



INTERIM REPORT 2011

输送光明和动力的桥梁



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



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## IMPORTANT NOTES

The Company's Board of Directors, Supervisory Committee, Directors, Supervisors and senior management hereby confirm that there are no false representations, misleading statements or material omissions contained in this report, and they, severally and jointly, accept full responsibility for the truthfulness, accuracy and completeness of the contents of this report.

The financial report for the six months ended 30 June 2011 of the Company and its subsidiaries (the "Group") has not been audited.

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

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



## BASIC INFORMATION OF THE COMPANY

- (I) 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
- (II) Place of listing, stock names and codes  
A Shares : Shenzhen Stock Exchange  
Stock Name: Northeast Electric  
Stock code: 000585  
H Shares : The Stock Exchange of Hong Kong Limited  
Stock Name: Northeast Electric  
Stock code: 0042
- (III) Registered address : No. 1, Xintai Road, Bayuquan District, Yingkou, Liaoning province  
Office address : No. 2, Xingshun Street, Tiexi District, Shenyang  
Postal Code : 110023  
Company Website : www.nee.com.cn  
E-mail : nee@nee.com.cn
- (IV) Legal representative : Su Weiguo
- (V) Secretary to the Board : Su Weiguo (acting)  
Joint company secretaries and authorized representative for receipt of summons and notices in Hong Kong : Mak Yee Chuen  
Representative for securities affairs : Zhu Xinguang  
Contact address : No. 2, Xingshun Street, Tiexi District, Shenyang, the PRC  
Telephone : (86)24-23501976 23527080  
Fax : (86)24-23527081  
E-mail : nemm585@sina.com
- (VI) PRC newspapers for information disclosure : Securities Times  
Website publishing the report and announcement : www.cninfo.com.cn www.hkexnews.hk  
Website of the Company : www.nee.com.cn  
Place for inspection of the report : Office of the Board of Directors
- (VII) Date of Company's first registration : 16 February 1993  
Place of registration : No. 18, North Er Zhong Road, tiexi District, Shenyang, Liaoning Province, the PRC  
Date of the Company's latest change of registration : 9 May 2011  
Registered address : No. 1, Xintai Road, Bayuquan District, Yingkou, Liaoning province  
Registered number of corporate business licence : 210100402002708  
Registered taxation number : 210132243437397

## MAJOR FINANCIAL DATA AND FINANCIAL INDICATORS

### (I) Major financial data and financial indicators prepared in accordance with the PRC Accounting Standards and regulations

Unit: RMB

	As at 30 June 2011	As at 31 December 2010	Change in the reporting period compared with the end of last year (%)
Total assets	741,921,933.11	844,337,174.25	-12.13
Owners' equity attributable to shareholders of listed company	333,597,692.33	314,979,605.97	5.91
Share capital	873,370,000.00	873,370,000.00	
Net assets per share attributable to shareholders of listed company (RMB/Share)	0.38	0.36	5.56

  

	For the reporting period from Jan. to Jun. 2011	The same period last year	Change in the reporting period compared with the same period of last year (%)
Total operating revenue	145,730,069.48	146,383,998.47	-0.45
Operating profit	19,991,385.73	2,553,073.63	683.03
Total profit	19,997,067.33	2,534,262.58	689.07
Net profit attributable to shareholders of listed company	19,495,121.58	527,972.20	3,592.45
Net profit attributable to shareholders of listed company after extraordinary items	-6,653,368.03	553,674.17	-
Basic earnings per share (RMB/Share)	0.0223	0.0006	3,616.67
Diluted earnings per share (RMB/Share)	0.0223	0.0006	3,616.67
Return on net assets (%)	6.01	0.166	Increased by 5.844
Earnings/net assets ratio after extraordinary item (weighted average) (%)	-2.05	0.17	Decreased by 2.22
Net cash flow from operating activities	-26,602,296.53	9,720,877.49	-
Net cash flow from operating activities per share (RMB/Share)	-0.0305	0.0111	-

**Extraordinary profit and loss items***Unit: RMB*

Net profit influenced by net non-operating income and expenditure	5,681.60
Profit or loss from disposal of subsidiaries ("-" means loss)	26,144,228.41
Less: amount influenced by income tax	1,420.40
<b>Total</b>	<b>26,148,489.61</b>

**(II) Prepared under Hong Kong Financial Reporting Standards****Condensed consolidated profit and loss statement***Unit: RMB'000*

	<b>For the reporting period from Jan. to Jun. 2011</b>	<b>The same period last year</b>
Turnover	145,730	146,384
Profit before taxation	19,997	2,557
Taxation	871	2,091
Profit after taxation	19,126	466
Minority interests	(369)	(85)
<b>Profit attributable to shareholders</b>	<b>19,495</b>	<b>551</b>

**Condensed consolidated statement of financial position***Unit: RMB'000*

	<b>As at 30 June 2011</b>	<b>As at 31 December 2010</b>
Total assets	741,922	844,337
Total liabilities	406,896	527,560
<b>Shareholders' equity</b>	<b>335,026</b>	<b>316,777</b>

**(III) There are no differences between net profit calculated under Hong Kong Financial Reporting Standards and the PRC Accounting Standards***Unit: RMB*

	<b>Net profit</b>
Under the PRC Accounting Standards	19,495,121.58
Under Hong Kong Financial Reporting Standards	19,495,121.58



## CHANGE IN SHARE CAPITAL AND INFORMATION OF SHAREHOLDERS

### I. Changes in share capital of the Company

During the reporting period, there were no changes in the share capital.

### II. Table of changes in share capital

Unit: Share

	Prior to changes		Increase/decrease (+,-)				After changes		
	Quantity	Proportion	New shares issued	Bonus	Capitalization of surplus reserves	Others	Subtotal	Quantity	Proportion
<b>I. Shares subject to trading moratorium</b>	6,230,000	0.71%						6,230,000	0.71%
1. State-owned shares									
2. State-owned legal-person shares									
3. Other domestic shares	6,230,000	0.71%						6,230,000	0.71%
Including: domestic legal-person shares	6,230,000	0.71%				-234,782	-234,782	5,995,218	0.69%
Domestic natural person shares						234,782	234,782	234,782	0.03%
4. Overseas shares									
Including: Overseas legal-person shares									
Overseas natural person shares									
5. Executives' shares									
<b>II. Shares not subject to trading moratorium</b>	867,140,000	99.29%						867,140,000	99.29%
1. Common shares in RMB	609,190,000	69.75%						609,190,000	69.75%
2. Domestic shares listed in PRC									
3. Foreign shares listed overseas	257,950,000	29.54%						257,950,000	29.54%
4. Others									
<b>III. Total shares</b>	<b>873,370,000</b>	<b>100.00%</b>						<b>873,370,000</b>	<b>100.00%</b>

### III. Introduction to shareholdings of shareholders

Shareholdings of top ten holders and top ten shareholders holding tradable shares

*Unit: Share*

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Total number of shareholders      Total number of shareholders as at the end of 30 June 2011 was 90,706, of which, 90,631 hold A shares and 75 hold H shares.

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#### Shareholdings of top ten shareholders

Name of shareholders	Nature of shareholder	Percentage (%)	Number of shares	Number of untradeable shares	Number of shares pledged or frozen
HKSCC Nominees Limited	Foreign natural person	28.36	247,655,998	0	Unknown
New Northeast Electric Investments Co., Ltd.	Domestic ordinary legal person	24.06	210,110,068	0	110,000,000
Shenzhen Zhongda Software Development Co., Ltd	Domestic ordinary legal person	0.41	3,550,000	3,550,000	0
Shanxi Trust Corporation Ltd.- Xinyuan Fund Trust	Domestic ordinary legal person	0.40	3,450,000	0	0
Hu Li	Domestic natural person	0.25	2,156,160	0	0
Zhang Xiaoping	Domestic natural person	0.24	2,077,200	0	0
Zhang Li	Domestic natural person	0.21	1,861,865	0	0
Huang Jian	Domestic natural person	0.19	1,689,800	0	0
Shanxi Qinjian Science and Technology Investment Co., Ltd	Domestic ordinary legal person	0.16	1,420,000	1,420,000	0
Wang Qiusheng	Domestic natural person	0.16	1,359,500	0	0

**Shareholdings of top ten holders of tradable shares**

<b>Name of shareholders</b>	<b>Number of tradable shares</b>	<b>Type of shares</b>
HKSCC Nominees Limited	247,655,998	H shares
New Northeast Electric Investments Co., Ltd.	210,094,850	A shares
Shanxi Trust Corporation Ltd.- Xinyuan Fund Trust	3,450,000	A shares
Hu Li	2,156,160	A shares
Zhang Xiaoping	2,077,200	A shares
Zhang Li	1,861,865	A shares
Huang Jian	1,689,800	A shares
Wang Qiusheng	1,359,500	A shares
Chen Hua	1,040,000	A shares
Wang Changyong	1,016,890	A shares
Explanation for the connected relationship among the top ten shareholders	There is no relationship between New Northeast Electric Investments Co., Ltd and any other shareholders, and the Company is not aware of any relationship among other shareholders or parties acting in concert within the meaning of the Regulation on disclosure of Information on Changes in Shareholdings of Listed Companies.	

**Notes:**

1. On 20 December 2010, New Northeast Electric Investments Co., Ltd. carried out the registration of the pledge of stocks with Shanghai Pudong Development Bank Co., Ltd. Shenyang Branch, so 60,000,000 A shares and 20,000,000 A shares not subject to trading moratorium have been frozen since 20 December 2010.
2. On 28 June 2010, New Northeast Electric Investments Co., Ltd. carried out the registration of the pledge of stocks with Bank of Communications Liaoning Branch, so 90,000,000 A shares not subject to trading moratorium have been frozen since 28 June 2010. Upon maturity, it carried out renewal of registration of the pledge of stocks with Bank of Communications Liaoning Branch on 18 July 2011, so 30,000,000 A shares not subject to trading moratorium have been frozen since 18 July 2011.

**IV. During the reporting period, the Company's controlling shareholder and the actual controller has not changed.**





## PROFILES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

### I. Shareholdings of directors, supervisors and senior management

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

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

- (1) Mr. Bi Jianzhong, upon the approval of the ninth Meeting of the six session of the Board of Directors, resigned as an Executive Director, General Manager and other executive positions due to the change of work on 11 April 2011 with effect from 11 April 2011 (please refer to the announcement dated 11 April 2011 for details).
- (2) Upon the approval of the ninth Meeting of the six session of the Board of Directors, Chairman Mr. Su Weiguo was appointed to concurrently serve as general manager; according to the nomination of Mr. Su Weiguo, Mr. Liu Tongyan was appointed as the deputy general manager and his term of office was the same as the Board of Directors (please refer to the announcement dated 11 April 2011 for details).
- (3) The 2010 Annual General Meeting of shareholders was held on 6 May 2011, on which Mr. Liu Tongyan and Mr. Liu Bing were elected as the Executive Director of the Company for the same term as the Board expiring 7 March 2013 (please refer to the announcement dated 6 May 2011 for details).

### III. Interest of directors, supervisors and senior management

As at 30 June 2011, 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, any 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.



## MANAGEMENT DISCUSSION AND ANALYSIS

### I. Discussion and analysis on the Company's operating performance in the reporting period

During the reporting period, the domestic and international economic situation was more complicated. With such negative factors as shrank investment in the fixed assets due to macro control, rising raw material prices, the appreciation of RMB, the hiking cost of major factors of labours and the tough market competition, the Board and the management ramped up the production and operation work, strengthened technical innovation, optimized product mix, raised product quality, broadened market channels and improved contract quality, underpinning internal control standard, promoting the management level and strictly controlling the purchase cost of raw materials and other expenses in light of its operation objectives made at the beginning of the 2011, which effectively reduced the influence of various adverse factors on the production and operation of the Company and kept the stable and sound development. During the reporting period, the operating income of the Company amounted to RMB145,730,000, holding the line with the same period last year, and the net profit was RMB19,130,000 with an increase of RMB18,690,000, which was mainly arising from disposal of equity.

Under the calculation of the Hong Kong Financial Reporting Standards, the turnover was RMB145,730,000, decreasing by 0.45% compared with the same period last year; the profit attributable to shareholders after tax and of minority interests was RMB19,495,000, with the profit per share amounting to RMB0.0223.

As there was no interim dividend paid during the reporting period, the directors does not resolve to pay the interim dividend for the period of six months ended 30 June 2011.

#### (I) Summary for the operating work in the first half year of 2011

**During the reporting period, the main features of the production and operation of the Company are as follows:**

- (1) The strengthened production management and control and reasonable allocation of resources resulted in consummation of the production task;
- (2) The broadened market channel and improved contract quality and profitability of the products promoted the comprehensive gross profit ratio compared with the same period last year;



- (3) The science and technology research was enhanced to develop product innovation and optimize product mix to actively tap new sources of economic growth;
- (4) Income from sales of 25.6% equity interest in New Northeast Electric (Shenyang) High-Voltage Isolators Switchgears Limited improved the asset structure and promoted the asset quality;
- (5) The enhanced internal control and continuously perfected management systems sharpened the Company's core competitive edge.

## **(II) Major problems and difficulties in the Company's operation and solutions for them**

### **Major problems and risks and the Company may be faced with**

- (1) Influenced by shrunk investment in fixed assets due to the macro control policy by the State and the substantial changes in market environment, the investment in grid slowed down and the market demand was insufficient, which caused the increasingly fierce market competition and the price fall of products; meanwhile, the construction of the ultra high-voltage AC and high-voltage DC transmission projects in which the Company had edge was put off;
- (2) As impacted by the rising price of raw and auxiliary materials, the Company faced with the pressure from the increasing cost.

### **Solutions**

- (1) In terms of the market, the Company enhanced research and judgment of the market, mastered the accurate market information in time and followed the market trends to continuously optimize the product mix according to the market demand, improve quality of products, sharpen the competitive edge and expand market share;
- (2) In terms of controlling the cost of raw materials, the Company will keep a close eye on the price of main raw materials, properly implement the work in collection and analysis on dynamic information, and strengthen the control over purchase of raw materials to reduce the production cost;
- (3) Further strengthen the technical innovation, research and development of new products to enhance added value of products, improving their profitability.



### **(III) Outlook of the second half year**

2011 is the first year to implement the "Twelfth Five-year Plan". The "Twelfth Five-year Plan" has established the construction direction of "implementation of strong smart grid in all respects and the construction of ultra high-voltage grid and urban and rural distribution network" and the industry of the Company will enjoy new growth opportunities. However, influenced by the national macro control policy and substantial changes in the market environment, investment in fix assets for grid construction slowed down, and ultra high-voltage grid projects were put off, and competition of the industry of the Company was more fierce. It is expected that the market situation in the second half of 2011 remained no fundamental changes.

Despite complicated operation environment, the Company will adopt feasible solutions and put great efforts in the implementation, which mainly including the following work:

- (1) Organize production scientifically, allocate resources reasonably and strengthen the control of production to fully complete the annual production task;
- (2) Seize the opportunities of increasing investment in the state grid and transformation in rural power grid, strengthen market development of products and augment the market shares;
- (3) Analyse price trends of raw material based on market price and reduce the intermediate links by leveraging purchase from the source to make efforts to reduce cost of purchase of raw materials;
- (4) Enhance the scientific research innovation and maintain a sustainable development of the Company;
- (5) Constantly perfect management system and process of internal control, insist on standard operation and improve corporate governance level and the capacity of risk prevention of the Company.

### **(IV) The Board of Directors has no plan to modify the operating plans in the second half of 2011**

## **II. Operation of the Company during the reporting period**

The Company and its subsidiaries are the major bases of manufacturing, researching, 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 capacitor and closed busbar.

**(I) Analysis of the Company's financial status under the Hong Kong Financial Reporting Standards**

As at the end of the reporting, the balance of monetary fund was RMB15,775,000 (the same below).

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

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

As at the end of the reporting period, the Company had bank loans amounting to RMB22,000,000, representing 2.97% of the total assets. These bank loans bear floating interests. The debt equity ratio of the Company was 6.59% (debt equity ratio= total bank loan/total share capital reserve \* 100%).

As at the end of the reporting period, the Company had net assets of RMB23,058,900 used as security.

The contingencies of the Company were detailed in Notes to the Financial Statement.

To improve its financial management, the Group has established a strict system for internal control on cash and fund management. Financial liquidity and debt paying ability of the Group are in good state.

Significant investment, acquisition or asset disposal during the reporting period are detailed in "Investment of the Company" of this section.

The classification of the Group's results was detailed in "Operation of the Company during the reporting period" of this section.

The prediction about Investment plan in the second half of 2011 of the Group was detailed in "Subsequent Events".

The effects of exchange rate risk on the Group were less as it chose RMB as its functional currency in assets and liabilities. The Group took the following measures to reduce the risk of currency fluctuation. First, it raised the prices of export products. Second, when signing export contracts involving more money, it agreed with its partners in advance to jointly bear the exchange risks that were beyond their established limit of currency fluctuation. Third, it made full efforts to sign long-term contracts on settlement of exchange with financial institutions so as to focus the exchange rate and avoid the risk.

**(II) Analysis of financial conditions and operations results under the PRC Accounting Standards and Regulations**

1. During the reporting period, the Company recorded operating income of RMB145,730,100, operating cost of RMB103,033,400, gross profit ratio of 29.30% and operating profit of RMB19,991,400.

Constitution of operating income and profit of the Company by business, product and geographical segment:

## Operating income by business and product segment

Unit: RMB'0000

By Business or Product	Operating income	Operating cost	Gross profit ratio (%)	Increase /decrease in operating income as compared with last year (%)	Increase /decrease in operating costs as compared with last year (%)	Increase /decrease in gross profit ratio as compared with last year (%)
1. By business						
Electric transmission and transformation	14,573	10,303	29.30	-0.44	-4.02	2.64
Of which: connected transactions						
2. By product						
Power capacitor	9,708	6,303	35.07	6.40	0.46	3.83
Enclosed busbar	2,433	1,586	34.81	-12.17	-23.31	9.47
High voltage switch circuit breaker	2,426	2,408	0.74	-2.65	8.27	-10.01
Others	6	6	0	-97.62	-96.45	-32.94
Of which: connected transactions						

## Operating income by geographical segment

Unit: RMB'0000

Region	Operating income	Increase/decrease in operating income as compared with last year (%)
China Northeast	1,200	-69.29
North China	2,692	-29.00
Central China	135	-62.09
East China	9,391	917.44
South China	162	-5.78
Southwest China	699	-29.71
Northwest China	113	-97.45
Others	181	182.95
Total	14,573	



2. Explanation of reasons for the major changes in principal business and its structure (Not applicable)
3. Explanation of reasons for the major change in earning capacity of principal business (gross profit ratio) compared with that of the same period of last year (Not applicable)
4. Analysis of reasons for the major change in profit structure compared with that of the same period last year (Not applicable):

The profit in this period was income from sales of 25.6% equity interest in New Northeast Electric (Shenyang) High-Voltage Isolators Switchgears Limited, and there was no such income in previous period.

5. Caution and explanation of the possibility of losses or major changes compared with the same period last year in predicted accumulated net profit from the beginning of the year to the end of the next reporting period (Not applicable)

**(III) Operation of investee companies (applicable to situations that the investment income accounts for over 10% of the Company's net profit) (not applicable)**

**(IV) Table of financial conditions and operations results**

*Unit: RMB*

Item	Amount at the end of the reporting period	Amount at the beginning of the reporting period	Increase/decrease (%)
Monetary fund	34,809,366.36	74,789,999.34	-53.46%
Other receivables	21,187,216.99	15,254,369.48	38.89%
Short-term borrowings	22,000,000.00	34,000,000.00	-35.29%
Advance from customers	12,026,120.10	69,358,377.40	-82.66%
Employee compensation payable	1,997,235.91	4,361,867.55	-54.21%

**Notes:**

1. *The reduction of monetary fund was mainly due to repayment of borrowings and loans;*
2. *The increase of other receivables was due to the increase of borrowings for staff and bid deposits compared with the beginning of the year;*
3. *The reduction of short-term borrowings was due to repayment of bank loans;*
4. *Advance from customers decreased because income from sales equity interest made up some advance from customers;*
5. *The reduction of the employee compensation payable was due to payment of social insurances.*



Unit: RMB

Item	Amount of this period	Amount of the same period last year	Increase/decrease (%)
Financial costs	796,223.73	1,256,108.91	-36.61%
Losses on assets depreciation	3,855,618.28	0.00	100%
Investment income	24,412,034.90	-500,459.42	-

**Notes:**

- 1 The reduction of financial expenses was due to the decrease of bank loans;
- 2 The reduction of the losses on assets depreciation was mainly due to the provision of bad debt that had been translated in the same period last year but did not need to be translated in this period;
- 3 The investment income was increased, mainly because it was recorded as equity investment income in the reporting period while there was no such income in the last year.

**III. Investments of the Company****(I) The use of raised capital during the reporting period**

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

**(II) The circumstances and actual progress for non-raised capital investment project**

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





## SIGNIFICANT EVENTS

### I. Personnel Changes

Please refer to "Profiles of directors, supervisors and senior management".

### II. Staff of the Company and the remuneration policy

As at 30 June 2011, the number of employees on the payroll of the Company was 666, compared with 711 in 2010. 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 employee, which are determined based on their performance, experience, position and other factors in compliance with the relevant PRC laws and regulations.

### III. Corporate governance structure

At present, the actual corporate governance structure basically complies with the related requirements of securities regulatory authorities.

### IV. Profit distribution plan and its implementation

During the reporting period, the Company recorded net profit distributable to the parent companies of RMB19,495,121.58, and the accrued profit distributable to shareholders at the end of the period was RMB-1,507,784,986.77. Therefore the Board resolved not to make any profit distribution and not to transfer any capital reserve into share capital during the reporting period.

As there was no interim dividend paid during the reporting period, the directors does not resolve to pay the interim dividend for the period of six months ended 30 June 2011.



## V. Material litigation and arbitration

### **Loan Contract Dispute Litigation of China Great Wall Asset Management Corp. Shenyang Office ("Great Wall") for the debt of RMB351.75 million**

In accordance with the temporary announcement dated 12 August 2009, 16 February 2011 and 20 July 2011 issued by the Company, on 15 February 2011, the Company received from the lawyer the civil written order ((2009) Liao Min Er Chu Zi No.12) issued by Liaoning Higher Court. According to the order, Shenyang High-voltage shall repay such liabilities including the principal of RMB351,750,000 and its interest of Great Wall, and reject Great Wall's claim against the Company. Then Great Wall Asset lodged an appeal.

On 20 July 2011, the Company received from its lawyer the civil judgment ((2011) Min Er Zhong Zi No.44). The court quashed the civil judgment ((2009) Liao Min Er Chu Zi No.12) issued by Liaoning High People's Court and remanded the case to Liaoning High People's Court for retrial.

The Company had no any material pending or threatened litigations and claims except the litigations above.

## VI. Acquisition and disposal of assets

### **Transfer of 25.6% equity interest of New Northeast Electric (Shenyang) High-voltage Switchgear Ltd.**

Upon the consideration and approval of the third EGM of 2010 held on 31 December 2010, 25.6% equity interest in New Northeast Electric (Shenyang) High-Voltage Isolators Switchgears Limited held by Northeast Electric (Hong Kong) Limited, a wholly-owned subsidiary of the Company, was transferred to Sunyork International Limited (both such company and its ultimate beneficial owner are the independent third parties of the Company and its connected person) at the consideration of RMB52,800,000, and the change of industrial and commercial registration procedures was completed on 17 February 2011.

## VII. Connected transactions

Pursuant to the Listing Rules of Shenzhen Stock Exchange and the Listing Rules of Stock Exchange of Hong Kong Limited in relation to the relationship of connected parties, there were no connected transactions nor claims and debts between the Company and the connected parties during the reporting period.

## VIII. Use of capital of controlling shareholders and their subsidiaries

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



## IX. Guarantees for the controlling shareholders and their subsidiaries of the Company

The Company and its affiliated companies did not offer any guarantee for the Company's controlling shareholders and their subsidiaries during the reporting period.

## X. Significant contracts and their executions

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

### (II) Guarantees

During the reporting period, the Company had no new guarantees.

As at the end of the reporting period, the actual bank loan of external guarantee provided by the Company totalled RMB99,800,000, so the real amount that the Company should assume responsibility for guarantee was RMB99,800,000. In addition, the guarantee of the Company for its holding subsidiaries amounted to RMB15,000,000. The above guarantee totalled RMB114,800,000, accounting for 36.24% of the audited net assets of the Company for 2010.

#### (1) External guarantees of the Company

As at the end of the reporting period, the actual external guarantee of the company totalled RMB99,800,000, including RMB22,750,000 for New Northeast Electric Group Ultra High-Voltage Equipment Co., Ltd; RMB52,900,000 for Jinzhou Power Capacitors Co., Ltd; RMB24,150,000 for Shenyang Kingdom Hotel Co., Ltd.

#### (2) Guarantees for the holding subsidiaries of the Company

The Company offered guarantees of RMB15,000,000 for its holding subsidiary New Northeast (Jinzhou) Power Capacitors Co., Ltd.

#### (3) Guarantee of the Company for the guaranteed company with debt to assets ratio over 70%

As at the end of the reporting period, the guarantee of the Company for Jinzhou Power Capacitors Co., Ltd with debt to assets ratio over 70% was RMB52,900,000, accounting for 16.7% of the audited net assets of the Company for 2010, which was translated into liabilities in total in 2007.

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



## **XI. Commitments of shareholders with over 5% shares of the Company (including 5%)**

To implement the Share Reform Scheme of the Company smoothly, New Northeast Electric Investments Co., Ltd, the controlling shareholder of the Company made a special undertaking that it will not sell or transfer the shares of Northeast Electric Development Co., Ltd on Shenzhen Stock Exchange within 36 months from the date for implementation of the Share Reform Scheme. Following the expiry of the said 36 months, the original Non-circulating Shares which are publicly sold on stock exchange will not be less than RMB5 per share.

During the reporting period, New Northeast Electric Investment Co., Ltd has strictly fulfilled the above promises.

In addition, the Company has held 17.09% equity of New Northeast Electric Group Ultra High-Voltage Equipment Co., Ltd, and promised not to recover the Company's debt of RMB39,960,000 within two years.

## **XII. External investments**

There was no external investment during the reporting period.

## **XIII. Holding of other listing companies' shares**

During the reporting period, in the Company, there was no securities investment and income, no holding of other listing companies' shares or financial enterprises' equities, and no share participation in proposed listing companies.

## **XIV. Independent directors' special representation and independent opinion on the fund occupation by connected parties and foreign guarantee of the Company**

The independent directors, in accordance with the requirements of the Notice of Certain Issues in relation to the Regulation on Capital Flow between Listed Companies and its Connected Parties and External Guarantee of Listed Companies (Zheng Jian Hui [2003] No. 56), and the Notice of China Securities Regulatory Commission on Avoiding the Rebound of Fund Occupation through Intensifying Continuous Supervision (Listing Division Letter [2008] No. 118), issue the following special representation and independent opinion after investigation and verification to relevant personnel on the Company's funds occupied by controlling shareholders and other connected parties as well as on the Company's foreign guarantees based on the information provided by the Board:

- (I) The Company complied with the provisions of relevant laws and regulations, and its controlling shareholders and other connected parties did not occupy the Company's funds during the reporting period.
- (II) During the reporting period, the Company had no new guarantees.



As at the end of the reporting period, the actual bank loan of external guarantee provided by the Company totalled RMB99,800,000, so the real amount that the Company should assume responsibility for guarantee was RMB99,800,000. In addition, the guarantee of the Company for its holding subsidiaries amounted to RMB15,000,000. The above guarantee totalled RMB114,800,000, accounting for 36.24% of the audited net assets of the Company for 2010.

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

*Independent Directors: Mr. Wu Qicheng, Mr. Xiang Yongchun and Mr. Wang Yunxiao*

## **XV. The Supervisory Committee's audit opinion**

In the opinion of the supervisory committee, there is no problem in the Company's legal operation, internal control, financial status, operation situation and connected transactions.

## **XVI. Purchase, sale and redemption of shares**

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

## **XVII. Report of corporate governance**

### **(I) Code of Corporate Governance Practice**

The Company's directors confirm that the Company has fully complied with the provisions of Code of Corporation Governance Practices within six months as at the end of 30 June 2011, and disclosed result report in accordance with these provisions. The Code of Corporation Governance Practices includes the clauses set out in Appendix 14 to the Listing Rules of the Stock Exchange of Hong Kong Limited (the "Listing Rules").



**(II) Audit Committee**

The Company has established the audit committee in accordance with the Rule 3.21 of Listing Rules.

The Audit Committee, together with the management, has reviewed the accounting principles, accounting standards and methods adopted by the Company, and studied matters relating to auditing, internal controls and financial reporting, including reviewed the unaudited semi-annual accounts for the period of six months ended 30 June 2011.

The Audit Committee has given its consent to the financial accounting principles, standards and methods adopted by the Company for the unaudited semi-annual records for the period of six months ended 30 June 2011.

At the meeting held on 12 August 2011, the audit committee review and approve the 2011 semi-annual financial records and results announcement.

**(III) Independent non-executive directors**

The Company has complied with Rules 3.10(1) and 3.10(2) of the Listing Rules relating to appointment of a sufficient number of independent non-executive directors and at least an independent non-executive director with appropriate professional qualifications, or accounting or related financial management expertise. During the reporting period, the Company has appointed three independent non-executive directors including one with financial management expertise.

**(IV) 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 enquires, that no director or superior 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 Board of Directors has given written notices in advance to insiders (including the Company's directors, supervisors, senior management and controlling shareholders, actual controllers as well as connected parties, as defined in the Listing Rules) stating that purchase and sales of shares of the Company shall comply with relevant regulations and forbidding the insider purchase or sales of shares with inside information: no transactions of the company securities shall be carried out during the price-sensitive time within one month prior to results announcement (the lock-up period is from 12 July to 12 August 2011).

All directors have confirmed that they and the connected person did not carry out transactions of company securities during reporting period and have complied with the guidelines.

#### **XVIII. Income tax**

The Company is subject to income tax at the applicable rate of 25%. It had no assessable profits in Hong Kong during the reporting period. Please refer to notes to the financial statement "Taxation".

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

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

During the reporting period, the Company strictly complied with the Guidelines for Fair Information Disclosure of Listed Companies, and earnestly implemented Investor Reception and Promotion System. The Company and the person responsible for related information disclosure consistently followed the principle of fair information disclosure, without any implementation of discriminatory policies and any disclosure, revelation or divulgence of significant private information to special objects. During the reporting period, there were no institutional investors coming to the Company for field survey or interview.

## XXI. Announcement index on major matters in 2011

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

Publishing Date	Announcement matters
2011-01-25	Suggestive Announcement on Results of Performance 2010
2011-02-16	Announcement on Progress of Litigation
2011-03-21	Annual Report 2010
2011-04-11	Announcement on Resolutions of the Second Meeting of the Six Session of the Board of Directors
2011-04-21	The First Quarterly Report of 2011
2011-05-06	Announcement on Resolutions of the Annual General Meeting of Shareholders of 2010
2011-05-12	Announcement on Change of the Registered Address
2011-07-13	Preliminary Interim Results Announcement for 2011
2011-07-20	Announcement on Progress of Litigation

## XXII. Subsequent events

Nil.

## DOCUMENTS AVAILABLE FOR INSPECTION

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

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





# FINANCIAL STATEMENT

Financial report prepared under the PRC Accounting Standards (unaudited)

## Balance Sheet

At 30 June 2011

Unit: RMB

Items	Balance at the end of the period		Balance at the beginning of the year	
	Consolidated	Parent Company	Consolidated	Parent Company
Current Assets:				
Cash and deposits	34,809,366.36	47,300.93	74,789,999.34	38,486.92
Settlement excess reserve				
Funds offered in inter-bank markets				
Tradable financial assets				
Bills receivable			840,000.00	
Amounts receivable	216,748,466.22		225,803,047.65	
Prepayment	25,012,305.43		25,262,242.01	
Premium payable				
Reinsurance receivable				
Reserve of reinsurance arrangement receivable				
Interest receivable				
Dividends receivable	7,978,955.40		8,146,517.15	
Other receivables	21,187,216.99	430,919,925.89	15,254,369.48	432,929,459.41
Purchase of buyback financial assets				
Inventories	72,662,637.66		97,011,521.94	
Non-current assets due within 1 year				
Other current assets				
Total current assets	378,398,948.06	430,967,226.82	447,107,697.57	432,967,946.33

**Balance Sheet (Continued)**

At 30 June 2011

*Unit: RMB*

Items	Balance at the end of the period		Balance at the beginning of the year	
	Consolidated	Parent Company	Consolidated	Parent Company
Non-current assets:				
Deposits and advances				
Available-for-sale financial assets				
Held-to-maturity investments				
Long-term accounts receivable				
Long-term equity investment	267,186,767.42	157,637,418.63	297,145,797.61	157,637,418.63
Invested real estate				
Fixed assets	72,180,847.07	510,385.08	75,010,292.04	564,689.27
Construction in progress	452,833.81		445,633.81	
Material of works				
Liquidation of fixed assets				
Producing bio-material assets				
Assets of oil and gas				
Intangible assets	4,674,404.63		4,742,149.69	
Expenditures of development				
Good will				
Long-term deferred expenses	5,585,327.64		7,155,788.26	
Deferred income tax assets	13,442,804.47		12,729,815.27	
Other non-current assets				
Total non-current assets	363,522,985.04	158,147,803.71	397,229,476.68	158,202,107.90
Total assets	741,921,933.10	589,115,030.53	844,337,174.25	591,170,054.23
Current liabilities:				
Short-term borrowings	22,000,000.00		34,000,000.00	
Borrowings from central bank				
Deposits received & by inter-banks				

**Balance Sheet (Continued)**

At 30 June 2011

Unit: RMB

Items	Balance at the end of the period		Balance at the beginning of the year	
	Consolidated	Parent Company	Consolidated	Parent Company
Funds received from inter-bank markets				
Transactional financial liabilities				
Bills payable				
Accounts payable	132,591,349.77		187,578,403.76	
Advance	12,026,120.10	665,000.00	69,358,377.40	665,000.00
Buyback financial assets sold				
Fees payable & commission				
Employee compensation payable	1,997,235.91	937.27	4,361,867.55	40,092.79
Taxes payable	-6,645,042.25	11,349.34	2,349,683.53	37,099.07
Interest payable				
Dividends payable	40,017.86		40,017.86	
Other payables	89,188,222.82	80,958,362.23	74,715,315.30	80,921,500.61
Reinsurance payable				
Reserve of reinsurance arrangement				
Payments of entrusted purchase & selling stocks				
Payments of entrusted underwriting stocks				
Non-current liabilities due within 1 year				
Other current liabilities	468,446.97		468,446.97	
Total current liabilities	251,666,351.18	81,635,648.84	372,872,112.37	81,663,692.47
Non-current liabilities:				
Long-term borrowings				
Bonds payable				
Long-term accounts payable				
Special payables				

**Balance Sheet (Continued)**

At 30 June 2011

Unit: RMB

Items	Balance at the end of the period		Balance at the beginning of the year	
	Consolidated	Parent Company	Consolidated	Parent Company
Estimated liabilities	93,973,938.25	93,973,938.25	93,973,938.25	93,973,938.25
Deferred income tax liabilities				
Other non-current liabilities	61,255,815.55	61,255,815.55	60,714,159.27	60,714,159.27
Total non-current liabilities	155,229,753.80	155,229,753.80	154,688,097.52	154,688,097.52
Total liabilities	406,896,104.98	236,865,402.64	527,560,209.89	236,351,789.99
Owners' equity (or shareholders' equity):				
Paid-up capital (or share capital)	873,370,000.00	873,370,000.00	873,370,000.00	873,370,000.00
Capital reserves	883,422,403.92	979,214,788.45	883,422,403.92	979,214,788.45
Less: shares in store				
Special reserve				
Reserve	108,587,124.40	108,587,124.40	108,587,124.40	108,587,124.40
Normal risk provision				
Retained profit	-1,507,784,986.77	-1,608,922,284.96	-1,527,280,108.35	-1,606,353,648.61
Difference of exchange of foreign-currency report	-23,996,849.22		-23,119,814.00	
Total interests attributable to parent company's owners	333,597,692.33	352,249,627.89	314,979,605.97	354,818,264.24
Minority interests	1,428,135.79		1,797,358.39	
Total owners' equity	335,025,828.12	352,249,627.89	316,776,964.36	354,818,264.24
Total liabilities and owners' equity	741,921,933.10	589,115,030.53	844,337,174.25	591,170,054.23

**Profit statement**

January-June 2011

*Unit: RMB*

Items	Balance of this period		Balance of last period	
	Consolidated	Parent Company	Consolidated	Parent Company
I. Total operating revenue	145,730,069.48		146,383,998.47	
Including: Operating income	145,730,069.48		146,383,998.47	
Interest income				
Earned premium				
Charges and commissions				
II. Total operating costs	150,150,718.65	2,568,636.35	143,330,465.42	2,292,760.88
Including: Operating costs	103,033,400.84	2,568,636.35	107,346,587.08	2,292,760.88
Interest expenses				
Commission expenses				
Surrender value				
Net amount of payouts				
Net provision drawn for insurance contract				
Policy dividend expenses				
Reinsurance expenses				
Taxes and surcharges for operations	1,715,693.64			
Sales expenses	18,920,401.10		14,063,749.30	
Administrative expenses	21,829,381.06	2,567,931.25	20,664,020.13	2,295,866.71
Financial expenses	796,223.73	705.10	1,256,108.91	-3,105.83
Losses on assets depreciation	3,855,618.28			
Plus: Incomes from changes of fair value ("-" refers to loss)				
Incomes from investment ("-" refers to loss)	24,412,034.90		-500,459.42	-11,593.68


**Profit statement (Continued)**

January-June 2011

*Unit: RMB*

Items	Balance of this period		Balance of last period	
	Consolidated	Parent Company	Consolidated	Parent Company
Including : investment income from associates and joint venture companies				
Exchange gains ("-" refers to loss)				
III. Operating profits ("-" refers to loss)	19,991,385.73	-2,568,636.35	2,553,073.63	-2,304,354.56
Plus: Non-operating incomes	20,035.91		93,770.43	
Less: Non-operating expenses	14,354.31		112,581.48	2,522.73
Including: Losses on disposal of non-current assets				
IV. Total profits ("-" refers to loss)	19,997,067.33	-2,568,636.35	2,534,262.58	-2,306,877.29
Less: Income tax expense	871,168.35		2,091,118.34	
V. Net profits ("-" refers to loss)	19,125,898.98	-2,568,636.35	443,144.24	-2,306,877.29
Net profit attributable to owners of the parent company	19,495,121.58	-2,568,636.35	527,972.20	-2,306,877.29
Minority interests	-369,222.60		-84,827.96	
VI. Earnings per share:				
(1) Basic earnings per share	0.0223	-0.0029	0.0006	-0.0026
(2) Diluted earnings per share	0.0223	-0.0029	0.0006	-0.0026
VII. Other comprehensive income	-877,035.22	0.00	-1,049,445.24	0.00
VIII. Total comprehensive income	18,248,863.76	-2,568,636.35	-606,301.00	-2,306,877.29
Total comprehensive income attributable to owners of the parent company	18,618,086.36	-2,568,636.35	-521,473.04	-2,306,877.29
Total comprehensive income attributable to minority shareholders	-369,222.60		-84,827.96	

**Cash Flow Statement**

January-June 2011

*Unit: RMB*

Items	Balance of this period		Balance of last period	
	Consolidated	Parent Company	Consolidated	Parent Company
<b>I. Net cash flow from operating activities:</b>				
Cash from sales of goods, services provided	233,591,310.10		205,655,121.32	
Increase by deposits and inter-bank deposits				
Increase of borrowings from central bank				
Increase of funds received in the inter-bank markets				
Cash received from premium under insurance contracts				
Net amount received under re-insurance business				
Net increase of insured funds and investment				
Net increase of disposal of transactional financial assets				
Cash of interest, fees and commission received				
Net increase of funds received in inter-bank markets				
Net increase of funds of buyback business				
Taxes refunded received				
Cash received relating to operations	14,472,907.53	4,781,824.76	15,302,342.90	4,524,367.83
Subtotal of cash inflows from operating activities	248,064,217.63	4,781,824.76	220,957,464.22	4,524,367.83
Cash paid to purchase goods, received labor	199,635,080.67		146,994,917.14	
Net increase of customer loans				



## Cash Flow Statement (Continued)

January-June 2011

Unit: RMB

Items	Balance of this period		Balance of last period	
	Consolidated	Parent Company	Consolidated	Parent Company
Net increase of deposits with central bank and inter-bank				
Cash of payout under insurance contracts				
Cash paid over interest, fees and commission				
Cash paid to premium				
Cash paid to employees and for employees	11,746,676.21	885,846.92	11,705,336.81	862,586.95
Taxes paid	26,901,305.68	54,891.19	17,834,583.82	86,396.17
Cash paid relating to operations	36,383,451.60	3,832,272.64	34,701,748.96	3,665,139.58
Subtotal of cash outflows from operating activities	274,666,514.16	4,773,010.75	211,236,586.73	4,614,122.70
Net cash flow arising from operating activities	-26,602,296.53	8,814.01	9,720,877.49	-89,754.87
<b>II. Net cash flow arising from investment activities:</b>				
Cash received by withdrawn investment				
Cash of return on investment				
Net cash received from disposal of fixed assets, intangible assets and other long-term assets				
Net cash received from disposal of subsidiaries and other operating units			88,406.32	88,406.32
Cash received from other investment-related activities				
Subtotal of cash inflows from investment activities			88,406.32	88,406.32



**Cash Flow Statement (Continued)**

January-June 2011

Unit: RMB

Items	Balance of this period		Balance of last period	
	Consolidated	Parent Company	Consolidated	Parent Company
Cash paid in purchase/construction of fixed assets, intangible assets and other long-term assets	40,456.43		171,505.04	
Cash paid to invest				
Net increase of pledged loans				
Net cash paid to subsidiaries and other operational units				
Cash from other investment-related activities				
Subtotal of cash outflows from investment activities	40,456.43		171,505.04	
Net cash flow arising from investment activities	-40,456.43		-83,098.72	88,406.32
<b>III. Net cash flow arising from financing activities:</b>				
Cash received for new investment				
Including: subsidiaries receive cash from minority shareholders				
Cash received from borrowing			20,000,000.00	
Cash received by issuing bonds				
Cash received from other financial-related activities				
Subtotal of cash inflows from financing activities			20,000,000.00	
Cash paid to repay loans	12,000,000.00		13,850,000.00	
Cash paid to dividends, profit or interests	1,337,880.02		961,572.10	
Including: subsidiaries' dividends, profits paid to minority shareholder				



## Cash Flow Statement (Continued)

January-June 2011

Unit: RMB

Items	Balance of this period		Balance of last period	
	Consolidated	Parent Company	Consolidated	Parent Company
Cash paid to other financial-related activities				
Subtotal of cash outflows from financing activities	13,337,880.02		14,811,572.10	
Net cash flow arising from financing activities	-13,337,880.02		5,188,427.90	
<b>IV. Effect of change of foreign-currency rates on cash and cash equivalents</b>				
<b>V. Net increase in cash and cash equivalents</b>	-39,980,632.98	8,814.01	14,826,206.67	-1,348.55
Plus: balance of cash and cash equivalents at beginning of period	74,789,999.34	38,486.92	42,180,943.54	35,497.71
<b>VI. Balance of cash and cash equivalents at the end of period</b>	<b>34,809,366.36</b>	<b>47,300.93</b>	<b>57,007,150.21</b>	<b>34,149.16</b>



### Consolidated Statement of Changes in Owners' Equity

Prepared by Northeast Electric Development Co., Ltd.

January-June 2011

Unit: RMB

Items	Balance of this period							Total owners' equity		
	Owners' equity attributable to parent company									
	Paid-up capital (or share capital)	Capital reserve	Less: shares in store	Special reserve	Reserves	Normal risk provision	Retained profit	Others	Minority interests	
I. Balance of last year	873,370,000.00	883,422,403.92		108,587,124.40	108,587,124.40		-1,527,280,108.35	-23,119,814.00	1,797,358.39	316,776,964.36
Plus: Change of Accounting Policy										
Corrections to previous errors										
Others										
II. Balance at beginning of this year	873,370,000.00	883,422,403.92		108,587,124.40	108,587,124.40		-1,527,280,108.35	-23,119,814.00	1,797,358.39	316,776,964.36
III. Variations of the period (“-” refers to loss)										
(I) Net profit							19,495,121.58	-877,035.22	-369,222.60	18,248,863.76
(II) Other comprehensive income							19,495,121.58	-877,035.22	-369,222.60	19,125,898.98
Sub-total of (I) and (II)							19,495,121.58	-877,035.22	-369,222.60	18,248,863.76
(III) Shareholder's equity and capital decreased										
1. Capital invested										
2. Amount of shares taken as owners' equity										
3. Others										
(IV) Distribution of profit										
1. Reserves										
2. Normal risk provision										
3. Distribution to shareholders										
4. Others										
(V) Internal carried-forward owners' equity										
1. Capital reserve to increase capital (or share capital)										
2. Reserves to increase capital (or share capital)										
3. Reserves to cover loss										
4. Others										
(VI) Special reserve										
1. Provision of the period										
2. Usage of the period										
(VII) Others										
IV. Balance by end of period	873,370,000.00	883,422,403.92		108,587,124.40	108,587,124.40		-1,507,784,986.77	-23,996,849.22	1,428,135.79	335,025,828.12



Unit: RMB

Items	Balance of last year									
	Paid-up capital (or share capital)	Capital reserve	Less: shares in store	Special reserve	Reserves	Normal risk provision	Retained profit	Others	Minority interests	Total owners' equity
I. Balance of last year	873,370,000.00	883,422,403.92			108,587,124.40		-1,528,964,095.88	-17,873,106.00	2,452,136.38	320,994,462.82
Plus: Change of Accounting Policy										
Corrections to previous errors										
Others										
II. Balance at beginning of this year	873,370,000.00	883,422,403.92			108,587,124.40		-1,528,964,095.88	-17,873,106.00	2,452,136.38	320,994,462.82
III. Variations of the period ("-" refers to loss)										
(I) Net profit							1,683,987.53	-5,246,708.00	-654,777.99	-4,217,498.46
(II) Other comprehensive income							1,683,987.53		-654,777.99	1,029,209.54
Sub-total of (I) and (II)							1,683,987.53	-5,246,708.00	-654,777.99	-5,246,708.00
(III) Shareholder's equity and capital decreased							1,683,987.53	-5,246,708.00	-654,777.99	-4,217,498.46
1. Capital invested										
2. Amount of shares taken as owners' equity										
3. Others										
(IV) Distribution of profit										
1. Reserves										
2. Normal risk provision										
3. Distribution to shareholders										
4. Others										
(V) Internal carried-forward owners' equity										
1. Capital reserve to increase capital (or share capital)										
2. Reserves to increase capital (or share capital)										
3. Reserves to cover loss										
4. Others										
(VI) Special reserve										
1. Provision of the period										
2. Usage of the period										
(VII) Others										
IV. Balance by end of period	873,370,000.00	883,422,403.92			108,587,124.40		-1,527,280,108.35	-23,119,814.00	1,797,358.39	316,776,964.36



## Statement of Changes in Owners' Equity of Parent Company

Prepared by Northeast Electric Development Co., Ltd.

January-June 2011

Unit: RMB

Items	Balance of this period						Total owners' equity
	Paid-up capital (or share capital)	Capital reserve	Less: shares in store	Special reserve	Reserves	Normal risk provision	
I. Balance of last year	873,370,000.00	979,214,788.45			108,587,124.40		354,818,264.24
Plus: Change of Accounting Policy							
Corrections to previous errors							
Others							
II. Balance at beginning of this year	873,370,000.00	979,214,788.45			108,587,124.40		354,818,264.24
III. Variations of the period ("-" refers to decrease)							
(I) Net profit							
(II) Other comprehensive income							
Sub-total of (I) and (II)							
(III) Shareholder's equity and capital decreased							
1. Capital invested							
2. Amount of shares taken as owners' equity							
3. Others							
(IV) Distribution of profit							
1. Reserves							
2. Normal risk provision							
3. Distribution to shareholders							
4. Others							
(V) Internal carried-forward owners' equity							
1. Capital reserve to increase capital (or share capital)							
2. Reserves to increase capital (or share capital)							
3. Reserves to cover loss							
4. Others							
(VI) Special reserve							
1. Provision of the period							
2. Usage of the period							
(VII) Others							
IV. Balance by end of period	873,370,000.00	979,214,788.45			108,587,124.40		352,249,627.89
							-1,608,922,284.96



Unit: RMB

Items	Balance of last year							
	Paid-up capital (or share capital)	Capital reserve	Less: shares in store	Special reserve	Reserves	Normal risk provision	Retained profit	Total owners' equity
I. Balance of last year	873,370,000.00	979,214,788.45		108,587,124.40			-1,610,937,208.44	350,234,704.41
Plus: Change of Accounting Policy								
Corrections to previous errors								
Others								
II. Balance at beginning of this year	873,370,000.00	979,214,788.45		108,587,124.40			-1,610,937,208.44	350,234,704.41
III. Variations of the period ("-" refers to decrease)								
(I) Net profit							4,583,559.83	4,583,559.83
(II) Other comprehensive income								
Sub-total of (I) and (II)							4,583,559.83	4,583,559.83
(III) Shareholder's equity and capital decreased								
1. Capital invested								
2. Amount of shares taken as owners' equity								
3. Others								
(IV) Distribution of profit								
1. Reserves								
2. Normal risk provision								
3. Distribution to shareholders								
4. Others								
(V) Internal carried-forward owners' equity								
1. Capital reserve to increase capital (or share capital)								
2. Reserves to increase capital (or share capital)								
3. Reserves to cover loss								
4. Others								
(VI) Special reserve								
1. Provision of the period								
2. Usage of the period								
(VII) Others								
IV. Balance by end of period	873,370,000.00	979,214,788.45		108,587,124.40			-1,606,353,648.61	354,818,264.24



## Notes to the Financial Statements from January to June 2011

### I. Basic information of the Company

1. **Registered address: No. 1, Xintai Road, Bayuquan District, Yingkou, Liaoning, with Headquarters situated at: No. 2, Xingshun Street, Tiexi District, Shenyang. Legal representative: Su Weiguo.**
2. **The Company engages 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 the 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 August 12, 2011, during the 11th session of the 6th Board of Directors Meeting.**

### II. Major Accounting Policies, Evaluation and Corrections of Previous periods

#### 1. Groundwork of 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.



## 2. Declaration of compliance with the Enterprise Accounting Rules

The financial statements of the Company prepared under the above mentioned groundwork have given a true and fair view of the financial position of the Company ended 30 June 2011, and of the results of its operations and its cash flows for the period between January and June of 2011 in accordance with Enterprise Accounting Rules.

## 3. Accounting period

Accounting period of the Company starts from Jan. 1 till Dec. 31 of each calendar year.

## 4. Accounting Currency

Renminbi is the accounting currency of the Company.

## 5. Accounting of consolidation of companies under/ or not under the same controlling party

A. Consolidation of companies under the same controlling party: Assets and Liabilities of the consolidated companies are recognized by the book value of shareholder equity interests on the date of consolidation. Differences between book value of net assets acquired by the consolidating party and book value of the consideration for consolidation are adjusted to capital reserve. If the difference should surpass capital reserve, retained profit is accordingly adjusted. Expenditures arise directly from consolidation, including fees of auditing, evaluation, legal services, are taken into profit and loss of the period. Parent company should work out consolidated Balance Sheet, Profit and Loss and Cash & Flow after merging subsidiary (ies). Each item of assets and liabilities of the consolidated company should be taken by the book value. Adjustments according the Rules of the consolidated company due to different adaptation of accounting standards will be taken into consolidation. Consolidated Profit and Loss include all items of income, expenditures and profit from beginning till end of the period of the consolidated party (ies). Net profit made by the consolidated company should be listed exclusively in the consolidated Profit and Loss. Cash flows from beginning till end of the period of all consolidated parties are taken into the consolidated Cash Flow.

B. For companies not under the same controlling party: Consolidated costs are assets paid, liabilities occurred or undertaken, fair value of equity bonds issued plus all relative expenditure. The above-mentioned assets and liabilities are computed by fair value on the date of merging, difference between fair value and book value are taken into profit and loss of the period. Good will is recognized by the difference between consolidation costs and recognizable net assets fair value of the consolidated party. Computation of all recognizable assets, liabilities, fair value of contingent liabilities and consolidation costs of the consolidated party are to be re-checked when consolidation costs are smaller than shares of recognizable net asset of the consolidated party, and the amount of which is to be taken into profit and loss of the period if the difference remain after re-check. Parent company is to prepare consolidated balance sheet of the date of consolidation after merge. All items of recognizable assets, liabilities and contingent liabilities of the consolidated party are to be shown on the reports by their fair value.





## 6. Preparation of Consolidated Financial Statements

- A. Consolidated Financial Reports are based on all reports and relative information of the Company and its subsidiaries consolidated, long-term equity investments are adjusted according to method of equity, investments and transactions between the Company and the consolidated subsidiaries are off-set, then Minority Interests are consolidated.
- B. Accounting Policy of the Company is adopted while consolidating if different policies are exercised by the subsidiaries.
- C. For subsidiary (ies) under the same controlling party, asset, liabilities, operating outcome and cash flow are consolidated into the consolidated Financial Reports from beginning of period of consolidation.
- D. Net profit and loss made by the consolidated subsidiary (ies) under the same controlling party are taken into extraordinary profit and loss, and are shown exclusively.
- E. For non-consolidating items under the same controlling party, if assets of the consolidated party by end of year prior to consolidation/ or operating income or total profit reach to/ or surpass 20% of the corresponding item of the controlling party, Pro forma profit and loss is prepared from beginning of the period of consolidation.
- F. Consolidation of subsidiary (ies) not under the same controlling party are prepared with adjustments based on recognizable assets' fair value on the date of acquisition.

## 7. Recognition of Cash and Cash equivalents

Cash is cash at hands and deposits for payments.

Short-term (usually are due within 3 months from purchasing dates), 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. Foreign currency business and computation of foreign currency reports

### A. *Computation of foreign currency business*

Foreign currency businesses are changed to booking currency by the exchange rate borders on spot rate of date of transaction, which is the exchange rate at beginning of the month of transaction.

On each balance sheet date, foreign-currency monetary items and non-monetary items are managed by the following rules:

- a. Assets and liabilities in the Balance Sheet are changed to booking currency at the spot rate of the balance sheet date. Differences in exchange, arisen from different spot rates of date of balance sheet date and that of recognition date or of previous balance sheet date, are taken into profit and loss of the period.
- b. Non-monetary foreign currency items computed at history costs are exchanged to booking spot rate of date of transaction.
- c. Non-monetary foreign currency items calculated at fair value are exchanged at spot rate of date of value recognition, difference between booking currency amounts before and after exchange are taken into profit and loss of the period as variation of fair value.

### B. *Exchange of foreign currency financial reports*

All items of assets and liabilities of subsidiaries whose booking currency are foreign currency are exchanged into booking currency of parent company at spot rate of date of consolidated financial reports in preparing Renminbi financial reports. Shareholders' equity except for "retained profit" are exchanged into parent company's booking currency at spot rate of occurrence. Incomes and Expenses in Profit and Loss are exchanged into parent company's booking currency at spot rate of transaction dates/ or at spot rate borders on transaction dates. Exchange differences are to be reflected in items of Exchange Difference by foreign currency reports in Profit and Loss.

## 9. Financial instruments

### A. *Classifications 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.



*B. 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.
- b. Follow through computation of financial assets 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.

*C. 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.

*D. Transfer of Financial Assets:*

Recognition of a certain item of financial asset is terminated when the Company transfer almost all of the risks and reward of such asset to the transferred party, or give up control over such asset.

*E. 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 shows 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;
- d. Possible bankruptcies or other financial reorganizations of the debtors;
- e. Such financial assets 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.

*F. 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 prediction of future cash value and current book value;
- c. Recognition of bad debts and accrument: Separate test is exercised for receivables of large amounts, and diminution provisions are set at difference between prediction of future cash value and current book value if evidences show depreciation. For account receivables of insignificant amounts and tested not to be depreciation, aging method is adopted to accrue provision by age and designated proportion of such receivable; For those insignificant amount receivables with high risk after analysis by method of credit risk combination analysis, individual test is processed and provision accrued. For those receivables showing no diminution after individual test, aging method is adopted to accrue provision by age and designated proportion.
- 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.

**10. Accounts receivable**

**(1) Recognition and accrue of account receivables with large amounts:**

Standard of recognition of provision under single	
Account Receivable of large amount	Over RMB1 million
Accrue of provision under single Account	
Receivable of large amount	Aging Method

**(2) Base of recognition and accrue of account receivables of insignificant amount with high risk after method of credit risk combination analysis:**

Base of recognition of credit risk combination	Receivables of over 4 years with apparent signs of difficulty in retrieve
Method of accrue by method of credit risk combination:	Aging Method

**(3) Aging Method**

Age	Percentage of provision for accounts receivable (%)	Percentage of provision for other accounts receivable (%)
Within 2 years	-	-
2 to 3 years	40	40
3 to 4 years	60	60
Over 4 years	100	100

**11. Inventories****(1) Classification of inventories**

Inventories are classified as merchandise inventory, raw material, work in progress, finished goods, low value articles.

**(2) Method for calculating value of inventories delivered**

Inventories are carried at real costs, calculated using the weighted average cost method.

**(3) Recognition of net realizable value of inventory and provision for inventory impairment**

Market price of inventories is determined by estimated selling price minus estimated costs of production, minus estimated costs of sales under normal operating circumstances.

Method of accrue of inventories depreciation: Based on overall stock-takings during mid-year and end-year, provisions are set according to differences between market price and cost of stock of an individual inventory for those inventories that are lost, all or part of them are obsolete, or selling prices are lower than cost of inventory, and loss are carried into profit and loss of the period. Future event impact as well as purposes of inventory and fluctuations of price and cost of stock of a specific inventory are taken into consideration when determination of its market price.



#### **(4) Inventory system**

Inventories are recorded by perpetual method.

#### **(5) Amortization of low-value consumable and packaging materials**

Low-value consumable

One time amortization is adopted for low-value consumable when taken.

Packaging materials

One time amortization is adopted for low-value packaging materials when used.

### **12. Long-term equity investment**

#### **(1) Recognition of Initial cost of investment**

A. Initial cost of investment of long-term equity investment by consolidation are recognized by the following provisions:

- 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 consolidating 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. Initial cost of investment of consolidation of subsidiaries not under the same controlling party are determined by the following provisions:
  - 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 provisions 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.

## **(2) Method for subsequent measurement and profit or loss recognition**

- A. Long-term investment with controlling power over the invested company is taken by method of cost. Adjustments are made by method of equity when preparing consolidated reports.
- B. Method of cost is adopted when accounting those long-term investments without joint control or major influence over the invested company, no price can be quoted in active markets, fair value of which investments can not be calculated.
- C. Method of equity is adopted when reporting those long-term investments with joint control or major influence over the invested company.

Long-term investments are calculated at initial cost with Method of Cost. Any supplement or withdrawal to the investments are to adjust the cost of investment. Cash dividends or profit distributed by the invested company are recognized as return on investment of the period.

Under the equity method, where the initial investment cost of a long-term equity investment exceeds the investor's interest in the fair value of the investee's identifiable net assets at the acquisition date, no adjustment shall be made to the initial investment cost. Where the initial investment cost is less than the investor's interest in the fair value of the investee's identifiable net assets at the acquisition date, the difference shall be charged to profit or loss for the current period, and the cost of the long term equity investment shall be adjusted accordingly. Returns on investments are recognized by shares of net worth of the invested company after acquisition of long-term equity, and book value of such investment is adjusted accordingly. Profit or cash dividends pro rata distributed by the invested company are to minus book value of the relative long-term investment.

Book value of long-term investment is adjusted when changes occur other than net worth of the invested company, and is to be reported in shareholder's equity accordingly.





### **(3) Basis of recognition of having joint control or significant influence over the investee**

- A. Joint control is the contractually agreed sharing of control over an economic activity, which only exists when relevant and important financial affairs and management decisions related to such economic activity require sharing of control by investors who unanimously agree upon.
- B. Significant influence is the power to participate in the financial and operating policy decisions of an enterprise, but to fail to control or joint control the formulation of such policies together with other parties. In determining whether there is significant influence over the investee, potential voting right factors (such as the convertible corporate bonds for the period and the exercisable stock warrants for the period of the investee and other invested units held) were taken into account.

### **(4) Impairment test method and impairment provision**

Long-term investment is checked item by item on balance sheet date for any signs of impairment. Retrievable value is estimated if any such signs existed. Such value is reported as book value of the relative long-term investment if it's less than the original book value, with the difference minus reported as loss of asset in the profit & loss of the period; impairment provision is accrued accordingly. An impairment loss recognized on long-term investment shall not be reversed in a subsequent accounting period.

## **13. Invested real estate**

Invested real estate of the Company are those held for renting income or increment of capital, or both. Mainly including:

- (1) Leased land use rights;
- (2) Land use rights held and provided for transfer after appreciation;
- (3) Leased construction.

Invested real estate are calculated by Cost Method.

Costs of invested real estate are taken into profit and loss of the reporting period after deducting diminution and salvage value, and depreciated at Direct Line Method.

On balance sheet date, invested real estate 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.

## 14. Fixed assets

### (1) Conditions for recognition of fixed assets

Fixed assets are tangible assets that are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes; and have a useful life of more than one accounting year.

### (2) Method for depreciation of different fixed assets

Category	Depreciation life (year)	Residual value rate (%)	Annual depreciation rate (%)
Houses and buildings	20-40	3	2.43-4.85
Machinery and equipment	8-20	3	4.85-12.13
Transportation equipment and others	6-17	3	5.71-16.17

### (3) Impairment test method and impairment provision on fixed assets

Signs of devaluation are determined on balance sheet date. Retrievable value is estimated when signs such as continuous plummet of such asset market price, or obsolete technology, or damage, or long-time idleness. Such value is reported as book value of the relative fixed assets if it's less than the original book value, with the difference minus reported as loss of asset in the profit & loss of the period; impairment provision is accrued accordingly. An impairment loss recognized on fixed assets shall not be reversed in a subsequent accounting period.

### (4) Basis of recognition fixed assets by financial lease, method of calculation of such assets

Financial lease is recognized when all risk and return on certain asset is transferred. Book value of such asset is reported by lower of fair value on lease date and present worth of minimum payment of rent, plus initial expense directly to the leasing project, minimum payment of rent is reported as book value of the long-term payable, difference as financial-expenses-to-recognize. Financial-expenses-to-recognize is amortized by effective interest method during term of lease. Provision of depreciation of such asset is set by rate decided according to term of lease and estimated net residual values.



## 15. Work in progress

### A. Calculation of work-in-progress

Work in progress includes construction preparation, building works, installation works, technological transformation works and general overhaul works under construction. Work in progress is calculated by each project in accordance with actual expenditures and transferred to fixed assets when it has reached the working condition for its intended use. Borrowing expenses (including borrowing interests, amortization of premiums and discount and gains or loss of foreign exchange ) relating to construction in progress shall be taken into the project costs before reaching the expected condition for use and included into the financial expenses of the current period after reaching the expected condition for use.

### B. Provision of work-in-progress devaluation

Thorough checkup is conducted on balance sheet date to decide if any signs of devaluation of work-in-progress exist. If any of the following signs exist, including: (1) Long-time suspension of construction with re-start estimated within the next 3 years; (2) performance or technology of such work-in-progress are obsolete, and there are great uncertainties in the economic outcome by such work, then retrievable value of the work is estimated. Such value is reported as book value of the relative work-in-progress if it's less than the original book value, with the difference minus reported as loss of asset in the profit & loss of the period, provision of depreciation is accrued accordingly. An impairment loss recognized on work in progress shall not be reversed in a subsequent accounting period.

## 16. Borrowing expenses

### A. Borrowing expenses that satisfy conditions of capitalization of construction or production is capitalized and taken into cost of the relative asset; other borrowing expenses are recognized as expenses and taken into profit & loss of the period when occur. Borrowing expenses satisfy the following conditions at the same time are capitalized:

- a. Asset expenditures arise, including payment by cash, transfer of non-cash asset, undertaking of interest bearing liability to construct or produce assets that satisfy capitalization conditions;
- b. Borrowing expenses occur;
- c. Construction or production has begun to enable the asset ready to use or sell.



- B. Borrowing expenses capitalization is suspended when the relative asset reach to the state ready to use or sell. Borrowing expenses occur after that is recognized as expenses and is taken into profit & loss of the period.**

#### **17. Intangible assets**

- A. Intangible assets are recognizable non-monetary assets without physical forms that are controlled or owned by the Company, including technical know-how, land-use right, etc.**
- B. Intangible assets are calculated at real costs of acquisitions.**
- C. For intangible assets reported by their service life, are taken into profit & loss of the period by straight-line method within their service life from usage; no amortization is calculated for intangible assets with uncertain service life; the Company re-check service lives and methods of amortization of each intangible asset, and change those different from the present methods in practice.**
- D. Provision for intangible assets devaluation**

By end of the reporting period, capability of bring about economic outcome for the Company by intangible assets are checked up, and provisions are set by difference between their book value and retrievable value if any of the following sign exist: (1) Other new technology has replaced a certain intangible asset so its capability to bring about economic outcome has been greatly hampered; (2) Market price has plummeted to a great extent during the period, and are expected no recovery within the rest of the amortization periods; (3) Legal protection time has due for a certain intangible asset, estimate of retrievable value of such asset is conducted when there's still usable value. Such retrievable value is reported as book value of the relative intangible asset if it's less than the original book value, with the difference minus reported as loss of asset in the profit & loss of the period, provision of depreciation is accrued accordingly; (4) other circumstances that show certain intangible assets are actually devalued. A loss recognized on intangible assets devaluation shall not be reversed in a subsequent accounting period.



## 18. Long-term deferred expenses

- A. All expenses with amortization term to be longer than 1 year are recognized as long term deferred expenses.
- B. Long-term deferred expenses are calculated at real cost at acquisition, preliminary expenses are taken into profit & loss of the period when occur; fixtures of fixed assets under operating lease are amortized evenly within the term of lease, other long-term deferred expenses are amortized evenly within the period the project benefited from such assets. The rest of un-amortized value are taken into profit & loss of the period if no contribution will be brought about of such long-term deferred assets.

## 19. Estimated liability

- A. Liability relative to contingent items and complied with the following is recognized as estimated liability the Company: Such liability is present undertaking by the Company; implementation of such liability may lead to outflow of economic interests of the Company; amount of such liability can be reliably counted;
- B. If all or part of the expenditures to discharge estimated liability by the Company will be compensated by a third party, such compensation is recognized as asset when payment can be ascertained, and such asset recognition amount can not surpass the amount of book value of relative estimated liability.

## 20. Income

### A. Income of sales of goods

Income is recognized when the Company has transferred to the buyer the significant risks and rewards of ownership of the goods, retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold, will receive the economic benefits associated with the transaction, and can reliably measure the relevant amount of revenue and costs.



## **B. Labor income**

Labor income is recognized when labor starts and finishes within the same fiscal year; and labor finishes in a different fiscal year, then labor income is recognized by percentage of extent of finish when outcome of labor transaction can be reliably estimated.

## **C. Income from use of rights of alienated assets**

Income from use of rights of alienated assets includes interest income, income from charge for use, etc.;

Interest income, is reported according to time and effective interest rates used by other parties; royalty income is reported according to time and method stated in the relative contract or agreement.

## **21. Subsidy by the Government**

Subsidy by the Government includes fiscal allocation, fiscal discount, return of taxes and allocation of non-monetary asset with no consideration. Subsidy by the Government received by the Company are recognized as deferred income, and are 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 assets 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.

## **22. Deferred income tax assets/deferred income tax liabilities**

### **A. Recognition of deferred income tax assets**

a. The Company is likely to recognizes relevant deferred income tax assets to the extent of income tax payable available for deducting deductible temporary difference. With exception of deferred income tax assets arising from initial recognition of assets or liabilities with the following characteristics at the same time:

- 1/ Such transactions are not due to corporate consolidation;
- 2/ Neither profit nor taxable income (or deductible loss) will not be affected when transactions occur.



- b. Deductible temporary difference related to investments of the Company in subsidiaries, associates and joint ventures is recognized as deferred tax assets are recognized if the following conditions are satisfied at the same time:
  - 1/ Temporary difference is likely to be written back in the foreseeable future;
  - 2/ Income tax payable possibly utilized to deduct the deductible temporary difference.
- c. The Company recognizes a deferred income tax asset for the carry forward of deductible losses and tax credits to subsequent periods, to the extent that it is probable that future taxable profits will be available against which the deductible losses and tax credits can be utilized.

**B. Recognition of deferred income tax liability**

All the deferred income tax liability arise from taxable temporary difference are recognized except for the following situations:

- a. Initial recognition of goodwill;
- b. Initial recognition of assets or liabilities satisfying both the below conditions:
  - 1/ Such transactions are not due to corporate consolidation;
  - 2/ Neither profit nor taxable income (or deductible loss) will not be affected when transactions occur.
- c. Taxable temporary difference related to investments of the Company in subsidiaries, associates and joint ventures are recognized as deferred tax liabilities are recognized if the following conditions are satisfied at the same time:
  - 1/ The investing company can control the time of reversal the temporary difference;
  - 2/ Temporary difference is not likely to be written back in the foreseeable future.

**23. Changes in Major accounting policy, or accounting valuation**

There's no change in the accounting policy or valuation of the Company in current period.

**24. Correction to previous accounting errors**

There's no correction to previous accounting errors.

**25. Other major accounting policies, accounting valuation, and methods for preparation of financial statements**

Nil.

### III. Taxation

#### 1. Major types of tax and rates

Categories	Tax base	Tax rate (%)
Value added tax	Sales tax less deductible purchase sales	17
Business tax	Taxable income	5
Urban maintenance and construction tax	Value added tax and business tax payable	7
Surtax for education expenses	Value added tax and business tax payable	3,4
Enterprise income tax	Taxable income	Refer to III. 2

#### 2. Tax preferences and relative official grants

- (1) The Company and its subsidiaries such as Jinzhou Jinrong Electric Co., Ltd., Shenyang Kaiyi Electric Co., Ltd. (referred as "Kaiyi Electric"), Shenyang Gaodongjia Dessication Equipment Co., Ltd., Northeast Electric (Beijing) Co., Ltd. are subject to the enterprise income tax rate of 25%.
- (2) The Company's subsidiary –New Northeast (Jinzhou) Power Capacitors Limited. (referred to as "NNE (Jinzhou)") is subject to the enterprise income tax at the rate of 25%. Pursuant to provisions of the Enterprise Income Tax Law of the People's Republic of China, enterprises approved to be established before the promulgation of the Law were entitled to a favourable tax policy of regular tax reduction and exemption in accordance with then taxation laws and administrative regulations, till the expiration of the execution of the Law under the provisions of the State Council. That is, the enterprise income taxes are exempted from 2005 to 2006, and are reduced in half from 2007 to 2009.
- (3) Fuxin Enclosed Busbars Limited (referred to as "Fu Enclosed") 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%. Pursuant to provisions of the Enterprise Income Tax Law of the People's Republic of China, enterprises approved to be established before the promulgation of the Law were entitled to a favourable tax policy of regular tax reduction and exemption in accordance with then taxation laws and administrative regulations at that time till the expiration of the execution of the Law under the provisions of the State Council. Fu Enclosed enjoy a favourable tax policy 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.
- (4) Northeast Electric (HK) Co., Ltd. is a wholly owned subsidiary of the company registered in HKSAR of the PRC, and its income rate is 16.5%.
- (5) Great Talent Technology Limited.(referred to as "Great Talent 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.





## IV. Enterprise consolidation and consolidated financial statements

### 1. Subsidiaries

#### (1) Subsidiaries setup or invested

Full name	Type	Place of registration	Business	Registered capital	Business scope	Actual amount of contribution at end of period	Other balances constituting investments to subsidiaries	Percentage of shares held (%)	Percentage of voting rights (%)	Consolidated statement or not	Amount of minority interest to offset profit & loss of minority interests	Balance of parent company's owner's equity setting off loss of the period undertaken by minority shareholders that exceeds shares held by minority interests at beginning of period
Northeast Electric (Hong Kong) Limited	Fully-owned	Hong Kong	Trade	USD20 million	Investment, trade	USD20 million	-	100	100	Y	-	-
Great Talent Technology Limited	Fully-owned	BVI	Investment	USD1	Investment	USD1	-	100	100	Y	-	-
Northeast Electric (Beijing) Co., Ltd	Fully-owned	Beijing	Sales	RMB2 million	Sales of machinery, electric equipment, hardware	RMB2 million	-	100	100	Y	-	-
Shenyang Kaiyi Electric Co., Ltd	Fully-owned	Shenyang	Manufacturing	RMB1 million	Manufacturing high-voltage electric equipment, switches system, electric capacitor	RMB1 million	-	100	100	Y	-	-
Fuxin Enclosed Busbars Company Limited	Fully-owned	Fuxin	Manufacturing	USD2.8 million	Manufacturing enclosed busbars	USD2.8 million	-	100	100	Y	-	-

**(2) Subsidiaries under the same controlling parties by merge**

Full name	Type	Place of registration	Business	Registered capital	Business scope	Actual amount of contribution at end of period	Other balances constituting investments to subsidiaries	Percentage of shares held (%)	Percentage of voting rights (%)	Consolidated statement or not	Minority interests	Amount of minority interest to offset profit & loss of minority interests	Balance of parent company's owner's equity setting off loss of the period undertaken by minority shareholders that exceeds shares held by minority interests at beginning of period
New Northeast Electric (Jinzhou) Power Capacitors Co., Ltd													
Electric (Jinzhou) Power Capacitors Co., Ltd	Fully-owned	Jinzhou	Manufacturing	USD15.45 million	Manufacturing capacitor and static var compensator	USD15.45 million	-	100	100	Y	-	-	-
Jinzhou Jinrong Electric Co., Ltd													
Jinzhou Jinrong Electric Co., Ltd	Holding subsidiary	Jinzhou	Manufacturing	RMB3 million	Dry high-voltage capacitor	RMB2,0925 million	-	69.75	69.75	Y	951,958.68	-	-

**(3) Subsidiaries under different controlling parties by merger**

Full name	Type	Place of registration	Business	Registered capital	Business scope	Actual amount of contribution at end of period	Other balances constituting investments to subsidiaries	Percentage of shares held (%)	Percentage of voting rights (%)	Consolidated statement or not	Minority interests	Amount of minority interest to offset profit & loss of minority interests	Balance of parent company's owner's equity setting off loss of the period undertaken by minority shareholders that exceeds shares held by minority interests at beginning of period
Shenyang Gaodongjia Desiccation Equipment Co., Ltd													
Shenyang Gaodongjia Desiccation Equipment Co., Ltd	Holding subsidiary	Shenyang	Manufacturing	USD0.7785 million	Metal box and drying equipment manufacturing	USD0.54495 million	-	70	70	Y	476,177.11	-	-



**2. No Special-purpose-vehicle or any entity entrusted to operate or gaining controlling power by way of accepting a lease**

**3. The change in scope of consolidation**

There was no change in scope of consolidation.

**4. No new member of consolidation or member left out of consolidation**

**5. No consolidation under the same controlling party during the period**

**6. No consolidation under different controlling party during the period**

**7. No less subsidiary by selling equity stocks**

**8. No retro-purpose during the period**

**9. No consolidation by merger during the period**

**10. Exchange rates of principal financial statements of off-shore entities**

Northeast Electric (HK) Co., Ltd. and Great Talent Technology Limited are off-shore subsidiaries keeping book in Hong Kong dollar. By end of period all of their assets, liabilities are exchanged to RMB by spot rates of balance sheet date, and items of shareholder's equity except for "retained profit" are exchanged to RMB by spot rates of occurrence. Items of income and expenses in Profit & Loss are exchanged into RMB by rates bordering spot rates of dates of transaction. Exchange differences are to be reflected in items of Exchange Difference by foreign currency reports in Exchange Difference in Owners' Equity of Balance Sheet.

## V. Notes to Consolidated Financial Statements

### 1. Cash and Deposits

Unit: RMB

Items	Amount by end of period			Amount at beginning of period		
	Amount in foreign currency	Exchange rates	Amount in RMB	Amount in foreign currency	Exchange rates	Amount in RMB
Cash:						
RMB	43,335.31	1.00	43,335.31	24,718.13	1.00	24,718.13
HKD						
USD	1,162.34	6.8346	7,944.13	1,162.34	6.6227	7,697.83
Subtotal			51,033.14			32,415.96
Deposits:						
RMB	15,136,285.50	1.00	15,136,285.50	52,742,620.16	1.00	52,742,620.16
HKD	703,759.49	0.8316	587,750.22	925,086.08	0.85093	787,183.50
USD				46,479.60	6.6227	308,496.04
EUR				563.03	8.9347	5,030.51
JPY				255.00	0.0596	15.19
CHF	-	-	-	33.13	5.7860	191.69
Subtotal			15,724,035.72			53,843,537.09
Others:						
RMB	19,034,297.50	1.00	19,034,297.50	20,914,046.29	1.00	20,914,046.29
Subtotal	19,034,297.50	1.00	19,034,297.50	20,914,046.29	1.00	20,914,046.29
Total			34,809,366.36			74,789,999.34

Remarks:

1. By end of period, deposits under performance guarantees in the banks total RMB19,034,297.50.
2. Time limit of the above-mentioned deposits is all over 3 months.

### 2. Bills receivable

#### (1) Classification of bills receivable

Unit: RMB

Types	Amount by end of period	Amount at beginning of period
Bank accepted bills of exchange	0.00	840,000.00



(2) By end of period there's no bills receivable pledged.

(3) By end of period undue bills endorsed other parties by the Company:

Unit: RMB

Issuer	Date of issue	Due date	Amount
Hangzhou Yinhu Electric Equipment Co., Ltd.	2011-01-14	2011-07-14	235,000.00
Fangda Special Steel Technology Co., Ltd.	2011-01-06	2011-07-06	334,820.00
Shenyang Huali Energy Equipment Manufacturing Co., Ltd.	2011-02-17	2011-08-17	85,363.20
Chongqing Electric Power Corp.	2011-01-20	2011-07-20	160,000.00
Hangzhou Xinmei Complete Electric Appliance Manufacturing Co., Ltd.	2011-01-10	2011-07-10	100,000.00
Shenyang Huali Energy Equipment Manufacturing Co., Ltd.	2011-04-08	2011-10-08	28,454.40
Beijing Jingci Huatai Electronic Technology Co., Ltd.	2011-01-25	2011-07-21	30,000.00
Chongqing Electric Power Corporation, Wanzhou Electric Power Bureau	2011-01-06	2011-07-06	100,000.00
Chongqing Electric Power Corporation, Wanzhou Electric Power Bureau	2011-01-04	2011-07-04	100,000.00
Chongqing Electric Power Corporation, Wanzhou Electric Power Bureau	2011-01-05	2011-07-05	100,000.00
Jiangsu Modern Power Capacitor Co., Ltd.	2011-03-31	2011-09-30	200,000.00
Jiangsu Modern Power Capacitor Co., Ltd.	2011-03-30	2011-09-30	320,000.00
Foshan Jiahe Trade Co., Ltd	2010-12-31	2011-06-30	50,000.00
Shenyang Liaoneng Electric Appliance Co., Ltd.	2011-05-04	2011-11-04	50,000.00
Chongqing Electric Power Corp.	2011-03-28	2011-09-24	100,000.00
Chongqing Electric Power Corp.	2011-04-27	2011-10-27	427,500.00
Chongqing Electric Power Corp.	2011-03-31	2011-09-30	10,000.00
Nanjing Daqo Electric Co., Ltd	2011-01-07	2011-07-07	100,000.00
Zhenjiang Mole Electric Appliances Co., Ltd	2011-01-17	2011-07-14	50,000.00
Hangzhou Xinmei Complete Electric Appliance Manufacturing Co., Ltd.	2011-01-24	2011-07-24	30,000.00
Shenyang Huali Energy Equipment Manufacturing Co., Ltd.	2011-06-15	2011-12-15	14,227.20
Shenyang Huali Energy Equipment Manufacturing Co., Ltd.	2011-01-07	2011-07-07	89,856.00
Guangzhou Xinsheng Trade Co., Ltd	2011-02-24	2011-08-24	50,000.00
Total			2,815,220.80

### 3. Amounts receivable

#### (1) Disclosure of accounts receivable by types:

Unit: RMB

Types	Amount by end of period				Amount at beginning of period			
	Balance		Bad debt provision		Balance		Bad debt provision	
	Amount	Proportion	Amount	Proportion	Amount	Proportion	Amount	Proportion
Single significant accounts receivable provided for bad debts	-	-	-	-	-	-	-	-
Accounts receivable provided for bad debts by group								
Group of aging	244,319,457.96	100%	27,570,991.74	11.28%	250,463,025.91	100.00%	24,659,978.26	9.85%
Subtotal of groups	244,319,457.96	100%	27,570,991.74	11.28%	250,463,025.91	100.00%	24,659,978.26	9.85%
Single insignificant accounts receivable provided for bad debts					-	-	-	-
Total	244,319,457.96	100%	27,570,991.74	11.28%	250,463,025.91	100.00%	24,659,978.26	9.85%

The Company has set the criteria for individually significant accounts receivable as RMB1 million, according to the scale of operation, character of the operation and state of customers' settlement.

Single insignificant accounts receivable provided for bad debts have obviously indicated that the account is unrecoverable.

#### (2) Accounts receivable provided for bad debts by group:

Unit: RMB

Age	Amount by end of period			Amount at beginning of period		
	Balance		Bad debt provision	Balance		Bad debt provision
	Amount	Proportion		Amount	Proportion	
Within 1 year	197,678,226.86	80.91%		193,969,508.01	77.43%	-
1-2 years	8,384,264.40	3.43%		19,701,578.20	7.87%	-
2-3 years	14,046,550.00	5.75%	4,493,601.20	12,260,623.00	4.90%	4,904,249.20
3-4 years	4,108,072.19	1.68%	2,975,046.03	11,938,969.09	4.77%	7,163,381.45
Over 4 years	20,102,344.51	8.23%	20,102,344.51	12,592,347.61	5.03%	12,592,347.61
Total	244,319,457.96	100%	27,570,991.74	250,463,025.91	100.00%	24,659,978.26

#### (3) Individually insignificant accounts receivable with recognition of bad debt.

#### (4) There's no account receivables write-off.

#### (5) There're no accounts receivable from company holding 5% or over voting shares of the Company.

**(6) Top 5 of accounts receivable customers are:***Unit: RMB*

Company name	Relationship	Amount	Term	Proportion of total (%)
Jiangsu Electric Power Company	Non-associate	60,992,100.00	Within 1 year	24.96
State Power Corporation Grid Construction Branch	Non-associate	17,191,965.18	Within 1 year	7.04
Chongqing Electric Power Corp.	Non-associate	6,537,678.53	Within 1 year	2.68
Anhui Xiangshuijian Hydro Energy Storage Co., Ltd.	Non-associate	3,813,075.00	Within 1 year	1.56
Chongqing Electric Power Corporation, Changshou Electric Power Supply Bureau	Non-associate	3,254,889.00	Within 1 year	1.33
Total		91,789,707.71		37.57

**(7) There's no receivables from associates during the period.****(8) There's no termination of recognized accounts receivable.****4. Prepayments****(1) Prepayments are listed by age***Unit: RMB*

Age	Amount by end of period		Amount at beginning of period	
	Amount	Proportion (%)	Amount	Proportion (%)
Within 1 year	24,604,790.84	98.37%	24,897,876.17	98.56%
1-2 years	33,326.70	0.13%	6,490.40	0.03%
2-3 years	23,295.07	0.09%	100,130.00	0.40%
Over 3 years	350,892.82	1.40%	257,745.44	1.01%
Total	25,012,305.43	100%	25,262,242.01	100.00%

**(2) Top 5 of prepayments customers are:***Unit: RMB*

Company name	Relationship	Amount	Year	Reason for unsettlement
New Northeast Electric Group Ultra High-Voltage Equipment Co., Ltd	Non-associate	22,426,230.00	2011	Prepayment for goods
Liaoning Jinxing Electric Fitting Science Technology Co., Ltd	Non-associate	338,765.70	2011	Prepayment for goods
Xi'an Shendian Electric Co., Ltd	Non-associate	308,700.00	2011	Prepayment for goods
Jinzhou Huaruntong Capacitors and Electric Co., Ltd	Non-associate	200,580.00	2011	Prepayment for goods
Yangzhong Dingxing Electric Equipment Co., Ltd	Non-associate	198,857.22	2011	Prepayment for goods
Total		23,473,132.92		

**(3) There's no prepayment from company holding 5% or over voting shares of the company.**

## 5. Dividends receivable

Unit: RMB

Items	Amount at beginning of period	Increase in current period	Decrease in current period	Amount by end of period	Reason for outstanding receivables	If devaluation happens (Y/N)
Dividends over 1 year						
New Northeast Electric Group Ultra High-Voltage Equipment Co., Ltd	770,246.03	-		770,246.03	To be distributed	N
Great Power Technology Limited	7,376,271.12	-	167,561.75	7,208,709.37	To be distributed	N
Total	8,146,517.15	-	167,561.75	7,978,955.40		

## 6. Other receivables

### (1) Disclosure of other accounts receivables by types:

Unit: RMB

Types	Amount by end of period				Amount at beginning of period			
	Book balance		Bad debt provision		Book balance		Bad debt provision	
	Amount	Proportion	Amount	Proportion	Amount	Proportion	Amount	Proportion
Other single large amount receivables with provision of bad debt	100,503,649.46	79.27%	100,503,649.46	100%	100,503,649.46	83.82%	100,503,649.46	100%
Other accounts receivable provided for bad debts by group								
Group of aging	26,282,706.87	20.73%	5,095,489.88	19.39%	19,405,254.56	16.18%	4,150,885.08	21.39%
Subtotal of groups	26,282,706.87	20.73%	5,095,489.88	19.39%	19,405,254.56	16.18%	4,150,885.08	21.39%
Single insignificant accounts receivable provided for bad debt					-	-	-	-
Total	126,786,356.33	100%	105,599,139.34	-	119,908,904.02	100.00%	104,654,534.54	-

The Company has set the criteria for individually significant accounts receivable as RMB1 million, according to the scale of operation, character of the operation and state of customers' settlement.

Single other receivable with insignificant amount while tested to be of high risk after credit risk combination analysis, with basis of judgement by showing signs of unrecoverable or with age over 4 years.



**(2) Other accounts receivable provided for bad debts among the groups:***Unit: RMB*

Age	Amount by end of period			Amount at beginning of period		
	Book balance		Bad debt provision	Book balance		Bad debt provision
	Amount	Proportion		Amount	Proportion	
Within 1 year	5,123,247.58	19.49%	0.00	14,088,822.48	72.60%	-
1-2 years	556,630.88	2.12%	94,628.00	448,741.74	2.32%	-
2-3 years	760,717.34	2.89%	394,984.80	542,226.00	2.79%	216,040.00
3-4 years	16,392,022.29	62.37%	1,155,788.30	976,548.16	5.03%	585,928.90
Over 4 years	3,450,088.78	13.13%	3,450,088.78	3,348,916.18	17.26%	3,348,916.18
Total	26,282,706.87	100%	5,095,489.88	19,405,254.56	100.00%	4,150,885.08

**(3) Bad debt provision for single significant receivable or insignificant amount but with individual devaluation test is conducted:***Unit: RMB*

Contents	Book balance	Amount of bad debts	Ratio of provision	Reason
Benxi Steel (Group) Co., Ltd.	76,090,000.00	76,090,000.00	100%	Refer to Notes V.6(6)
Jinzhou Power Capacity Co., Ltd.	24,413,649.46	24,413,649.46	100%	Refer to Notes V.6(6)
Total	100,503,649.46	100,503,649.46		

**(4) There's no write-off of other receivables during the period.****(5) There're no other accounts receivable from company holding 5% or over voting shares of the company.**



## (6) Characteristics or contents of significant other receivables

1. 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 governments 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, Liaoning High People's Court 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 Shenyang Intermediate People's Court has established the case and delivered Enforcement Notice to Ben Steel on Mar. 10, 2006. On Mar. 30, 2006, Shenyang Intermediate People's Court 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 Liaoning High People's Court. On May 14, 2008, Liaoning High People's Court has ordered retry of the case to Shenyang Intermediate People's Court by Rulings of 214th, 215th, 216th of (2006) Liao Min Er Zhong Zi, revocating Rulings of 21st, 23rd, 22nd of Shen Zhong Min Si He Chu Zi by the latter Court of Law. On Jun. 9, 2009 Shenyang Intermediate People's Court has refuted the Company's case by rulings of (2008) Shen Zhong Min Si Chu Zi No.143, 144 and 145, and the Company has appealed to Liaoning High People's Court. On Oct. 26 and 29, 2009, Liaoning High People's Court. has made final rulings of (2009) Liao Min Er Zhong Zi No. 182, 183 and 184, sustaining previous rulings. The Company may appeal for retrial by providing evidence and facts if still holds objections. The Company objects the Ruling and appealed to the Supreme People's Court for retrial. The Supreme People's Court made Civil Rulings No. (2010) Min Shen Zi 1144, 1145 and 1146 on Dec. 13 2010, overruled retrial appeal of the Company. Currently the Company is working on appeal again to the Supreme People's Court. Outcome of such appeal can not be estimated.



By Ruling No.(2007) Liao Li Min Jian Zi Di 56 of Liaoning High People's Court on Jun. 20, 2007, that retrial should take place by collegiate body of judges grouped by Liaoning High People's Court concerning the above-mentioned ruling No. of 220(on principal of RMB15,900,000.00 and relative interest), previous ruling has been discontinued. On Apr. 10, 2008, Liaoning High People's Court ruled by Ruling of 2nd (2008) Liao Shen Min Zhong Zi, revocating rulings of 1st and 2nd tries, ordering retry of the case to Shenyang Intermediate People's Court. On Feb. 12, 2009, Shenyang Intermediate People's Court ruled by Ruling of 2nd [2008] Shen Zhong Shen Min Chu Zai Zi, rejecting the relative lawsuit appeals. The Company has appealed to Liaoning High People's Court. On Jul. 20, 2009, by Ruling of (2009) Liao Shen Min Zai Zi No.40, Liaoning High People's Court has revoked the Company's appeal by sustaining previous rulings, which is the final ruling. The Company may appeal again by providing further evidence and facts if still objects. The Company objected to the Ruling and appealed to the Supreme People's Court for retrial. The petition has been filed by the Supreme People's Court. There was no outcome by now. The Company has set up bad debt provision for full amount of such receivable for age over 4 years.

2. RMB24,413,649.46, the amount receivable at the end of the period from Jinzhou Power Capacitor Co., Limited which suffered from poor assets situation without any production or operation, was totally translated into bad debt reserves.

**(7) Top 5 of accounts receivable customers are:**

*Unit: RMB*

Company name	Relationship	Amount	Term	Proportion of total (%)
Benxi Steel (Group) Co., Ltd.	Non-associate	76,090,000.00	Over 4 years	60.01
Jinzhou Power Capacity Co., Ltd.	Non-associate	24,413,649.46	Over 4 years	19.26
Aluminium Alloy Branch	Non-associate	534,518.86	Over 4 years	0.42
Zhejiang Tianyin Management Consulting Co., Ltd	Non-associate	450,000.00	Within 1 year	0.35
Liaoning Electric Power Company Limited Jinzhou				
Guta Power Supply Branch	Non-associate	211,054.77	1 to 2 years	0.17
Total		101,699,223.09		80.21

**(8) There's no accounts receivable from associates at the end of the period.**

**(9) There's no termination of recognized other accounts receivable at the end of the period.**

## 7. Inventories

### (1) Classification of inventories

Unit: RMB

Items	Amount by end of period			Amount at beginning of period		
	Book balance	Provision for		Book balance	Provision for	
		devaluation	Book value		devaluation	Book value
Raw material	24,273,771.06	70,354.63	24,203,416.43	25,389,156.87	70,354.63	25,318,802.24
Goods in process	13,175,551.85	-	13,175,551.85	8,429,008.35	-	8,429,008.35
Finished Goods	36,594,310.55	1,310,641.17	35,283,669.38	64,574,352.52	1,310,641.17	63,263,711.35
Total	74,043,633.46	1,380,995.80	72,662,637.66	98,392,517.74	1,380,995.80	97,011,521.94

### (2) Provisions for devaluation

Unit: RMB

Types	Balance at		Decrease during the period		Balance at end of period
	beginning of period	Provisions in the period	Reverse	Set-off	
Raw material	70,354.63	-	-	-	70,354.63
Finished Goods	1,310,641.17	-	-	-	1,310,641.17
Total	1,380,995.80	-	-	-	1,380,995.80

### (3) Provisions for inventory devaluation

Items	Basis for devaluation provisions accrual	Reason for revert to inventory	Ratio of reverted amount to
		devaluation provision during the period	total balance of inventory
Raw material	Net realizable value is lower than cost	-	-
Finished Goods	Net realizable value is lower than cost	-	-



## 8. Long-term equity investment

### (1) Long-term equity investments are listed as below:

*Unit: RMB*

Company invested	Method of accounting	Initial investment cost	Opening balance	Increase/decrease	Closing balance	Shares held of the invested company (%)	Voting shares percentage in the invested company(%)	Discrepancy between ratio of shares and percentage of voting shares	Provision for devaluation during the period	Cash dividends during the period
New Northeast Electric (Shenyang) High-voltage Isolator Switchgears Co.Ltd	Method of Equity	29,959,476.52	28,381,881.29	-28,381,881.29	0.00	25.60	25.60	-	-	-
Great Power Technology Limited	Method of Equity	42,847,035.48	55,225,676.23	-6,083.81	55,219,592.42	20.80	20.80	-	-	-
New Northeast Electric Group Ultra High-Voltage Equipment Co., Ltd	Method of cost	216,055,412.40	213,538,240.09	-1,571,065.09	211,967,175.00	17.09	17.09	-	-	-
<b>Total</b>		-	297,145,797.61	-29,959,030.19	267,186,767.42	-	-	-	-	-

In this period, the change in the investment in New Northeast Electric (Shenyang) High-voltage Isolator Switchgear Co., Ltd included the investment income of RMB-1,726,109.70 and RMB26,144,228.41 from sales income that should be enjoyed from the recognition of the Company's net profit of January and February 2011 under the equity method.

## 9. Fixed assets

### (1) Fixed assets

Unit: RMB

Items	Balance at beginning of period	Increase during the period	Decrease during the period	Balance at end of period
<b>I. Total fixed assets – cost:</b>	149,408,440.60	1,369,071.56	60,000.00	150,717,512.16
Including: Houses and buildings	48,386,289.57	-	-	48,386,289.57
Machinery and equipment	76,566,693.31	603,921.55	60,000.00	77,110,614.86
Transportation and others	24,455,457.72	766,150.01		25,221,607.73
<b>II. Aggregated depreciation:</b>	72,376,824.16	4,199,516.53	20,000.00	76,556,340.69
Including: Houses and buildings	31,993,596.75	440,057.45		32,433,654.20
Machinery and equipment	29,411,377.87	2,442,497.71	20,000.00	31,833,875.58
Transportation and others	10,971,849.54	1,276,961.37		12,248,810.91
<b>III. Total net book value of fixed assets</b>	77,031,616.44	-	-	74,162,171.47
Including: Houses and buildings	16,392,692.82	-	-	15,952,635.37
Machinery and equipment	47,155,315.44	-	-	45,235,739.28
Transportation and others	13,483,608.18	-	-	12,972,796.82
<b>IV. Total provision for devaluation</b>	2,021,324.40	-	-	2,021,324.40
Including: Houses and buildings	317,644.79	-	-	317,644.79
Machinery and equipment	1,631,799.61	-	-	1,631,799.61
Transportation and others	71,880.00	-	-	71,880.00
<b>III. Total book value of fixed assets</b>	75,010,292.04	-	-	72,180,847.07
Including: Houses and buildings	16,075,048.03	-	-	15,634,990.58
Machinery and equipment	45,523,515.83	-	-	43,643,939.67
Transportation and others	13,411,728.18	-	-	12,900,916.82

Depreciation during the period totalled RMB4,199,516.53.

- (2) There's no temporarily idled fixed asset by end of period.
- (3) There's no fixed asset acquired by financial lease by end of period.
- (4) There's no fixed asset in renting by end of period.
- (5) There's no fixed asset to be sold by end of period.
- (6) There's no fixed asset with certificate of title to be obtained.
- (7) Please refer to Notes V. 15 for details of mortgage of fixed assets.

**10. Work in progress***Unit: RMB*

Items	Closing balance			Opening balance		
	Book balance	Provision for devaluation	Net book value	Book balance	Provision for devaluation	Net book value
Reconstruction of mutual inductor plant	452,833.81	-	452,833.81	445,633.81	-	445,633.81
Reconstruction of Can No. 1	228,933.81		228,933.81			
Reconstruction of purifying plant	223,900.00		223,900.00			

Work in progress of the period is contributed by expenses of reconstruction of mutual inductor Air-conditioner purifying plant and Can No. 1.

**11. Intangible assets***Unit: RMB*

Items	Balance at beginning of period	Increase during the period	Decrease during the period	Balance at end of period
<b>I. Total intangible assets – cost</b>	6,774,501.05	-	-	6,774,501.05
Land use rights	6,774,501.05	-	-	6,774,501.05
<b>II. Total aggregate amortization</b>	2,032,351.36	67,745.06		2,100,096.42
Land use rights	2,032,351.36	67,745.06		2,100,096.42
<b>III. Total net book value of intangible assets</b>	4,742,149.69	(67,745.06)		4,674,404.63
Land use rights	4,742,149.69	(67,745.06)		4,674,404.63
<b>IV. Total provision for devaluation</b>	-	-		
Land use rights	-	-		
Total book value of intangible assets	4,742,149.69	(67,745.06)		4,674,404.63
Land use rights	4,742,149.69	(67,745.06)		4,674,404.63

Amortization during the period is RMB67,745.06.

Remarks:

- Land use rights pledged to Bank of China, Fuxin Branch by Fuxin Enclosed Busbars Company Limited - a wholly owned subsidiary of the Company is RMB4,674,404.63 for loan of RMB7 million.
- The rest of months to be amortized for Land use rights is 414 months.



## 12. Long-term deferred expenses

Unit: RMB

Items	Opening balance	Increase during the period	Amortization	Other decrease	Closing balance	Reasons for other decrease
Rents for buildings	1,353,690.25	-	369,380.10		984,310.15	-
Rents for lands	430,833.29	-	55,000.02		375,833.27	
Rents for machinery	3,450,000.00		900,000.00		2,550,000.00	-
Improvement expenditures for fixed assets rented	1,921,264.72		246,080.50		1,675,184.22	-
<b>Total</b>	<b>7,155,788.26</b>		<b>1,570,460.62</b>		<b>5,585,327.64</b>	

Improvement expenditures for fixed assets rented is for manufacturing plants rented.

## 13. Deferred tax assets

### (1) Deferred tax assets/deferred liabilities recognized

Unit: RMB

Items	Closing balance	Opening balance
Deferred tax assets:		
Provision of assets devaluation	13,442,804.47	12,729,815.27
Subtotal	13,442,804.47	12,729,815.27
Deferred tax liabilities:		
Evaluation of transactional financial derivatives and financial instruments	-	-
Financial assets fair value variations taken into capital reserve	-	-
Subtotal	-	-

### (2) Temporary differences corresponding to assets/ or liabilities that lead to such differences

Unit: RMB

Items	Amount of temporary difference
Bad debt provision	50,534,435.94
Provision of devaluation of inventories	1,380,995.80
Provision for fixed assets devaluation	1,855,786.12
<b>Total</b>	<b>53,771,217.86</b>



**14. Statement of provisions for assets devaluation***Unit: RMB*

Items	Balance at beginning of period	Increase during the period	Decrease during the period		Balance at end of period
			Reversal	Set-off	
I. Bad debt provision	129,314,512.80	3,855,618.28			133,170,131.08
II. Provision for devaluation of inventories	1,380,995.80				1,380,995.80
III. Provision for sellable financial assets devaluation	-				-
IV. Provision for investment devaluation held till due	-				-
V. Provision for long-term investment devaluation	-				-
VI. Provision for devaluation of investment real-estate	-				-
VII. Provision for fixed assets devaluation	2,021,324.40				2,021,324.40
VIII. Provision for devaluation of building materials	-	-	-	-	-
IX. Provision for devaluation of work-in-progress	-	-	-	-	-
X. Provision for devaluation of producing bio-materials	-	-	-	-	-
Including: provision for devaluation of matured producing bio-materials	-	-	-	-	-
XI. Provision for devaluation of assets of oil and gas	-	-	-	-	-
XII. Provision of devaluation of intangible assets	-	-	-	-	-
XIII. Provision of devaluation of good will	-	-	-	-	-
XIV. Others	-	-	-	-	-
Total	132,716,833.00	3,855,618.28			136,572,451.28

**15. Assets with limited ownership****(1) Reasons for limited ownership of assets**

The Company has pledged some assets to banks for bank loans.



## (2) Assets with limited ownership

Unit: RMB

Types of assets with limited ownership	Book value at		Decrease	Book value by end of period
	beginning of period	Increase during the period	during the period	
I. Assets for guarantees				
Land use rights	4,742,149.69		67,745.06	4,674,404.63
Houses and buildings	5,517,217.66		349,763.87	5,167,453.79
Machinery and equipment	13,943,525.22		726,453.00	13,217,072.22
Total	24,202,892.57		1,143,961.93	23,058,930.64

## 16. Short-term borrowings

Unit: RMB

Items	Closing balance	Opening balance
Borrowings with pledge	7,000,000.00	7,000,000.00
Borrowings with pledge and guarantee	15,000,000.00	15,000,000.00
Guaranteed borrowings	0.00	12,000,000.00
Total	22,000,000.00	34,000,000.00

Remarks:

Short-term borrowings are classified as hypothecated borrowings, pledged borrowings and guaranteed borrowings.

Notes to short-term borrowings:

1. Pledges made to Bank of China, Fuxin Branch for bank loan of RMB7 million by subsidiary Fuxin Enclosed Busbars Company Limited see Notes V. 10 and Notes V. 12. The loan is granted in different lots, terms of which is between July 22, 2010 till Dec. 1, 2011.
2. Pledges made to Guangdong Development Bank Dalian Branch by subsidiary –New Northeast Electric (Jinzhou) Capacity Co., Ltd for bank loan of RMB15 million, see Notes. V. 14, and with joint liability guarantees by Northeast Electric Development Co., Ltd., Jinzhou Power Capacity Co., Ltd., Jinzhou Jinrong Electric Co., Ltd., New Northeast Group Electric High-voltage Equipment Co., Ltd and individual Du Kai. The loan is granted in different lots, terms of the loan is between Nov. 9, 2010 till Oct. 17, 2011.

**17. Accounts payable****(1) Age of accounts payable:***Unit: RMB*

Items	Closing balance	Opening balance
Within 1 year	118,947,761.45	169,725,351.80
1 to 2 years	8,427,004.59	3,385,602.11
2 to 3 years	860,589.26	10,103,050.22
Over 3 years	4,355,994.47	4,364,399.63
Total	132,591,349.77	187,578,403.76

Account payables with age over 1 year mainly are payment for goods not yet to be paid according to relative agreements.

**(2) There's no account payable to company holding 5% or over voting shares of the company.****18. Advances****(1) Age of advances:***Unit: RMB*

Items	Closing balance	Opening balance
Within 1 year	7,945,870.10	67,463,163.40
1 to 2 years	3,415,250.00	1,230,214.00
Over 3 years	665,000.00	665,000.00
Total	12,026,120.10	69,358,377.40

**(2) There's no prepayment from company holding 5% or over voting shares of the company.**



## 19. Salaries and benefits payable to employees

Unit: RMB

Items	Balance at beginning of period	Increase during the period	Decrease during the period	Balance at end of period
I. Salaries, allowances and subsidies	-	9,230,183.84	9,230,183.84	
II. Benefits	62,636.11	468,366.75	468,366.75	62,636.11
III. Social securities	2,790,128.06	3,142,013.32	5,591,802.20	340,339.18
Including: 1. Medicare	8,830.85	680,722.81	684,455.47	5,098.19
2. Basic endowment insurance	2,503,269.00	2,068,082.54	4,278,485.35	292,866.19
3. Industrial injury insurance	6,787.64	116,144.74	115,999.53	6,932.85
4. Birth insurance	2,505.90	62,866.92	62,866.92	2,505.90
5. Unemployment insurance	268,734.67	214,196.31	449,994.93	32,936.05
IV. Housing provident funds	429,337.05	1,200,191.00	1,032,350.00	597,178.05
V. Funds for labour union and education of employees	811,800.81	283,811.29	98,529.53	997,082.57
VI. Others	267,965.52		267,965.52	
Total	4,361,867.55	14,324,566.20	16,689,197.84	1,997,235.91

There's no behind payable salaries to employees.

## 20. Tax payable

Unit: RMB

Items	Closing balance	Opening balance
Value added tax	-3,700,982.78	-368,752.91
Enterprise income tax	-2,605,692.96	2,126,791.06
Individual income tax	14,647.91	129,140.10
Land use tax	59,149.50	31,609.50
Housing property tax	9,507.65	9,507.65
Urban maintenance and construction tax	12,871.73	235,452.28
Surtax for education expenses	12,887.69	108,945.62
Others	-447,430.99	76,990.23
Total	-6,645,042.25	2,349,683.53

**21. Other payables****(1) Ages of other payables:***Unit: RMB*

Items	Closing balance	Opening balance
Within 1 year	41,543,561.45	10,955,950.37
1 to 2 years	7,915,600.75	16,627,284.60
2 to 3 years	319,025.64	5,512,639.73
Over 3 years	39,410,034.98	41,619,440.60
Total	89,188,222.82	74,715,315.30

**(2) There's no other payable to company holding 5% or over voting shares of the company.****(3) Remarks to large amount other payables over 1 year**

Large amount other payable over 1 year are mainly unpaid intra-group payments.

**(4) Remarks to large amount other payables**

Large amount other payables are mainly unpaid intra-group payments.

**22. Other current liabilities***Unit: RMB*

Items	Balance at end of period	Balance at beginning of period
Deferred income	468,446.97	468,446.97

Deferred income are government subsidy granted to New Northeast Electric (Jinzhou) Capacity Co., Ltd. –a wholly owned subsidiary of the Company:

- (1) Liaoning Committee of Economy and Information, Liaoning Department of Finance granted New Jin Cap research funds of RMB500,000.00 in the Notification of Provincial Enterprise Technology Center Funding Plans for Year 2009 (Ref. Liao Jing Xin Fa [2009] No.23), for the purpose of development and research of <±800KV Direct Current Electricity Transmitting Power Capacity and Complete Equipment>. The fund was received on May 5, 2009, expenditure under this item is RMB119,000.00 during the period, totalling RMB231,553.03 has been paid, balance of the fund is RMB268,446.97 by end of period.
- (2) Liaoning Committee of Technology, Liaoning Department of Finance granted New Jin Cap research funds of RMB200,000.00 in the Notification of Awards Plan for Liaoning Commercialization of Research in Year 2009 (Ref. Liao Ke Fa [2009] No.50), for the purpose of research in <High-capacity Capacitor>. The fund was received by the company on Dec. 30, 2009, and has not been used during the period, balance of the item is RMB200,000.00.



### 23. Estimated liability

Unit: RMB

Items	Opening balance	Increase during the period	Decrease during the period	Closing balance
Guarantee for loans	84,721,078.25	-	-	84,721,078.25
Others	9,252,860.00	-	-	9,252,860.00
Total	93,973,938.25	-	-	93,973,938.25

Remarks:

- 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 RMB30,000,000.00, 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 judgment the 1st sentence should be carried on. The Company has estimated liabilities of RMB30,993,929.00 according to the judgment. On Jul. 14, 2008 China Everbright Bank, China Everbright Bank Co., Ltd. Beijing Branch made joint declaration of equity transfer on People's Court Daily with China Great Wall Asset Management Corporation Beijing Representative Office (hereunder referred to as "Great Wall Asset Beijing Rep Office"), transferring creditor's rights worth of RMB26,402,000.00 to the latter. On Dec. 3, 2009, Great Wall Asset Beijing Rep Office signed Creditor's Rights Transfer Agreement with Liaoning Shun Long Commercial & Trade Co., Ltd. (hereunder referred to as "Shun Long Comm Trade"), transferring the above-mentioned rights to "NET" to Shun Long Comm Trade at the price of RMB10,750,000.00, leaving the latter to recover such rights. Shun Long Comm Trade sent a Communication Letter to the Company on Nov. 29, 2010, asking for repayment of the above-mentioned debts including principal of RMB26,402,000.00, and interest accrued of RMB30,505,683.26. On Dec. 31, 2010 the Company has signed Repayment Agreement with Shun Long Comm Trade, stipulating repayment of RMB10,000,000.00 before Dec. 31, 2012 by the Company, and repayment of RMB14,000,000.00 before Dec. 31, 2013, then the rest of the principal, interest and relative interest penalties are to be exempted. The Company therefore will be exempted from obligations of guarantee to China Everbright Bank, and own right of claim to the Borrower -'NET'. The Company carries forward estimated liability of RMB30,993,929.00 according to the above-mentioned agreement.



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 undertook 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 the Ruling has been effective. Intermediate Court of Liaoning Province Jinzhou City has issued Enforcement Notice No. (2005) Jin Zhi Zi 89 in Sep., 2005. On Jun. 23, 2010, the Court has made Enforcement Ruling No. (2005) Jin Zhi Yi Zi 89, sealing up High-voltage parallel connection Capacitors owned by Jinrong, including 35 boxes of 140 sets of BFM6.61-299IW, 24 boxes totalling 96 sets of BFM2.11.5J3-300IW, 65 boxes of 240 sets of BFM3.11.5J3-300IW. The Company 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.
3. The formerly subsidiary of the Company –Shenyang High-voltage Switchgear Limited ("Shenyang High-voltage") has disputes over goods payment with its supplier Xi'an Shuangjia High-voltage Insulators Electric Co., Ltd. ("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. On Nov. 17, 2008, the Intermediate Court of Xi'an City issued the civil judgment (2008 Xi Zhong Zhi Min Zi No. 260-4) that the enforcement of the case was finalized because no assets of the Shenyang High-voltage was available for enforcement, and the eight suites of houses could not be sold off without title or for the reason of being registered under the name of party other than the person involved in the case, and the enforcement applicant was not able to provide other properties available for enforcement and had no objection to the status quo. According to the legal opinion, the enforcement applicant may apply to the court to execute at any time when the fact that the party subject to enforcement had property or property clue available for enforcement according to the value of the above eight suites of houses. The Company has estimated liabilities of RMB92,25,860.00 according to the value of the subject houses. On Nov. 1, 2010, the Intermediate Court of Xi'an City has ruled by Enforcement Ruling No. (2008) Xi Zhi Min Zi 260-6, maintained seal-up of the above-mentioned 8 houses till Oct. 31, 2011.



4. The Company has provided guarantee for the bank loan of RMB 17,000,000.00 between Bank of China Jinzhou Branch and the Company's subsidiary – Jinzhou Power Capacitors Co., Ltd (referred to as "Jinrong") and thus undertake obligation of joint guarantee. In Mar. 2007, the bank has launched lawsuit to the Intermediate Court of Jinzhou City against Jinrong for repayment of principal of RMB17,000,000.00 and relative interests RMB2,890,000.00, 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 RMB2,890,000.00 by Ruling no. (2007) Jin Min San Chu Zi 00049 in Jun. 2007, which has come into effectiveness for the Company has not appealed. On Mar. 5, 2008, the Intermediate Court of Jinzhou City issued enforcement notice and required the Company to execute the recognized obligations. The Company therefore estimate liability of RMB19,890,000.00. Up to the reporting date, the Company has not paid the above mentioned liability.
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 Jindu 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 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 160. Jindu Hotel's license was revoked on Oct. 29, 2010, and China Industrial & Commercial Bank of China Shenyang City Yinxin Sub-branch has signed Creditor's Rights Transfer Agreement with China Great Wall Asset Management Corporation (hereunder referred to as 'Great Wall Asset Corp'), transferring the abovementioned rights to the latter. The Company has estimated liability of RMB24,000,000.00 according to the Rulings. Up to the reporting date, the Company has not paid the above mentioned liability.
6. The Company has provided guarantee for the bank loan of RMB22,900,000.00 of subject amount being RMB42,900,000.00 between Bank of China Jinzhou Branch and the Company's subsidiary – Jinzhou Power Capacitors Co., Ltd (referred to as "Jinrong") and thus undertake obligation of joint guarantee. ICBC Jinzhou City Sub-branch has sued against Jin Cap in Dec. 2006 to the Intermediate Court of Jinzhou City, for the borrower to repay loan principal of RMB22,900,000.00 and relative interest RMB3,466,578.25, and for the Company to assume joint repayment. On Jul. 18, 2007, 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 and relative interest RMB3,466,578.25. On Apr. 14, 2008, the Intermediate Court of Jinzhou City issued enforcement notice and required the Company to execute the recognized obligations. The Company has accordingly estimated liabilities of RMB26,366,578.25. Up to the reporting date, the Company has not paid the above mentioned liability.



**24. Other non-current liabilities***Unit: RMB*

Items	Balance at end of period	Balance at beginning of period
Other non-current liabilities	61,255,815.55	60,714,159.27

Remarks:

- RMB39,964,097.04 is payable to New Northeast Electric Group Ultra High-Voltage Equipment Co., Ltd (hereafter referred to as 'High-Voltage'). High-Voltage sent out letter on Dec. 15, 2010 promising not to recover such funds within 2 years.
- On Dec. 31, 2010, the Company has signed Repayment Agreement with Shun Long Comm Trade, stipulating repayment of RMB10,000,000.00 before Dec. 31, 2012 by the Company, and repayment of RMB14,000,000.00 before Dec. 31, 2013, then the rest of the principal, interest and relative interest penalties are to be exempted. By end of period the Company recognized Payable to Shun Long Comm Trade of RMB21,291,718.51 according to future cash flow.

**25. Share capital***Unit: RMB*

Items	Opening balance	Increase/decrease (+, -)					Closing balance
		Allotment	Bonus	Capitalization of Reserve	Others	Subtotal	
I. Shares subject to trading moratorium							
1. State-owned legal-person shares	-	-	-	-	-	-	-
2. Other domestic shares	6,230,000.00	-	-	-	-	-	6,230,000.00
Including: domestic legal person share	6,230,000.00	-	-	-	-	-	6,230,000.00
Total of shares subject to trading moratorium	6,230,000.00	-	-	-	-	-	6,230,000.00
II. Shares not subject to trading moratorium							
1. Common shares in RMB (A shares)	609,190,000.00	-	-	-	-	-	609,190,000.00
2. Foreign shares listed overseas (H shares)	257,950,000.00	-	-	-	-	-	257,950,000.00
Total of shares not subject to trading moratorium	867,140,000.00	-	-	-	-	-	867,140,000.00
III. Total shares	873,370,000.00	-	-	-	-	-	873,370,000.00



## 26. Capital reserve

Unit: RMB

Items	Opening balance	Increase during the period	Decrease during the period	Closing balance
Share premium	115,431,040.00	-	-	115,431,040.00
Others	767,991,363.92	-	-	767,991,363.92
Total	883,422,403.92	-	-	883,422,403.92

There was no change in capital reserve during the period.

## 27. Reserves

Unit: RMB

Items	Opening balance	Increase during the period	Decrease during the period	Closing balance
Legal reserve	80,028,220.48	-	-	80,028,220.48
Discretionary surplus reserve	28,558,903.92	-	-	28,558,903.92
Total	108,587,124.40	-	-	108,587,124.40

There was no change in reserve during the period.

## 28. Retained profit

Unit: RMB

Items	Amount	Ratio of Withdrawal or Distribution
Before adjustment retained profit of last period	-1,527,280,108.35	
Adjustment retained profit at beginning of year (Increase+, decrease-)	-	
After adjustment retained profit at beginning of year	-1,527,280,108.35	
Plus: net profit attributable to owners of the parent company of the period	19,495,121.58	
Less: provision of legal reserve	-	
Provision of discretionary surplus reserve	-	
Provision of normal risk provision	-	
Dividends due common shares	-	
Dividends of common shares changed to share capital	-	
Retained profit at end of period	-1,507,784,986.77	

**29. Operating income and cost****(1) Operating income and cost***Unit: RMB*

Items	Amount of this period	Amount of last period
Income from principal operations	145,668,407.18	146,318,967.09
Other income	61,662.30	65,031.38
Operating cost	103,033,400.84	107,346,587.08

**(2) Operating income (by products)***Unit: RMB*

Products	Amount of this period		Amount of last period	
	Operating income	Operating cost	Operating income	Operating cost
Enclosed busbar	24,328,804.47	15,864,819.67	27,704,811.99	20,680,930.71
Power capacitor	97,081,654.04	63,025,240.98	91,244,941.38	62,737,597.90
High voltage switch and circuit breaker	24,257,948.67	24,083,732.25	24,917,675.25	22,234,201.51
Others	61,662.30	59,607.94	2,516,569.85	1,693,856.96
Total	145,730,069.48	103,033,400.84	146,383,998.47	107,346,587.08

**(3) Operating income (by districts)***Unit: RMB*

District	Amount of this period		Amount of last period	
	Operating income	Operating cost	Operating income	Operating cost
Northeast China	12,001,463.97	7,875,002.28	39,083,357.46	29,776,740.48
North China	26,916,568.29	26,524,876.92	37,908,186.61	30,776,699.42
Central China	1,350,256.52	1,271,756.76	3,561,599.06	2,375,838.84
East China	93,912,507.08	59,027,558.79	9,230,302.01	7,287,210.20
South China	1,621,871.78	1,476,450.37	1,721,348.21	1,644,608.41
Southwest China	6,985,136.87	4,843,185.86	9,937,367.51	5,553,613.96
Northwest China	1,128,465.92	998,081.73	0.00	0.00
Others	1,813,799.05	1,016,488.13	44,941,837.61	29,931,875.77
Total	145,730,069.48	103,033,400.84	146,383,998.47	107,346,587.08

**(4) Operating income from the top 5 customers of the Company**

*Unit: RMB*

Name	Operating income	Percentage of total Operating income (%)
Jiangsu Electric Power Company	101,653,500.00	69.75
Shanxi Provincial Power Grid Co	24,145,299.10	16.57
Ertan Hydropower Development Company, Ltd.	4,677,264.95	3.21
Anhui Xiangshuijian Hydro Energy Storage Co., Ltd.	4,655,769.12	3.19
Guodian Jilin Longhua Pyroelectricity Co., Ltd	4,145,299.15	2.84
Total	139,277,132.32	95.57

Operating income includes income from principal operations and other operations, with enclosed busbars, electric capacitor and high-voltage switches as products of principal operations.

**30. Sales tax and surtax**

*Unit: RMB*

Items	Amount of this period	Amount of last period	Ratio of tax
Sales tax	-		5%
Urban maintenance and construction tax	1,005,086.49		7%
Surtax for education expenses	430,751.35		3%
Others	279,855.80		
Total	1,715,693.64		

Sales tax and surtax of the period are mainly by maintenance and construction tax and surtax for education expenses calculated by value-added tax payable.

**31. Loss from devaluation of assets***Unit: RMB*

Items	Amount of this period	Amount of last period
I. Bad debt loss	3,855,618.28	
II. Inventory devaluation loss	-	
III. Sellable financial assets devaluation loss	-	-
IV. Loss from devaluation of investment held till due	-	-
V. Loss from devaluation of long-term investment	-	-
VI. Loss from devaluation of investment real estate	-	-
VII. Loss from for devaluation of fixed assets	-	-
VIII. Loss from devaluation of building materials	-	-
IX. Loss from devaluation of work-in-progress	-	-
X. Loss from devaluation of producing bio-materials	-	-
XI. Loss from devaluation of assets of oil and gas	-	-
XII. Loss from devaluation of intangible assets	-	-
XIII. Loss from devaluation of good will	-	-
XIV. Others	-	-
Total	3,855,618.28	

**32. Return on Investment****(1) Details of return on investment***Unit: RMB*

Items	Amount of this period	Amount of last period
Return on long-term equity investment by method of cost		
Return on long-term equity investment by method of equity	-1,732,193.51	-488,865.74
Return by disposal of long-term equity investment	26,144,228.41	-11,593.68
Total	24,412,034.90	-500,459.42

**(2) Return on long-term equity investment by method of equity:**

*Unit: RMB*

Company invested	Amount of this period	Amount of last period	Reason for change
New Northeast Electric (Shenyang) High-voltage Isolator Switchgears Co., Ltd	-1,726,109.70	-488,865.74	Loss of the company increased as compared to the same period last year
Great Power Technology Limited	-6,083.81	0.00	
<b>Total</b>	<b>-1,732,193.51</b>	<b>-488,865.74</b>	

Remarks:

1. Amount under this item is return on investment recognized by equity method and return from sales of equity.
2. The amount of this period increased as compared to last period, because there was no return from disposal of equity at the same period last year.

**33. Non-operating revenue**

*Unit: RMB*

Items	Amount of this period	Amount of last period
Total revenue by disposing non-current assets	1,709.40	88,334.17
Including: revenue by disposing fixed assets	1,709.40	88,334.17
Revenue by disposing intangible assets		-
Government subsidy		
Income of fine	1,900.00	120.00
Income from sales of scrap	16,426.51	5,316.26
<b>Total</b>	<b>20,035.91</b>	<b>93,770.43</b>

**34. Non-operating expenses**

*Unit: RMB*

Items	Amount of this period	Amount of last period
Total loss of disposal of non-current assets		101,950.62
Including: loss of disposal of fixed assets		101,950.62
Loss of disposal of intangible assets		-
Expenses of fine	1,149.00	2,548.86
Others	13,205.31	8,082.00
<b>Total</b>	<b>14,354.31</b>	<b>112,581.48</b>

**35. Income tax expense***Unit: RMB*

Items	Amount of this period	Amount of last period
Income tax of the period by law of tax and relative regulations	871,168.35	2,091,118.34
Adjustments to deferred income tax		
Total	871,168.35	2,091,118.34

**36. Calculations of primary earnings per share and diluted earnings per share***Unit: RMB*

Items	Calculation	Amount of this period	Amount of last period
Net profit attributable to common shareholders of listed company	P0	19,495,121.58	527,972.20
Extraordinary profit and loss attributable to common shareholders of the Company	F	26,148,489.61	-25,701.97
Net profit attributable to common shareholders of listed company after deduction of extraordinary profit and loss	$P0'=P0-F$	(6,653,368.03)	553,674.17
Impact of dilution on net profit attributable to common shareholders of listed company	V		-
Net profit to common shareholders of the company, adjusted by Enterprise Accounting Standards and relative regulations with consideration of impact by diluted potential common shares.	$P1=P0+V$	19,495,121.58	527,972.20
Impact on net profit to common shareholders of the company after deduction of extraordinary profit and loss by dilution	V'		-
Net profit attributable to common shareholders of listed company after deduction of extraordinary profit and loss adjusted by enterprise accounting standards and relative regulations with consideration of impact by diluted potential common shares	$P1'=P0'+V'$	(6,653,368.03)	553,674.17
Total shares at beginning of period	S0	873,370,000.00	873,370,000.00
Shares increased by reserves changed to equity/or distributions of dividends during the period	S1	-	-
Increase of shares due to issuance of new shares or debts to equity during the periods	Si	-	-

Items	Calculation	Amount of this period	Amount of last period
Shares decreased by buy-back during the period	Sj	-	-
Reverse split during the period	Sk	-	-
No. of months during the period	M0	12.00	12.00
Accumulated no of months from next month of increasing shares till end of reporting period	Mi		-
Accumulated no of months from next month of decreasing shares till end of reporting period	Mj		-
	$S=S0+S1+Si \times Mi$		
	$\div M0-Sj \times Mj$		
Weighted average common shares issued abroad	$\div M0-Sk$	873,370,000.00	873,370,000.00
Plus: weighted average common shares supposing diluted potential common shares changed to common shares	X1	-	-
Average common shares to calculate diluted earnings per share	$X2=S+X1$	873,370,000.00	873,370,000.00
Including: weighted average common shares increased by convertible company bonds			-
Weighted average common shares increased by stock warrants			-
Weighted average common shares increased by implementing buyback			-
Primary earnings per share attributable to common shareholders of the company	$EPS0=P0 \div S$	0.0223	0.0006
Primary earnings per share contributable to common shareholders after deduction of extraordinary profit and loss	$EPS0'=P0' \div S$	(0.0076)	0.0007
Diluted earnings per share attributable to common shareholders of the company	$EPS1=P1 \div X2$	0.0223	0.0006
Diluted earnings per share attributable to common shareholders after deduction of extraordinary profit and loss	$EPS1'=P1' \div X2$	(0.0076)	0.0007



**37. Other comprehensive revenues***Unit: RMB*

Items	Amount of this period	Amount of last period
1. Amount of profit (loss) by sellable financial assets	-	-
Less: Impact to income tax by sellable financial assets	-	-
Net amount of profit and loss reverted from items of other comprehensive revenues of last period	-	-
Subtotal	-	-
2. Proportion of other comprehensive revenues of companies invested enjoyed by the method of equity	-	-
Less: Impact to income tax by proportion of other comprehensive revenues of companies invested enjoyed by the Method of Equity	-	-
Net amount of profit and loss reverted from items of other comprehensive revenues of last period	-	-
Subtotal	-	-
3. Profit (loss) by cash flow hedging	-	-
Less: Impact to income tax by cash flow hedging	-	-
Net amount of profit and loss reverted from items of other comprehensive revenues of last period	-	-
Adjustments to initial amount recognized by hedging	-	-
Subtotal	-	-
4. Exchange difference of foreign currency reports	-877,035.22	-1,049,445.24
Less: Net amount taken into profit and loss disposing offshore operations		-
Subtotal	-877,035.22	-1,049,445.24
5. Others	-	-
Less: Impact to income tax by being taken into other comprehensive revenues	-	-
Net amount of profit and loss reverted from items of other comprehensive revenues of last period	-	-
Subtotal	-	-
<b>Total</b>	<b>-877,035.22</b>	<b>-1,049,445.24</b>

The item reports differences on exchange from consolidation of foreign-currency financial statements.

### 38. Notes to cash flow

#### (1) Cash received from other operational activities

Unit: RMB

Items	Amount
Intra-group transactions	3,616,157.53
Deposits	10,856,750.00
Total	14,472,907.53

Deposits are bidding deposits received from suppliers by subsidiary company.

#### (2) Cash paid to operational activities

Unit: RMB

Items	Amount
Deposits	11,700,000.00
Intra-group transactions	7,260,972.30
Transportation	4,998,790.73
Sales expenses	3,240,000.00
Entertainment	1,611,115.95
Travelling	1,582,198.61
Electricity	1,432,900.00
Office expenses	694,750.37
Fixtures	637,357.58
Fuel expenses	491,377.25
Sales service expenses	393,086.86
Bidding	340,000.00
Heating expenses	241,071.00
Premium	214,135.69
Consultancy	147,500.00
Agency fee including auditing	99,853.70
Meeting	10,000.00
Others	1,288,341.55
Total	36,383,451.59

Remarks:

1. Intra-group transaction are repayments mainly.
2. Deposits paid to customer are bidding deposits paid by subsidiary.

**39. Supplementary information to cash flow****(1) Supplementary information to cash flow***Unit: RMB*

Supplementary information	Amount of the period	Amount of last period
<b>1. Operational activity cash flow adjusted by net profit:</b>		
Net profit	19,495,121.58	527,972.20
Plus: Minority interests	-369,222.60	-84,827.96
Plus: Provision for assets devaluation	3,855,618.28	
Depreciation of fixed assets, depreciation of oil and gas assets, depreciation of production bio-assets	4,179,516.53	3,449,228.25
Amortization of intangible assets	67,450.06	78,954.22
Amortization of long term expenses payable	1,570,460.62	1,346,069.63
Loss on disposal of fixed assets, intangible assets and other long term assets ("- " refers to gain)	-5,681.60	
Loss on discarding fixed assets ("- " refers to gain)		
Loss on changes in fair value ("- " refers to gain)		
Financial expenses ("- " refers to gain)	796,223.73	1,256,108.91
Loss on investments ("- " refers to gain)	24,412,034.90	500,459.42
Decrease of deferred income tax assets ("- " refers to increase)		
Increase of deferred income tax liabilities ("- " refers to decrease)	-712,989.20	
Decrease of inventories ("- " refers to increase)	24,348,884.28	-3,277,383.60
Decrease of operational accounts receivable ("- " refers to increase)	4,379,232.00	37,286,060.38
Increase of operational accounts payable ("- " refers to decrease)	-109,205,761.00	-31,361,763.96
Others	586,815.90	
Net cash flow from operating activities	-26,602,296.53	9,720,877.49
<b>2. Major investment and financing activities not affecting cash:</b>		
Debts changed as capital		
Convertible corporate bonds due within 1 year		
Lease financing fixed assets		
<b>3. Changes of cash and equivalents:</b>		
Cash at end of period	15,775,068.86	57,007,150.21
Less: cash at beginning of period	53,875,953.05	42,180,943.54
Plus: cash equivalents at end of period	19,034,297.50	
Less: cash equivalents at beginning of period	20,914,046.29	
Net increase of cash and equivalents	-39,980,632.98	14,826,206.67

**(2) Acquisition or disposal of subsidiaries or other operational departments during the period**

There's no acquisition or disposal of subsidiaries or other operational departments during the period



### (3) Composition of cash and equivalents

Unit: RMB

Items	Closing balance	Opening balance
<b>I. Cash</b>		53,884,111.84
Including: Cash on hand	51,033.14	32,415.96
Bank deposits ready to pay	15,724,035.72	53,843,537.09
Other cash assets ready to pay		-
Deposits with central bank ready to pay		-
Deposits with other banks		-
Inter-bank lending		-
<b>II. Cash equivalents</b>		-
Including: Bonds investment due within 3 months		-
<b>III. Balance of cash and equivalents by end of period</b>	15,775,068.86	53,884,111.84

Remarks:

1. There's no acquisition or disposal of subsidiaries or other operational departments during the period.
2. Pledged deposits are not included in the balance of cash and equivalents by end of period. For details, please refer to Note V.1.

## VI. Associates and relative transactions

### 1. Parent company of the Company

Unit: RMB0'000

Parent company	Relationship	Type	Place of registration	Legal representative	Business	Registered capital	Percentage of shares held by parent company (%)	Voting shares ratio held by parent company (%)	Ultimate controlling party of the Company	Organization code
New Northeast Electric Investments Co., Ltd.	Parent company	Limited	Yingkou	Dai Bing	Investment	13,500	24.06%	24.06%	Tian Li	73465110-1

Remarks of parent company

1. There was no change in percentage of shares held by New Northeast Electric Investment Co., Ltd.
2. Of the shares held by New Northeast Electric Investment Co., Ltd of the Company, 110 million shares are pledged.



## 2. Subsidiaries of the Company

Full name of subsidiary	Relationship	Type	Place of registration	Legal representative	Business	Amount of contribution	Percentage of shares held by the Company (%)	Percentage of voting rights (%)	Organization code
Northeast Electric (Hong Kong) Limited	Wholly-owned subsidiary	Limited company	Hong Kong	Tian Jiang	Investment, trade	USD20 million	100	100	-
Great Talent Technology Limited	Wholly-owned subsidiary	Limited company	BVI	Wang Shan Kuan	Investment	USD1	100	100	-
Northeast Electric (Beijing) Co., Ltd	Wholly-owned subsidiary	Limited company	Beijing	Jia Shujie	Sales of machinery, electric products	RMB2 million	100	100	66216024-9
Shenyang Kaiyi Electric Co., Ltd	Wholly-owned subsidiary	Limited company	Shenyang	Jiao Liyuan	Manufacturing of high-voltage electric equipment	RMB1 million	100	100	79846962-4
Fuxin Enclosed Bushbars Company Limited	Wholly-owned subsidiary	Limited company	Fuxin	Liu Qingmin	Production and sales of enclosed busbars	USD8.5 million	100	100	70168064-3
New Northeast Electric (Jinzhou) Power Capacitors Co., Ltd	Wholly-owned subsidiary	Limited company	Jinzhou	Liu Bing	Production of power capacitor	USD15.45 million	100	100	75278947-0
Jinzhou Jinrong Electric Co., Ltd	Holding subsidiary	Limited company	Jinzhou	Li Hongliang	Manufacturing dry high-voltage capacitor	RMB2.0925 million	69.75	69.75	24203413-1
Shenyang Gaodongjia Desiccation Equipment Co., Ltd	Holding subsidiary	Limited company	Shenyang	Wang Haiyang	Metal box and drying equipment manufacturing	USD544,950	70	70	60460565-X

## 3. Associates and joint ventures

Company invested	Type	Place of registration	Legal representative	Business	Registered capital	Percentage of shares held by the Company (%)	Voting shares percentage in the invested company (%)	Total assets by end of period	Net assets by end of period	Total operating revenue of the period	Net profit of the period	Relationship	Organization code
I. Associates													
Great Power Technology Limited	Limited company	BVI	Lo Yuet	Investment	USD12,626	20.80	20.80	200,476,120.02	200,465,309.22	-	-	Associate	-

Unit: RMB



#### 4. Account receivable/payable from/to associates

Unit: RMB

Items	Associate	Closing balance	Opening balance
Dividends receivable	Great Power Technology Limited	7,208,709.37	7,376,271.12
Other payables	Great Power Technology Limited	665,280.00	680,744.00

## VII. Contingencies

### 1. Contingent liabilities due to unsettled litigation and arbitration and impact to financial reports

China Great Wall Asset Management Corp Shenyang Rep. Office (the "Great Wall Asset") sued Shenyang High-voltage Switchgears Limited (hereinafter referred to as "Shenyang High-Voltage") on infringement of loan contract.

Shenyang High-Voltage has signed 41 loan contracts during the period 1986 to 2003 with ICBC Liaoning Province Branch Shenyang Shifudalu Sub-branch and other financial institutions, totalling loans of RMB35.175 million. On Jul. 15, 2005, ICBC Liaoning Province Branch signed Transfer of Creditor's Rights with Great Wall Asset, transferring the relative rights. Shenyang High Switches started up joint ventures with tangible assets and land-use rights respectively in 2003 and 2004, which are New Northeast Group Electric High-voltage Equipment Co., Ltd (hereinafter referred to as "New Shen High"), New Northeast Electric (Shenyang) High-voltage Insulate Switches Co., Ltd (hereinafter referred to as "Shenyang High Insulate"), Shenyang Xintai Warehouse Logistics Co., Ltd (hereinafter referred to as "Xintai Warehouse") and Shenyang Chengtai Energy Co., Ltd. (hereinafter referred to as "Chengtai Energy"). The Company has acquired shares of NNE (Isolators), Suntime Storage and Chengtai Energy in 2004. Great Wall Asset sued Shenyang High-Voltage to Liaoni RMB351.75 million on February 24, 2009, and again on May 18, 2009 applied to charge the Company for Related Party Transaction and Apparent inappropriate consideration of equity swap, demanding the Company undertake joint liability for Shenyang High-Voltage loans. The Company has received subpoena for court appearance (Ref. (2009) Liao Min Er Chu Zi No.12) from Liao High Court on July 21, 2009. On 15 December 2010, Liaoning Higher People's Court issued the civil written order ((2009) Liao Min Er Chu Zi No.12) and rejected Great Wall Asset's lawsuit appeal. If Great Wall Asset objects to this ruling, they may appeal for retrial by providing facts, evidence and relative ground. On 15 February 2011, the Company received from the lawyer a first instance judgement issued by Liaoning Higher Court. Liaoning Higher Court made a civil written order ((2009) Liao Min Er Chu Zi No.12). According to the order, Shenyang High-voltage shall repay such liabilities including the principal of RMB351,750,000 and its interest of Great Wall, and reject Great Wall's claim against the Company. Great Wall Asset appealed to the Supreme Court of the People.



On 20 July 2011, the Company received from its lawyer the civil written order ((2011) Min Er Zhong Zi No.44). The court quashed the civil judgment ((2009) Liao Min Er Chu Zi No.12) issued by Liaoning High People's Court and remanded the case to Liaoning High People's Court for retrial.

According to the legal advice of Liaoning Wang, Wu, Yang and Ma Law Office, Chinese legal adviser of the Company, Great Wall's claim against the Company to bear joint liability has no facts and legal basis.

The Company's judgment of the case: on the basis of the economic ties between the Company and Shenyang High-voltage as well as the legal advice of the lawyer, the Company shall not become a defendant of the Shenyang High-voltage litigation, and shall not bear joint liability for the compensation, and the litigation will not have an impact on the Company's financial situation and its current profits.

## **2. Contingent Liability by providing guarantee and impact on financial reports**

- (1) As at 30 June 2011, the Company has provided guarantee for New Northeast Electric Group Ultra High-voltage Equipment Co Ltd, and the actual amount utilized by the borrower was RMB22,750,000.
- (2) For other contingent liabilities by providing guarantees, please refer to Note V. 22 Provisions.

## **3. Other contingent liabilities and impact on financial reports:**

- (1) Up to 30 June 2011, RMB2,815,220.80 of undue bank accepted bills has been endorsed by the Company. For details please refer to Note V.2 (3) under Item of Bills Receivable.
- (2) By end of 30 June 2011, the Company has issued Performance Bonds of RMB19,034,297.50.

## **VIII. Commitments and other significant events**

### **1. There's no major commitment during the period**

### **2. Other significant events**

On Nov. 15, 2010, the Company entered into Equity Transfer Agreement with Sunyork International Limited (hereinafter referred to as "Sunyork") to transfer 25.6% equity interest in New Northeast Electric (Shenyang) High-Voltage Switchgear Limited at the consideration of RMB52,800,000. On Jan. 30, 2011, Shenyang High Tech Industry Development Zone Administrative Commission approved such transfer by Approval No. Shen Gao Xin Wai Zi [2011] 014. Procedures of registration of change are completed on Feb. 17, 2011. Income from the transaction is RMB26,140,000.

## **IX. Post balance sheet events**

Nil.

## X. Major notes to parent company's financial statements

### 1. Accounts receivable

#### (1) Disclosure of accounts receivable by types:

Unit: RMB

Types	Closing balance				Opening balance			
	Book balance		Bad debt provision		Book balance		Bad debt provision	
	Amount	Proportion	Amount	Proportion	Amount	Proportion	Amount	Proportion
Single significant accounts receivable provided for bad debts	-	-	-	-	-	-	-	-
Accounts receivable provided for bad debts by group								
Group of aging	179,400.00	100.00%	179,400.00	100%	179,400.00	100.00%	179,400.00	100%
Subtotal of groups	179,400.00	100.00%	179,400.00	100%	179,400.00	100.00%	179,400.00	100%
Single insignificant accounts receivable provided for bad debts	-	-	-	-	-	-	-	-
Total	179,400.00	100.00%	179,400.00	100%	179,400.00	100.00%	179,400.00	100%

Remarks of account receivable types:

The Company has set the criteria for single significant account receivable as RMB1 million, according to the scale of operation, character of the operation and status of customers' settlement.

Single other receivable with insignificant amount while tested to be of high risk after credit risk combination analysis, with basis of judgement by showing signs of unrecoverable or with aging of over 4 years.

**(2) Bad debt provision for single large amount receivable or insignificant amount but with individual devaluation test is conducted.**

**(3) Account Receivables of insignificant amount with high risk after method of credit risk combination:**

Unit: RMB

Age	Closing balance			Opening balance		
	Book balance		Bad debt	Book balance		Bad debt
	Amount	Proportion (%)	provision	Amount	Proportion (%)	provision
Over 4 years	179,400.00	100.00	179,400.00	179,400.00	100.00	179,400.00
Total	179,400.00	100.00	179,400.00	179,400.00	100.00	179,400.00





- (4) There's no write-off of account receivables during the period.
- (5) There're no accounts receivable from company holding 5% or over voting shares of the company.
- (6) There's no receivables from associates during the period.
- (7) There's no other receivables not complied with conditions of termination of recognition during the period.

## 2. Other receivables

### (1) Disclosure of other receivables by classification:

Unit: RMB

Types	Closing balance				Opening balance			
	Book balance		Bad debt provision		Book balance		Bad debt provision	
	Amount	Proportion	Amount	Proportion	Amount	Proportion	Amount	Proportion
Single significant accounts receivable provided for bad debts	-	-	-	-	-	-	-	-
Other receivables provided for bad debts by group								
Group of aging	508,082,006.54	100.00%	77,162,080.65	15.19%	510,091,540.06	100.00%	77,162,080.65	15.13%
Subtotal of groups	508,082,006.54	100.00%	77,162,080.65	15.19%	510,091,540.06	100.00%	77,162,080.65	15.13%
Single insignificant accounts receivable provided for bad debts	-	-	-	-	-	-	-	-
Total	508,082,006.54	100.00%	77,162,080.65	15.19%	510,091,540.06	100.00%	77,162,080.65	15.13%

Remarks of other account receivable types:

The Company has set the criteria for single significant accounts receivable as RMB1 million, according to the scale of operation, character of the operation and state of customers' settlement.

Single other receivable with insignificant amount while tested to be of high risk after credit risk combination analysis, with basis of judgement by showing signs of unrecoverable or with aging of over 4 years.



**(2) Other accounts receivable provided for bad debts among the groups:**

*Unit: RMB*

Age	Closing balance			Opening balance		
	Book balance		Bad debt provision	Book balance		Bad debt provision
	Amount	Proportion		Amount	Proportion	
Within 1 year	1,597,637.30	0.32%		17,420,103.14	3.42%	-
1-2 years	87,016,832.26	17.13%		72,675,812.26	14.25%	-
2-3 years	7,255.34	0.001%		7,255.34	0.01%	-
3-4 years	342,381,400.99	67.39%	83,200.00	342,909,488.67	67.21%	83,200.00
Over 4 years	77,078,880.65	15.17%	77,078,880.65	77,078,880.65	15.11%	77,078,880.65
Total	508,082,006.54	100%	77,162,080.65	510,091,540.06	100%	77,162,080.65

**(3) Single insignificant account receivable provided for bad debts.**

**(4) There's no write-off of other receivables during the period.**

**(5) There're no other accounts receivable from company holding 5% or over voting shares of the company.**

**(6) Nature or contents of large amount other receivables**

Except for intra-group transactions with subsidiaries, other receivables with large amount includes transactions with Benxi Steel, see Note V.6.(6).

**(7) Top 5 customers of other receivable are:***Unit: RMB*

<b>Company name</b>	<b>Relationship</b>	<b>Amount</b>	<b>Age</b>	<b>Ratio over total other receivables (%)</b>
Northeast Electric (Hong Kong) Limited	Wholly-owned subsidiary	175,966,166.77	2 to 3 years	31.23
Fuxin Enclosed Busbars Company Limited	Wholly-owned subsidiary	132,954,084.99	2 to 3 years	23.60
Shenyang Kaiyi Electric Co., Ltd	Wholly-owned subsidiary	103,714,115.42	Within 3 year	18.41
Benxi Steel (Group) Co., Ltd.	Non-associate	76,090,000.00	Over 4 years	13.50
Northeast Electric (Beijing) Co., Ltd	Wholly-owned subsidiary	39,976,696.84	2 to 3 years	7.09
<b>Total</b>		<b>528,701,064.02</b>		<b>93.83</b>

**(8) Other receivables from associates are accounts from wholly-owned subsidiaries. For details, please refer to Note XII. 2. (2).**

**(9) There's no other receivables not complied with conditions of termination of recognition during the period.**

### 3. Long-term equity investment

Unit: RMB

Company invested	Method of calculation	Initial investment cost	Opening balance	Increase/decrease	Closing balance	Percentage of shares held of the invested company (%)	Voting shares percentage in the invested company (%)	Reason for difference between percentages of shares held and voting shares	Provision for devaluation during the period	Cash dividends
Northeast Electric (Hong Kong) Limited	Method of cost	156,699,451.63	156,699,451.63	-	156,699,451.63	100	100	-	-	-
Shenyang Gaodongjia Desiccation Equipment Co., Ltd.	Method of cost	837,967.00	837,967.00	-	837,967.00	70	70	-	-	-
Shenyang Kaiyi Electric Co., Ltd	Method of cost	100,000.00	100,000.00	-	100,000.00	10	10	-	-	-
Shenyang Zhaolida Machinery Equipment Co., Ltd	Method of cost	100,000.00	-	-	0	100	100	-	-	-
Total	--	157,737,418.63	157,637,418.63	-	157,637,418.63	--	--	--	--	--

Statements of long-term investment are investment in subsidiaries calculated through method of cost.

**4. Return on investment***Unit: RMB*

Items	Amount of this period	Amount of last period
Return on long-term equity investment by method of cost	-	-
Return on long-term equity investment by method of equity	-	-
Return on investment by disposal of long-term equity investment		-11,593.68
Return on investment from transactional financial assets	-	-
Return on investment from investments held till due during yielding period	-	-
Return on investment from saleable financial assets in hold	-	-
Return on investment from transactional financial assets	-	-
Return on investment from investments held till due during yielding period	-	-
Return on investment from saleable financial assets in hold	-	-
Others	-	-
Total		-11,593.68

**5. Supplementary information to cash flow***Unit: RMB*

Supplementary information	Amount of the period	Amount of last period
<b>1. Operational activity cash flow adjusted by net profit:</b>		
Net profit	-2,568,636.35	-2,306,877.29
Plus: Provision for assets devaluation		
Depreciation of fixed assets, depreciation of oil and gas assets, depreciation of production bio-assets	54,304.19	56,092.08
Amortization of intangible assets		
Amortization of long term expenses payable		
Loss on disposal of fixed assets, intangible assets and other long term assets ("- refers to gain)		
Loss on discarding fixed assets ("- refers to gain)		
Loss on changes in fair value ("- refers to gain)		

<b>Supplementary information</b>	<b>Amount of the period</b>	<b>Amount of last period</b>
Financial expenses ("- refers to gain)		
Loss on investments ("- refers to gain)		11,593.68
Decrease of deferred income tax assets ("- refers to increase)		
Increase of deferred income tax liabilities ("- refers to decrease)		
Decrease of inventories ("- refers to increase)		
Decrease of operational accounts receivable ("- refers to increase)	2,009,533.52	4,121,317.11
Increase of operational accounts payable ("- refers to decrease)	513,612.65	-1,971,880.45
Others		
Net cash flow from operating activities	8,814.01	-89,754.87
<b>2. Major investment and financing activities not affecting cash:</b>		
Debts changed as capital		
Convertible corporate bonds due within 1 year		
Lease financing fixed assets		
<b>3. Changes of cash and equivalents:</b>		
Cash at end of period	47,300.93	34,149.16
Less: cash at beginning of period	38,486.92	35,497.71
Plus: cash equivalents at end of period		
Less: cash equivalents at beginning of period		
Net increase of cash and equivalents	8,814.01	-1,348.55

**XI. Supplementary Information****1. Details of current extraordinary profit and loss***Unit: RMB*

Items	Amount	Notes
Profits and losses on disposal of non-current assets	26,144,228.41	
Tax return/exemption with ultra vires approval/or no official approval	-	-
Government subsidy taken into profit and loss of the period (closely related to business of the company, except for those enjoyed by certain amount or quantity according to national standards )		
Fund appropriation fees charged over non-enterprise taken into profit and loss of the period	-	
Revenue generated when cost of investment is less than recognizable fair value enjoyed of acquiring subsidiary, joint venture or joint operation	-	
Profit and loss of non-monetary asset swap	-	
Profit and loss entrusting third party to invest or manage asset	-	
Provisions for devaluation of assets due to force majeure such as natural disaster	-	
Profit and loss on debt restructuring	-	
Expenses of reorganization of enterprise, such as accommodation of employees, integration	-	
Profit and loss over difference between fair value and inappropriate transaction price	-	
Net profit & loss of the period of subsidiaries under the same controlling party	-	
Profit and loss by contingent events non-related to normal business of the company	-	
Except for effective hedging, profit and loss of holding transactional financial assets, of variation of fair value of financial assets, of disposal of financial assets, transactional financial liabilities, saleable financial assets	-	
Reverse of account receivable provision by single devaluation test	-	
Profit and loss on entrusted loans	-	
Profit and loss by follow-up fair value of invested real estate	-	
Impact on profit and loss of the period by one-time adjustment according to Law of tax, of accounting, and legal regulations	-	
Trustee fee by entrusted operations	-	
Non-operating income or cost except items above	5,681.60	
Other items complied with definitions of extraordinary profit and loss	-	
Effect on income tax	1,420.40	
Impact on minority interests (after tax)		
<b>Total</b>	<b>26,148,489.61</b>	



## 2. Difference on figures by domestic and foreign accounting standards

### (1) Difference in net profit and net asset in financial reports by the Hong Kong Financial Reporting Standards and the PRC Accounting Standards

Unit: RMB

	Net profit		Net asset	
	Amount of the period	Amount of last period	Closing balance	Opening balance
Under the PRC Accounting Standards	19,125,898.98	443,144.24	335,025,828.12	316,776,964.36
Adjusted items and amounts under the Hong Kong Financial Reporting Standards:				
Intangible assets-utility model and software amortization		22,500		
Under the Hong Kong Financial Reporting Standards	19,125,898.98	465,644.24	335,025,828.12	316,776,964.36

### (2) There was no difference in accounting data under the domestic and foreign accounting standards.

## 3. Return on net assets and earnings per share

Unit: RMB

Profit in the period	Weighted average net assets return ratio (%)	Earnings per share	
		Basic earnings per share	Diluted earnings per share
Net profit attributable to common shareholders of the Company	19,495,121.58	0.0223	0.0223
Net profit attributable to common shareholders of the Company after extraordinary items	(6,653,368.03)	-0.0076	-0.0076





## 4. Explanation to extraordinary matters and reasons

Unit: RMB

Items	Variation between beginning and end of period	Variation between beginning and end of period	Notes
Monetary fund	-39,980,632.98	-53.46%	The reduction of monetary fund was mainly due to repayment of borrowings and loans
Other receivables	5,932,847.51	38.89%	The increase of other receivables was due to the increase of borrowings for staff and bid deposits compared with the beginning of the year
Short-term borrowings	-12,000,000.00	-35.29%	The reduction of short-term borrowings was due to repayment of bank loans
Advance from customers	-57,332,257.30	-82.66%	Disposal of equity interest offset some advance from customers
Employee compensation payable	-2,364,631.64	-54.21%	The reduction of the employee compensation payable was due to payment of social insurance premiums
Financial expenses	-459,885.18	-36.61%	The reduction of financial expenses was due to the decrease of bank loans
Losses on assets depreciation	3,855,618.28	100%	The increase of the losses on assets depreciation was mainly due to the provision of bad debt that had been made in the year but needn't to be made in previous year
Investment income	24,912,494.32	-	Increase of investment income was mainly due to disposal of equities but there was no similar income of last year

Legal representative: 苏伟国 Chief financial officer: 刘桐彦 Chief accounting officer: 王洪玲  
 Su Weiguo Liu Tongyan Wang Hongling

Date: 12 August 2011

## FINANCIAL STATEMENT

Consolidated Financial statements prepared under the Hong Kong Financial Reporting Standards (unaudited)

### Condensed consolidated income statement

For the six months ended 30 June 2011

	For the six months ended 30 June	
	2011	2010
	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
<b>Turnover</b>	145,730	146,384
Cost of sales	(104,749)	(107,346)
Gross profit	40,981	39,038
Other income	26,274	94
Sales expenses	(18,920)	(14,064)
Administrative expenses	(25,699)	(20,641)
<b>Profit from operations</b>	22,635	4,302
Financial cost	(906)	(1,256)
Investment income from associates	(1,732)	(489)
<b>Profit before taxation</b>	19,997	2,557
Taxation	(871)	(2,091)
Profit after taxation	(19,126)	466
Minority interests	(369)	(85)
Net profit attributable to shareholders	19,495	551
<b>Earnings per share — basic</b>	2.23 cent	0.06 cent

**Condensed Consolidated Comprehensive Income Statement**

For the six months ended 30 June 2011

	For the six months ended 30 June	
	2011	2010
	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
Profit of current period	19,126	466
Exchange differences arising on translation of foreign operations other comprehensive loss during the reporting period	(877)	(1,049)
Total of comprehensive income	18,249	(583)
Of which:		
Profit attributed to shareholders of the parent company	18,618	(498)
Minority interests	(369)	(85)

## Condensed Consolidated Balance Sheet

As at 30 June 2011

	At 30 June 2011	At 31 December 2010
	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(Unaudited)</i>	<i>(Audited)</i>
<b>Non-current assets</b>		
Property, plant and equipment	72,634	75,456
Prepaid lease payments	4,674	4,742
Interests in associates	55,220	55,226
Available-for-sale investments	211,967	213,538
Other prepayments	408	3,999
Deferred tax assets	13,443	12,730
	358,345	365,691
<b>Current assets</b>		
Inventories	72,663	97,011
Accounts receivables and other receivables	276,105	278,463
Non-current assets to be disposed	0	0
Pledged bank deposits	19,034	20,096
Bank balance and cash	15,775	53,884
	383,577	478,646
<b>Current liabilities</b>		
Amounts due to associates	665	9,670
Accounts payable to the investees	9,252	9,252
Accounts payables and other payables	225,926	317,355
Bank borrowings	22,000	34,000
Provision for litigation losses	9,252	9,252
Financial guarantee contracts	84,722	84,722
Government grants	468	468

**Condensed Consolidated Balance Sheet (Continued)**

As at 30 June 2011

	At 30 June 2011	At 31 December 2010
	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(Unaudited)</i>	<i>(Audited)</i>
Tax payable	(6,645)	2,127
	345,640	466,846
<b>Net current assets</b>	<u>37,936</u>	<u>11,800</u>
<b>Total assets less current liabilities</b>	<u>396,282</u>	<u>377,491</u>
<b>Share capital and reserves</b>		
Share capital	873,370	873,370
Reserves	(539,772)	(558,389)
Equity attributed to equity holders of the parent company	333,598	314,981
Minority interests	<u>1,428</u>	<u>1,796</u>
<b>Total equity</b>	<u>335,026</u>	<u>316,777</u>
Non-current liabilities		
Amounts due to associates	-	-
Accounts payable to the investees	39,964	39,964
Financial guarantee contracts	<u>21,292</u>	<u>20,750</u>
	61,256	60,714
<b>Net assets</b>	<u>335,026</u>	<u>316,777</u>



### Condensed Consolidated Statement of Changes in Equity

	Equity attributed to equity holders of the company											
	Share capital	Statutory Reserves		Capital contribution	Statutory Reserves	Discretionary Reserves	Public welfare reserves	Exchange reserves		Accumulated losses	Minority Interests	
		RMB'000	RMB'000					RMB'000	RMB'000		RMB'000	RMB'000
At 30 June 2011	873,370	511,060	186,419	81,631	32,699	(23,207)	(1,346,991)	314,981	1,796	316,777		
Exchange gains and losses	-	-	-	-	-	(877)	-	-	-	(877)		
Net Profit of current period	-	-	-	-	-	-	19,495	19,495	(369)	19,126		
Total comprehensive income						(877)	19,495	18,618	(369)	18,249		
At 30 June 2011	873,370	511,060	186,419	81,631	32,699	(24,084)	(1,327,496)	333,599	1,427	335,026		
At 1 January 2010	873,370	511,060	186,419	81,631	32,699	(17,922)	(1,348,720)	318,537	2,451	320,988		
Exchange gains and losses	-	-	-	-	-	(1,049)	-	(1,049)	-	(1,049)		
Net Profit of current period	-	-	-	-	-	-	551	551	(85)	466		
Total comprehensive income						(1,049)	551	(498)	(85)	(583)		
Others	-	-	-	-	-	-	-	-	-	-		
At 30 June 2010	873,370	511,060	186,419	81,631	32,699	(18,971)	(1,348,169)	318,039	2,366	303,534		



## Condensed Consolidated Cash Flow Statement

For the six months ended 30 June 2011

	For the six months ended 30 June	
	2011	2010
	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
Net cash outflows (inflows) from operating activities	(23,602)	9,721
Net cash outflows (inflows) from investing activities	(40)	(83)
Net cash outflows (inflows) from financing activities	(13,338)	5,188
Increase (decrease) of cash and cash equivalents	(36,980)	14,826
Cash and cash equivalents at the beginning of the period	53,884	42,181
Effects of exchange rate changes	(1,129)	
Cash and cash equivalents at the end of the period		
Bank balance and cash	15,775	57,007

## II. Notes to the condensed financial statements

The condensed interim financial statements for the six months ended 30 June 2011 of the Company and its subsidiaries (the "Group") are not audited, but have been reviewed and approved by the audit committee.

### (I) Bases of preparation:

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



## (II) Principal accounting policies

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

The accounting policies adopted in preparing interim financial information for the six months ended 30 June 2011 are consistent with those followed in preparing the financial statements for the year ended 31 December 2010.

During the reporting period, the Group has applied the following standards, amendments and interpretations (new HKFRSs) issued by the Hong Kong Institute of Certified Public Accountants (HKICPA) which are or have become effective in the accounting periods beginning on 1 January 2011.

**New standards, amendments and interpretations to standards are mandatory for the first time for the financial year beginning 1 January 2011, which were not related to the Group at present and had no material impact on the results and the financial position of the Group.**

Disclosure under the HKAS 1 (Revised)	and HKFRS 7, and there were some exemption for its first application.
HKAS 24 (Revised)	Connected person Disclosures
HKAS 31 (Revised)	Classification of allotment
HK (IFRIC) - Int 14	Prepayments of a minimum funding requirement
HK (IFRIC) - Int 19	Offset of Financial Liabilities with Equity Instruments

In addition, the HKICPA issued amendments to the existing standards according to the annual improved items. Such amendments are expected to have no material impact on the results and the financial position of the Group, except for the amendment of HKAS 34 Interim Financial Report.

**As for the amendments, new standards and interpretations that have been issued but not yet effective during the accounting period by the end of 30 June 2011, the Directors of the Company anticipate that the application of these new standards, amendment and interpretations will have no material impact on the results and the financial position of the Group.**



**Effective for accounting periods beginning on or after the following date**

HKFRS 12 (Revised) Deferred income tax: recovery of related assets	Effective on or after 1 July 2012
HKFRS 1 (Revised) Disclosures-Financial assets and exemption of requirements on the fixed date for the first adoption.	Effective on or after 1 July 2011
HKFRS 7 (Revised) Disclosures-Transfer of Financial Assets	Effective on or after 1 July 2011
HKFRS 9 Financial Instruments	Effective on or after 1 July 2013
HKFRS 10 Consolidated Financial Statements	Effective on or after 1 July 2013
HKFRS 11 Joint Arrangements	Effective on or after 1 July 2013
HKFRS 12 Disclosure on Equity of Other Entities	Effective on or after 1 July 2013
HKFRS 13 Fair Value Calculation	Effective on or after 1 July 2013

**(III) Segment information**

The Group mainly does business in China through its subsidiaries and associates. According to its internal organization and structure, the Group is mainly engaged in one segment, that is, the production and sale of transmission equipment in China, so it has no segment information presented. Most of the Group's assets and liabilities are in China.

**(IV) Operating profits**

	<b>The Group</b>	
	<b>For the six months ended 30 June</b>	
	<b>2011</b>	<b>2010</b>
	<b>RMB'000</b>	<b>RMB'000</b>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
Operating profits after deducting the following items:		
Depreciation and amortization	5,817	3,567
Recorded as:		
Interest income on bank deposits	110	187



## **(V) Taxation**

Great Talent Technology Co., Ltd is a company wholly owned by the Group, registered in the British Virgin Islands. No domestic income tax is imposed on it. Northeast Electric (HK) Co., Ltd is another wholly owned subsidiary, registered in Hong Kong, with an income rate of 16.5%. Other subsidiaries of the Group are subject to income tax at the statutory rate of 25%.

The Company had no taxable profit for the period (2010: Nil). The charge for the period mainly represents provision for income tax rate calculated upon the assessable income the assessable income of certain PRC subsidiaries.

The Company and its subsidiaries had no taxable profit in Hong Kong; therefore there was no provision for the income tax (2010: Nil).

As at 30 June 2011, the Company and the Group had no significant deferred tax (2010: Nil).

## **(VI) Interim dividend**

No dividends were paid during the period. The directors did not recommend the payment of any interim dividend for the six months ended 30 June 2011.

## **(VII) Earnings per share**

The calculation of earnings per share is based on the net profit attributable to shareholders of RMB 19,495,000 (2010: RMB551,000) and the total number of shares in issue amounting to 873,370,000 shares (2010: 873,370,000 shares) at the end of the period.

**(VIII) Accounts receivable and other accounts receivable**

## 1. Accounts and bills receivable

	As at 30 June [2011]	As at 31 December [2010]
	<i>RMB'000</i>	<i>RMB'000</i>
Accounts and bills receivable	244,319	251,303
Less: Impairment loss	(27,571)	(24,660)
Net accounts and bills receivable	216,748	226,643
Amounts due from Bengang Group	76,090	76,090
Other receivables	56,284	43,819
Less: Impairment loss	(105,600)	(104,655)
Other receivables, net	26,774	15,254
Prepayment	25,012	32,418
Less: Prepayment over 1 year	(408)	(3,999)
Dividends receivable	7,979	8,147
	32,583	36,566
Accounts receivable and other Accounts receivable, net	276,105	278,463

The directors considered that the book values of account receivable and other receivables were close to their fair values. The Group does not hold any collateral over all the receivable balances.

The credit terms given to the customers vary depending on the sales contracts signed with individual customers and are generally based on their financial strengths. The following are the ages of receivable account and bills:

	<b>The Group</b>	
	<b>As at 30 June 2011</b>	<b>As at 31 December 2010</b>
	<b>RMB'000</b>	<b>RMB'000</b>
Within one year	197,678	194,810
1 to 2 years	8,384	19,701
2 to 3 years	14,047	12,261
Over three years	24,210	24,531
	244,319	251,303

The amounts within 1 year presented in the aging analysis above represented accounts and bills receivable that are neither past due nor impaired.

There is no account receivable that is overdue or necessary for impairment. The credit quality is determined by the past collection records and the rate of customer's bad account. The existing customers have no significant default in payment.

On 30 June 2011, the impairment provision of total account receivable and other accounts receivable is RMB133,171,000 (2010: RMB129,315,000). The individually impaired receivables mainly related to debtors, which are in unexpectedly difficult economic situations. It was assessed by the directors that only few parts of the receivables is expected to be collected. The analysis of the age of these receivables is as follows:

	<b>The Group</b>	
	<b>As at 30 June 2011</b>	<b>As at 31 December 2010</b>
	<b>RMB'000</b>	<b>RMB'000</b>
Within one year	-	
1 to 2 years	95	3,479
2 to 3 years	8,273	24,171
Over three years	124,803	101,665
	133,171	129,315

**The changes in the impairment loss are as follows:**

	As at 30 June 2011	As at 31 December 2010
	<i>RMB'000</i>	<i>RMB'000</i>
As at 1 January	129,315	121,447
Impairment loss recognized	3,856	7,868
Accounts unrecoverable repealed	-	
At the end of the period	133,171	129,315

**(IX) Accounts payable and other accounts payable**

	As at 30 June 2011	As at 31 December 2010
	<i>RMB'000</i>	<i>RMB'000</i>
Accounts and bills payable	132,591	187,578
Other accounts payable	93,335	129,777
Total accounts payable and other accounts payable	225,926	317,355

**The analysis of the age of accounts and bills payable is as follows:**

	As at 30 June 2011	As at 31 December 2010
	<i>RMB'000</i>	<i>RMB'000</i>
Within one year	118,948	169,725
1 to 2 years	8,427	3,386
2 to 3 years	860	10,103
Over three years	4,356	4,364
Total	132,591	187,578



The directors considered that the book values of account payable and other receivables were close to their fair values.

The average credit term for purchases of goods is six months. The Group has proper financial risk management policies to ensure that all of the accounts payable can be paid within the credit term.

98% of accounts payable and other accounts payable of the Group are denominated in RMB.

## (X) Share capital

Changes in share capital structure are as below from 31 December 2010 to 30 June 2011:

Unite: RMB

Items	Amount at the beginning of the period	Increase/decrease during the period (+, -)					Amount at the end of the period
		Allotment	Bonus	Capitalization of surplus reserve	Others	Subtotal	
I. Shares subject to trading moratorium							
1. State-owned legal-person shares	-	-	-	-	-	-	-
2. Other domestic shares	218,255,650.00	-	-	-	-212,025,650.00	-212,025,650.00	6,230,000.00
Including : domestic legal person share	218,255,650.00	-	-	-	-212,025,650.00	-212,025,650.00	6,230,000.00
Total of shares subject to trading moratorium	218,255,650.00	-	-	-	-212,025,650.00	-212,025,650.00	6,230,000.00
II. Shares not subject to trading moratorium							
1. Common shares in RMB (A shares)	397,164,350.00	-	-	-	212,025,650.00	212,025,650.00	609,190,000.00
2. Foreign shares listed overseas (H shares)	257,950,000.00	-	-	-	-	-	257,950,000.00
Total shares not subject to trading moratorium	655,114,350.00	-	-	-	212,025,650.00	212,025,650.00	867,140,000.00
III. Total shares	873,370,000.00	-	-	-	-	-	873,370,000.00

**(XI) Post balance sheet events and contingencies**

## 1. Post balance sheet events

Nil.

## 2. Contingencies

## (1) Contingent liabilities due to unsettled litigation and arbitration and impact to financial reports

China Great Wall Asset Management Corp Shenyang Rep. Office (the "Great Wall Asset") sued Shenyang High-voltage Switchgears Limited (hereinafter referred to as 'Shenyang High-Voltage') for infringement of loan contract.

Shenyang High-Voltage has signed 41 loan contracts during the period 1986 to 2003 with ICBC Liaoning Province Branch Shenyang Shifudalu Sub-branch and other financial institutions, totaling loans of RMB351.75 million. On 15 July 2005, ICBC Liaoning Province Branch signed Transfer of Creditor's Rights with Great Wall Asset, transferring the relative rights. Shenyang High-Voltage started up joint ventures with tangible assets and land use rights in 2003 and 2004 respectively, which were New Northeast Electric Group Ultra High-voltage Isolators Switchgears Limited (the "New Shen High"), New Northeast Electric (Shenyang) High-voltage Isolators Switchgears Limited Co Ltd ("NNE Isolators"), Shenyang Suntime Storage and Logistics Co Ltd (the "Suntime Storage") and Shenyang Chengtai Energy Co Ltd.(the "Chengtai Energy"). The Company has acquired shares of NNE (Isolators), Suntime Storage and Chengtai Energy in 2004. Great Wall Asset sued Shenyang High-Voltage to Liaoning Provincial High Court (hereinafter referred to as "Liao High Court") for repayment of RMB351.75 million on 24 February 2009, and again on 18 May 2009 applied to charge the Company for Related Party Transaction and Apparent inappropriate consideration of equity swap, demanding the Company undertake joint liability for Shenyang High-Voltage loans. The Company has received subpoena for court appearance (Ref. (2009) Liao Min Er Chu Zi No.12) from Liao High Court on 21 July 2009. On 15 December 2010, Liaoning Higher Court issued the civil written order ((2009) Liao Min Er Chu Zi No.12) and rejected Great Wall Asset's appeal. If Great Wall Asset objected to this order, they may appeal for retrial by providing facts, evidence and relative ground. On 11 February 2011, Great Wall Asset appealed to the Supreme Court of the People.

On 20 July 2011, the Company received from its lawyer the civil judgment ((2011) Min Er Zhong Zi No.44). The court quashed the civil judgment ((2009) Liao Min Er Chu Zi No.12) issued by Liaoning High People's Court and remanded the case to Liaoning High People's Court for retrial.



According to the legal advice of Liaoning Wang, Wu, Yang and Ma Law Office, Chinese legal adviser of the Company, Great Wall's claim against the Company to bear joint liability has no facts and legal basis.

The Company's judgment of the case: on the basis of the economic ties between the Company and Shenyang High-voltage as well as the legal advice of the lawyer, the Company shall not become a defendant of the Shenyang High-voltage litigation, and shall not bear joint liability for the compensation, and the litigation will not have an impact on the Company's financial situation and its current profits.

- (2) Contingent Liability by providing guarantee and impact on financial reports
- (1) As at 30 June 2011, the Company has provided guarantee for New Northeast Electric Group Ultra High-voltage Equipment Co Ltd, and the actual amount occupied by the borrower was RMB22,745,000.
- (2) It was estimated that the contingent liabilities by providing guarantee for other units was RMB84,722,000.
- (3) Other contingent liabilities and impact on financial reports:
- (1) As at 30 June 2011, RMB2,815,000 of undue bank accepted bills has been endorsed by the Company.
- (2) As at 30 June 2011, the Company has issued Performance Bonds of RMB19,034,000.

## (XII) Related transactions

### 1. Controlling shareholders of the Group:

Name of related party	Place of registration	Principal activities	Relationship	Nature	Shareholding ratio
New Northeast Electric Investment Co., Ltd	Yingkou, the PRC	Equity investment, etc.	Single top1 shareholder	Limited company	24.06%

### 2. Associates with transactions:

Great Power Technology Limited	British Virgin Islands	Investment	Associate	Limited company	20.8%
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## 3. Creditors' rights and debts between the Group, its associates and subsidiaries during the period:

*Unit: RMB'000*

Name of related party	As at 30 June 2011		As at 31 December 2010	
	Amount	Percentage	Amount	Percentage
<b>Dividends receivable:</b>				
Great Power Technology Limited	7,209	90.34%	7,562	90.56%
<b>Other payables:</b>				
Great Power Technology Limited	665	0.71%	698	0.54%

**(XIII) Other Significant events**

On 15 November 2010, the Company and Sunyork International Limited entered into an equity transfer agreement to transfer 25.6% equity interest in New Northeast Electric (Shenyang) High-Voltage Isolators Switchgears Limited at the consideration of RMB52,800,000. The transaction was completed during the reporting period and realized gains of RMB26,140,000.