---|---|
| | *Rmb'000* | *Rmb'000* |
| Registered, issued and fully paid-up capital: | | |
| 615,420,000 ordinary "Domestic" shares of Rmb1 each, of which: | | |
| - Non-listed | 218,394 | 223,970 |
| - Listed "A" shares | 397,026 | 391,450 |
| | 615,420 | 615,420 |
| 257,950,000 listed "H" shares of Rmb1 each | 257,950 | 257,950 |
| | 873,370 | 873,370 |

Regarding to the application for release of 5,575,991 restricted non-tradable shares as tradable shares, it was approved by China Securities Depository and Clearing Corporation Limited (Shenzhen Branch) on 20 August 2008. Accordingly, 5,575,991 restricted non-tradable shares was transferred to tradable "A" shares on the following day.

## 34 RESERVES

### Capital reserve

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

### Capital contribution

Capital contribution represented gain on acquisition of subsidiaries from, and gain on disposal of an associate to, an equity participant in 2004.

### Statutory surplus reserve

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

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

### Discretionary surplus reserve

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

## 35 GOVERNMENT GRANTS

| | 2008 | 2007 |
|---|---|---|
| | *Rmb'000* | *Rmb'000* |
| At 1 January | - | 500 |
| Amount transferred to property, plant and equipment (Note 16) | - | (338) |
| Amount recognised as other income (Note 8) | - | (162) |
| At 31 December | - | - |

Amounts represent government grants received to be used mainly for technical improvement.

## 36 DEFERRED TAX ASSETS

The major components of deferred tax assets recognised by the Group and movements thereon during the current and prior years are as follows:

| | Temporary differences in respect of provisions and accruals |
|---|---|
| | *Rmb'000* |
| At 1 January 2007 | - |
| Credited to the consolidated income statement (Note 9) | 5,289 |
| At 31 December 2007 | 5,289 |
| Reversal of temporary differences upon disposal of a subsidiary | (1,981) |
| Credited to the consolidated income statement (Note 9) | 530 |
| Change in tax rate (Note 9) | 1,282 |
| At 31 December 2008 | 5,120 |

## 36 DEFERRED TAX ASSETS (Continued)

Major components of unrecognised deferred tax assets are as follows:

| | 2008 | As restated 2007 |
|---|---|---|
| | *Rmb'000* | *Rmb'000* |
| Deductible temporary differences | 315,535 | 213,357 |
| Tax losses | 271,839 | 291,370 |
| | 587,374 | 504,727 |

Deferred tax asset of Rmb587,374,000 has not been recognised due to the unpredictability of future profit streams. Included in unrecognised tax losses are losses of Rmb271,839,000 (2007: Rmb291,370,000) that will expire in 2013 (2007: 2012).

## 37 DISPOSAL OF SUBSIDIARIES / ACQUISITION OF MINORITY INTERESTS

Regarding to the civil written order ((2008) Min Er Zhong Zi No. 23) made by the Supreme Court on 5 September 2008 (details are set out in note 41), the Group has returned back the 74.4% equity interest in New High-Voltage Isolator to Shenyang High-Voltage by entering into a shares transfer agreement with Shenyang High-Voltage on 20 September 2008. The transaction was completed on 22 September 2008. In view of this, the transaction is deemed as a disposal of a subsidiary.

On 31 October 2008, the Company entered into a sale and purchase agreement with a third party in which the Company agreed to sell its 100% equity shareholdings in Shenyang Jiatai Machinery Equipment Co., Limited at a cash consideration of Rmb5,970,000. The transaction was completed on 13 November 2008.

On 14 May 2007, the Company entered into a swap agreement with Prosper Power Company Limited ("Prosper Power") in which the Company would acquire the 48% of the shareholding interests of New Northeast Electric (Jinzhou) Power Capacitors Company Limited and the 25.6% of the shareholding interests of New Northeast Electric (Shenyang) High-Voltage Isolator Switchgears Co., Limited owned by Prosper Power ("the minority interests"). The acquisition consideration was Rmb180,000,000 to be satisfied by way of disposing to Prosper Power the entire shareholding interests in Kingdom Hotel Shenyang Company Limited ("Kingdom Hotel Shenyang"). The transaction was approved by the shareholders on 16 August 2007 and completed on 31 August 2007.

## 37 DISPOSAL OF SUBSIDIARIES / ACQUISITION OF MINORITY INTERESTS (Continued)

The disposal of Kingdom Hotel Shenyang and acquisition of the minority interests are transactions under the same swap agreement. Therefore, the gain on disposal of a subsidiary and goodwill arising from the acquisition of the minority interests should be viewed as under the same business transaction. As a result, it gave rise to a net amount of goodwill of Rmb92,334,000 which was retrospectively adjusted to nil by means of prior period adjustments (Note 2(i) and 2(iii)).

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

| | 2008 | 2007 |
|---|---|---|
| | *Rmb'000* | *Rmb'000* |
| Non-current assets | 60,081 | 209,658 |
| Current assets | 155,271 | 15,547 |
| Non-current liabilities | - | (4,800) |
| Current liabilities | (65,933) | (56,317) |
| | 149,419 | 164,088 |
| Less: Equity shareholdings being classified as an associate (Note 20) | 33,377 | - |
| Net assets at the date of disposal | 116,042 | 164,088 |
| Loss on share exchange scheme (Note 42) | (71,846) | - |
| (Loss)/profit on disposal of a subsidiary | (720) | 15,912 |
| Total consideration | 43,476 | 180,000 |

## 37 DISPOSAL OF SUBSIDIARIES / ACQUISITION OF MINORITY INTERESTS (Continued)

| | 2008 | 2007 |
|---|---|---|
| | *Rmb'000* | *Rmb'000* |
| Received: | | |
| 48% equity shareholdings in New Northeast Electric (Jinzhou) Power Capacitors Company Limited and 25.6% equity shareholdings in New Northeast Electric (Shenyang) High-Voltage Isolator Switchgears Company Limited | - | 69,444 |
| Goodwill | - | 110,556 |
| Cash | 5,970 | - |
| 98.5% equity shareholdings in Tai Sheng Trading (Note 38) | 37,506 | - |
| | 43,476 | 180,000 |
| Net cash inflow/(outflow) from disposal of subsidiaries: | | |
| Cash consideration | 5,970 | - |
| Bank balances and cash disposed of | (2,052) | (2,322) |
| | 3,918 | (2,322) |

## 38 MAJOR NON-CASH TRANSACTIONS

The major non-cash transactions entered into by the Group during the year ended 31 December 2008 are as follows:

(i) During the year, the Group used certain of its plant, machinery and equipment with net book value of Rmb1,251,000 to settle its trade and other payables of Rmb 966,000.

(ii) During the year, the Group used one of its available-for-sale investments with the carrying amount of Rmb10,000,000 to settle an amount of Rmb10,000,000 due to an independent third party. Further details are set out in note 21 to the consolidated financial statements.

(iii) On 22 September 2008, as a result of a civil judgement as detailed in note 42 to the consolidated financial statements, the Group received 98.5% equity interest in Tai Sheng Trading at its initial fair value at Rmb37,506,000 (Note 27) and returned back 74.4% equity interest in New High-Voltage Isolator (Note 20) to Shenyang High-Voltage. On 23 September 2008, Tai Sheng Trading commenced its winding-up process and the Group was assigned debts of Rmb47,100,000 and assumed liabilities of Rmb10,894,000. The 98.5% equity interest in Tai Sheng Trading was accounted for as non-current asset held for sale at the fair value of Rmb1,300,000.

## 39 CONTINGENT LIABILITIES

| | 2008 | As restated 2007 |
|---|---|---|
| | *Rmb'000* | *Rmb'000* |
| Guarantees given to banks in respect of banking facilities utilised by other entities: | | |
| An investee company (note) | 280,000 | 300,000 |
| Former subsidiary | 4,400 | 4,950 |
| | 284,400 | 304,950 |

In addition, on 12 May 2006, Xinda commenced litigation against the Shenyang High-Voltage, the borrower, and Jinzhou Capacitors, the guarantor, for the repayment of loan principal of Rmb28,350,000. The Company, being the former shareholder, was requested to undertake joint liabilities for the discrepancy of Shenyang High-Voltage's investment amount and the outstanding make-up amount of the investment. In addition, certain land use rights of the Group with carrying amount of Rmb14,540,000 was frozen accordingly. On 20 March 2007, Liaoning Higher Peoples' Court ruled that the plaintiff's claims against the Company were rejected. Further on 12 October 2007, the Company received a trial from the Beijing Supreme Court that the plaintiff's claims against the Company were rejected. The land use rights were defrozen on 5 July 2008.

Note: At the balance sheet date, the Company provided a joint responsibility guarantee to Shanghai Pudong Development Bank Shenyang Branch for an integrated credit line granted to New High-Voltage approximately amounting to Rmb220,000,000. Together with guarantees provided to other banks, the Group provided a total integrated banking facilities guarantees to New High-Voltage of approximately Rmb280,000,000 (2007: Rmb300,000,000).

In the opinion of the directors, the provision of the guarantees will not create any loss to the Group and the fair values of the liabilities in relation to the above guarantees given by the Group are insignificant as at 31 December 2008 and 31 December 2007.

## 40 OPERATING LEASE COMMITMENTS

At the balance sheet date, the Group had leased various office premises under certain non-cancellable operating lease agreements. The leases have varying terms, escalation clauses and renewal rights. The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

| | 2008 | 2007 |
|---|---|---|
| | *Rmb'000* | *Rmb'000* |
| Within 1 year | 4,920 | 2,125 |
| 1 year to 5 years | 5,193 | 3,483 |
| Over 5 years | 8,246 | - |
| | 18,359 | 5,608 |

## 41 BALANCES WITH RELATED PARTIES

(a) 24.28% of the Company's shares is held by New Northeast Electric Investments Limited, a company incorporated in the PRC, in which 82.22% of such company's shares is held by Ms. Tian Li. In the opinions of the directors, the ultimate controlling party of the Group is Ms. Tian Li.

(b) The Group's balances with the following related parties as at 31 December 2008 are as follows:

| | 2008 | As restated 2007 |
|---|---|---|
| | *Rmb'000* | *Rmb'000* |
| Associates: | | |
| Trade payables | 8,710 | - |
| Balances due from the Group | 40,270 | - |

The balances are unsecured, interest free and, except for those non-current portion, are repayable on demand.

## 42 LITIGATIONS

In May 2004, a lawsuit was brought by China Development Bank (the "Bank") against the Company and certain of its subsidiaries, Shenyang Chengtai Energy Power Co., Limited ("Chengtai Energy"), New Northeast Electric (Shenyang) High-Voltage Isolator Switchgears Co., Limited (formerly known as Shenyang Suntime High-Voltage Electric Co., Limited) and Shenyang Suntime Storage and Logistics Co., Limited ("Suntime Storage"), and the Company's associate, New Northeast Electric (Shenyang) High-Voltage Switchgear Co., Limited ("New High-Voltage" and hereinafter collectively referred to the "Named Companies"), requesting: 1) the Company and the Named Companies to bear joint and several liabilities in relation to the repayment of the principal of the loan of Rmb150,000,000 granted in August 1998 by the Bank to Shenyang High-Voltage Switchgears Limited ("Shenyang High-Voltage"), a former associate of the Company and the interest accrued thereon, which was then in default and 2) to void the sale and purchase agreements over equity interests in the Named Companies entered into between the Company and Shenyang High-Voltage between August 2003 and June 2004.

Pursuant to the civil written order ((2004) Gao Min Chu Zi No. 802) issued by the Beijing High People's Court (the "Beijing High Court") on 18 March 2005, the Beijing High Court ruled out that there is no legal relationship between the claims brought by the Bank against the Company, the Named Companies and Shenyang High-Voltage and accordingly rejected the claim by the Bank against the Company and the Named Companies. However, on 22 March 2005, the Bank filed an appeal to the PRC Supreme People's Court (the "Supreme Court").

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

## 42 LITIGATIONS (Continued)

On 19 July 2007, the civil judgement order ((2004) Gao Min Chu Zi No.802) ("the Order") made by the Beijing High Court cancelled the contract signed by the Company and Shenyang High-Voltage in relation to swapping the Company's creditor's rights in Northeast Transmission Machinery Group ("NET") amounting to Rmb76,660,000 for the 95% and 95% equity interest of Chengtai Energy and Suntime Storage respectively held by Shenyang High-Voltage. The Beijing High Court also ruled out that the Company should return the related equity interests to Shenyang High-Voltage within 10 days of the Order, and if not, the Company should compensate for loss to Shenyang High-Voltage within limit of the value of share capital of Rmb247,120,000; Shenyang High-Voltage should return the creditor's rights of Rmb76,660,000 to the Company within 10 days after the Order comes into effect, and if not, Shenyang High-Voltage should compensate for loss to the Company within limit of Rmb76,660,000.

According to the Order, the Company was required to compensate Shenyang High-Voltage with a net amount of Rmb170,460,000 (i.e. Rmb247,120,000-Rmb76,660,000). The Company suffered a loss of Rmb170,460,000 from this litigation and had accounted for in the consolidated income statement of 2007.

Regarding to the civil judgement order ((2008) Min Er Zhong Zi No. 23) made by the Supreme Court on 5 September 2008, such judgement was a final decision. It stated that: 1) the decisions in the Order made by the Beijing Higher Court as above mentioned would be remained unchanged; 2) to cancel the agreement in relation to swapping the 98.5% equity interest in Tai Sheng Trading (formerly known as Shenyang Tiansheng Communication Equipment Co., Limited) held by the Company for the 74.4% equity interest in New High-Voltage Isolator held by Shenyang High-Voltage; 3) both parties should return the related equity interests to each other within 10 days after the judgement comes into effect, and if not, the Company should compensate for loss to Shenyang High-Voltage within limit of Rmb130,000,000 less Rmb27,878,800.

Upon the judgement, the Group has received the 98.5% equity interest in Tai Sheng Trading on 22 September 2008 and returned back the 74.4% equity interest in New High-Voltage Isolator to Shenyang High-Voltage on the next day. After received the equity interest in Tai Sheng Trading, it is decided to winding up Tai Sheng Trading. The Liquidator will transfer Tai Sheng Trading's creditors' rights and debts to the Company (agreed by the creditors of Tai Sheng Trading) according to the Liquidation Report of Tai Sheng Trading. The loss for the above share exchange scheme was Rmb71,846,000 being charged in the consolidated income statement.

## 43 FINANCIAL RISKS MANAGEMENT OBJECTIVES AND POLICIES

### (a) Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign currency risk, interest rate risk and price risk), credit risk and liquidity risk. The Group's risk management objectives and policies mainly focus on minimising the potential adverse effects of these risks on the Group by closely monitoring the individual exposure as summarised below.

(i) Foreign currency risk

Foreign currency risk refers to the risk that movement in foreign currency exchange rate which will affect the Group's financial results and its cash flows. The management considers the Group does not expose to significant foreign currency risk as majority of its transactions are denominated in Rmb (the functional currency of the Group's major subsidiaries) and there were only insignificant balances of financial assets and liabilities denominated in foreign currency at the balance sheet dates as disclosed in respective notes.

The 2 per cent is the rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the possible change in foreign exchange rates. The management determined that there is insignificant effect to the profit or loss and other equity of the Group. However, the management monitors foreign currency exposure and will consider hedging significant foreign currency exposure should the need arise.

## 43 FINANCIAL RISKS MANAGEMENT OBJECTIVES AND POLICIES (Continued)

### (a) Financial risk factors (Continued)

(ii) Interest rate risk

Except for pledged bank deposits (Note 28) and cash and cash equivalents (Note 29), the Group has no other significant interest-bearing assets. The Group's income and operating cash flows are substantially independent of changes in market interest rates. Management does not anticipate significant impact on interest-bearing assets resulted from the changes in interest rates because the interest rates of bank deposits are not expected to change significantly.

The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of People's Bank of China's announced benchmark interest rate arising from the Group's borrowings denominated in Rmb.

Borrowings at variable rates expose the Group to cash flow interest-rate risk. Borrowings at fixed rates expose the Group to fair value interest-rate risk. Details of the Group's borrowings have been disclosed in Note 31.

The Group has not used any interest rate swaps to hedge its exposure to interest rate risk. In order to manage the cash flow interest rate risk, the Group will repay the corresponding borrowing when it has surplus funds.

The sensitivity analysis below have been determined based on the exposure to interest rates for the variable-rate bank borrowings at the balance sheet date. For variable-rate bank borrowings, the analysis is prepared assuming the amount of liability outstanding at the balance sheet date was outstanding for the whole year.

At 31 December 2008, it is estimated that a general increase/decrease of 100 basis points, with all other variables held constant, post-tax loss for the year would have been approximately Rmb275,000 (2007: Rmb152,000) higher/lower, mainly as a result of higher/lower interest expense on floating rate borrowings.

## 43 FINANCIAL RISKS MANAGEMENT OBJECTIVES AND POLICIES (Continued)

### (a) Financial risk factors (Continued)

(ii) Interest rate risk (continued)

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the balance sheet date and had been applied to the exposure to interest rate risk for financial instruments in existence at that date. The above changes in interest rates represent management's assessment of a reasonably possible change in interest rates over the period until the next annual balance sheet date. The analysis is performed on the same basis for 2007.

(iii) Price risk

The Group is exposed to equity securities price risk because investments held by the Group are classified on the consolidated balance sheet as available-for-sale investments. As the Group's policy is only to invest on such investments by its surplus funds, the exposure may not have significant impact on the Group's financial position. The Group is not exposed to commodity price risk.

## 43 FINANCIAL RISKS MANAGEMENT OBJECTIVES AND POLICIES (Continued)

### (a) Financial risk factors (Continued)

(iv) Credit risk

The Group's credit risk is principally attributable to trade and other receivables.

The Group has no significant concentrations of credit risk. It has policies in place to ensure that sales of products are made and services are provided to customers with an appropriate credit history. It also sets credit limit on each individual customer and prior approval is required for any transaction exceeding that limit. The customer with sound payment history would accumulate a higher credit limit.

The maximum exposure to credit risk without taking account of any collateral held is represented by the carrying amount of each of financial assets in the consolidated balance sheet after deducting any impairment allowance. Further quantitative disclosure in respect of the Group's exposure to credit risk arising from trade and other receivables are set out in Note 24.

The credit risk on bank balances is limited because the counterparties are reputable banks with high quality external credit ratings in Hong Kong and the PRC.

(v) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and the availability of funding through an adequate amount of committed credit facilities. The Group aims to maintain flexibility in funding by keeping committed credit lines available.

Due to the capital intensive nature of the Group's business, the Group ensures that it maintains sufficient cash and credit lines to meet its liquidity requirements. The Group finances its working capital requirements through a combination of funds generated from operations and bank and other borrowings.

## 43 FINANCIAL RISKS MANAGEMENT OBJECTIVES AND POLICIES (Continued)

### (a) Financial risk factors (Continued)

(v) Liquidity risk (continued)

Individual operating entities within the Group are responsible for their own cash management, including the short term investment of cash surpluses and the raising of loans to cover expected cash demands, subject to approval by the parent company's board when the borrowings exceed certain predetermined levels of authority. The Group's policy is to regularly monitor its liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

The table below categorised the Group's financial liabilities into relevant maturity groupings based on the remaining period from the balance sheet date to the contractual maturity date. The tabulated amounts are the contractual undiscounted cash flow payments of the Group.

| | Less than 1 year | Between 1 year and 2 years | Total |
|---|---|---|---|
| | *Rmb'000* | *Rmb'000* | *Rmb'000* |
| **At 31 December 2008** | | | |
| Trade and other payables | 289,103 | - | 289,103 |
| Amounts due to associates | 8,094 | 32,176 | 40,270 |
| Amount due to an investee company | 2,252 | 62,827 | 65,079 |
| Bank borrowings | 24,166 | - | 24,166 |
| Provision for loss on guarantee obligations | 124,968 | - | 124,968 |
| | 448,583 | 95,003 | 543,586 |
| **At 31 December 2007** | | | |
| Trade and other payables | 253,510 | - | 253,510 |
| Amount due to an investee company | 42,000 | 72,496 | 114,496 |
| Bank borrowings | 54,299 | - | 54,299 |
| Provision for loss on guarantee obligations | 124,968 | - | 124,968 |
| | 474,777 | 72,496 | 547,273 |

## 43 FINANCIAL RISKS MANAGEMENT OBJECTIVES AND POLICIES (Continued)

### (b) Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares, or sell assets to reduce debt.

The Group monitors capital on the basis of the total debts ratio. This ratio is calculated as total borrowings divided by total capital. Total borrowings include current liabilities and non-current liabilities. Total capital includes total borrowings and total equity as shown in the consolidated balance sheet. The Group's policy is to keep the total debts ratio at a reasonable level.

The total debts ratios at 31 December 2008 and 2007 are as follows:

| | **2008** | **2007** |
|---|---|---|
| | *Rmb'000* | *Rmb'000* |
| Current liabilities | 447,768 | 470,971 |
| Non-current liabilities | 95,003 | 72,496 |
| Total borrowings | 542,771 | 543,467 |
| Total equity | 313,933 | 393,693 |
| Total capital | 856,704 | 937,160 |
| Total debts ratio | 63% | 58% |

Neither the Company nor any of its subsidiaries are subject to either internally or externally imposed capital requirements.

## 44 COMPARATIVE FIGURES

As further explained in Note 2 to the consolidated financial statements, due to the change in accounting policy, correction of accounting treatment and accounting errors in prior periods, the accounting treatment and the presentation of certain items and balances in the consolidated financial statements have been revised. Accordingly, certain prior period adjustments have been made and certain comparative figures have been restated and reclassified to conform to the current year's presentation.

(1) Reconciliation of the loss attributable to the Group prepared in accordance with the PRC Accounting Rules and Regulations and HKFRSs is summarised below:

| | 2008 | As restated 2007 |
|---|---|---|
| | *Rmb'000* | *Rmb'000* |
| Loss attributable to shareholders under the PRC Accounting Rules and Regulations | (69,112) | (340,874) |
| Differences: | | |
| - Negative goodwill | - | (1,140) |
| - Government grant income | - | 162 |
| - Other payable waived | - | 2,600 |
| - Others | 111 | 1,375 |
| Loss attributable to equity holders of the Company under HKFRSs | (69,001) | (337,877) |

(2) Reconciliation of shareholders' funds of the Group prepared in accordance with the PRC Accounting Rules and Regulations and HKFRSs is summarised below:

| | 2008 | As restated 2007 |
|---|---|---|
| | *Rmb'000* | *Rmb'000* |
| Shareholders' funds under the PRC Accounting Rules and Regulations | 311,138 | 389,552 |
| Differences: | | |
| - Others | (63) | (174) |
| Total equity attributable to equity holders of the Company under HKFRSs | 311,075 | 389,378 |

**Shareholders of Northeast Electric Development Co., Ltd.**

We have audited the fiancial reports of Northeast Electric Development Co., Ltd. (hereinafter referred as "Northeast Electric") and its subsidiaries as of Dec. 31, 2008, including balance sheets and the related profit and loss/profit appropriation, cash flow for the year then ended, with notes ensued.

## 1 Responsibility of the managerial staff to the reports

It's the responsibility of the managerial staff to workout financial reports by the guidelines and rules of <Enterprise Accounting Standards>, which involve

(1) to devise, implement and maintain an interior financial control system so that material misinformation will not appear due to fraudulent practices or mistakes;

(2) to choose and exercise the appropriate accounting principles;

(3) to make reasonable accounting valuation;

## 2 Responsibility of the Certified Accountants

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

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

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

## 3 Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the company as of Dec. 31, 2008, and of the results of its operations and its cash flows for the year then ended in accordance with enterprise accounting standards.

Shenzhen Pengcheng Accountants Ltd.

Shenzhen, P.R.China

Certified Accountant of P.R.C.:Liu Ren Zhi

Certified Accountant of P.R.C.:Zhao Wei Qing

Mar. 30, 2009

*Unit: RMB Yuan*

| Assets | Notes | Balance at end of period | Balance at beginning of period |
|---|---|---|---|
| Current Assets: | | | |
| Cash and deposits | VIII.1 | 49,928,339.70 | 65,577,809.55 |
| Tradable financial assets | | - | - |
| Bills receivables | VIII.2 | 4,384,150.00 | 4,086,000.00 |
| Accounts receivables | VIII.3 | 173,660,074.88 | 181,309,747.33 |
| Prepayment | VIII.4 | 29,177,979.98 | 28,599,777.91 |
| Premium Payable | | - | - |
| Reinsurance Receivable | | - | - |
| Reserve of Reinsurance Arrangement | | - | - |
| Interest receivable | | - | - |
| Dividends receivable | VIII.5 | 20,084,734.00 | 4,117,670.40 |
| Other receivables | VIII.6 | 98,780,319.84 | 149,042,934.98 |
| Inventories | VIII.7 | 67,538,682.26 | 92,782,582.17 |
| Non-current asset due within 1 year | | - | - |
| other current assets | | - | - |
| Total current assets | | 443,554,280.66 | 525,516,522.34 |
| Non-current Assets: | | | |
| Saleable financial assets | | - | - |
| Investment held till due | | - | - |
| Long term account receivables | | - | - |
| Long term equity investment | VIII.8 | 307,108,288.52 | 292,830,798.60 |
| Investing Real Estate | | - | - |
| fixed assets | VIII.9 | 83,630,674.91 | 109,246,361.88 |
| Construction in progress | | 700,574.53 | 1,000,000.00 |
| Material of works | | - | - |
| Liquidation of Fixed Assets | | - | - |
| Intangible Assets | VIII.10 | 5,114,463.37 | 14,706,722.48 |
| Expenses of development | | - | - |
| Good Will | VIII.11 | - | 94,643,933.80 |
| Long-term Expenses | VIII.12 | 1,788,472.19 | 1,744,605.25 |
| Deferred Income Taxes | VIII.13 | 5,119,501.89 | 5,288,849.50 |
| Other Non-current Assets | | - | - |
| Total Non-current Assets | | 403,461,975.41 | 519,461,271.51 |
| Total Assets | | 847,016,256.07 | 1,044,977,793.85 |

At 31st December,2008(Prepared in accordance with the P.R.C.Accounting Rules and Regulations)

Unit: RMB Yuan

| Liabilities and shareholders' equity interests | Notes | Balance at end of period | Balance at beginning of period |
|---|---|---|---|
| Current Liabilities: | | | |
| Short-term borrowings | VIII.16 | 22,450,000.00 | 50,368,876.60 |
| Transactional financial liabilities | | - | - |
| Bills payable | VIII.17 | 6,000,000.00 | 4,406,000.00 |
| Account payable | VIII.18 | 78,484,781.19 | 126,038,398.43 |
| Advance | VIII.19 | 60,610,993.70 | 91,848,322.95 |
| Salaries due employees | VIII.20 | 1,452,116.29 | 1,807,002.79 |
| Taxes payable | VIII.21 | 2,044,217.23 | 4,579,843.56 |
| Interest payable | | - | - |
| Dividends payable | | 40,017.86 | 40,017.86 |
| Other payables | VIII.22 | 236,970,590.90 | 152,410,523.33 |
| Non-current liabilities due within 1 year | | - | - |
| Other current liabilities | | - | - |
| Total Current Liabilities | | 408,052,717.17 | 431,498,985.52 |
| Non-current liabilities | | | |
| Long-term borrowings | | - | - |
| Bonds payable | | - | - |
| Long-term account payables | | - | - |
| Special payables | | - | - |
| Estimated Liabilities | VIII.23 | 124,967,867.25 | 124,967,867.25 |
| Deferred income tax liabilities | | - | - |
| Other non-current liabilities | | - | - |
| Total non-current liabilities | | 124,967,867.25 | 124,967,867.25 |
| Shareholders' equity interests | | | |
| Paid-up capital | VIII.24 | 873,370,000.00 | 873,370,000.00 |
| Capital reserve | VIII.25 | 883,422,403.92 | 978,066,337.72 |
| Minus: shares in store | | - | - |
| Reserve | VIII.26 | 108,587,124.40 | 108,587,124.40 |
| Normal risk provision | | - | - |
| Retained profit | VIII.27 | -1,536,634,262.58 | -1,467,521,767.25 |
| Difference of exchange of foreign-currency reports | | -17,608,232.54 | -8,306,330.32 |
| Total interests due to parent company's shareholders | | 311,137,033.20 | 484,195,364.55 |
| Minority interests | | 2,858,638.45 | 4,315,576.53 |
| Total Shareholders' equity interests | | 313,995,671.65 | 488,510,941.08 |
| Total liabilities and shareholders' equity interests | | 847,016,256.07 | 1,044,977,793.85 |

At 31st December,2008(Prepared in accordance with the P.R.C.Accounting Rules and Regulations)

*Unit: RMB Yuan*

| Items | Notes | Amount of the period | Amount of last period |
|---|---|---|---|
| **I.Total income of sales** | VIII.28 | 517,717,563.70 | 639,700,849.31 |
| Inclu.:income of sales | | 517,717,563.70 | 639,700,849.31 |
| **II.Total cost of sales** | | 521,857,220.04 | 805,517,986.26 |
| inclu.:Cost of sales | VIII.28 | 404,605,290.11 | 527,157,531.89 |
| Sales tax and surcharges | VIII.29 | 177,497.32 | 1,049,054.75 |
| Expenses of sales | VIII.30 | 48,122,876.77 | 52,396,408.30 |
| Administrative expenses | VIII.31 | 60,631,879.70 | 75,940,548.83 |
| Financial expenses | VIII.32 | 2,036,205.61 | 5,614,952.51 |
| Loss of assets diminution | VIII.33 | 6,283,470.53 | 143,359,489.98 |
| plus:income of fair value variance (loss is posed as "-") | | - | - |
| Return on investments (loss is posed as "-") | VIII.34 | -65,621,029.62 | 54,934,754.81 |
| inclu.:return on investments to associates and related parties | | -376,015.35 | -820,304.24 |
| Gain/loss of exchange(loss is posed as "-") | | - | - |
| **III.Operational Profit (Total loss is posed as "-")** | | -69,760,685.96 | -110,882,382.14 |
| plus:Income of non-operational activities | VIII.35 | 753,117.21 | 1,441,472.61 |
| Minus:Expenses of Non-operational activities | VIII.36 | 541,723.87 | 241,347,721.65 |
| inclu.:loss of disposal of non-current assets | | 288,668.05 | 320,721.53 |
| **IV.Total Profit (Total loss is posed as "-")** | | -69,549,292.62 | -350,788,631.18 |
| Minus:Income tax expenses | VIII.37 | 1,020,140.79 | -2,884,396.67 |
| **V.Net Profit** | | -70,569,433.41 | -347,904,234.51 |
| Net profit belong to parent company's shareholders | | -69,112,495.33 | -340,874,097.62 |
| Minority interests | | -1,456,938.08 | -7,030,136.89 |
| **VI.Earnings per share:** | | -0.08 | -0.40 |
| (A)Basic earnings per share | | -0.08 | -0.39 |
| (B)Diluted earnings per share | | -0.08 | -0.39 |

## CASH FLOW *(CONSOLIDATED)*

At 31st December,2008(Prepared in accordance with the P.R.C.Accounting Rules and Regulations)

*Unit: RMB Yuan*

| **Items** | **Notes** | **Amount of the Period** | **Amount of last Period** |
|---|---|---|---|
| I.Cash flow generated in Operational activities: | | | |
| Cash from sales of goods, services provided | | 579,259,085.28 | 700,448,513.79 |
| Net increase of disposing transactional financial assets | | - | - |
| Refunds of taxes and expenses | | 247,666.11 | 26,793.16 |
| Other cash from operation-related activities | VIII.38 | 98,245,290.36 | 356,092,157.17 |
| Sub-total of inflow of cash in operational activities | | 677,752,041.75 | 1,056,567,464.12 |
| Cash paid for goods and services | | 419,521,619.22 | 519,476,978.56 |
| Cash paid to and for the employees | | 39,210,610.99 | 47,464,118.63 |
| Taxes and expenses paid | | 29,563,339.73 | 30,159,075.23 |
| Other cash paid to operation-related activities | VIII.39 | 174,214,792.31 | 485,163,018.84 |
| Sub-total of outflow of cash in operational activities | | 662,510,362.25 | 1,082,263,191.26 |
| Net in/outflow of cash generated in operational activities | | 15,241,679.50 | -25,695,727.14 |
| II.Cash flow generated in investment activities: | | | |
| Cash received from return of investments | | - | 24,808,223.82 |
| Inflows from investments income | | - | 52,394,647.98 |
| Net cash received from disposal of fixed assets, intangible assets and other long-term assets | | 493,000.00 | 5,983.00 |
| Net amount of cash in disposing subsidiaries and other operating units | | 5,856,512.31 | - |
| Other cash received from investment-related activities | | - | - |
| Sub-total of inflow of cash in investment activities | | 6,349,512.31 | 77,208,854.80 |
| Cash paid in purchase/construction of fixed assets, intangible assets and other long-term assets | | 19,548,483.80 | 13,239,327.44 |
| Cash paid to invest | | - | 2,337,204.48 |
| Net increase in pledged loans | | - | - |
| Net cash received from subsidiaries and other operational units | | - | - |
| Cash paid to other investment-related activities | | 1,938,993.96 | 2,322,173.89 |
| Sub-total of outflow of cash in investment activities | | 21,487,477.76 | 17,898,705.81 |
| Total in/outflow of cash in investment activities | | -15,137,965.45 | 59,310,148.99 |
| III.Cash flow generated in financial activities: | | | |
| Cash received for new investment | | - | - |
| includ.:Cash from minority shareholders' investments by subsidiaries | | - | - |

*Unit: RMB Yuan*

| Items | Notes | Amount of the Period | Amount of last Period |
|---|---|---|---|
| Cash received from borrowing | | 35,450,000.00 | 60,168,876.60 |
| Cash from issuing bonds | | - | - |
| Cash from other financial-related activities | | - | - |
| Sub-total of inflow of cash in financial activities | | 35,450,000.00 | 60,168,876.60 |
| Cash paid to repay loans | | 63,368,876.60 | 44,150,000.00 |
| Cash paid to allocate dividends, profit or repay interests | | 3,442,543.95 | 24,922,485.69 |
| Inclu.:Dividends or profit subsidiaries paid to minority shareholders | | - | 21,120,000.00 |
| Cash paid to other financial-related activities | | 30,164.80 | 51,973.97 |
| Sub-total of outflow of cash in financial activities | | 66,841,585.35 | 69,124,459.66 |
| Net cash generated in financial activities | | -31,391,585.35 | -8,955,583.06 |
| IV.Effect of change of foreign-currency rates on cash and cash equivalents | | -3,552,998.55 | -204,630.23 |
| V.Net increase of cash and equivalents | | -34,840,869.85 | 24,454,208.56 |
| plus:Balance at beginning of period of cash and equivalents | | 65,577,809.55 | 41,123,600.99 |
| VI.Balance of Cash and equivalents by end of period | | 30,736,939.70 | 65,577,809.55 |

# CHANGE OF EQUITY *(CONSOLIDATED)*

At 31st December,2008(Prepared in accordance with the P.R.C.Accounting Rules and Regulations)

Unit: RMB Yuan

**Amount of the Year**

| Items | Paid-up capital (or stock) | Capital reserve | minus:shares in store | Reserve | Normal risk provision | Retained profit | Others | Minority Interests | Total shareholders' equity interests |
|---|---|---|---|---|---|---|---|---|---|
| | Shareholders's Equity Interests belong to parent company's shareholders | | | | | | | | |
| I.Balance of last year | 873,370,000.00 | 978,066,337.72 | - | 108,587,124.40 | - | -1,438,523,595.67 | -8,307,955.84 | 4,315,576.53 | 517,507,487.14 |
| plus:change of Accounting Policy | - | | - | - | - | - | - | - | - |
| Correction of previous mistakes | - | | - | - | - | -28,998,171.58 | 1,625.52 | - | -28,996,546.06 |
| II.Balance at beginning of this year | 873,370,000.00 | 978,066,337.72 | - | 108,587,124.40 | - | -1,467,521,767.25 | -8,306,330.32 | 4,315,576.53 | 488,510,941.08 |
| III.Change in amount decrease is shown as "-" | - | -94,643,933.80 | - | - | - | -69,112,495.33 | -9,301,902.22 | -1,456,938.08 | -174,515,269.43 |
| (A)Net profit | - | - | - | - | - | -69,112,495.33 | - | -1,456,938.08 | -70,569,433.41 |
| (B)Gain/loss directly taken into shareholders' equity intersts | - | -94,643,933.80 | - | - | - | - | -9,301,902.22 | - | -103,945,836.02 |
| 1.Net amount of fair value change of saleable financial assets | - | - | - | - | - | - | - | - | - |
| 2.Effect on other shareholders' equity interests of invested company by Method of Equity | - | - | - | - | - | - | - | - | - |
| 3.Effect of income tax related with items taken into shareholders's equity interests | - | - | - | - | - | - | - | - | - |
| 4.Others | - | -94,643,933.80 | - | - | - | - | -9,301,902.22 | - | -103,945,836.02 |
| Sub-total of (A)and(B) | - | -94,643,933.80 | - | - | - | -69,112,495.33 | -9,301,902.22 | -1,456,938.08 | -174,515,269.43 |
| (C)Input of shareholders and decrease in capital | - | - | - | - | - | - | - | - | - |
| 1.Capital paid in by owners | - | - | - | - | - | - | - | - | - |
| 2.Amount of shares taken into shareholders' equity interests | - | - | - | - | - | - | - | - | - |
| 3.Others | - | - | - | - | - | - | - | - | - |
| (D)Allocation of profit | - | - | - | - | - | - | - | - | - |
| 1.Provision for reserve | - | - | - | - | - | - | - | - | - |
| 2.Normal risk provision | - | - | - | - | - | - | - | - | - |
| 3.Allocation to owners (or shareholders) | - | - | - | - | - | - | - | - | - |
| 4.Others | - | - | - | - | - | - | - | - | - |
| (E)Internal carry-over of shareholders' equity interests | - | - | - | - | - | - | - | - | - |
| 1.Capital reserve to increase capital(or stock) | - | - | - | - | - | - | - | - | - |
| 2.Reserve to increase capital(or stock) | - | - | - | - | - | - | - | - | - |
| 3.Reserve to compensate loss | - | - | - | - | - | - | - | - | - |
| 4.Others | - | - | - | - | - | - | - | - | - |
| IV.Balance at end of Year | 873,370,000.00 | 883,422,403.92 | - | 108,587,124.40 | - | -1,536,634,262.58 | -17,608,232.54 | 2,858,638.45 | 313,995,671.65 |

**Amount of last Year**

| Items | Paid-up capital (or stock) | Capital reserve | minus:shares in store | Reserve | Normal risk provision | Retained profit | Others | Minority Interests | Total shareholders' equity interests |
|---|---|---|---|---|---|---|---|---|---|
| | Shareholders's Equity Interests belong to parent company's shareholders | | | | | | | | |
| I.Balance of last year | 873,370,000.00 | 975,304,036.72 | - | 110,190,073.98 | - | -1,129,986,958.36 | 281,981.43 | - | 829,159,133.77 |
| plus:change of Accounting Policy | - | - | - | -1,602,949.58 | - | 3,339,288.73 | - | 114,403,754.65 | 116,140,093.80 |
| Correction of previous mistakes | - | - | - | - | - | - | - | -12,880,313.38 | -12,880,313.38 |
| II.Balance at beginning of this year | 873,370,000.00 | 975,304,036.72 | - | 108,587,124.40 | - | -1,126,647,669.63 | 281,981.43 | 101,523,441.27 | 932,418,914.19 |
| III.Change in amount decrease is shown as "-" | - | 2,762,301.00 | - | - | - | -340,874,097.62 | -8,588,311.75 | -97,207,864.74 | -443,907,973.11 |
| (A)Net profit | - | - | - | - | - | -340,874,097.62 | - | -7,030,136.89 | -347,904,234.51 |
| (B)Gain/loss directly taken into shareholders' equity intersts | - | 2,762,301.00 | - | - | - | - | -8,588,311.75 | -69,057,727.85 | -74,883,738.60 |
| 1.Net amount of fair value change of saleable financial assets | - | - | - | - | - | - | - | - | - |
| 2.Effect on other shareholders' equity interests of invested company by Method of Equity | - | 162,301.00 | - | - | - | - | - | - | 162,301.00 |
| 3.Effect of income tax related with items taken into shareholders's equity interests | - | - | - | - | - | - | - | - | - |
| 4.Others | - | 2,600,000.00 | - | - | - | - | -8,588,311.75 | -69,057,727.85 | -75,046,039.60 |
| Sub-total of (A)and(B) | - | 2,762,301.00 | - | - | - | -340,874,097.62 | -8,588,311.75 | -76,087,864.74 | -422,787,973.11 |
| (C)Input of shareholders and decrease in capital | - | - | - | - | - | - | - | - | - |
| 1.Capital paid in by owners | - | - | - | - | - | - | - | - | - |
| 2.Amount of shares taken into shareholders' equity interests | - | - | - | - | - | - | - | - | - |
| 3.Others | - | - | - | - | - | - | - | - | - |
| (D)Allocation of profit | - | - | - | - | - | - | - | 21,120,000.00 | 21,120,000.00 |
| 1.Provision for reserve | - | - | - | - | - | - | - | - | - |
| 2.Normal risk provision | - | - | - | - | - | - | - | - | - |
| 3.Allocation to owners (or shareholders) | - | - | - | - | - | -33,767,017.90 | - | 21,120,000.00 | -12,647,017.90 |
| 4.Others | - | - | - | - | - | - | - | - | - |
| (E)Internal carry-over of shareholders' equity interests | - | - | - | - | - | - | - | - | - |
| 1.Capital reserve to increase capital(or stock) | - | - | - | - | - | - | - | - | - |
| 2.Reserve to increase capital(or stock) | - | - | - | - | - | - | - | - | - |
| 3.Reserve to compensate loss | - | - | - | - | - | - | - | - | - |
| 4.Others | - | - | - | - | - | - | - | - | - |
| IV.Balance at end of Year | 873,370,000.00 | 978,066,337.72 | - | 108,587,124.40 | - | -1,467,521,767.25 | -8,306,330.32 | 4,315,576.53 | 488,510,941.08 |

At 31st December,2008(Prepared in accordance with the P.R.C.Accounting Rules and Regulations)

*Unit: RMB Yuan*

| Assets | Notes | Balance at end of Period | Balance at beginning of Period |
|---|---|---|---|
| **Current Assets** | | | |
| Cash and Deposits | | 2,790,853.63 | 4,035,757.56 |
| Tradable financial assets | | - | - |
| Bills receivables | | - | - |
| Accounts receivables | IX.1 | 44,769,620.00 | 40,823,844.60 |
| Prepayment | | - | 502,460.00 |
| Interest receivable | | - | - |
| Dividends receivable | | - | - |
| Other receivables | IX.2 | 549,282,433.92 | 657,401,032.41 |
| Inventories | | 2,038,808.56 | 4,736,964.10 |
| Non-current asset due within 1 year | | - | - |
| Other current assets | | - | - |
| Total current assets | | 598,881,716.11 | 707,500,058.67 |
| Non-current Assets: | | | |
| Saleable financial assets | | - | - |
| Investment held till due | | - | - |
| Long term account receivables | | - | - |
| Long term equity investment | IX.3 | 157,737,418.63 | 167,637,418.63 |
| Investing Real Estate | | - | - |
| Fixed assets | | 1,605,673.57 | 1,785,095.22 |
| Construction in progress | | - | - |
| Material of works | | - | - |
| Liquidation of Fixed Assets | | - | - |
| Intangible Assets | | - | - |
| Expenses of Development | | - | - |
| Good Will | | - | - |
| Long-term Expenses | | - | - |
| Deferred Income Taxes | | - | - |
| Other Non-current Assets | | - | - |
| Total Non-current Assets | | 159,343,092.20 | 169,422,513.85 |
| Total Assets | | 758,224,808.31 | 876,922,572.52 |

At 31st December,2008(Prepared in accordance with the P.R.C.Accounting Rules and Regulations)

*Unit: RMB Yuan*

| Liabilities and shareholders' equity interests | Notes | Balance at end of Period | Balance at being of Period |
|---|---|---|---|
| **Current Liabilities:** | | | |
| Short-term borrowings | | - | - |
| Transactional financial liabilities | | - | - |
| Bills payable | | - | - |
| Account payable | | 6,898,775.24 | 24,727,967.96 |
| Advance | | 1,325,000.00 | 3,765,536.00 |
| Salaries due employees | | 27,023.32 | 89,692.26 |
| Taxes payable | | 145,748.56 | -40,968.82 |
| Interest payable | | - | - |
| Dividends payable | | - | - |
| Other payables | | 267,565,046.74 | 256,233,985.80 |
| Non-current liabilities due within 1 year | | - | - |
| Other current liabilities | | - | - |
| Total Current Liabilities | | 275,961,593.86 | 284,776,213.20 |
| Non-current liabilities | | | |
| Long-term borrowings | | - | - |
| Bonds payable | | - | - |
| Long-term account payables | | - | - |
| Special payables | | - | - |
| Estimated Liabilities | | 124,967,867.25 | 124,967,867.25 |
| Deferred income tax liabilities | | - | - |
| Other non-current liabilities | | - | - |
| Total non-current liabilities | | 124,967,867.25 | 124,967,867.25 |
| Shareholders' equity interests | | | |
| Paid-up capital | | 873,370,000.00 | 873,370,000.00 |
| Capital reserve | | 979,214,788.45 | 979,214,788.45 |
| Minus: shares in store | | - | - |
| Reserve | | 108,587,124.40 | 108,587,124.40 |
| normal risk provision | | - | - |
| Retained profit | | -1,603,876,565.65 | -1,493,993,420.78 |
| Difference of exchange of foreign-currency reports | | - | - |
| Total interests due to parent company's shareholders | | 357,295,347.20 | 467,178,492.07 |
| Minority interests | | - | - |
| Total Shareholders' equity interests | | 357,295,347.20 | 467,178,492.07 |
| Total liabilities and shareholders' equity interests | | 758,224,808.31 | 876,922,572.52 |

At 31st December,2008(Prepared in accordance with the P.R.C.Accounting Rules and Regulations)

Unit: RMB Yuan

| Items | Notes | Amount of the Period | Amount of the last Period |
|---|---|---|---|
| **I.Total income of sales** | - | 104,917,592.10 | 177,767,444.32 |
| Inclu.:income of sales | IX.4 | 104,917,592.10 | 177,767,444.32 |
| **II.Total cost of sales** | - | 112,613,649.28 | 264,331,876.31 |
| inclu.:Cost of sales | IX.4 | 94,559,487.87 | 163,580,141.04 |
| Sales tax and surcharges | | - | - |
| Expenses of sales | | 2,758,363.00 | 5,760,342.70 |
| Administrative expenses | | 13,415,193.43 | 17,684,687.44 |
| Financial expenses | | -37,999.55 | -59,368.39 |
| Loss of assets diminution | | 1,918,604.53 | 77,366,073.52 |
| plus:income of fair value variance (loss is posed as "-") | | - | - |
| Return on investments (loss is posed as "-") | IX.5 | -102,178,150.52 | -63,350,444.15 |
| inclu.:return on investments to associates and related parties | | - | - |
| Gain/loss of exchange (loss is posed as "-") | | - | - |
| **III.Operational Profit (Total loss is posed as "-")** | | -109,874,207.70 | -149,914,876.14 |
| plus:Income of non-operational activities | | - | 640,842.48 |
| minus:Expenses of non-operational activities | | 8,937.17 | 240,732,034.51 |
| inclu.:loss of disposal of non-current assets | | - | 5,912.26 |
| **IV.Total Profit (Total loss is posed as "-")** | | -109,883,144.87 | -390,006,068.17 |
| minus:Income tax expenses | | - | - |
| **V.Net Profit** | | -109,883,144.87 | -390,006,068.17 |
| Net profit belong to parent company's shareholders | | -109,883,144.87 | -390,006,068.17 |
| minority interests | | - | - |
| **VI.Earnings per share:** | | -0.13 | -0.45 |
| (A)Basic earnings per share | | -0.13 | -0.45 |
| (B)Diluted earnings per share | | -0.13 | -0.45 |

# CHANGE OF EQUITY

At 31st December,2008(Prepared in accordance with the P.R.C.Accounting Rules and Regulations)

Unit: RMB Yuan

| Items | Amount of the Year: Paid-up capital (or stock) | Capital reserve | minus:shares in store | Reserve | Normal risk provision | Retained profit | Others | Total shareholders' equity interests | Amount of last Year: Paid-up capital (or stock) | Capital reserve | minus:shares in store | Reserve | Normal risk provision | Retained profit | Others | Total shareholders' equity interests |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| I.Balance of last year | 873,370,000.00 | 979,214,788.45 | - | 108,587,124.40 | - | -1,493,993,420.78 | - | 467,178,492.07 | 873,370,000.00 | 976,614,788.45 | - | 108,587,124.40 | - | -1,103,987,352.61 | - | 854,584,560.24 |
| plus:change of Accounting Policy | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Correction of previous mistakes | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| II.Balance at beginning of this year | 873,370,000.00 | 979,214,788.45 | - | 108,587,124.40 | - | -1,493,993,420.78 | - | 467,178,492.07 | 873,370,000.00 | 976,614,788.45 | - | 108,587,124.40 | - | -1,103,987,352.61 | - | 854,584,560.24 |
| III.Change in amount decrease is shown as "-" | - | - | - | - | - | -109,883,144.87 | - | -109,883,144.87 | - | 2,600,000.00 | - | - | - | -390,006,068.17 | - | -387,406,068.17 |
| (A)Net profit | - | - | - | - | - | -109,883,144.87 | - | -109,883,144.87 | - | - | - | - | - | -390,006,068.17 | - | -390,006,068.17 |
| (B)Gain/loss directly taken into shareholders' equity intersts | - | - | - | - | - | - | - | - | - | 2,600,000.00 | - | - | - | - | - | 2,600,000.00 |
| 1.Net amount of fair value change of saleable financial assets | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| 2.Effect on other shareholders' equity interests of invested company by Method of Equity | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| 3.Effect of income tax related with items taken into shareholders's equity interests | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| 4.Others | - | - | - | - | - | - | - | - | - | 2,600,000.00 | - | - | - | - | - | 2,600,000.00 |
| Sub-total of (A)and(B) | - | - | - | - | - | -109,883,144.87 | - | -109,883,144.87 | - | 2,600,000.00 | - | - | - | -390,006,068.17 | - | -387,406,068.17 |
| (C)Input of shareholders and decrease in capital | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| 1.Capital paid in by owners | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| 2.Amount of shares taken into shareholders' equity interests | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| 3.Others | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| (D)Allocation of profit | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| 1.Provision for reserve | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| 2.Normal risk provision | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| 3.Allocation to owners (or shareholders) | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| 4.Others | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| (E0Internal carry-over of shareholders' equity interests | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| 1.Capital reserve to increase capital(or stock) | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| 2.Reserve to increase capital(or stock) | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| 3.Reserve to compensate loss | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| 4.Others | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| IV.Balance at end of Year | 873,370,000.00 | 979,214,788.45 | - | 108,587,124.40 | - | -1,603,876,565.65 | - | 357,295,347.20 | 873,370,000.00 | 979,214,788.45 | - | 108,587,124.40 | - | -1,493,993,420.78 | - | 467,178,492.07 |

At 31st December,2008(Prepared in accordance with the P.R.C.Accounting Rules and Regulations)

*Unit: RMB Yuan*

| Items | Amount of the period | Amount of last period |
|---|---|---|
| **I.Cash flow generated in Operational activities:** | | |
| Cash from sales of goods, services provided | 108,522,835.60 | 160,480,397.50 |
| Net increase of disposing transactional financial assets | - | - |
| Refunds of taxes and expenses | - | - |
| Other cash from operation-related activities | 35,453,928.74 | 160,157,169.12 |
| Sub-total of inflow of cash in operational activities | 143,976,764.34 | 320,637,566.62 |
| Cash paid for goods and services | 98,129,368.00 | 160,691,978.46 |
| Cash paid to and for the employees | 3,299,546.01 | 3,395,037.82 |
| Taxes and expenses paid | 1,910,702.92 | 2,737,357.19 |
| Other cash paid to operation-related activities | 41,645,021.34 | 81,962,554.38 |
| Sub-total of outflow of cash in operational activities | 144,984,638.27 | 248,786,927.85 |
| Net in/outflow of cash generated in operational activities | -1,007,873.93 | 71,850,638.77 |
| **II.Cash flow generated in investment activities:** | | |
| Cash received from return of investments | - | 24,808,223.82 |
| Inflows from investments income | - | 42,741,776.18 |
| Net cash received from disposal of fixed assets, intangible assets and other long-term assets | - | - |
| Net amount of cash in disposing subsidiaries and other operating units | - | - |
| Other cash received from investment-related activities | - | - |
| Sub-total of inflow of cash in investment activities | - | 67,550,000.00 |
| Cash paid in purchase/construction of fixed assets, intangible assets and other long-term assets | 137,030.00 | 89,750.00 |
| Cash paid to invest | 100,000.00 | 149,341,440.00 |
| Net increase in pledged loans | - | - |
| Net cash received from subsidiaries and other operational units | - | - |
| Cash paid to other investment-related activities | - | - |
| Sub-total of outflow of cash in investment activities | 237,030.00 | 149,431,190.00 |
| Total in/outflow of cash in investment activities | -237,030.00 | -81,881,190.00 |
| **III.Cash flow generated in financial activities:** | | |
| Cash received for new investment | - | - |
| includ.:Cash from minority shareholders' investments by subsidiaries | - | - |

*Unit: RMB Yuan*

| **Items** | **Amount of the period** | **Amount of last period** |
|---|---|---|
| Cash received from borrowing | - | - |
| Cash from issuing bonds | - | - |
| Cash from other financial-related activities | - | - |
| Sub-total of inflow of cash in financial activities | - | - |
| Cash paid to repay loans | - | - |
| Cash paid to allocate dividends, profit or repay interests | - | - |
| Inclu.:Dividends or profit subsidiaries paid to minority shareholders | - | - |
| Cash paid to other financial-related activities | - | - |
| Sub-total of outflow of cash in financial activities | - | - |
| Net cash generated in financial activities | - | - |
| **IV.Effect of change of foreign-currency rates on cash and cash equivalents** | - | - |
| **V.Net increase of cash and equivalents** | -1,244,903.93 | -10,030,551.23 |
| plus:Balance at beginning of period of cash and equivalents | 4,035,757.56 | 14,066,308.79 |
| **VI.Balance of Cash and equivalents by end of period** | 2,790,853.63 | 4,035,757.56 |

At 31st December,2008(Prepared in accordance with the P.R.C.Accounting Rules and Regulations)

*Unit:RMB Yuan*

| Items | Industries | | Hotel, restaurants and other services | | Offsetting | | Total | |
|---|---|---|---|---|---|---|---|---|
| | Year 2008 | Year 2007 | Year 2008 | Year 2007 | Year 2008 | Year 2007 | Year 2008 | Year 2007 |
| **I.Income of sales** | 517,717,563.70 | 620,959,860.42 | - | 18,740,988.89 | - | - | - | 639,700,849.31 |
| Inclu.: Income of exterior transaction | 517,717,563.70 | 620,959,860.42 | - | 18,740,988.89 | - | - | - | 639,700,849.31 |
| Income of inter-division transaction | - | - | - | - | - | - | - | - |
| **II.Total cost of sales** | 521,857,220.04 | 729,745,230.06 | - | 75,772,756.20 | - | - | - | 805,517,986.26 |
| **III.Operational Profit** (Loss) | -69,760,685.96 | -24,852,443.25 | - | -57,031,767.31 | - | - | - | -81,884,210.56 |
| **IV.Total Assets** | 847,016,256.07 | 1,073,974,339.91 | - | - | - | - | - | 1,073,974,339.91 |
| **V.Total Liabilities** | 124,967,867.25 | 124,967,867.25 | - | - | - | - | - | 124,967,867.25 |
| **VI.Supplimentary** information | - | - | - | - | - | - | - | - |
| 1.Expenses of depreciation and amortization | 10,900,453.23 | 9,955,717.80 | - | 5,546,067.61 | - | - | - | 15,501,785.41 |
| 2. Capital expenses | 19,548,483.80 | 10,870,405.30 | - | 2,368,922.14 | - | - | - | 13,239,327.44 |

## I Basic information of the company

1. Location of Registration: No.78 Hun Nan High and New Technology Development Zone, Shenyang, Liaoning Province, P.R.China, with Headquarters situated at: 14/F., Jindu Hotel, 189 South Taiyuan Street, He Ping District, Shenyang, Liaoning Province, P.R.China. Legal Representative:Su Wei Guo.

2. Our company engage in producing and selling electricity transmitting and transforming equipments, corollary equipments, and providing relative after-sale services, and services of developing electricity transforming technology, consulting, transferring and experimenting. Registered Capital of the company is RMB873,370,000.00.

3. Parent Company of our company is New Northeast Electric Investment Co., Ltd, which is also the ultimate holding company of the Group.

4. History of the Company

   Northeast Electric Development Co., Ltd. (formerly: Northeast Electricity Transmitting & Transformation Machinery Manufacturing Ltd.) (hereinafter referred as “the company” or “company”) is a share-holding limited company in a directional collection way initiated mainly by the Northeast Electrical Transmission and Transformation Equipment Company Corporation Limited ("NET"), and approved by the Shenyang Corporate System Reformation Committee (approval: Shen Xi Gai Fa[1992]81). The company officially came into being on Feb. 18, 1993, with 824.54 million shares which adjusted to 585.42 million shares. The company issued 257.95 million H-shares in Hong Kong in 1995, and on Jul. 6 was listed on the Hong Kong Exchanges and Clearing Ltd. In that same year the company issued 30 million A-shares which listed on the Shenzhen Stock Exchange on Dec. 13, 1995.

5. The financial reports are approved and presented by the Board of Directors on Mar. 30, 2009, during the 17th session of the 5th Board of Directors Meeting.

## II. Groundwork for working out of the financial reports

Having long-term development in view, the company has worked out the financial reports by the guidelines and rules of <Enterprise Accounting Standards – Basic Standards> and other relative principals, and based on the actual transactions and events.

## III. Declaration of Abiding by the <Enterprise Accounting Rules>

The financial statements of the company has given a true and fair view of the financial position of the company, and of the results of its operations and its cash flows for the year in accordance with <Enterprise Accounting Rules>

## IV. Major accounting policies and methods of evaluation of the company

### 1. Accounting Principals

By the guidelines of <Enterprise Accounting Rules>.

### 2. Accounting Period

Each accounting year starts from Jan. 1 and ends on Dec. 31 of a calendar year.

### 3. Standard money of book-keeping

Ren Min Bi (i.e. RMB) is the standard money of our book-keeping.

### 4. Basis for computation

The reporting is based on accrual system, assets are recorded at their costs unless otherwise stipulated.

## IV. Major accounting policies and methods of evaluation of the company(Continued)

### 5. Foreign currency businesses accounting

Foreign currency businesses are changed to standard money at the relative exchange rate on demand, which is the exchange rate at beginning of the month when transactions occur.

On each balance sheet date, foreign-currency monetary items and non-monetary items are managed by the following rules:

(1) Foreign-currency monetary items are changed to standard money using exchange rate on demand of the balance sheet date. Exchange differences arising from differences between such exchange rate and that of initial computation, are taken into profit and loss.

(2) Foreign-currency non-monetary items which are calculated by historical cost principal, are changed to standard money using exchange rate on demand of the actual transaction dates, while the relative amount in standard money remain the same.

(3) Foreign-currency non-monetary items computating at fair value, are changed to standard money at exchange rate on demand on the date of fair value recognition, differences of amounts of standard money after exchange are taken into the profit and loss as fair value.

### 6. Translation of foreign currencies financial reports

Offshore businesses are accounted according to the following rules:

(1) Assets and liabilities in the Balance Sheet are changed to standard money at the exchange rate on demand of the balance sheet date. All items of shareholders

## IV. Major accounting policies and methods of evaluation of the company(Continued)

equity interests are changed to standard money using exchange rate on demand of their transaction date, except for “retained profit”.

(2) Items of incomes and expenses are changed to standard money at exchange rate on demand of their transaction dates.

Differences arising from exchanges according to the above-mentioned rules of (1) and (2) are displayed separately in the balance sheet under item of shareholders’ equity interests.

### 7 Cash equivalents recognition

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

### 8 Computation of financial assets

Classification of financial assets

Financial assets are classified into four categories: those that are recognized by fair value and differences are taken into profit and loss of the relative accounting period (including transactional financial assets, and financial assets that are set by fair value and differences are taken into profit and loss of the relative accounting period) investments held till due accounts receivables and saleable financial assets.

Computation of financial assets

a. Initial recognition of financial assets are by their fair value. For those that are recognized by fair value and differences are taken into profit and loss of the relative accounting period, relative expenses should be taken into profit and loss; for other financial assets, expenses should be added to initial recognition amount.

## IV. Major accounting policies and methods of evaluation of the company(Continued)

b. Followthrough computation of financial assets are by fair value principal, without deducting possible transaction expenses while disposing, but with the following exceptions:

(1) Investments to be held till due and accounts receivable are measured at amortized costs using rules of real interest;

(2) Equity investments that are not quoted in active markets while their fair value can not be measured credibly, and financial derivatives that are linked with such investments and must be settled by delivery of those investments, are accounted by their costs.

Recognition of fair value of financial assets

a. Financial assets in active markets, quotation by such markets are taken as fair value;

b. Financial assets without active markets, valuation method are taken to account their fair value. Such result reflect possible transaction price in fair trade on valuation date.

Financial assets diminution

All financial assets except for those that are recognized by fair value and differences are taken into profit and loss of the relative accounting period should be examined on balance sheet date. Diminution provision are set aside when evidence show that such financial assets is depreciating. Evidences includes:

a. Serious financial problems occur for the issuers or the debtors;

b. Breach of contracts by the debtors, such as default in repaying principal or interest;

c. Compromises by the company to debtors in financial problems, out of economic or legal concerns;

## IV. Major accounting policies and methods of evaluation of the company(Continued)

d. Possible bankruptcies or other financial reorganizations of the debtors;

e. Such financial asset are not tradable in active markets due to major serious financial problems of the issuers;

f. The company are not able to recover investment cost due to major adverse variances occur in the debtors' technology, markets, economies and legal environments;

g. Serious or non-temporary declines of the fair value of equity instruments;

h. Other solid evidence showing financial assets are depreciating

Computation of financial assets depreciation loss

a. No depreciation tests are exercised for financial assets that are recognized by fair value and differences are taken into profit and loss of the relative accounting period;

b. For financial assets that are held till due, diminution provision are set at difference between predition of future cash value and current book value;

c. Account receivables loss: the company set aside bad debts provisions after exerceising diminution tests on account receivables on balance sheet date. Separate test is exercised for receivables of large amounts (i.e. 1 million or over), diminution provision are set at difference between prediction of future cash value and current book value if evidences showing depreciation.

## IV. Major accounting policies and methods of evaluation of the company(Continued)

For account receivables of non-large amounts, and those of large amounts but no solid evidence showing depreciation after separate test, bad debt provisions are set by the age of account analysis method. Ratios of provision are shown below:

| Age of Accounts | Ratio of provision |
|---|---|
| Within 2 years | Nil |
| 2-3 years | 40% |
| 3-4 years | 60% |
| Over 4 year | 100% |

d. Base of judgments of saleable financial assets: if fair value of such financial asset continues to decline, and such decline is non-temporary, then depreciation of such financial asset is recognized.

### 9 Classification of inventories and their computation

Classification of inventories

Inventories are products or merchandise ready to sell held by the company, or goods in the process, or materials consumed in the process of production or service. They include raw material(including auxiliary material) work in progress fininshed goods low value articles.

Inventory valuation

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

Standard for market price decline and method of provision

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

**10 Reporting of long-term equity investments**

(1) Calculation of long-term investments in equity

A. Long-term equity investments are consolidatedly reported, and their initial investment costs are recognized by the following rules:

a. Considerations are consolidated by the reporting party in ways of cash, non-cash transfer, or assuming liabilities within companies under the same controlling party, initial investment costs are recognized by the book value of shareholder equity interests on the date of consolidation. Differences between initial investment costs and cash, non-cash transferred, or liabilities assumed are adjusted to capital reserve. If the difference should surpass capital reserve, retained profit is accordingly adjusted.

For long-term investment that consideration is taken in way of issuing equity bonds by the consolidating party, their initial investment cost is recognized shares of the consolidated party of the book value of shareholders' equity interests on the consodliating date. Total face value of issuance are taken as capital. Capital reserve is adjusted by the difference between initial investment costs and total face value of issuance, then retained profit is adjusted accordingly if the difference is over capital reserve.

b. For companies not under the same controlling party, initial investment costs are recognized by the following consolidated costs:

1/ Combination of companies by one time trade-over, their consolidating costs are assets paid to gain control over the consolidated party on the purchase day, or liabilities assumed or occurred, or fair value of equity bonds issued.

2/ Every single transaction cost is added up to be the total costs for consolidation of many transactions.

3/ Each direct expense is taken into consolidation cost by the consolidating party in purchasing.

4/ The consolidating party should take any future events in the consolidation agreements that are possibly affective to the reliable computation of consolidation costs into consolidation costs.

B. Long-term equity investments other than consolidation are measured by the following for their initial investment costs:

a. Those that are taken by cash, actual payment are taken as initial investment cost, which includes direct expenses, taxes and other necessary expenses.

b. Those that are taken by issuing equity bonds, their fair value are taken as initial investment costs.

c. Those that are invested by the investors, value agreed in the investment contracts or agreement are taken as initial investment costs, except for those agreed not by fair value.

d. Those by transactions of non-monetary assets, if such transactions are commercial, then fair value and relative taxes and expenses are taken for initial investment costs; if non-commercial, book value of trade-out assets and relative taxes and expenses are taken as initial investment costs.

e. Those by liabilities reorganization, fair value and relative taxes and expenses payable are set for their initial investment costs.

## IV. Major accounting policies and methods of evaluation of the company(Continued)

(2) Recognition method of Income

Long-term investments which the company impose controlling power over the company invested, and investments that impose no significant impact, and there are no quotation in the active markets, their fair value can not be reliably measured are recognized using Cost method; Long-term investments that the company impose significant power over the company invested are calculated by Equity method.

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

## IV. Major accounting policies and methods of evaluation of the company(Continued)

### 11 Real estate invested

Real estate invested of the company are those held for renting income or increment of capital, or both.Including:

(1) land use rights rented;

(2) land use rights that are to sell after appreciation;

(3) houses and buildings rented.

Real estate invested are calculated by Cost Method.
Costs of real estate invested are taken into profit and loss of the reporting period after deducting diminution and salvage value, and deprecited at Direct Line Method.

One balance sheet date, real estate invested are measured at costs or recoverable amount, whichever is lower. If the latter is lower, diminution provision are set according to the difference between the two.

### 12 Fixed Assets and Depreciation

Fixed assets refer to buildings of over 1 year service life, construction, machinery, equipment, motor vehicles, and other equipments, utensils and instruments that related to production or operations.
Fixed assets are depreciated by Direct Line Method, ratios of depreciation are set by their types, estimated service life or estimated salvage life (3% of cost):

| Types | Service life (year) | Annual depreciation rate% |
|---|---|---|
| Buildings | 20-40 | 2.43-4.85 |
| Machinery and equipment | 8-20 | 4.85-12.13 |
| Motor vehicles and others | 6-17 | 5.71-16.17 |

## IV. Major accounting policies and methods of evaluation of the company(Continued)

### 13 Reporting of Construction in Progress

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

### 14 Intangible assets

Intangible assets are calculated at real costs of acquisitions. Their service life are analyzed at acquisition. Those with limited life are amortized within their life. Details as follows:

| Types | Years of amortizing |
|---|---|
| Land use rights | Service life |
| Patents | 10 years |
| softwares | Service life |

### 15 Other assets

Other assets are calculated at real costs. Long term expenses payable are amortized within period of benefit.

## IV. Major accounting policies and methods of evaluation of the company(Continued)

### 16 Diminution provisions of long term equity investment, fixed assets, work in progress, intangible assets

(1) By end of reporting period, book value of long term equity investment, fixed assets, work in progress and intangible assets are inspected by the company. If any sign of diminution, recoverable amounts are estimated by fair value of relative assets minus disposing expenses and estimated future cash flow whichever is higher. If recoverable amount is lower than book value, then book value is reduced to recoverable amount. Reduction amount is recognized as loss and is taken into profit and loss. Loss will not be recovered in the future accounting periods once it's recognized.

(2) The company normally estimate recoverable amount based on a single asset if any sign shows diminution of it. Then the asset group the diminuting asset belongs is used as base to estimate recoverable amount if estimation can not be carried out based on the asset itself. Whether the principal cash flow generated by the assets group is separate from other cash flow by other assets or assets group is the foundation of recognizing an asset group, with ways of operating of the company and the continuous usage of assets or ways of disposal in view. But in any way any asset group should not exceed those that are set as reporting division.

### 17. Borrowing Expenses

(1) Bollowing interests, discounts or amortization of premium or difference of exchange occurred when purchasing a fixed asset are calculated as such asset's cost, within its period of capitalization and under conditions of capitalization amount; other bollowing interests, discounts or amortization of premium or difference of exchange are recognized as expenses during transactions period. Auxiliary expenses due to special bollowing are capitalized when transaction if before the relative fixed asset comes into usage. Auxiliary expenses are recognized as expenses when transaction if amounts are small; other auxiliary expenses are recognized as expenses during period of transaction.

## IV. Major accounting policies and methods of evaluation of the company(Continued)

(2) Period of capitalization of bollowing expenses

1/ Initial capitalization: bollowing expenses are capitalized for interests, amortization and exchange differences due to special borrowings if under the following circumstances at the same time:

a. capital expenses have occurred;

b. borrowing expenses have occurred;

c. Purchases or Construction to render assets usable have started.

2/ Suspension 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.

3/ Capitalization Cut-off: Borrowing expenses capitalization are cutoff when fixed assets purchased or constructed reach to the condition of usefulness. Borrowing expenses occur later on are recognized as expenses of the period.

(3) Recognition of capitalization amounts

Capitalization amount are recognized by deducing interest income of the bollowing principal not yet used, or return of temporary investment from the bollowing interest expenses in each capitalization accounting period.

Amounts of interest capitalization equals to accumulated average weighted expenses times capitalization rates , when normal bollowing are taken up for use of purchasing or producing assets in accordance of capitalization.

## IV. Major accounting policies and methods of evaluation of the company(Continued)

### 18. Principals of income recognition

Sales of goods

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

Use of rights of alienated assets

Use of rights of alienated assets are recognized as income when relative return belong possibly to the company, and amount of income can be reliably counted.

### 19. Subsidy by the Government

Subsidy by the Government includes fiscal allocation, fiscal discount, return of taxes and allocation ofnon-monetary asset with no consideration. Subsidy by the Government received by the company are recognized as deferred income, and is averaged into profit and loss with its life beginning from the relative coming to use. Deferred income will be taken into profit and loss of accounting period of disposal when relative asset are sold, transferred, discarded or ruined. Subsidy related to income that are used to redeem later expenses or losses, are recognized as deferred income, and are taken into profit and loss of the period; those that are used to redeem expenses and losses already occur, are taken into profit and loss directly.

## IV. Major accounting policies and methods of evaluation of the company(Continued)

### 20. Accounting of income taxes

Income taxes are calculated using method of Liability of Balance Sheet.

(1) Recognition of deferred tax asset

1/ The company recognized deferred tax asset arise from offsettable temporary difference, limited which amount by taxable income possibly used to offset offsettable temporary difference. With exception of those with the following characteristics at the same time:

a. Such transactions are not due to corporate consolidation;

b. Neither profit nor taxable income (or offsettable loss) will not be affected when transactions occur.

2/ Offsettable temporary difference related to investments of the company to subsidiary companies, related companies are recognized as deferred tax assets are recognized if the following conditions are satisfied at the same time:

a. Temporary difference can be reversed in the predictable future;

b. Taxable income possibly used to offset offsettable temporary difference.

3/ Deferred tax assets are recognized for offsettable losses and tax offset reduction, limited to the amount of future taxable income possibly used to offset future losses or taxes.

(2) Recognization of deferred income tax liability

All deferred income tax liability arise from taxable temporary difference are recognized except for the following situations:

1/ Initial recognition of goodwill;

2/ Initial recognition of assets or liabilities satisfying both the below conditions:

a. Such transactions are not due to corporate consolidation;

b. Neither profit nor taxable income (or offsettable loss) will not be affected when transactions occur.

3/ Offsettable temporary difference related to investments of the company to subsidiary companies, related companies are recognized if the following conditions are satisfied at the same time.

a. the investing company can control time of reverse of temporary difference;

b. such temporary difference are probably not to be reversed in the predictable future.

(3) Calculation of income tax expenses

The company take income taxes and deferred taxes as income tax expenses or income into profit and loss, excepting below:

a. Corporate consolidation;

b. Transactions or events directly recognized in shareholders' equity interests.

**21. Planning of Consolidated Financial Report**

Principles of Consolidated Financial Reporting

The scope of consolidation are based on control.

Method of Planning

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

## V. Impact of Accounting Policy, Change of Accounting Valuation, Correction of Accounting Errors and Change of Scope of Consolidated Report

### (I) Change in Accounting Policy

Some regulations relating to the Report in Explanation No.2 to Accounting Rules announced on Aug. 7, 2008 are as follows:

'When mainland Accounting Rules acquire the same effectiveness with HongKong Financial Reports Rules, listed companies with both A Shares and H Shares should adopt the same accounting policies to recognize, measure when reporting one same transaction by the same accounting evaluation method. Using different accounting handling in reporting financial reports about A Share and H Share is prohibited.'

'Parent company should adjust Shareholder's Equity , or adjust Retained Profit when Capital Reserve is insufficient to offset the difference between long-term equity investment by acquiring minority shares and portion of net assets continuously measured from date of purchase of shares enjoyed by the parent company according to ratio of newly acquired equity shares held. Such regulations apply to transactions of purchase of minority shares of subsidiary after Aug. 7, 2008. Transactions before this date need not retrospect.'

The Company has adjusted relative Accounting Policies according to the above-mentioned regulations,without retrospecting.

### (II) Change in Accounting Evaluation

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

### (III) Correction of previous errors and relative impact

During this reporting period, the Company realized mistake of adopting Method of Equity Ratio to computing Long-term Equity Investment to New Northeast Electric (Shenyang) High-voltage Switches Co., Ltd.as 20.8% in the consolidated reports. Due to change in Paid-up Capital structure of New Shenyang High-voltage, the Company and its subsidiary own 18.87% of New Shenyang High-voltage's voting shares directly and indirectly, which is lower than 20%. Method of Cost should be adopted instead of Method of Equity initially used in computing New Shenyang High-voltage's Long-term Equity according to Enterprise Accounting Rules.

In computing voting shares of New Shenyang High-voltage's Long-term Equity Investment in financial reports of 2007, the Company has mistakenly included voting shares of this company directly and indirectly by Weida High-voltage Electric Co., Ltd., an associate but not a subsidiary of the Company, which led to result of 20.8% voting shares of New Shenyang High-voltage in the reports, Method of Equity being adopted.

The mentioned mistakes led to 28,996,546.06 more in balance of New Shenyang High-voltage's Long-term Equity Investment in the Financial Reports of year 2007, while difference of 1,625.52 , being Conversion Foreign Currency reports was not computed, and in the same time 28,998,171.58 more of Return on Investment was carried forward. Such amount reflects in Retained Profit in the financial reports of 2008 at the beginning of period, and in Total Profit , Net Profit in Consolidated Financial Reports of 2007. Correction has been made in working out Financial Reports of 2007 and 2008 in this year.

## V. Impact of Accounting Policy, Change of Accounting Valuation, Correction of Accounting Errors and Change of Scope of Consolidated Report(Continued)

### (IV) Impact of Change in Scope of the Consolidated Report

1. New Northeast Electric (Shenyang) High-voltage Insulate Switches Co., Ltd. (hereinafter referred to as "New Shen Switches") was excluded from this year's consolidated financial reports.

   Date of transfer of equity shares is Sep. 30, 2008, thus the Company take Profit and Loss of New Shen Switches of period from January to September of 2008 into consolidation of financial reports.(See details of proceedings of transfer in Notes XIV)

   Briefing of Profit and Loss during the period from January to September of 2008 of New Northeast Electric (Shenyang) High-voltage Insulate Switches are as follows:

| | Jan. – Sep. 2008 |
|---|---|
| Total profit | 1,675,147.72 |
| Net profit | 1,589,993.57 |

## V. Impact of Accounting Policy, Change of Accounting Valuation, Correction of Accounting Errors and Change of Scope of Consolidated Report(Continued)

2. Shenyang Jiatai Machinery Equipment Co., Ltd. (hereinafter referred to as "Shenyang Jiatai" has been excluded from the scope of consolidation of financial reports by the Company in the year of 2008.

   In Nov. 2008, subsidiary of the Company – Shenyang Kaiyi Electric Co., Ltd. transferred 100% of shares of Shenyang Jiatai held by them to New Northeast Electric Group Power Machinery Equipment Co., Ltd., with evaluation of RMB5,970,000.00, and received funds of transfer on Nov. 18, 2008. Shenyang Jiatai finished relative alteration of registration proceedings in the Bureau of Industry and Commercial Administration on Nov. 13, 2008. Date of transfer of equity shares is set as Oct. 31, 2008. And Profit and Loss during the period from January to October of 2008 has been consolidated into the Financial Reports.

   Brief details of Profit and Loss of Shenyang Jiatai Machinery Equipment Co., Ltd. during period of January to October of 2008 are as follows:

| | Jan.– Oct. 2008 |
|---|---|
| Total Profit | 1,835,741.50 |
| Net Profit | 1,579,997.58 |

3. Shenyang Zhaolida Machinery Equipment Co., Ltd. has been added to the scope of consolidation of financial reports by the Company in the year of 2008, which is a wholly-owned subsidiary established by the Company on Sep. 26, 2008 with cash invested of RMB100,000.00.

## VI. Taxes

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

Remark 1. Corporate Income Tax Rates for the Company and subsidiaries such as Jinzhou Jinrong Electric Appliance Co., Ltd., Shenyang Kaiyi Electric Co., Ltd. (referred as Kaiyi Electric), Shenyang Gaodongjia Dessication Equipment Co., Ltd., Shenyang Zhaolida Machinery Equipment Co., Ltd. and Northeast Electric (Beijing) Co., Ltd. are 25%.

The company's subsidiary – New Northeast (Jinzhou) Electric Capacity Co., Ltd. (referred to as New Jin Cap) 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 Jin Cap 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 company's subsidiary –Fuxin Closed Mother Cable Company Limited(referred to as Fu Closed) was changed to a foreign-owned enterprise in Nov. 2005, with registered capital of USD2.8 million, and foreign capital was all paid in by Jan. 2006. Its income tax rate is 25%. According to the regulations under Income Tax Law of Foreign-owned Company and Foreign Company People's Republic of China, Fu Closed enjoy a favorable tax policy of "exempt 2 (years) and half 3(years)" by the reply of National Tax Bureau Liaoning Fuxin (No. Fu Guo Shui Han (2007) 58) , thus income taxes are exempted from 2006 to 2007, and are reduced in half from 2008 to 2010.

Northeast Electric (HK) Co., Ltd. is a wholly owned subsidiary of the company registered in HKSAR of P. R. China, its income rate is 16.5%.

Gaocai Technology Co., Ltd.(referred to as Gaocai Tec) 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.

## VII Scope of consolidation of the company and recognition of the scope

### Base of consolidation

The company consolidated results of the invested companies with the company owning voting shares over 50%, or maintain controlling power though not owning shares over 50%.

### Scope of Consolidation

| Name of company | Registration place | Registered capital | Shares owned % | | Amount invested | Principal Operation | Y/N Cons. |
|---|---|---|---|---|---|---|---|
| | | | directly | indirectly | | | |
| Northeast Electric (HK) Co., Ltd | HK | US20M | 100 | - | US20M | INVESTMENT & TRADE | Y |
| Gaocai Technology Co., Ltd. | BVI | USD1.00 | - | 100 | USD1.00 | INVESTMENT | Y |
| Fuxin Closed Mother Cable Company Limited | FUXIN | USD2.8M | - | 100 | USD2.8M | IPB production | Y |
| Jinzhou Jinrong Electric Applicance Co., Ltd. | JINZHOU | RMB3M | - | 69.75 | RMB2.0925M | Dry high-voltage Capacitors | Y |
| Shenyang Gaodongjia Desiccation Co., Ltd. | SHENYANG | USD778,500 | 70 | - | USD544,950 | Metal box and desiccation equipment | Y |
| New Northeast (Jinzhou) Electric Capacitor Co., Ltd. | JINZHOU | USD10M | - | 100 | USD10M | Capacitor, CVC | Y |
| Shenyang Kaiyi Electric Co., Ltd | SHENYANG | RMB1M | 10 | 90 | RMB1M | Production of High-voltage electric equipment, switches, electric capacitors | Y |
| Northeast Electric (BEIJING) Co., Ltd | BEIJING | RMB2M | - | 100 | RMB2M | Sales of machinery, electric equipment, hardware | Y |
| Shenyang Zhaoli Machinery Co.,Ltd. | SHENYANG | RMB0.1M | 100 | | RMB0.1M | Machinery, Equipment of transmitting and transforming electricity | Y |

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

### Associates:

| Name of Company | Place of Registration | Legal Person | Registered Capital | Paid-up Investment | Ratio of shares | Major operati Rep |
|---|---|---|---|---|---|---|
| New Northeast Electric (Shenyang) Co., Ltd.High-voltage Switches Co.,ltd. | Shenyang | Liu Bing | USD21.5M | RMB10.718M | 25.6% | Development and of high-voltage and transforming electricity |
| Weida High-Voltage Electric Co., Ltd. | BVI | Lo Yuet | USD12,626.00 | USD2,626.21 | 20.8% | INVESTMENT |

## VIII Notes to Major items in Consolidated financial reports

### 1. Cash and deposits

| Items | Currency | 2008-12-31 | | 2007-12-31 | |
|---|---|---|---|---|---|
| | | Currency of transaction | Translation into RMB | Currency of transaction | Translation into RMB |
| Cash | RMB | 16,906.36 | 16,906.36 | | 29,684.38 |
| | USD | 1,162.34 | 7,944.13 | 1,162.34 | 8,490.43 |
| Sub-total | | | 24,850.49 | - | 38,174.81 |
| Bank | RMB | | 29,142,099.60 | | 34,738,912.31 |
| | EUR | 562.84 | 5,211.87 | 31,387.84 | 308,604.89 |
| | YEN | 240.00 | 16.94 | 8,298,890.00 | 505,109.46 |
| | CHF | 33.13 | 227.89 | 26,101.33 | 158,864.96 |
| | HKD | 759,457.24 | 669,765.34 | 861,269.30 | 806,475.71 |
| | USD | 54,306.47 | 373,566.11 | 3,905,064.21 | 28,521,667.41 |
| Sub-total | | | 30,190,887.75 | - | 65,039,634.74 |
| Other cash equivalents | RMB | | 19,712,601.46 | - | 500,000.00 |
| Sub-total | | | 19,712,601.46 | | 500,000.00 |
| Total | | | 49,928,339.70 | | 65,577,809.55 |

Remark 1: Balance reduced to RMB15,649,469.85, a 24% decrease due to repayment of bank loans.

Remark 2: Equivalent of RMB6 million of cash in currencies other than RMB has been held as margin under transactions of Bank accepted bills of exchange up to Dec. 31, 2008.

Remark 3: Equivalent of RMB 13,191,400.00 of cash in currencies other than RMB has been held as margin under transactions of performance bond up to Dec. 31, 2008.

## 2. Bills Receivable

| Types of Bills | 2008-12-31 | 2007-12-31 |
|---|---|---|
| Bank accepted bills of exchange | 4,384,150.00 | 4,086,000.00 |

Remark 1: Balance at end of period increase 7% to RMB298,150.00, mainly due to Bank Accepted Bills of Exchange received by thecompany increase.

## 3. Accounts Receivable

### (1) Risk Analysis of Account Receivables:

2008-12-31

| Types | Amount | proportion | Provisions for bad debts | Net amount |
|---|---|---|---|---|
| Single large amount account receivable | 133,238,671.93 | 70.55% | 4,320,679.17 | 128,917,992.76 |
| Other receivables with higher risks after risk reorganization though with small amount | 8,115,124.52 | 4.29% | 8,115,124.52 | |
| Other insignificant amount account receivables | 47,511,100.50 | 25.16% | 2,769,018.38 | 44,742,082.12 |
| Total | 188,864,896.95 | 100.00% | 15,204,822.07 | 173,660,074.88 |

2007-12-31

| Types | Amount | proportion | Provisions for bad debts | Net amount |
|---|---|---|---|---|
| Single large amount account receivable | 131,139,190.53 | 67.31% | 2,181,540.71 | 128,957,649.82 |
| Other receivables with higher risks after risk reorganization though with small amount | 8,479,750.76 | 4.35% | 8,479,750.76 | |
| other insignificant amount account receivables | 55,205,175.99 | 28.34% | 2,853,078.48 | 52,352,097.51 |
| Total | 194,824,117.28 | 100.00% | 13,514,369.95 | 181,309,747.33 |

Remark 1: The company has set the criteria for single large amount account receivable as RMB1 million,according to the scale of operation, character of the operation and state of customers' settlement.

Remark 2: Foundation of judgment of any single accocunt receivables with higher risks after risk reorganization though with insignificant amount, is there're unrecoverable signs showing, or age exceed 4 years.

## VIII Notes to Major items in Consolidated financial reports(Continued)

### (2) Age Analysis of Account Receivables

2008-12-31

| Age of Accounts | Amount | Proportion | Provisions for bad debts | Net amount |
|---|---|---|---|---|
| Within 1 year | 138,881,043.12 | 73.54% | - | 138,881,043.12 |
| 1-2 years | 27,152,813.66 | 14.38% | - | 27,152,813.66 |
| 2-3 years | 11,921,831.55 | 6.31% | 4,768,732.62 | 7,153,098.93 |
| 3-4 years | 1,778,897.93 | 0.94% | 1,305,778.76 | 473,119.17 |
| Over 4 years | 9,130,310.69 | 4.83% | 9,130,310.69 | - |
| Total | 188,864,896.95 | 100.00% | 15,204,822.07 | 173,660,074.88 |

2007-12-31

| Age of Accounts | Amount | Proportion | Provisions for bad debts | Net amount |
|---|---|---|---|---|
| Within 1 year | 148,519,370.03 | 76.23% | - | 148,519,370.03 |
| 1-2 years | 28,276,963.65 | 14.51% | - | 28,276,963.65 |
| 2-3 years | 7,648,474.91 | 3.93% | 3,417,089.96 | 4,231,384.95 |
| 3-4 years | 1,559,321.76 | 0.80% | 1,277,293.06 | 282,028.70 |
| Over 4 years | 8,819,986.93 | 4.53% | 8,819,986.93 | - |
| Total | 194,824,117.28 | 100.00% | 13,514,369.95 | 181,309,747.33 |

### (3) Top 5 Account Receivables companies by end of Dec. 31, 2008 are as follows:

| Name of company | Amount Owed | ear of Transactions | Contents |
|---|---|---|---|
| Shanxi Province Power Co. | 17,314,110.00 | 2008 | Payment of goods |
| Extra high-tension electrity transmitting and transforming Co. of China Southern Power Grid | 14,740,500.00 | 2008 | Payment of goods |
| Chongqing Power Co. | 9,602,030.32 | 2008 | Payment of goods |
| North China Power Group Beijing Power Co., Ltd . | 8,019,717.00 | 2008 | Payment of goods |
| Henan Province Power Co. | 6,467,096.00 | 2008 | Payment of goods |
| Total | 56,143,453.32 | | |

Remark 1:Top 5 customers take up 30% of total account receivables balance by end of period.

Remark 2:There’s no receivables from company holding 5% or over voting shares of the company.

# VIII Notes to Major items in Consolidated financial reports(Continued)

## 4. Prepayment

| | 2008-12-31 | | 2007-12-31 | |
|---|---|---|---|---|
| **Age of Accounts** | **Amount** | **Propotion** | **Amount** | **Propotion** |
| Within 1 year | 28,686,365.91 | 98.32% | 27,957,511.50 | 97.75% |
| 1-2years | 491,614.07 | 1.68% | 642,266.41 | 2.25% |
| Total | 29,177,979.98 | 100.00% | 28,599,777.91 | 100.00% |

Remark 1:Top 5 customers by end of period totaled RMB27,674,803.73, which takes up 95% of prepayment balance.

Remark 2:There's no prepayment from shareholder company holding 5% or over shares of the company.

## 5. Dividends Receivables

| Name of Company | 2008-12-31 | 2007-12-31 |
|---|---|---|
| New Northeast Electric (Shenyang) High-Voltage Switches Co., Ltd. | 12,440,000.00 | 2,170,000.00 |
| Weida High-Voltage Electric Co., Ltd. | 7,644,734.00 | 1,947,670.40 |
| Total | 20,084,734.00 | 4,117,670.40 |

Remark: Balance at end of period is up 388% to RMB15,967,063.60, mainly due to dividends allocated by New Northeast Electric (Shenyang) High-Voltage Co. Ltd.

## 6. Other Receivables

### (1) Other Receivables Risk Analysis:

| | 2008-12-31 | | | |
|---|---|---|---|---|
| **Types** | **Amount** | **proportion** | **Provisions for bad debts** | **Net amount** |
| Single large amount account receivable | 167,304,884.98 | 93.17% | 78,128,829.27 | 89,176,055.71 |
| Other receivables with higher risks after risk reorganization though with small amount | 1,715,462.90 | 0.95% | 1,715,462.90 | |
| Other insignificant amount account receivables | 10,552,816.59 | 5.88% | 948,552.46 | 9,604,264.13 |
| Total | 179,573,164.47 | 100.00% | 80,792,844.63 | 98,780,319.84 |

## VIII Notes to Major items in Consolidated financial reports(Continued)

### (1) Other Receivables Risk Analysis(Continued)

| | 2007-12-31 | | | |
|---|---|---|---|---|
| **Types** | **Amount** | **proportion** | **Provisions for bad debts** | **Net amount** |
| Single large amount account receivable | 187,773,431.49 | 80.25% | 82,751,074.05 | 105,022,357.44 |
| Other receivables with higher risks after risk reorganization though with small amount | 1,980,008.79 | 0.85% | 1,770,764.01 | 209,244.78 |
| Other insignificant amount account receivables | 44,236,362.74 | 18.90% | 425,029.98 | 43,811,332.76 |
| Total | 233,989,803.02 | 100.00% | 84,946,868.04 | 149,042,934.98 |

Remark 1: The company has set the criteria for single large amount other receivable as RMB1 million,according to the scale of operation, character of the operation and state of customers' settlement.

Remark 2: Foundation of judgment of any single other receivables with higher risks after risk reorganization though with insignificant amount, is there're unrecoverable signs showing, or age exceed 4 years.

Remark 3: By end of year, principal owed from Benxi Steel (Group) Co., Ltd.(referred as Ben Steel) of RMB76,090,000.00 is included in other receivables, which receivables occurred in May and September 2005, by Liaoning Trust & Investment Co. (hereinafter referred to as Liao Trust) repaying principals of RMB74,424,671.45 deposited with them by the company with their receivables from Ben Steel of RMB76,090,000.00 by the approval related goverments in Liaoning Province. The company has taken receivables from Ben Steel into other receivables, surplus to the original deposit has been taken into bad debt provision. On Dec. 16, 2005, High Court of Liaoning Province has made ultimate ruling (No.(2005) Liao Min Er Zhong Zi Di 220), that Ben Steel had owed the company RMB15,900,000.00 and relative interest. The company had applied for Enforcement. As a result Intermediate Court of Shenyang has established the case and delivered Enforcement Notice to Ben Steel on Mar. 10, 2006. On Mar. 30, 2006, The Intermediate Court of Shenyang has made first ruling concerning the remaining principals by Rulings Nos. of (2005) Shen Zhong Min Si He Chu Zi Di 21, 22 and 23, that Ben Steel should repay the company principal of RMB60,190,000.00 and relative interests. On Apr. 30, 2006, Ben Steel has appealed to High Court of Liaoning Province. On May 14, 2008, High Court of Law of Liaoning Province has ordererd retry of the case to Shenyang City Midium Court of Law by Rulings of 214th, 215th, 216th of (2006) Liao Min Er Zhong Zi, revocating Rulings of 21rd, 23rd, 22nd of Shen Zhong Min Si He Chu Zi by the latter Court of Law.

By Ruling No.(2007)Liao Li Min Jian Zi Di 56 of High Court of High Court of Liaoning Province on Jun. 20, 2007, that retrial should take place by collegiate body of judges grouped by the High Court concerning the above-mentioned ruling No. of 220(on principal of RMB15,900,000.00 and relative interest), previous ruling has been discontinued. Up till the report date, High Court of Liaoning Province has not yet made any ruling. Besides, there are 3 cases totaling amount of RMB60.19 million sued over Ben Steel by the company, with favoring ruling for the company in the first trial, 2nd trial is in progress by the High Court of Liaoning Province. The company has set aside bad debt provisions for full amount of such receivables for their ages exceed 4 years. On Apr. 10, 2008, High Court of Law of Liaoning Province ruled by Ruling of 2nd (2008) Liao Shen Min Zhong Zi, revocating rulings of 1st and 2nd tries, ordering retry of the case to Midium Court of Law of Liaoning Province Shenyang City. On Feb. 6, 2009, the latter Court of Law ruled by Ruling of 2nd [2008] Shen Zhong Shen Min Chu Zai Zi, rejecting the relative lawsuit appeals. The Company has set aside bad debt provisions for such account receivable has been over 4 years.

## Ⅷ Notes to Major items in Consolidated financial reports(Continued)

### (2) Age analysis of other receivables:

2008-12-31

| Age of Accounts | Amount | Proportion | Provisions for bad debts | Net amount |
|---|---|---|---|---|
| Within 1 year | 63,927,739.06 | 35.60% | - | 63,927,739.06 |
| 1-2 years | 3,516,683.65 | 1.96% | - | 3,516,683.65 |
| 2-3 years | 33,893,267.82 | 18.87% | 2,642,318.74 | 31,250,949.08 |
| 3-4 years | 430,011.04 | 0.24% | 345,062.99 | 84,948.05 |
| Over 4 years | 77,805,462.90 | 43.33% | 77,805,462.90 | - |
| Total | 179,573,164.47 | 100.00% | 80,792,844.63 | 98,780,319.84 |

2007-12-31

| Age of Accounts | Amount | Proportion | Provisions for bad debts | Net amount |
|---|---|---|---|---|
| Within 1 yea | 115,515,915.64 | 49.37% | 6,560,583.35 | 108,955,332.29 |
| 1-2 years | 39,710,069.85 | 16.97% | 11,920.00 | 39,698,149.85 |
| 2-3 years | 905,473.85 | 0.39% | 519,248.99 | 386,224.86 |
| 3-4 years | 77,042,398.82 | 32.93% | 77,042,398.82 | - |
| Over 4 years | 9,130,310.69 | 4.83% | 9,130,310.69 | - |
| Total | 233,989,803.02 | 100.00% | 84,946,868.04 | 149,042,934.98 |

### (3) Other receivables that special bad debt provisions have been set aside are laid out as below up to Dec. 31, 2008:

| Debtors | Amount | Ratio of provision | Accumulated amount of bad debt provision | Age | Reason for provision |
|---|---|---|---|---|---|
| Benxi Steel (Group) Co., Ltd. | 76,090,000.00 | 100% | 76,090,000.00 | Over 4 years | See 6.1 remark 3 |
| Jinzhou Power CapacityCo., Ltd. | 2,038,829.27 | 100% | 2,038,829.27 | 2-3 years | Dispute over quality of products |

## VIII Notes to Major items in Consolidated financial reports(Continued)

### (4) Top 5 customers of other receivables by end of Dec. 31, 2008 are:

| Name of company | Amount owed | Year of transaction | Contents of transaction | Notes |
|---|---|---|---|---|
| Benxi Steel ( Group) Co., Ltd. | 76,090,000.00 | 2003 | Intercompany account | Full amount bad debts |
| Liaoning Xintai Electric Equipment Marketing Co., Ltd. | 47,100,000.00 | | (see Notes XIV/XV remark 1) | retrieved after date |
| Shenyang Beifu Machinery Manufacturing Co, Ltd | 30,791,444.91 | 2006 | Intercompany account | Full amount retrieved after date |
| Jinzhou Power Capacity Co., Ltd. | 2,038,829.27 | 2006 | Intercompany account | Full amount bad debts provisions set aside |
| Sino Electech Bidding Co., Ltd. | 1,184,800.00 | 2008 | Deposits for bidding | |
| Total | 157,205,074.18 | | | |

Remark 1: At end of period, top 5 customers of other receivables take up 88% of the whole balance.

Rmark 2: There's no other receivables from company holding 5% or over voting shares of the company.

Remark 3: Due to loss owing to dispute over quality of products, bad debt provision has been set aside over full amount of Jinzhou Power Capacity Co., Ltd's receivables.

## VIII Notes to Major items in Consolidated financial reports(Continued)

### 7. Inventories and Provisions for Depreciation of Inventories

#### (1) Changes of inventories

| Items | 2007-12-31 | Increase during the period | Decrease during the period | 2008-12-31 |
|---|---|---|---|---|
| Raw material | 30,919,509.69 | 225,601,773.70 | 234,222,624.54 | 22,298,658.85 |
| Work in progress | 8,864,955.02 | 144,682,864.01 | 144,948,191.77 | 8,599,627.26 |
| Goods in store | 54,934,239.40 | 432,256,100.26 | 449,114,973.66 | 38,075,366.00 |
| Low-cost materials | - | 655,712.68 | 655,712.68 | - |
| Total | 94,718,704.11 | 803,196,450.65 | 828,941,502.65 | 68,973,652.11 |
| Minus: inventory decline provision | 1,936,121.94 | - | - | 1,434,969.85 |
| Net worth of inventories | 92,782,582.17 | - | - | 67,538,682.26 |

Remark: Balance of inventories has decreased RMB25,243,899.91by end of period, down 27%, owing to diminish of goods in store and raw material.

### 8. Long term equity investment

Long term equity investment of the company are as follows:

| Items | 2007-12-31 | Increase during the period | Decrease during the period | 2008-12-31 |
|---|---|---|---|---|
| By Cost Method | 235,970,703.02 | 1,300,000.00 | 19,915,290.62 | 217,355,412.40 |
| By Equity Method | 59,397,116.26 | 35,605,027.77 | 5,249,267.91 | 89, 752,876.12 |
| Total | 295,367,819.28 | 36,905,027.77 | 25,164,558.53 | 307,108,288.52 |
| Minus: diminution provision (note 3) | 2,537,020.68 | - | 2,537,020.68 | - |
| Net worth of Long Term Equity Investment | 292,830,798.60 | - | - | 307,108,288.52 |

## Long term equity investment:

| Company invested | Proportion of shares | Initial amount of investment | 2007-12-31 | Adjustment of profit and loss in the period | Increase/ decrease in the period | 2008-12-31 |
|---|---|---|---|---|---|---|
| New Northeast Electric (Shenyang) Electric High-voltage Insulate Switches Co. Ltd.(note 1) | 25.6% | 29,959,476.52 | - | -2,603,987.00 | 33,377,056.12 | 30,773,069.12 |
| Weida High-voltage Electric Co., Ltd. | 20.80% | 42,847,035.48 | 59,397,116.26 | 2,227,971.65 | -2,645,280.91 | 58,979,807.00 |
| New Northeast Electric (Shenyang) High-voltage Switches Co., Ltd.(note 2) | 17.09% | 216,055,412.40 | 223,433,682.34 | - | -7,378,269.94 | 216,055,412.40 |
| Jinzhou City Commercial Bank Co., Ltd. (note 3) | 0.78% | 11,787,000.00 | 10,000,000.00 | - | -10,000,000.00 | - |
| Shenyang Taisheng Industrial & Trade Co., Ltd.(note 4) | 98.5% | 1,300,000.00 | - | - | 1,300,000.00 | 1,300,000.00 |
| Total | | | 292,830,798.60 | -376,015.35 | 14,653,505.27 | 307,108,288.52 |

Remark 1.See Notes XIV for investment to New Northeast Electric (Shenyang) High-voltage Insulate Switches Co., Ltd. And the adjustment amount of the period is return on investment enjoyed by the Company for the period from Oct. 2008 to Dec. 2008, by Method of Equity.

Remark 2.See Notes V.3. for correction to previous mistakes of investment on New Shenyang High-voltage. Lesser previous year dividends of 2,948,727.94 from New Shenyang High-voltage caused equivalent lesser balance of investment, and change in exchange leads to decrease of cost of investment by 4,429,542.00.

Remark 3.The Company and a former subsidiary, New Northeast (Shenyang) High-voltageInsulate Switches Co., Ltd. and Xinfeng Electricity Investment Co., Ltd. has reached a tri-party agreement, agreeing on the Company compensating the latter of debts to them owed by New Northeast Electric (Shenyang) High-voltage Insulate Switches Co., Ltd., which is RMB10 million, by 3.55% shares held by the Company of Jinzhou City Commercial Bank Co., Ltd., which was invested with RMB10 million at time of investment (shares held by the Company downed to 0.78% due to variation of change of equity structure of the Bank). Such compensation has been ruled by the Court of Law. Provisions of diminution of long-term equity investment of 2,537,020.68 was offset at the time of compensation.

Remark 4. See Notes XIV. For investment to Shenyang Taisheng Industry and Trade Co., Ltd.

## VIII Notes to Major items in Consolidated financial reports(Continued)

### 9. Fixed Assets and Accumulated Depreciation

| Types | 2007-12-31 | Increase during the period | Decrease during the period | 2008-12-31 |
|---|---|---|---|---|
| Fixed Assets Cost | | | | |
| Buildings | 99,020,901.13 | 30,194.10 | 49,878,674.66 | 49,172,420.57 |
| Motor Vehicles | 51,883,680.28 | 28,756,212.65 | 6,223,372.92 | 74,416,520.01 |
| Machinery | 24,291,647.57 | 3,549,175.40 | 3,526,365.38 | 24,314,457.59 |
| Total | 175,196,228.98 | 32,335,582.15 | 59,628,412.96 | 147,903,398.17 |
| Accumulated depreciation: | | | | |
| Buildings | 35,602,567.12 | 2,162,738.37 | 7,162,775.75 | 30,602,529.74 |
| Motor Vehicles | 22,011,539.65 | 3,354,165.21 | 1,547,200.80 | 23,818,504.06 |
| Machinery | 6,216,973.11 | 2,381,747.58 | 858,729.23 | 7,739,991.46 |
| Total | 63,831,079.88 | 7,898,651.16 | 9,568,705.78 | 62,161,025.26 |
| Net amount | 111,365,149.10 | | | 85,742,372.91 |
| Diminution provision of fixed assets | 2,118,787.22 | | | 2,111,698.00 |
| Net worth of fixed assets | 109,246,361.88 | | | 83,630,674.91 |

### 10. Intangible Assets

| Items | At cost | Acquisition means | Accumulated amortization amount | 2007-12-31 | Increase/ decrease during the period | Amortization during the period | 2008-12-31 | Months to amortized |
|---|---|---|---|---|---|---|---|---|
| Patent | 450,000.00 | Self-devlopmed | 360,000.16 | 134,999.88 | - | 45,000.04 | 89,999.84 | 24 |
| Land use rights – Fu Closed | 6,774,501.05 | Transferred | 1,761,370.96 | 5,148,620.17 | - | 135,490.08 | 5,013,130.09 | 444 |
| Land use rights – NewShen Switch | 13,895,700.00 | Transferred | 4,817,777.96 | 9,345,685.78 | -9,077,922.04 | 267,763.74 | - | |
| softwares | 207,000.00 | Bought-in | 195,666.56 | 77,416.65 | | 66,083.21 | 11,333.44 | 4 |
| Total | 21,327,201.05 | | 7,134,815.64 | 14, 706,722.48 | -9,077,922.04 | 514,337.07 | 5,114,463.37 | |

## VIII Notes to Major items in Consolidated financial reports(Continued)

### 11. Good Will

| Way of being | 2007-12-31 | Increase during the period | Decrease during the period | 2008-12-31 |
|---|---|---|---|---|
| Swap of co shares | 94,643,933.80 | - | 94,643,933.80 | - |

Remark: Due to reasons of sell-out of subsidiary shares, change of scope of consolidation, account balance and capital reservce have been decreased accordingly.

### 12. Long term expenses payable

| items | Initial amount | \Accumulated amortized amount | 2007-12-31 during the period | Increase during the period | Decrease to amortized | 2008-12-31 | Months |
|---|---|---|---|---|---|---|---|
| Improvement of rented fixed assets expenses | 2,531,331.94 | 843,692.96 | - | 2,531,331.94 | 843,692.96 | 1,687,638.98 | 24 |
| Buildings renting expenses | 1,740,292.00 | 1,740,292.00 | 423,772.00 | - | 423,772.00 | - | - |
| Renting expenses of Machinery | 4,710,000.00 | 4,710,000.00 | 1,110,000.00 | - | 1,110,000.00 | - | - |
| Renting expenses of lands | 430,833.25 | 330,000.04 | 210,833.25 | - | 110,000.04 | 100,833.21 | 12 |
| Total | 9,412,457.19 | 7,623,985.00 | 1,744,605.25 | 2,531,331.94 | 2,487,465.00 | 1,788,472.19 | |

# VIII Notes to Major items in Consolidated financial reports(Continued)

## 13. Deferred income tax asset

| Items | 2008-12-31 | 2007-12-31 |
|---|---|---|
| Offsettable temporary difference arising from bad debt provisions | 4,274,219.50 | 4,103,709.27 |
| Offsettable temporary difference arising from accumulated depreciation | - | 84,373.92 |
| Offsettable temporary difference arising from amortization of intangible assets | - | 22,677.09 |
| Offsettable temporary difference arising from expenses payable | - | 105,737.50 |
| Offsettable temporary difference arising from diminution provision of inventories | 358,742.46 | 484,030.48 |
| Offsettable temporary difference arising from diminution provision of fixed assets | 486,539.92 | 488,321.24 |
| Total | 5,119,501.89 | 5,288,849.50 |

## 14. Diminution provisions of assets

| Items | 2007-12-31 | Depreciation amount during the period | Reverse amount during the period | Offset amount during the period | 2008-12-31 |
|---|---|---|---|---|---|
| I. Bad debt provision | 98,461,237.99 | 5,597,884.96 | 625,055.60 | 7,436,400.65 | 95,997,666.70 |
| II. Diminution provision for inventories | 1,936,121.94 | 1,310,641.17 | - | 1,811,793.26 | 1,434,969.85 |
| III. Diminution of long-term equity investment | 2,537,020.68 | - | - | 2,537,020.68 | - |
| IV. Diminution provision for fixed assets | 2,118,787.22 | - | - | 7,089.22 | 2,111,698.00 |
| Total | 105,053,167.83 | 6,908,526.13 | 625,055.60 | 11,792,303.81 | 99,544,334.55 |

## VIII Notes to Major items in Consolidated financial reports(Continued)

### 15. Assets with limited ownership

#### (1) Assets with limited ownership by end of Dec. 31, 2008 are as below:

| Types of assets with limited ownership | 2007-12-31 | Increase during the period | Decrease during the period | 2008-12-31 |
|---|---|---|---|---|
| Pledged assets under bank loans | | | | |
| Lands and Buildings | | | | |
| – Fu Closed | 16,238,922.64 | 833,023.33 | - | 17,071,945.97 |
| Machinery – New Jin Cap | 20,145,617.90 | 21,965,461.09 | 20,145,617.90 | 21,965,461.09 |
| Pleged assets under issuing acceptance bill of exchange | | | | |
| Others – New Jin Cap. | - | 6,000,000.00 | - | 6,000,000.00 |
| Others: | | | | |
| Bills Receivable | | | | |
| – New Shen Switch | 1,906,000.00 | - | 1,906,000.00 | - |
| Bank Deposits | | | | |
| – Northeast Electric (HK) | 28,943,000.00 | - | 28,943,000.00 | - |
| Others – New Jin Cap. | - | 13,191,400.00 | - | 13,191,400.00 |

#### (2) Details of pledged assets of the company and subsidiaries are listed as follows by end of Year 2008:

| Name of company | Types of assets | Value at cost | Net worth | Time limit of pledging | Bank loans |
|---|---|---|---|---|---|
| Fu Closed | Land and building | 17,071,945.97 | 10,579,274.20 | 1年 | 5,000,000.00 |
| New Jin Cap. | Machinery | 21,965,461.09 | 16,526,838.03 | 1年 | 15,000,000.00 |

## VIII Notes to Major items in Consolidated financial reports(Continued)

### 16. Short term bank loans

| Type of loans | 2008-12-31 | 2007-12-31 |
|---|---|---|
| Bank loans | - | - |
| Inclu.: Secured | 2,450,000.00 | 15,368,876.60 |
| Pledged and secured | 15,000,000.00 | 22,000,000.00 |
| Pledged | 5,000,000.00 | 5,000,000.00 |
| Impawned | - | 8,000,000.00 |
| Total | 22,450,000.00 | 50,368,876.60 |

Remark : Decrease of RMB27,918,876.60 occur by end of period, by 55%, due to repayment of bank loans.

### 17. Bills payable

| Items | 2008-12-31 | 2007-12-31 |
|---|---|---|
| Bank accepted bills of exchange | 6,000,000.00 | 4,406,000.00 |

Remark: Balance increase by 36% of RMB1,594,000.00, due to deposits for issuing bank acceptance bills of exchange which equals to the amount of the relative bills.

### 18. Accounts payable

| Age | 2008-12-31 | | 2007-12-31 | |
|---|---|---|---|---|
| | Amount | Percentage | Amount | Percentage |
| Within 1 year | 70,879,936.84 | 90.31% | 109,789,392.92 | 87.11% |
| 1-2 years | 4,141,854.79 | 5.28% | 6,406,090.96 | 5.08% |
| 2-3 years | 1,660,586.34 | 2.11% | 906,663.03 | 0.72% |
| Over 3 years | 1,802,403.22 | 2.30% | 8,936,251.52 | 7.09% |
| Total | 78,484,781.19 | 100.00% | 126,038,398.43 | 100.00% |

Remark 1: Decrease of payment of goods and change of scope of consolidation lead to reduction of balance of 47,553,617.24 at end of this period, by 38%.

Remark 2: There's no account payables from shareholders that owned 5% or over voting shares of the company.

## VIII Notes to Major items in Consolidated financial reports(Continued)

### 19. Advances

| Age | 2008-12-31 | | 2007-12-31 | |
|---|---|---|---|---|
| | Amount | Percentage | Amount | Percentage |
| Within 1 year | 58,708,291.18 | 96.86% | 88,724,781.96 | 96.60% |
| 1-2 years | 1,147,650.00 | 1.89% | 1,874,984.14 | 2.04% |
| 2-3 years | - | 0.00% | 11,234.00 | 0.01% |
| Over 3 years | 755,052.52 | 1.25% | 1,237,322.85 | 1.35% |
| Total | 60,610,993.70 | 100.00% | 91,848,322.95 | 100.00% |

Remark 1: Advances of payment of goods diminish, cause the balance at end of period to fall 34% of 31,237,329.25.

Remark 2: There's no advances from shareholders that owned 5% or over voting shares of the company.

### 20. Salaries and benefits payable to employees

| Items | 2007-12-31 | Increase during the period | Payment during the period | 2008-12-31 |
|---|---|---|---|---|
| I Salaries, allowances and subsidies | - | 26,728,378.83 | 26,728,378.83 | - |
| II Benefits | 62,636.11 | 2,756,232.85 | 2,756,232.85 | 62,636.11 |
| III Social Securities | 734,545.99 | 7,851,578.57 | 7,980,961.13 | 605,163.43 |
| Inclu.: 1.Medicare | 298,972.42 | 2,131,367.19 | 2,367,930.34 | 62,409.27 |
| 2.basic endowment insurance | 373,477.49 | 4,650,813.60 | 4,550,201.32 | 474,089.77 |
| 3.Industrial injury insurance | 13,376.13 | 289,927.88 | 288,796.03 | 14,507.98 |
| 4.birth insurance | 8,188.36 | 289,013.45 | 294,695.91 | 2,505.90 |
| 5.unemployment insurance | 40,531.59 | 490,456.45 | 479,337.53 | 51,650.51 |
| IV Housing provident funds | 846,334.53 | 2,010,973.40 | 2,405,605.22 | 451,702.71 |
| V Funds for labor union and education of employees | 163,486.16 | 617,816.13 | 448,688.25 | 332,614.04 |
| VI Others | - | 12,017.00 | 12,017.00 | - |
| Total | 1,807,002.79 | 39,976,996.78 | 40,331,883.28 | 1,452,116.29 |

## VIII Notes to Major items in Consolidated financial reports(Continued)

### 21. Tax payable

| Type of taxes | 2008-12-31 | 2007-12-31 |
|---|---|---|
| Value-added tax | 767,413.76 | 3,945,731.33 |
| Tax of maintanence and construction of the city | - | 22,609.98 |
| Income tax -enterprise | 900,754.08 | 123,906.75 |
| Income tax - person | 129,996.66 | 173,883.08 |
| Tax on land use rights | 94,828.50 | 107,580.00 |
| Tax on buildings' ownership | 17,981.98 | 52,154.19 |
| Tax on added-value of lands | - | 84,485.50 |
| Education | 2,770.19 | 12,666.21 |
| Others | 130,472.06 | 56,826.52 |
| Total | 2,044,217.23 | 4,579,843.56 |

Remark: End-to beginning balance reduce 2,535,626.33 by 55%by decreased balance of value-added tax.

### 22. Other payables

| Age | 2008-12-31 | | 2007-12-31 | |
|---|---|---|---|---|
| | Amount | Percentage | Amount | Percentage |
| Within 1 year | 97,285,224.56 | 41.05% | 97,960,008.45 | 64.27% |
| 1-2 years | 104,486,267.08 | 44.09% | 21,025,467.11 | 13.80% |
| 2-3 years | 1,774,051.49 | 0.75% | 1,617,190.96 | 1.06% |
| Over 3 years | 33,425,047.77 | 14.11% | 31,807,856.81 | 20.87% |
| Total | 236,970,590.90 | 100.00% | 152,410,523.33 | 100.00% |

Remark 1: change of scope of consolidation lead to increase of balance of 84,560,067.57, a 55% rise.

Remark 2: There's no payables from shareholders owned 5% or over voting shares of the company.

## Ⅷ Notes to Major items in Consolidated financial reports(Continued)

### 23. Estimated Liabilities

| Items | 2008-12-31 | 2007-12-31 |
|---|---|---|
| Guarantees for loans | 124,967,867.25 | 124,967,867.25 |

Remark 1: The Company has provided guarantee for the loan agreement between Northeast Electrical Transmission and Transformation Equipment Company Corporation Limited ("NET") (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 therefore undertake obligation of joint guarantee. In 2001 China Ever Bright Bank Co., Ltd has filed a lawsuit against "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 and overdue interest. The company has appealed to the Higher People's Court of Beijing City on Aug. 15, 2002. On May 13, 2003, the Higher People's Court of Beijing City has made final judgement the 1st sentence should be carried on. The company has estimated liabilities of RMB30,993,929.00. Up to the report date, the Company has not yet repaid the above-mentioned amount.

Remark 2: The Company has provided guarantee for the bank loan of RMB 13,000,000.00 between Bank of China Jinzhou Branch and the company's subsidiary –"Jinrong", and thus undertake obligation of joint guarantee. Bank of China Jinzhou Branch has filed a lawsuit in Feb. 2005 to the District Court of Jinzhou City Liaoning Province, asking for "Jinrong"'s repayment of RMB13,000,000.00 and the relative interests, along with request that the company undertake joint obligation of repayment. The subject District Court has ruled in May 2005 that the company should undertake the joint obligation of repayment of the captioned loan principal and interests. The company has not filed for appeal, and has accordingly estimated liabilities of RMb14,464,500.00. Up to the date of report approval, the above-mentioned repayment has not yet been made.

Remark 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-voltage" to the District Court of Xi'an City Shaanxi Province, asking for "Shenyang High-voltage" to repay RMB14,280,007.35, and along with request that the company as the former shareholder of "Shenyang High-voltage" to undertake joint obligation of repayment using 8 units of houses bought from the "Shenyang High-voltage". The District Court of Xi'an City Shaan'xi Province has ruled on May 30, 2005, that the company should use the subject houses to undertake joint obligation of repayment for the above-mentioned debts. The Company has filed appeal on Jun. 15, 2005 to the Higher People's Court of Shaan'xi Province. On Oct. 18, 2005, the Higher Court has made its final judgement that the previous sentence should be carried on. The company has estimated liabilities of RMB92,25,860.00 according to the value of the subject houses.

Remark 4: The Company has provided guarantee for loans of RMB17,000,000.00 between Jinzhou Power Capacitor Co., Ltd. (later referred as Jin Cap) and Jinzhou City Commercial Bank. The bank has launched lawsuit to the Intermediate Court of Jinzhou City against Jin Cap for repayment of principal of RMB17,000,000.00 and relative interests, and asking for the company to assume repayment. The court has sentenced the company to assume joint liability for repaying RMB17,000,000.00 and relative interests by Ruling no. (2007)Jin Min San Chu Zi Di 00049 in Jun. 2007, which has come into effectiveness for the company has not appealed. The company therefore estimate liability of RMB17,000,000.00. Up till the reporting date, the company has not paid the above mentioned liability.

Remark 5: The Company has provided guarantee for Jindu Hotel for loans of RMB24,000,000.00 from ICBC Shenyang City Sub-branch, assuming joint liability. As the loan is overdue, the bank has sued Jundu Hotel to the Intermediate Court of Shenyang City for repayment of loan principal of RMB24,000,000.00 and relative interests, and for the company to assume joint obligation to repay. Ruling No.(2003)Shen Zhong Min(3)Chu Zi Di 94 by the Court has ruled the company to take up joint obligation of repaying RMB24,000,000.00 and relative interests. The Higher Court of Shenyang City Liaoning Province has maintained the above first ruling by its Ruling No.(2003)Liao Min Er He Zhong Zi Di 160. As Jindu Hotel is not included in the scope of consolidation this year, the company has estimated liability of RMB24,000,000.00 according to the Rulings. Up to the reporting date, the company has not paid up the mentioned liability.

Remark 6:The Company provide guarantee and assume joint liability for loans of RMB22,900,000.00 from ICBC Jinzhou City Sub-branch to Jin Power Cap., which loan agreement amount is RMB42,900,000.00. ICBC Jinzhou City Sub-branch has sued against Jin Cap in Dec. 2006 to the Intermetiate Court of Jinzhou City, for the borrower to repay loan principal of RMB22,900,000.00 and relative interest, and for the company to assume joint repayment. The Court has sentenced by Ruling No. (2007) Jin Min San Chu Zi 00019 that the company should take up joint obligation to repay within the limit of RMB22,900,000.00. Therefore the company has estimated liability of RMB22,900,000.00. The company has not paid the above mentioned debt by end of reporting

# VIII Notes to Major items in Consolidated financial reports(Continued)

## 24. Capital

| Items | 2007-12-31 | Changes during the period(+,-) | | | | | 2008-12-31 |
|---|---|---|---|---|---|---|---|
| | | rights offering | Complimentary shares | Capitalization on reserve | others | Sub-total | |
| I. shares with limited selling conditions | | | | | | | |
| 1. state shares | | | | | | | |
| 2. legal person shares | 223,970,228.00 | | | | -5,575,991.00 | -5,575,991.00 | 218,394,237.00 |
| Inclu.:legal person share domestic | 223,970,228.00 | | | | -5,575,991.00 | -5,575,991.00 | 218,394,237.00 |
| Total: | 223,970,228.00 | | | | -5,575,991.00 | -5,575,991.00 | 218,394,237.00 |
| II.shares with unlimited selling conditions | | | | | | | |
| 1.common RMB shares(A share) | 391,449,772.00 | | | | 5,575,991.00 | 5,575,991.00 | 397,025,763.00 |
| 2. foreign shares listed abroad(H share) | 257,950,000.00 | | | | | | 257,950,000.00 |
| Total: | 649,399,772.00 | | | | 5,575,991.00 | 5,575,991.00 | 654,975,763.00 |
| III. Total shares | 873,370,000.00 | | | | | | 873,370,000.00 |

## 25. Capital Reserve

| Items | 2007-12-31 | Increase during the period | Decrease during the period | 2008-12-31 |
|---|---|---|---|---|
| Share premium | 115,431,040.00 | - | - | 115,431,040.00 |
| Others | 862,635,297.72 | - | 94,643,933.80 | 767,991,363.92 |
| Total | 978,066,337.72 | - | 94,643,933.80 | 883,422,403.92 |

Remark: Balance at end of the period decrease 94,643,933.80, details see Notes VIII.11.

## 26. Reserve

| Items | 2007-12-31 | Increase during the period | Decrease during the period | 2008-12-31 |
|---|---|---|---|---|
| Legal reserve | 80,028,220.48 | - | - | 80,028,220.48 |
| Company reserve | 28,558,903.92 | - | - | 28,558,903.92 |
| Total | 108,587,124.40 | - | - | 108,587,124.40 |

# Ⅷ Notes to Major items in Consolidated financial reports(Continued)

## 27. Retained profit

| Items | 2008-12-31 | 2007-12-31 |
|---|---|---|
| Balance at beginning of period of retained profit of parent company | -1,467,521,767.25 | -1,126,647,669.63 |
| Plus: net profit to parent company's shareholders | -69,112,495.33 | -340,874,097.62 |
| Minus:amount of legal reserve | - | - |
| Dividends payable under common shares | - | - |
| Profit changed to capital | - | - |
| Balance at end of period of retained profit of parent company | -1,536,634,262.58 | -1,467,521,767.25 |

## 28. Income and costs of sales

| Items | Year 2008 | Year 2007 |
|---|---|---|
| Income of sales | 517,717,563.70 | 639,700,849.31 |
| Inclu.:income of sales of major operation | 513,761,745.48 | 615,497,870.42 |
| income of sales of other operations | 3,955,818.22 | 24,202,978.89 |
| Cost of sales | 404,605,290.11 | 527,157,531.89 |
| Inclu.: Costs of sales of major operation | 400,812,246.04 | 506,955,832.19 |
| Costs of sales of other operations | 3,793,044.07 | 20,201,699.70 |
| Gross operating profit | 113,112,273.59 | 112,543,317.42 |

Details of income and costs of major operation:

| | Income of major operation | | Cost of major operation | | Gross operating profit | |
|---|---|---|---|---|---|---|
| Types | Year of 2008 | Year of 2007 | Year of 2008 | Year of 2007 | Year of 2008 | Year of 2007 |
| Products of electric industly | 513,761,745.48 | 596,756,881.53 | 400,812,246.04 | 490,509,754.00 | 112,949,499.44 | 106,247,127.53 |
| Restaurants and hotels | - | 18,740,988.89 | - | 16,446,078.19 | - | 2,294,910.70 |
| Total | 513,761,745.48 | 615,497,870.42 | 400,812,246.04 | 506,955,832.19 | 112,949,499.44 | 108,542,038.23 |
| Top 5 customers totaling: | | | | | | 135,789,593.08 |
| Percentage of overall income of sales | | | | | | 26% |

## VIII Notes to Major items in Consolidated financial reports(Continued)

### 29. Sales tax and surtax

| Types | Year 2008 | Year 2007 |
|---|---|---|
| Sales tax | 46,568.39 | 964,945.01 |
| Tax on City maintainence and construction | 85,448.17 | 57,497.92 |
| Education surtax | 45,480.76 | 26,611.82 |
| Total | 177,497.32 | 1,049,054.75 |

Remark: Amount of this account is less 871,557.43 than last period, down 83%, caused by decrease of sales tax amount.

### 30. Operating expenses

| Types | Year of 2008 | Year of 2007 |
|---|---|---|
| Operating expenses | 48,122,876.77 | 52,396,408.30 |

### 31. Administrative expenses

| Types | Year of 2008 | Year of 2007 |
|---|---|---|
| Administrative expenses | 60,631,879.70 | 75,940,548.83 |

Remark: A 20% decrease,i.e. 15,308,669.13 occur due to reduction of administrative expenditures and change of scope consolidation.

### 32. Financial expenses

| Types | Year of 2008 | Year of 2007 |
|---|---|---|
| Interest expenses | 3,442,543.95 | 3,964,931.86 |
| Minus: income of interest | 638,587.29 | 1,214,438.00 |
| Gain/loss of exchange | -1,174,143.51 | 1,781,139.64 |
| Commission of financial institutes | 406,392.46 | 1,083,319.01 |
| Total | 2,036,205.61 | 5,614,952.51 |

Remark: In this period, financial expenses are 3,578,746.90 less than last year, which is 64%, caused by increase of gain of exchange.

## VIII Notes to Major items in Consolidated financial reports(Continued)

### 33. Loss from diminution of assets

| Types | Year of 2008 | Year of 2007 |
|---|---|---|
| I. Bad debt loss | 4,972,829.36 | 99,852,454.00 |
| II. Inventory decline loss | 1,310,641.17 | 970,015.30 |
| III. Loss on long-term equity diminution | - | 2,537,020.68 |
| VI. Diminution of fixed assetsloss | - | 40,000,000.00 |
| Total | 6,283,470.53 | 143,359,489.98 |

Remark: Loss from diminution of assets is less 137,076,019.45 than last period, by 96%, due to decrease of such loss.

### 34. Return on investments

| Items | Year of 2008 | Year of 2007 |
|---|---|---|
| Co. Profit allocated using Method of Cost | 7,321,272.06 | - |
| Net Increase/Decrease of shareholders equity of co. using Method of Equity | -376,015.35 | -820,250.24 |
| Return on disposing equity investment | -72,566,286.33 | 1,311,893.69 |
| Income of sales of stocks | - | 54,443,111.36 |
| Others | - | - |
| Total | -65,621,029.62 | 54,934,754.81 |

Remark: In this period, return of this account is less 120,555,784.43 than last year, down 219%, caused mainly by loss from swap of subsidiary company shares. Details see Notes XIV.

### 35. Non-operating revenue

| Items | Year of 2008 | Year of 2007 |
|---|---|---|
| Income of disposal of fixed assets | 508.80 | 703,150.25 |
| Income of fines | 14,260.00 | 23,680.60 |
| Others | 738,348.41 | 714,641.76 |
| Total | 753,117.21 | 1,441,472.61 |

Remark: Balance of this account is less 688,355.40 than previous period, which is a 48% decrease, caused mainly by less income from disposal of fixed assets.

## VIII Notes to Major items in Consolidated financial reports(Continued)

### 36. Non-operating expenses

| Items | Year of 2008 | Year of 2007 |
|---|---|---|
| Net loss of disposal of fixed assets | 288,668.05 | 320,721.53 |
| Expenses of fines | 148,296.93 | 300,421.87 |
| Donations | - | 10,000.00 |
| Estimated compensation under lawsuit | - | 70,256,578.25 |
| Compensation | | 170,460,000.00 |
| Others | 104,758.89 | - |
| Total | 541,723.87 | 241,347,721.65 |

Remark: Expenses of non-operating transactions are less 240,805,997.78, down 100%, caused by decrease of compensation under lawsuit and less compensation.

### 37. Income tax

| Items | Year of 2008 | Year of 2007 |
|---|---|---|
| Total profit | -69,549,292.62 | -350,788,631.18 |
| Income tax payable | 2,831,887.09 | 1,143,108.75 |
| Effect imposed by deferred income tax | -1,811,746.30 | -4,027,505.42 |
| Income tax expenses | 1,020,140.79 | -2,884,396.67 |

Remark 1: Tax expenses increase 3,904,537.46 in the period, up 135%, caused by change of scope of consolidation.

Remark 2: Recognized deferred income tax is 50,967,163.98 in the period, caused by unretrievable loss of the Company.

### 38. Cash received from operation-related activities

| Contents | Year of 2008 | Year of 2007 |
|---|---|---|
| Intercompany accounts | 98,245,290.36 | 356,092,157.17 |

Remark: Less cash from operation-related activities are received in the period, down 72% of 257,846,866.81, due to decrease of intercompany accounts.

## VIIII Notes to Major items in Consolidated financial reports(Continued)

### 39. Cash paid to other operation-related activities

| Contents | Year of 2008 | Year of 2007 |
|---|---|---|
| Intercompany accounts | 69,125,719.28 | 249,292,386.62 |
| Compensation under lawsuit | - | 170,460,000.00 |
| Transportation | 12,990,207.68 | 10,404,077.30 |
| Tender bond | 28,683,478.80 | 6,023,471.50 |
| Entertainment | 7,359,673.45 | 10,085,286.41 |
| Water & electricity | 3,162,657.93 | 2,650,644.11 |
| Travelling | 6,167,240.35 | 7,159,572.43 |
| Sales Expenses | 13,824,434.70 | 6,638,453.82 |
| Fixing of equipments | 2,140,768.89 | 744,804.17 |
| Office expenses | 6,049,316.76 | 7,003,545.91 |
| Intermediary agents fees like auditing charges | 2,339,391.62 | 3,489,652.96 |
| Consultance | 10,743,679.40 | 6,077,300.00 |
| Renting | 4,184,217.84 | 2,864,651.38 |
| Others | 7,444,005.61 | 2,269,172.23 |
| Total | 174,214,792.31 | 485,163,018.84 |

Remark: Expenses paid to other operation-related activities are less 64% of 310,948,226.53, due to less intercompany payments and decrease of compensation under lawsuits.

# IX Notes to major items in parent company's financial reports

## 1 Account Receivables

### (1) Risk Analysis of account receivables

| Age | 2008-12-31 | | | |
|---|---|---|---|---|
| | Amount | Proportion | Provisions for bad debts | Net amount |
| Single large amount account receivables | 43,144,357.00 | 92.54% | 1,422,132.00 | 41,722,225.00 |
| Account receivables with higher risks after risk reorganization though with small amount | 227,060.00 | 0.48% | 227,060.00 | - |
| Other insignificant amount account receivables | 3,252,635.00 | 6.98% | 205,240.00 | 3,047,395.00 |
| Total | 46,624,052.00 | 100.00% | 1,854,432.00 | 44,769,620.00 |

| Types | 2007-12-31 | | | |
|---|---|---|---|---|
| | Amount | Proportion | Provisions for bad debts | Net amount |
| Single large amount account receivables | 38,597,833.00 | 92.18% | - | 38,597,833.00 |
| Account receivables with higher risks after risk reorganization though with small amount | - | - | - | - |
| Other insignificant amount other receivables | 2,434,007.60 | 7.82% | 207,996.00 | 2,226,011.60 |
| Total | 41,031,840,60 | 100.00% | 207,996.00 | 40,823,844.60 |

Remark 1 : Balance of this period ends up 5,592,211.40, a 14% rise, due to increase of payment of goods. receivable at end of period.

Remark2: The company has set the criteria for single large amount account receivable as RMB1 million,according to the scale of operation, character of the operation and state of customers' settlement.

Remark 3: Foundation of judgment of any single accocunt receivables with higher risks after risk reorganization though with insignificant amount, is there're unrecoverable signs showing, or age exceed 4 years.

(2) Age analysis of Account Receivable:

| Age | 2008-12-31 | | | |
|---|---|---|---|---|
| | Amount | Proportion | Provisions for bad debts | Net amount |
| Within 1 year | 27,842,362.00 | 59.72% | - | 27,842,362.00 |
| 1-2 years | 13,206,200.00 | 28.32% | - | 13,206,200.00 |
| 2-3 years | 4,068,430.00 | 8.73% | 1,627,372.00 | 2,441,058.00 |
| Over 4 years | 1,507,060.00 | 3.23% | 227,060.00 | 1,280,000.00 |
| Total | 46,624,052.00 | 100.00% | 1,854,432.00 | 44,769,620.00 |
| **Age** | **2007-12-31** | | | |
| | **Amount** | **Proportion** | **Provisions for bad debts** | **Net amount** |
| Within 1 year | 33,626,333.00 | 81.95% | - | 33,626,333.00 |
| 1-2 years | 5,898,447.60 | 14.38% | - | 5,898,447.60 |
| 3-4 years | 1,507,060.00 | 3.67% | 207,996.00 | 1,299,064.00 |
| Total | 41,031,840.60 | 100.00% | 207,996.00 | 40,823,844.60 |

(3) There's no special bad debt provision for account receivables by end of 2008.

(4) Top 5 customers of account receivables by end of 2008 are as follows:

| Name of company | Amount | Year of transaction | Contents |
|---|---|---|---|
| Shanxi Province Power Company | 17,314,110.00 | 2008 | Sales of goods |
| Beijing Power Company of Northeast Power Grid Co., Ltd. | 8,019,717.00 | 2008 | Sales of goods |
| Extra-high voltage electricity transmitting sub branch of Hebei Power Company | 5,900,000.00 | 2007-2008 | Sales of goods |
| Tangshan Electricity Co. of Northeast Power Grid Co., Ltd. | 5,750,830.00 | 2007-2008 | Sales of goods |
| Shanghai Far-east Complete Plant Co., Ltd. | 3,356,500.00 | 2006-2007 | Sales of goods |
| Total | 40,341,157.00 | | |

Remark : Top 5 customers take up 87% of overall account receivables balance.

## 2 Other receivables

### (1) Risk Analysis of other receivables:

| Age | 2008-12-31 | | | |
|---|---|---|---|---|
| | Amount | Proportion | Provisions for bad debts | Net amount |
| Single large amount other receivables | 623,369,984.15 | 99.53% | 76,090,000.00 | 547,279,984.15 |
| Other receivables with higher risks after risk reorganization though with small amount | 359,886.35 | 0.06% | 359,886.35 | - |
| Other insignificant amount other receivables | 2,598,920.11 | 0.41% | 596,470.34 | 2,002,449.77 |
| Total | 626,328,790.61 | 100.00% | 77,046,356.69 | 549,282,433.92 |
| **Age** | **2007-12-31** | | | |
| | **Amount** | **Proportion** | **Provisions for bad debts** | **Net amount** |
| Single large amount other receivables | 729,496,853.11 | 99.36% | 76,090,000.00 | 653,406,853.11 |
| Other receivables with higher risks after risk reorganization though with small amount | 195,969.53 | 0.03% | 195,969.53 | - |
| Other insignificant amount other receivables | 4,482,397.93 | 0.61% | 488,218.63 | 3,994,179.30 |
| Total | 734,175,220.57 | 100.00% | 6,774,188.16 | 657,401,032.41 |

Remark 1: The company has set the criteria for single large amount other receivable as RMB1 million,according to the scale of operation, character of the operation and state of customers' settlement.

Remark 2:Foundation of judgment of any single other receivables with higher risks after risk reorganization though with insignificant amount, is there're unrecoverable signs showing, or age exceed 4 years.

## (2) Age analysis of other receivables:

2008-12-31

| Age | Amount | Proportion | Provisions for bad debts | Net amount |
|---|---|---|---|---|
| Within 1 year | 49,762,334.81 | 7.95% | - | 49,762,334.81 |
| 1-2 years | 468,143,202.02 | 74.74% | - | 468,143,202.02 |
| 2-3 years | 31,828,438.55 | 5.08% | 494,449.46 | 31,333,989.09 |
| 3-4 years | 144,928.88 | 0.02% | 102,020.88 | 42,908.00 |
| Over 4 years | 76,449,886.35 | 12.21% | 76,449,886.35 | - |
| Total | 626,328,790.61 | 100.00% | 77,046,356.69 | 549,282,433.92 |

**2007-12-31**

| Age | Amount | Proportion | Provisions for bad debts | Net amount |
|---|---|---|---|---|
| Within 1 year | 624,325,013.50 | 85.04% | - | 624,325,013.50 |
| 1-2years | 32,722,796.91 | 4.46% | 11,920.00 | 32,710,876.91 |
| 2-3 years | 646,228.88 | 0.09% | 281,086.88 | 365,142.00 |
| 3-4 years | 195,211.75 | 0.02% | 195,211.75 | - |
| Over 4 years | 76,285,969.53 | 10.39% | 76,285,969.53 | - |
| Total | 734,175,220.57 | 100.00% | 76,774,188.16 | 657,401,032.41 |

(3) There's no special bad debt provision for account receivables by end of 2008.

| Debtors | Amount | Ratio of provision | Accumulated bad debt provision amount | Age | Reason of provision |
|---|---|---|---|---|---|
| Benxi Steel (Group) Co.Ltd. | 76,090,000.00 | 100% | 76,090,000.00 | Over 4 years | See Notes VIII.6.1 remark 3. |

(4) Top 5 customers of other receivables by Dec. 31, 2008 are:

| Name of company | Amount | Year of transaction | Contents |
|---|---|---|---|
| Northeast Electric (HK) Co. Ltd. | 175,966,166.77 | 2007-2008 | Intercompany |
| Fuxin Closed Mother Cable Company Limited | 139,427,308.42 | 2007 | Intercompany |
| New Northeast Electric (Jinzhou) Power Capacitor Co., Ltd | 79,615,426.91 | 2007 | Intercompany |
| Benxi Steel (Group) Co.Ltd. | 76,090,000.00 | 2003 | See Notes VIII.6.1 remark 3. |
| Shenyang Kaiyi Electric Co., Ltd. | 73,370,637.14 | 2007-2008 | Intercompany account |
| Total | 544,469,539.24 | | |

Remark: Note: Top 5 customers take up 87% of total other receivables balance by end of period.

## 3. Long term equity investment

### (1) Long term equity investment are disclosed as follows:

| Items | 2007-12-31 | Increase during the period | Decrease during the | 2008-12-31 |
|---|---|---|---|---|
| By Method of Costs | 170,174,439.31 | 100,000.00 | 12,537,020.68 | 157,737,418.63 |
| Minus:diminution provision (note 2) | 2,537,020.68 | - | 2,537,020.68 | - |
| Net worth of long term equity investment | 167,637,418.63 | 100,000.00 | 10,000,000.00 | 157,737,418.63 |

### (2) Details of long term equity investment:

| Company invested | Percentage of investmen | Initial investment amount | 2007-12-31 | Adjustment in the period | Increase/Decrease during the period | 2008-12-31 |
|---|---|---|---|---|---|---|
| Northeast Electric (HK) Co., Ltd. | 100% | 156,699,451.63 | 156,699,451.63 | | - | 156,699,451.63 |
| Shenyang Gaodongjia Desiccation Co., Ltd. | 70% | 837,967.00 | 837,967.00 | | - | 837,967.00 |
| Shenyang Kaiyi Electric Co., Ltd. | 10% | 100,000.00 | 100,000.00 | | - | 100,000.00 |
| Shenyang Zhaolida Machinery Equipment Co., Ltd. | 100% | 100,000.00 | - | | 100,000.00 | 100,000.00 |
| Jinzhou City Commercial Bank, Ltd. | 0.78% | 11,787,000.00 | 10,000,000.00.00 | | -10,000,000.00 | - |
| Total | | | 167,637,418.63 | | -9,900,000.00 | 157,737,418.63 |

# IX Notes to major items in parent company's financial reports(Continued)

## 4. Income and costs of sales

### (1) Income and costs of sales are as follows:

| Items | Year of 2008 | Year of 2007 |
|---|---|---|
| Income of sales | 104,917,592.10 | 177,767,444.32 |
| Inclu.:income of sales | | |
| from major operations | 104,917,592.10 | 177,767,444.32 |
| Costs of sales | 94,559,487.87 | 163,580,141.04 |
| Inclu.: costs of sales | | |
| from major operations | 94,559,487.87 | 163,580,141.04 |
| Gross operating profit | 10,358,104.23 | 14,187,303.28 |

### (2) Details of income and costs of major operations

| Types | Income of major operations | | Costs of major operations | | Gross profit from major operations | |
|---|---|---|---|---|---|---|
| | Year of 2008 | Year of 2007 | Year of 2008 | Year of 2007 | Year of 2008 | Year of 2007 |
| Products of Electricity Industry | 104,917,592.10 | 177,767,444.32 | 94,559,487.8 | 163,580,141.04 | 10,358,104.23 | 14,187,303.28 |

Remark: Top 5 customers of income of sales form 91% of overall sales, totaling RMB 94,973,431.63

## 5. Return on investments

| Types | Year of 2008 | Year of 2007 |
|---|---|---|
| Profit allocated by the Method of Costs | | |
| Return on equity sales | -102,178,150.52 | -117,793,555.51 |
| Return on shares sales | - | 54,443,111.36 |
| Total | -102,178,150.52 | -63,350,444.15 |

Remark: During the period, loss has been caused by enforcing the Court of Law ruling to swap of shares of former subsidiary – New Northeast Electric (Shenyang) Insulate Switches Co., Ltd.Details see Notes XIV.

## X Purchase / Sales of Subsidiary company

Details see V. 4.

## XI Relationship and transaction between related parties

### (I) Introduction of related parties

(1) shareholders of the company with controlling relationship

| Name of company | Addr. Of Registration | Registered Capital | Percentage of the company's shares | Voting percentage | Major operation | Relationhip with the company | Type of enterprise | Legal Person representative | Code of Incorporation |
|---|---|---|---|---|---|---|---|---|---|
| New Northeast Electric Investment Co., Ltd. | Shenyang | RMB135m | 24.28% | 24.28% | Investment | Parent Company | Limited Company | Tian Li | 73465110 |

(2) Changes in shares of the controlling shareholders

| Name of Company | 2007-12-31 | Percentage of investment | Increase/Decrease in the period | 2008-12-31 | Percentage of investmen |
|---|---|---|---|---|---|
| New Northeast Electric Investment Co., Ltd. | 211,991,410.00 | 24.27% | 22,827.00 | 212,014,237.00 | 24.28% |

(3) Non-controlling related parties

| Name of company | Relationship with the company |
|---|---|
| New Northeast Electric (Shenyang) High Voltage Insulate Switches Co., Ltd. | Associate |
| Wei Da High Voltage Electric Co., Ltd. | Associate |

# XI Relationship and transaction between related parties(Contiued)

## (II) Balances of Account Receivable and Account Payable of related party transactions

| Name of Associate | 2008-12-31 | | 2007-12-31 | |
|---|---|---|---|---|
| | Amount | Percentage | Amount | Percentage |
| Dividend Receivable: | | | | |
| Wei Da High Voltage Electric Co., Ltd. | 7,644,734.00 | 38% | 1,947,670.40 | 47% |
| Account Payable: | | | | |
| New Northeast Electric (Shenyang) High Voltage Insulate Switches Co., Ltd. | 6,151,300.17 | 8% | - | - |
| Other Payable: | | | | |
| New Northeast Electric (Shenyang) High Voltage Insulate Switches Co., Ltd. | 40,464,620.52 | 17% | - | - |

## XII Events of Undertaking

There's no events of undertakings to be disclosed in the period.

## XIII Events of Contingency

1 - Up to Dec. 31, 2008, the Company has provided guarantee for New Northeast Electric (Shenyang) High-voltage Switches Co., Ltd under their 1-year bank loan of 280,000,000.00.

2 - At end of Dec. 31, 2008, the company offer Shenyang Jindu Restaurant guarantee for their bank loan of 4.4 million.

3 - On May 20, 2008, Baili Holding Co., Ltd. (hereafter refer to as Baili Holding) signed Transfer of Credit Agreement with New Northeast Electric (Shenyang) High-voltage Switches Co., Ltd., the latter agreeing on transferring their rights of credit to the Company, i.e. 55,000,000.00, rights of credit to Beijing Office of the Company of 19,806,911.00, totaling 74,806,911.00 to Baili Holding. Baili Holding took legal proceedings against New Northeast Switches on Nov. 24, 2008 to People's High Court of Law of Liaoning Province, demanding the Company to repay 74,806,911.00, being debt principal and relative interest. On Feb. 4, 2009, subpoena issued by the People's High Court of Law of Liaoning Province under Case No. (2009) Liao Min San Chu Zi Prelim. 1st has been delivered to the Company. The case was open on Feb. 5, 2009, up to reporting date, the case is still being heard.

4 - Others see Notes VIII.22 Estimated Liabilities.

## XIV Other major events

Shenyang High Voltage Switch Co., Ltd.'s lawsuit with China Development Bank has caused the company significant loss.

Shenyang High-voltage Switchgears Company Limited (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-voltage" started up New Northeast Electric (Shenyang) High-Voltage Switchgears Limited (hereinafter referred as "New Shenyang High-voltage") New Northeast Electric (Shenyang) Insulate Switches Co., Ltd. (hereinafter referred as Insulate Switches) Shenyang Suntime Storage and Logistics Company Limited (hereinafter referred as "Suntime Storage") and Shenyang Chengtai Energy Power Company Limited (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 "Insulate Switches Suntime Storage" and "Chengtai Energy" from "Shenyang High-voltage" in 2004. De-Bank has filed a lawsuit against "Shenyang High-voltage" 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 Shenyang High-voltage Insulate Switches Suntime Storage" and "Chengtai Energy " (hereinafter referred collectively as "the co. and associates") to undertake joint liability to the aforesaid debts; asking the Court to declare the shares-transferring contracts concerning "Insulate Switches "Suntime Storage" and "Chengtai Energy" between the Company and "Shenyang High-voltage" void and null. "Beijing High Court" overruled De-Bank's requests in Mar. 18, 2005 (civil judgement no.(2004)HCP802). De-Bank then appealed to the People's Supreme Court of China (hereinafter referred as "Supreme Court") on Mar. 22, 2005. The Supreme Court has ruled that "Beijing High Court" should unify hearing of the cases of De-Bank vs. "Shenyang High-voltage" & Shenyang Transformers Co. Ltd. (hereinafter referred as "Shenyang Transfomers") & Northeast Construction & Installation Corporation ("Northeast Construction"), and of De-Bank vs. "Shenyang High-voltage" & "Insulate Switches" & "Suntime Storage" & "Chengtai Energy" & the Company.

Higher Court of Beijing City has ruled on Oct. 19, 2007 under Ruling No.(2004)Gao

Min Chu Zi Di 802, with contents concerning the company as: Equity Swap contract of the company swapping RMB76,660,000.00 credit right and interest to 95% of shares of Shenyang Beifu Machinery Manufacturing Co., Ltd, 95% of shares of Shenyang Dongli Logistics Co., Ltd. held by Shenyang High-voltage, is dismissed. The company should return the above-mentioned equity shares to Shenyang High-voltage within 10 days since effectiveness of the Ruling. If not, the company should recompsenate Shenyang High-voltage's loss limited to the amount of RMB247,116,500.00; Shenyang High-voltage should repay RMB76,660,000.00 and relative interests to the company within 10 days since effectivenetss of the Ruling, or else Shenyang High-voltage should recompensate the company with amount limited to RMB76,660,000.00;

According the above-mentioned Ruling, net compensation by the company to Shenyang High-voltage is RMB170,456,500.00(i.e. RMB247,116,500.00-76,660,000.00 which the company has already paid up. Loss due to this lawsuit of RMB170,456,500.00 in 2007 has been taken as expenses of non-operating businesses.

Ruling No.(2008)Min Er Zhong Zi 23rd was made Supreme People's Court of Law of the People's Republic of China on Sep. 5, 2008, which was final ruling. Contents concerning the Company including: 1)Endorsing the above-mentioned Beijing High Court of Law Ruling No.(2004)Gao Min Chu Zi Di 802. 2)Cancellation of Shares Swapping Agreement between Shenyang High-voltage and the Company, with 74.4% shares of Insulate Switches held by Shenyang High-voltage and 98.5% shares of Shenyang Taisheng Industry and Trade Co., Ltd. (formerly Shenyang Tiansheng Telecommunications Equipment, hereafter referred to as "Taisheng Industry and Trade"). 3)Shenyang High-voltage should return 98.5% shares of Taisheng Industry and Trade to the Company 10 days after the Ruling effective date. And the Company should return 74.4% shares of Insulate Switches to Shenyang High-voltage 10 days after the Ruling effective date. The Company should compensate Shenyang High-voltage's loss by deducting 27.8788 million from rights of credit of 130 million, if the above-mentioned ruled swapping can not be carried out.

According to the Ruling, fully-owned subsidiary company – Fuxin Closed retrieved 98.5% shares of Taisheng Industry and Trade on Sep. 22, 2008, and returned 74.4% shares of Insulate Switches to Shenyang High-voltage on Sep. 23, 2008.

After retrieving shares of Taisheng Industry and Trade, Fuxin Closed has performed liquidation to them, and the relative Liquidation team has transferred major rights of credit, debts to the Company (the relative debts has gained approval from the debtor), so the Company could perform clearance. After reporting date, the Company as received full amount of 47,100,000.00 from the relative Liquidation team, which is receivable due from Liaoning Xintai Electric Equipment Marketing Co., Ltd.

Gain/Loss caused by the above-mentioned change in shares is fully borne by the Company, with no impact on Profit and Loss of Fuxin Closed. Such shares swap has caused loss of 71,845,925.28 of the Company, which is taken into items of Return on Investment.

## XV Post - Balance Sheet date events

1 - After reporting date, the Company as received full amount of 47,100,000.00 from the relative Liquidation team, which is receivable due from Liaoning Xintai Electric Equipment Marketing Co., Ltd.

2 - The Company provided guarantee to New Northeast Electric (Shenyang) High-voltage Switches Co., Ltd. on their bank loan of 75,000,000.00 from Industrial Bank Shenyang Branch.

## XVI Supplimentary information

### 1 Supplimentary information to the Cash Flow

Supplementary information to the consolidated Cash Flow:

| Items | Year of 2008 | Year of 2007 |
|---|---|---|
| 1. Net profit adjusted as in/out flows of cash in operating activities: | | |
| Net profit | -70,569,433.41 | -347,904,234.51 |
| Plus:Provisions for assets diminution | 6,283,470.53 | 143,359,489.98 |
| Depreciation of fixed assets, depreciation of oil and gas assets, depreciation of production bio-assets | 7,898,651.16 | 12,314,116.92 |
| Amortization of intangible assets | 514,337.07 | 606,508.49 |
| Amortization of long term expenses payable | 2,487,465.00 | 2,581,160.00 |
| Loss on disposal of fixed assets, intangible assets and other long term assets (gain is shown as "-" ) | 181,504.13 | - 419,480.88 |
| Loss on discarding fixed assets (gain is shown as "-" ) | 106,655.12 | 37,052.16 |
| Fair value variance loss (gain is shown as "-") | - | - |
| Financial expenses (gain is shown as "-" ) | 3,442,543.95 | 3,964,931.86 |
| Loss on investments (gain is shown as "-" ) | 65,621,029.62 | -54,934,754.81 |
| Decrease of deferred income tax assets (increase is shown as "-" ) | -1,811,746.30 | -4,027,505.42 |
| Increase of deferred income tax liabilities (decrease is shown as "-") | - | - |
| Decrease of inventories (increase is shown as "-" ) | 3,193,356.03 | -25,231,742.72 |
| Decrease of operational account receivables (increase is shown as "-" ) | -306,166,701.28 | -82,951,972.21 |
| Increase of operational account payables (decrease is shown as "-") | 304,060,547.88 | 326,910,704.00 |
| Others | - | - |
| Net in/out flows generated from operational activities | 15,241,679.50 | -25,695,727.14 |
| 2. Major investment and financing activities not affecting cash: | - | - |
| Debts changed as capital | - | - |
| Tradeable company bonds due within 1 year | - | - |
| Lease financing fixed assets | - | - |
| 3. Changes of cash and equivalents: | - | - |
| Cash at end of period | 30,736,939.70 | 65,577,809.55 |
| Minus: cash at beginning of period | 65,577,809.55 | 41,123,600.99 |
| Plus: cash equivalents at end of period | - | - |
| Minus: cash equivalents at beginning of period | - | - |
| Net increase of cash and equivalents | -34,840,869.85 | 24,454,208.56 |

## XVI Supplimentary information(Continued)

### 1 Supplimentary information to the Cash Flow of parent company:

| Items | Year of 2008 | Year of 2007 |
|---|---|---|
| 1. Net profit adjusted as in/out flows of cash in operating activities: | | |
| Net profit | -109,883,144.87 | -390,006,068.17 |
| Plus:Provisions for assets diminution | 1,918,604.53 | 77,366,073.52 |
| Depreciation of fixed assets, depreciation of oil and gas assets, depreciation of production bio-assets | 316,451.65 | -115,514.76 |
| Amortization of intangible assets | - | - |
| Amortization of long term expenses payable | - | - |
| Loss on disposal of fixed assets, intangible assets and other long term assets (gain is shown as “-“ ) | - | -640,842.48 |
| Loss on discarding fixed assets (gain is shown as “-“ ) | - | - |
| Fair value variance loss (gain is shown as “-“ ) | - | - |
| Financial expenses (gain is shown as “-“) | - | -28,970.18 |
| Loss on investments (gain is shown as “-“) | 102,178,150.52 | -63,350,444.15 |
| Decrease of deferred income tax assets (increase is shown as “-“ ) | - | - |
| Increase of deferred income tax liabilities (decrease is shown as “-“ ) | - | - |
| Decrease of inventories (increase is shown as “-“) | 2,698,155.54 | -771,094.80 |
| Decrease of operational account receivables (increase is shown as “-“) | 11,247,787.61 | 49,029,739.44 |
| Increase of operational account payables (decrease is shown as “-“ ) | -9,483,878.91 | 400,367,760.35 |
| Others | - | - |
| Net in/out flows generated from operational activities | -1,007,873.93 | 71,850,638.77 |
| 2. Major investment and financing activities not affecting cash: | - | - |
| Debts changed as capital | - | - |
| Tradeable company bonds due within 1 year | - | - |
| Lease financing fixed assets | - | - |
| 3. Changes of cash and equivalents: | - | - |
| Cash at end of period | 2,790,853.63 | 4,035,757.56 |
| Minus: cash at beginning of period | 4,035,757.56 | 14,066,308.79 |
| Plus: cash equivalents at end of period | - | - |
| Minus: cash equivalents at beginning of period | - | - |
| Net increase of cash and equivalents | -1,244,903.93 | -10,030,551.23 |

## XVI Supplimentary information(Continued)

### 2 Details of non-current profit and loss items

| Detailed items | Year of 2008 | Year of 2007 |
|---|---|---|
| 1)Gain/loss of disposal of non-current assets, including offset part of asset diminution provisions | -72,854,445.58 | 56,137,433.77 |
| 2)Return , deduction or exemption of tax with approval exceeding authority or without official approval | - | - |
| 3)Government subsidy taken into profit and loss of the period,except for those closely related to the Company's operations, and enjoyed by the Company abide by the relative National Policies, and allocated by a certain amount or certain quantity. | - | - |
| 4)Pre-empting funds expenses taken into profit and loss | - | - |
| 5)Gain/loss due to lesser acquisition costs of subsidiaries/associates than those of fair value of recognizable net asset of the companies consolidated | - | - |
| 6)Gain/loss of non-monetary assets trades | - | - |
| 7)Gain/loss of investments in trust | - | - |
| 8)Asset diminution provision due to force majeure, such as natural disasters | - | - |
| 9)Gain/loss of debts reorganization | - | - |
| 10)Expenses of corporate reorganization, such as resettling expenditures of employee, integration of enterprises | - | - |
| 11)Gain/loss of transactions exceeding fair value | - | - |
| 12)Net gain/loss of subsidiaries under the same controlling party from beginning of period till end | - | - |
| 13)Estimated gain/loss unrelated with major operations of the company | - | -70,256,578.25 |
| 14)Return on investment activities, such as variable gain/loss from transactional financial assets and liabilities, and revenue rendered from disposal of transactional financial assets and liabilities, and from saleable financial assets. | - | - |
| 15)Reverse on separately tested Account Receivable diminution provisions | - | - |
| 16)Gain/Loss from trusted loans | - | - |
| 17)Gain/Loss from change in fair value of invested raal estate by the follow-up measurement in mode of fair value | - | - |
| 18)Impact on the gain/loss of the period after one-time adjustment according to relative laws and regulations of tax, accounting | - | - |
| 18)Trust fees income from trusted operations | - | - |
| 20)Other Income and Expenses besides the above-mentioned items | 499,552.59 | -169,649,670.79 |

# XVI Supplimentary information(Continued)

## 2 Details of non-current profit and loss items(Continued)

| Detailed items | Year of 2008 | Year of 2007 |
|---|---|---|
| 21)Other items fit in the category of non-recurrent gain/loss | | -40,000,000.00 |
| Total | -72,354,892.99 | -223,768,815.27 |
| Minus: Income tax of non-recurrent gain/loss | 2,341.14 | - |
| Minus: Proportion due minority shareholders | - | - |
| Net profit under effect of non-recurrent gain/loss | -72,357,234.13 | -223,768,815.27 |
| Net Profit and Loss | -70,569,433.41 | -347,904,234.51 |
| Minus: Minority Interest | -1,456,938.08 | -7,030,136.89 |
| Net profit due parent company shareholders | -69,112,495.33 | -340,874,097.62 |
| Proportion of non-recurrent gain/loss to net profit due shareholders of parent company | 104.69% | 65.65% |
| Net profit due shareholders of parent company after non-recurrent gain/loss | 3,244,738.80 | -117,105,282.35 |

## 3 ROA and Earnings per Share

| Period | Financial Indicators | Net ROA(Return on Assets) | | Earnings Per Share (Yuan/Share) | |
|---|---|---|---|---|---|
| | | Fully Diluted | Weighted Average | Basic Earnings per Share | Diluted Earnings per Share |
| Year of 2008 | Net Profit due Common Shareholders of the Company | -22.21% | -17.38% | -0.08 | -0.08 |
| | Net Profit due Common Shareholders of the Company after Non-Recurrent Gain/Loss | 1.04% | 0.82% | 0.004 | 0.004 |
| Year of 2007 | Net Profit due Common Shareholders of the Company | -70.40% | -51.84% | -0.39 | -0.39 |
| | Net Profit due Common after Shareholders of the Company Non-Recurrent Gain/Loss | -24.19% | -17.81% | -0.13 | -0.13 |

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