

ANNUAL REPORT 2012 年報



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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- (I) The Board of Directors, Supervisory Committee, directors, supervisors and senior management of the Company 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. None of the directors, supervisors and senior management fails to guarantee the truthfulness, accuracy and completeness of the contents of this report.**
- (II) The Company’s Chairman, Su Weiguo, Chief Financial Officer, Liu Tongyan and Head of Financial Section, Wang Hongling represent: guaranteeing the truthfulness and integrity of the financial report of the Annual Report.**
- (III) This report is considered and approved by the first meeting of the seventh session of the board held on 11 March 2013.**
- (IV) The Company proposes not to distribute cash dividend, issue bonus share, or capitalise from capital reserves.**
- (V) The Company’s annual financial report is prepared under the PRC accounting rules and regulations and is audited by Crowe Horwath China CPAs (special general partner) and it issued a standard unqualified audit report.**
- (VI) This report is published in both Chinese and English. If there are any inconsistencies in content, the Chinese version shall prevail in all aspects.**
- (VII) Unless otherwise stated, Renminbi is the only monetary unit in this report.**

1. Legal Chinese name : 東北電氣發展股份有限公司
Legal English name : Northeast Electric Development Company Limited
Chinese abbreviation : 東北電氣
English abbreviation : NEE
2. Legal representative : Su Weiguo
3. Executive Directors : Su Weiguo, Wang Shouguan, Liu Tongyan Liu Qingmin,
Liu Bing
4. Current independent non-executive directors : Wang Yunxiao, Liang Jie, Liu Hongguang
5. Supervisors : Dong Liansheng, Liu Xuehou, Jiao Liyuan
6. Secretary to the Board : Su Weiguo (Acting)
Joint Company Secretary and authorized representative : Chen Yiping
for receipt of summons and notices
Representative for securities affairs : Zhu Xinguang
7. Registered and office address : No. 1, Xintai Road, Xiongyue Town, Bayuquan District,
Yingkou City, Liaoning Province, the PRC
Correspondence address : No. 1, Xintai Road, Xiongyue Town, Bayuquan District,
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Postal Code : 115009
Tel : 0417-6897566 0417-6897567
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Website : www.nee.com.cn
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8. PRC newspapers for information disclosure : “Securities Times”
Website containing the annual report : www.cninfo.com.cn www.hkexnews.hk www.nee.com.cn
Place for inspection of annual report : Office of the Board of Directors

9. Place of listing, stock names and codes

H Share:		A Share:	
Hong Kong Stock Exchange		Shenzhen Stock Exchange	
Stock Name	: Northeast Electric	Stock Name	: *ST東電
Stock code	: 0042	Stock code	: 000585

10. Date of Company’s first registration : 16 February 1993
Place of registration : No. 18, North Er Zhong Road, Tie Xi District, Shenyang,
Liaoning Province, the PRC
Date of the Company’s latest change of registration : 9 May 2011
Place of registration : No. 1, Xintai Road, Bayuquan District, Yingkou City,
Liaoning Province, the PRC
Registered number of corporate legal person business : 210100402002708
licence
Registered taxation number : 210804243437397
11. Auditing institutions
Domestic auditors : Crowe Horwath China CPAs (special general partner)
Office address : No 2 building, No 16 Yard, West fourth ring middle Road,
Hai Dian District, Beijing

SUMMARY OF ACCOUNTING DATA AND FINANCIAL INDICATORS

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

	<i>Unit: RMB</i>
Operating profit	6,562,419.24
Total profit	12,895,757.30
Net profit attributable to shareholders of listed company	11,140,994.81
Net profit attributable to shareholders of listed company after extraordinary items	680,708.05
Net cash flow arising from operating activities	-3,353,695.97

Note: After extraordinary items and the related amount:

<i>Unit: RMB</i>		
Extraordinary items	Amount	Cause
Profit and loss on disposal of non-current assets	76,285.56	
Profit on debt restructuring	6,993,929.00	Profit on debt restructuring arising from repayment of Liaoning Shun Loong Trading
Reversal of account receivable provision by single devaluation test	5,250,022.47	Reversal of provision for bad debts for Jinzhou Power Capacitors Limited
Other non-operating income and expense	-736,876.50	
Effect of income tax	1,123,073.77	
Total	10,460,286.76	

(II) Principal accounting data and financial data in the past three years prepared under the PRC accounting rules and regulations
1. Principal accounting data
Unit: RMB

	Increase/ decrease of the			2010
	2012	2011	year over last year (%)	
Total operating revenues	217,220,841.81	248,679,812.93	-12.65	348,449,492.28
Operating profit	6,562,419.24	-37,892,782.85	-	-4,923,564.07
Total profit	12,895,757.30	-28,055,211.73	-	-5,095,127.19
Net profit attributable to shareholders of listed company	11,140,994.81	-32,197,171.37	-	-8,559,879.24
Net profit attributable to shareholders of listed company after extraordinary items	680,708.05	-42,042,803.20	-	-8,435,362.90
Net cash flow arising from operating activities	-3,353,695.97	-33,808,267.97	90.08	27,303.40

	Increase/decrease at			As at the end of 2010
	As at the end of 2012	As at the end of 2011	the end of 2012 over the end of 2011 (%)	
Total assets	498,205,496.54	557,054,235.74	-10.56	844,337,174.25
Total liabilities	225,185,546.83	295,048,253.81	-23.68	537,804,076.66
Shareholders' fund attributable to shareholders of listed company	271,782,480.71	260,663,611.50	4.27	304,735,739.20
Share capital	873,370,000.00	873,370,000.00	0	873,370,000.00

SUMMARY OF ACCOUNTING DATA AND FINANCIAL INDICATORS (Continued)

2. Principal financial indicators

Unit: RMB

	2012	2011	Increase/ decrease of the year over last year (%)	2010
Basic earnings per share (RMB/Share)	0.01	-0.04	-	-0.01
Diluted earnings per share (RMB/Share)	0.01	-0.04	-	-0.01
Basic earnings per share after extraordinary items (RMB/Share)	0.001	-0.05	-	-0.01
Earnings/net assets ratio (weighted average) (%)	4.18	-11.39	-	-2.75
Earnings/net assets ratio after extraordinary item (weighted average) (%)	0.26	-14.87	-	-2.71
Net cash flow from operating activities per share (RMB/Share)	-0.0038	-0.0387	90.08	0.000031
	As at the end of 2012	As at the end of 2011	Increase/decrease at the end of 2012 over the end of 2011 (%)	As at the end of 2010
Net assets per share attributable to shareholders of listed company (RMB/Share)	0.31	0.30	3.73 decreased by 7.77 percentage points	0.35
Gearing ratio (%)	45.20	52.97		63.70

3. Asset Impairment Provision

As at 31 December 2012

Unit: RMB

Item	Opening balance	Increase in current period	Decrease in current period		Total	Closing balance
			Transfer in due to recovery of assets value	Transfer in due to recovery of assets value		
I. Bad debt preparation in total	131,678,444.69	8,848,435.89		7,254,276.14	7,254,276.14	133,272,604.44
Including: Accounts receivable	26,683,512.34	8,735,331.10				34,774,960.24
Other receivables	104,994,932.35			7,254,276.14	7,254,276.14	98,384,539.41
Prepayments		113,104.79				113,104.79
II. Short-term investment devaluation preparation in total						
Including: Investment in equity						
Investment in bond						
III. Inventory devaluation preparation in total	2,512,204.54	81,573.07		10,264.39	10,264.39	2,583,513.22
Including: Merchandise inventory	2,430,454.87	81,573.07				2,512,027.94
Product in production						
Raw material	81,749.67			10,264.39	10,264.39	71,485.28
IV. Long-term investment devaluation preparation in total	19,000,058.01	2,091,812.14				21,091,870.15
Including: Long-term investment in equity	19,000,058.01	2,091,812.14				21,091,870.15
Long-term investment in bond						
V. Fixed assets devaluation preparation in total	2,016,111.07			118,481.33	118,481.33	1,897,629.74
Including: Houses, buildings	317,644.79					317,644.79
Transportation and others	160,000.00			90,000.00	90,000.00	70,000.00
Machinery and equipment	1,538,466.28			28,481.33	28,481.33	1,509,984.95
VI. Intangible assets devaluation preparation in total						
Including: Patent right						
Trade mark right						
VII. Total devaluation preparation for construction in progress						
VIII. Entrusted loan devaluation preparation in total						
IV. Total	155,206,818.31	11,021,821.10		7,383,021.86	7,383,021.86	158,845,617.55

(III) No difference in net profit prepared under PRC GAAP and HKFRS

(I) Discussion and analysis of the senior management

In order to seek a soft landing in 2012, China's economic growth continued to slow down to a record low over three years. Meanwhile, major economies in the world also showed relatively slow performance. As for the electric power industry, the national power grid construction completed investment of RMB 369.3 billion, a slight increase of 0.2% year-on-year, significantly lower from last year and the "11th Five-Year Plan" period.

During the reporting period, due to macroeconomic situation and changes in the whole industry, market demand was lower than expectations, leading to decline in the Company's operating results. During the reporting period, the Company posted revenue of RMB 217.22 million, a decline of 12.65% year-on-year; the Company recorded profit attributable to shareholders of the listed company of RMB 11.14 million, an increase of RMB 43.34 million.

During the reporting period, the Company mainly completed the following tasks:

- (1) Achieved stable sales of main products by strengthening market development efforts, actively conducting in-depth market research, grasping market trends in a timely manner, moderately adjusting sales strategies, enhancing sales of key products, development of important customers, and marketing for potential corporate customers, and optimizing contract quality.
- (2) Quality of economic operation improved with the strengthening of internal management. During the reporting period, consolidated gross profit margin has been rising steadily. This is due to optimization of contract quality and strong measures for cost control, which effectively improved product profitability.
- (3) Invested more in technological upgrade to enhance product competitiveness. During the reporting period, in order to achieve sustainable development and expand market, the Company has planned to upgrade production lines and equipment of power capacitors, which will be implemented in the following year. It is expected that the upgrade will dramatically improve product quality, electrical performance, and production efficiency, with higher degree of automation and supporting capacity in production.
- (4) Strengthened internal control and management by constantly improving management systems to enhance core competitiveness. The company has been constantly improving corporate governance and regulating corporate operation in accordance with Company Law, Securities Act, Code of Corporate Governance for Listed Companies as well as relevant laws and regulations of China Securities Regulatory Commission and Shenzhen Stock Exchange. According to ideas and arrangements for the company's development, and in light of the company's status quo of management and development needs, the Company has revised and improved a number of management systems, which laid a solid foundation for internal management and enhanced control ability.

(II) Operation of the Company during the reporting period
1. Scope of principal operations and its operation

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

(2) Operational results for the year

Principal operations and profits from principal operations by business and product segment:

Unit: RMB

By Business or Product	Operating income	Operating costs	Gross profit ratio (%)	Increase/decrease	Increase/	Increase/
				in operating income as compared with last year (%)	decrease in operating costs compared with last year (%)	decrease in gross profit ratio as compared with last year (%)
Principal operations by business						
Electrical transmission and allocation and control facilities manufacturing	217,072,835.43	156,177,240.41	28.05	-12.63	-18.10	Increased by 4.81 percentage points
Principal operations by products						
Power capacitor	113,964,496.29	77,793,794.25	31.74	-31.58	-35.69	Increased by 4.36 percentage points
Enclosed busbars	56,034,663.79	37,990,027.35	32.20	12.05	-6.26	Increased by 13.24 percentage points
High-voltage isolator switchgears	47,073,675.35	40,393,418.81	14.19	47.68	38.31	Increased by 5.81 percentage points
Total	217,072,835.43	156,177,240.41	28.05	-12.63	-18.10	Increased by 4.81 percentage points

(3) Principal operations by region segment

Unit: RMB

Region	Income from principal operations	Increase/decrease in income from principal operations over last year (%)
Northeast	66,998,073.63	214.27
North China (including Shandong)	62,967,325.61	47.41
Central China	15,444,457.47	-83.38
East China	43,565,396.07	99.57
South China	6,811,495.84	-84.27
Southwest	17,765,865.78	-22.33
Northwest	3,520,221.03	0.79
Total	217,072,835.43	-12.65

2. Operations and results of major controlling company and investee company
Unit: RMB0'000

Name	Principal operations	Registered capital	Percentage of share (%)	Total assets	Net assets	Income	
						from principal operations	Net profit
Fuxin Enclosed Busbars Co., Ltd	Enclosed busbars	US\$850	100	11,172	6,381	5,603	334
New Northeast Electric (Jinzhou) Power Capacitors Co., Ltd	Power capacitors and arrester	US\$1545	100	23,146	14,780	11,426	566
Jinzhou Jinrong Electric Co., Ltd	High-voltage capacitor	300	69.75	290	253	-	-34
Shenyang Gaodongjia Desiccation Equipment Co., Ltd	Desiccation equipment	US\$77.85	70	187	157	-	-1
Northeast Electric (Beijing) Co., Ltd	Sales of machinery equipment	200	100	5,493	-867	4,707	-93
Northeast Electric (Hong Kong) Limited	Investment holding and general trading	US\$2000	100	18,637	8,787	-	-256
Great Talent Technology Limited	Investment holding and general trading	US\$1	100	8,514	-6	-	-0.6
Shenyang Kaiyi Electric Co., Ltd	High-voltage equipment	100	100	16,039	-390	-	-228
Shenyang Zhaoli High-voltage Electric Equipment Co., Ltd.	Manufacture of switches controlling equipment	US\$16800	6.89	345,146	90,928	141,745	-7,938
Great Power Technology Limited	Investment holding and general trading	US\$12626	20.8	19,107	19,099	0	-3

3. Major suppliers and customers

Total amount of purchase from the Company's top five suppliers	RMB38,144,500.13	Percentage to the Company's total amount of purchase	28.46%
Total amount of sales to the top five customers	RMB111,396,392.44	Percentage to the Company's total amount of sales	51.28%

(III) INVESTMENTS DURING THE REPORTING PERIOD

1. During the reporting period, the Company had neither raised capital nor situation under which the usage of raised capital prior to the reporting period needed to extend to the reporting period.
2. The investment of non-raised capital, progress and benefits of the main invested projects: Nil.

(IV) FINANCIAL CONDITIONS AND OPERATING RESULTS DURING THE REPORTING PERIOD

1. Table of financial situation and operating results

Unit: RMB

Items	2012	2011	Increase/decrease (±%)
Total assets	498,205,496.54	557,054,235.74	-10.56
Shareholders' equity (excluding minority interests)	271,782,480.71	260,663,611.50	4.27
Operating profit	6,562,419.24	-37,892,782.85	-
Net Profit	11,036,093.38	-32,652,159.33	-
Net increase in cash and cash equivalents	27,327,891.21	-11,788,271.75	-

2. Measurement attribute adopted by the Company's main assets during the reporting period

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

3. Analysis of assets with noticeable changes
Unit: RMB

Item	31 December 2011	31 December 2010	Change (±%)
Cash and deposits	81,295,428.80	56,684,837.59	43.42
Bills receivable	2,694,000.00	100,000.00	2594.00
Prepayments	7,112,829.64	15,295,379.26	-53.50
Other receivables	23,429,153.27	59,400,764.54	-60.56
Dividend receivables	0	7,027,538.11	-100.00

Notes:

- 1) Cash and deposits increased by RMB24,610,591.21 compared with the same period last year due to collection of payments at the end of the year;
- 2) Bills receivable increased by RMB2,594,000.00 compared with the same period last year due to the increase in settlement by banker's acceptance bill at the end of the period;
- 3) Prepayments decreased by RMB8,182,549.62 compared with the same period last year due to the decrease in prepayments for goods in the year;
- 4) Other receivables decreased by RMB35,971,611.27 compared with the same period last year due to collection of equity payments of RMB35,000,000 from New Northeast Electric Group Development Co., Ltd.;
- 5) Dividend receivables decreased by RMB7,027,538.11 compared with the same period last year due to the offset of debts through dividends due from Great Power Technology Limited by a wholly-owned subsidiary, Northeast Electric (Hong Kong) Limited under the agreement on assignment of debt.

4. Analysis of liabilities with noticeable changes
Unit: RMB

Item	31 December 2012	31 December 2011	Change (±%)
Advance from customers	14,395,206.29	36,939,448.50	-61.03
Taxes payable	7,588,667.87	-868,881.41	-

Notes:

- 1) Advance from customers decreased by RMB22,544,242.21 compared with the same period last year due to the decrease in the advances from customers at the end of the year;
- 2) Taxes payable increased by RMB8,457,549.28 compared with the same period last year due to the decrease in VAT and non-payment at the end of the year.

5. Analysis of profit and loss with noticeable changes

Unit: RMB

Item	2012	2011	Change (±%)
Cost of sales	17,710,724.42	31,051,262.05	-42.96
Financial costs	-81,075.26	313,993.12	-
Loss for assets impairment	3,753,766.98	22,746,349.14	-83.50
Return on investments	-6,151.36	-1,595,655.71	-
Non-operating expenses	773,290.48	114,171.43	577.31
Income tax expenses	1,859,663.92	4,596,947.60	-59.55

Notes:

- 1) Expenses of sales decreased by RMB13,340,537.63 compared with the same period last year due to the drop in the Company's sales and strict control over expenses;
- 2) Financial expenses decreased by RMB395,068.38 compared with the same period last year due to the decrease in interest expense;
- 3) Loss on asset impairment decreased by RMB18,992,582.16 compared with the same period last year due to recognition of significant provisions for impairment of long-term equity investments last year;
- 4) Return on investments decreased by RMB1,589,504.35 compared with the same period last year due to the less accounting the equity method applied to associates for accounting in the year than those of last year;
- 5) Non-operating expenses increased by RMB659,119.05 compared with the same period last year due to the substantial liquidated damages made in the year;
- 6) Income tax expenses decreased by RMB2,737,283.68 compared with the same period last year due to the significant income tax expenses resulting from the reversal of the substantial deferred income tax assets last year.

(V) REASONS ON SIGNIFICANT CHANGE IN PROFIT CONSTITUENTS, PRINCIPAL BUSINESS AND ITS STRUCTURE AND PROFITABILITY OF THE PRINCIPAL BUSINESS COMPARED TO THE PREVIOUS REPORTING PERIOD:

There are no material changes in principal business and its structure and profitability of the principal business.

Material changes in profit constituents during this reporting period are attributable to the following reasons:

- (1) Total cost of principal operations during this period, thus increasing profit of the Company;
- (2) Profits increased significantly due to profits on debt reorganization.

(VI) PROSPECT OF THE COMPANY'S FUTURE DEVELOPMENT

1. Industry competitive landscape and development trend

In general, despite the turnaround of domestic and foreign economic environment in 2013, main economies of the world will still grow slowly. Thus, the world economy is transforming into the deep adjustment period from the booming period before the financial crisis and the international market would not go well. As for the electric power industry, the national power grid construction completed investment of RMB369.3 billion in 2012, a slight increase of 0.2% over the same period last year, significantly lower from last year and the "11th Five-Year Plan" period. This indicates that the pace of grid investment and construction has been slowing down. At the same time, a lot of key projects for power supply construction have stopped or postponed delivery in 2012. Therefore, the electrical equipment industry will be exposed to fierce competition, as it is mainly driven by investment in power supply and grid.

2. Development strategy

The Company will actively integrate effective resources, increase investment to boost main business, in order to fundamentally improve its asset quality and profitability, enhance its capacity for sustainable development, comprehensive competitiveness, and risk resistance ability.

3. Operating plan

In 2013, based on industry development and market conditions, the Company will seize opportunities, tap into potentials, improve management, and actively organize production and operations, to fully implement the annual business strategy with stable operation by focusing on the following tasks:

- (1) Further improve the Company's internal control system, to establish and improve corporate management system, and build an internal control system with improved rules and clear process;
- (2) Starting from changes in market demand, the Company will fully tap its potentials to strengthen development and nurturing of the market, constantly improve and innovate marketing model, to establish a multi-layered sales channel;
- (3) Continue to strengthen management and cost control to reduce operating costs and further improve core competitiveness;
- (4) Increase investment in R&D for technological upgrade and streamline the process to maximize the role of technological innovation, tap into equipment potential, improve efficiency, and achieve the best performance of equipment;
- (5) Investigate and explore effective ways and means for asset reorganization, in order to expand scale and benefits of the Company, adjust and improve capital structure, and raise asset quality as well as profitability of unit assets.

(VII) Capital needed by the Company to maintain operations and complete investment projects under construction

In 2013, according to actual situation and requirements for future development, and based on rational use of existing capital, the Company will study and make fund-raising plans through multiple channels and capital use plans, improve efficiency of capital use, and reduce cost of capital, to build a safe and stable capital chain, guaranteeing capital needs of the Company's normal production and operation as well as project construction, and supporting sustainable and healthy development of the Company.

(VIII) Potential risks and corresponding measures**1. Slow industry growth**

National macro policies (such as macro-economic policy, energy policy and environmental protection policy) have made a noticeable impact on the electric equipment industry of the Company. The State will accelerate the growth of strategic new industries including low-carbon economy and new energy, which is bound to affect traditional energy industries. Demands for electric equipment is expected to slow down in the future, thus, making negative impacts on the Company's operating results. Measures: the Company will increase investment in R&D, introduce professionals, improve product technology, and strengthen cost control and management, in order to improve its competitiveness in the industry and secure its position in the market.

2. Market competition

Slowdown in the Chinese economy and penetration of foreign industrial capital will result in fiercer competition among manufacturers in the industry, with risks of the decrease in gross margin. Measures: the Company will flexibly adjust the business strategy to track and capture opportunities in the domestic market and lay more stress on the target of meeting customers' personalized demands; on the other hand, the Company will continue to improve management and regulate internal control, in order to enhance its ability against market risks.

3. Higher costs

As raw materials represent a higher proportion in the Company's costs, volatility of purchasing prices has certain impacts on the its operating results. Measures: the Company will track and analyze price movements of raw materials in a real-time manner, and shore up long-term cooperation with suppliers to enhance bargaining power; meanwhile, the Company will strengthen technological innovation and management innovation, to reduce the risk of rising costs through cost control and management measures such as improvement of material utilization and technological level.

4. Financial risk

With a small operating scale, the Company's profitability is still hovering around at a low level, leading to weak ability to contain risks. This will bring large pressure to the Company's working capital turnover, and may have negative impact on the Company's daily operations and subsequent development strategy. Measures: 1. Strengthen financial management to control capital risk. Focus on capital management by further enhancing collection of accounts receivable, to guarantee the Company's cash flow and prevent financial risks. 2. Strengthen financial control and budget, to improve capital use efficiency, and strengthen calculation and control of production costs and various expenses.

(IX) EXECUTION OF RESOLUTIONS OF GENERAL MEETING BY THE BOARD OF DIRECTORS

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

(X) THE PERFORMANCE OF DUTIES OF THE SPECIAL COMMITTEES OF THE BOARD OF THE COMPANY

The performance of duties of the special committees of the Board of Directors of the Company is detailed in section 5(viii) of this Annual Report.

(XI) FINANCIAL SUMMARIES

The financial summaries are detailed in section 3(1) of this Annual Report.

There is no material difference between PRC Accounting Rules and Regulations and the Accounting Principles Generally Accepted in Hong Kong.

(XII) Reserve

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

(XIII) BANK LOANS AND OTHER LOANS

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

(XIV) Fixed assets

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

(XV) RETIREMENT WELFARE

During the year, the Company adopted Hong Kong Accounting Standard No. 34 “Employee benefits” which standardized the Company’s policy on staff welfare like retirement welfare plans. Since the Company only participated in the staff retirement insurance system regulated by the state government, the application of HKAS No. 34 did not impose significant impact on the Company’s financial status.

(XVI) SHARE CAPITAL

Changes of share capital are detailed in section 6(i) of this Annual Report.

(XVII) PRE-EMPTIVE RIGHT

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

(XVIII) IMPACT OF MEDICAL INSURANCE SCHEME ON THE RESULTS OF THE COMPANY

The scheme did not have any impact on the Company’s results.

(XIX) INCOME TAX: During the reporting period, the applicable income tax of the Company is 25%, and there is no assessable profits in Hong Kong. Please refer to the Notes of “Taxation” to the Financial Statements for details.

(XX) PURCHASE, SALE AND REDEMPTION OF SHARES

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

(XXI) RESOLUTION ON THE CURRENT YEAR'S PROFIT DISTRIBUTION OR THE CONVERSION OF CAPITAL RESERVE INTO SHARE CAPITAL

The Board of the Company proposed to distribute profit ended on 31 December 2012 as follows:

During the reporting period, the Company recorded net profit distributable to shareholders of the listed company of RMB11,140,994.81; and the accrued profit distributable to shareholders at the end of the period was RMB-1,558,580,151.68. Therefore, the Board resolved not to make any profit distribution and not to transfer any capital reserve into share capital during the reporting period.

The Company had no cash dividends in the past three years.

Unit: RMB

Year	Amount (tax included)	Net profit attributable to	Ratio of the cash dividends to the net	Distributable profits for the year
		shareholders of listed company in consolidated financial statements	profit attributable to shareholders of listed company in consolidated financial statements	
2012	0.00	11,140,994.81	0.00%	0.00
2011	0.00	-32,197,171.37	0.00%	0.00
2010	0.00	-8,559,879.24	0.00%	0.00
Ratio of the accumulated cash dividends in the past three years to the average annual net profit recently (%)				0.00%

(XXII) FOREIGN EXCHANGE RISK

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

(XXIII) ANALYSIS OF THE COMPANY'S FINANCIAL STATUS UNDER RULES GOVERNING THE LISTING OF SECURITIES ON HONG KONG EXCHANGE APPENDIX 16

The Company's cash liquidity, financial resources, capital structure and assets pledged during the reporting period:

At the end of the year, the balance of monetary fund was RMB81,300,000.

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

The funds are mainly satisfied by: firstly, the cash flow from the Company's inflow of operating cash; secondly, the borrowings from financial institutions.

At the end of the year 2012, the Company had bank loans amounting to RMB8,000,000, representing 0.02% of the total assets. These bank loans bear fixed interest rate.

The debt equity ratio of the Company was 2.93% (debt equity ratio= total bank loan/total share capital and reserve * 100%).

At the end of the year 2012, the Company had fixed asset and land with net book value of RMB9,420,000 as security.

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 the investment plan of the Group for the following year 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.

Please refer to Notes to the Financial Statements for contingencies.

(XXIV) Independent directors' special representation and independent opinion

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 [2005] No.120), 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:

1. Independent directors' opinion on self-assessment of internal control of the Company

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

2. special representation and independent opinion on foreign guarantee

As at the end of the reporting period, the actual bank loan of external guarantee provided by the Company totaled RMB77,050,000, and so the real amount that the Company should assume responsibility for guarantee was RMB77,050,000, accounting for 29.41% of the audited net assets of the Company for 2012. 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.

3. In the opinion of independent directors, connected transactions of the

Company are fair and reasonable and no insider dealings between the associates of the Company or connected transactions that damage the interests of some of the shareholders or the Company are found. The Company has been operating legally and properly with respect to the financial conditions, transactions of acquisition and disposal of assets and connected transactions.

4. independent opinion on Asset acquisitions and disposals

The independent directors opines that there are no asset acquisition and disposal during the reporting period.

5. Independent opinions on Fund Occupation of Related Parties of the Company

During the reporting period, there are no appropriation of funds by the controlling Shareholders or other subsidiaries for non-operating purposes; the related party occupied the capital of the Company at the end of the reporting period mainly for daily operations, and relevant affairs has fulfilled necessary decision-making process and obligation of information disclosure.

Independent directors will continuously keep en eye on capital flow and the Company's external guarantee, and urge the Company to prevent and control risks, and earnestly protect all shareholders' interest.

6. Independent opinion on the proposal of aggregate remuneration of candidates for the directors and supervisors

The Independent directors has carefully reviewed the Proposal of candidates for Members of the 7th Board, the Proposal of Annual Aggregate Remuneration for Members of the 7th Board and Proposal of the Proposal of Annual Aggregate Remuneration for Members of the 7th Supervisory Committee, and concluded as follows:

- (1) The nomination process of candidates for directors is in compliance with Company Law and Articles of Association;
- (2) After reviewing the candidates' biographies, none of such persons falls within the ambit of articles 57 or 58 of the Company Law and none of them is identified by the China Securities Regulatory Commission as being prohibited from access to the securities market.

- (3) Each candidate for directors have the corresponding qualifications to meet the requirements of relevant responsibilities;
- (4) the Proposal of Candidates for Members of the 7th Board, the Proposal of Annual Aggregate Remuneration for Members of the 7th Board and Proposal of the Proposal of Annual Aggregate Remuneration for Members of the 7th Supervisory Committee are subject to consideration and approval by the General Meeting of Shareholders.

In conclusion, the independent directors agreed to nominate Mr. Su Weiguo, Mr. Wang Shouguan, Mr. Liu Tongyan, Mr. Liu Qingmin and Mr. Liu Bing as executive directors of the seventh Board; Mr. Wang Yunxiao, Ms. Liang Jie, Mr. Liu Hongguang nominated as independent non-executive directors, and the proposal of annual aggregate remuneration subject to consideration by the General Meeting of Shareholders.

As the elected independent directors of the 7th Board of Directors held on 11 March 2013, Wang Yunxiao, Liang Jie and Liu Hongguang delivered special representation and independent opinions on the following matters:

7. Independent opinions on the Renewal of Auditors considered and approved by the first meeting of the seventh session of the Board

Crowe Horwath China CPAs (a special general partner) was appointed as the annual financial report auditor for 2012. According to its performance in auditing the 2012 Annual Report, we believe Crowe Horwath China CPAs (a special general partner) has the strong capacity to fulfill its duties and promptly communicate the issues in auditing. We agreed to renew the contract with Crowe Horwath China CPAs (a special general partner) as the annual financial report auditor for 2013.

8. independent opinion on the Proposal of Net Profit Distribution considered and approved on the 7th session of the first meeting of the board:

During the reporting period, the Company recorded net profit distributable to shareholders of the listed company of RMB111,140,994.81, which was used for covering the deficit of the previous year; and the accrued profit distributable to shareholders at the end of the year was RMB-1,558,580,151.68. Therefore the Board resolved not to make any profit distribution and not to transfer any capital reserve into share capital during the reporting period.

The decision made by the Company's Board that there would be no profit distribution in 2012 is reasonable, and the nonperformance of cash dividend meets the current actual situation of the Company. We have accepted the board's opinion, which will be submitted to the Company's shareholders' meeting for consideration.

9. Independent opinion on the Resolution on Appointment General Manager & Deputy General Manager considered and approved on the 7th session of the first meeting of the board

- (1) The nomination and voting procedures of the senior management comply with relevant laws and regulations in Articles of Association, and is legal and valid;
- (2) Through the review of senior management personnel's biographies, we believe the senior management personnel have the qualifications and work experience; none of them falls within the ambit of Article 147 of the Company Law, and none of them is identified by the China Securities Regulatory Commission as being prohibited from access to the securities market without cancellation, nor are they subject to punishment and penalty by the China Securities Regulatory Commission and Shenzhen Stock Exchange, in compliance with the related requirements on the Company Law and Articles of Association;
- (3) The proposal of appointing the above senior management personnel is approved.

(XXV) Whether the Company prepared and disclosed the profit forecast for the coming year: No.

By order of the Board

Su Weiguo

Chairman

11 March 2013

(I) 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

On 24 February 2009, China Great Wall Asset Management Corp. Shenyang Office (“Great Wall”) brought a lawsuit to Liaoning Higher People’s Court (“Liaoning Higher Court”) against Shenyang High-voltage Switchgear Limited (“Shenyang High-voltage”) for the overdue liabilities of Great Wall, requesting the court to order Shenyang High-voltage to repay the liabilities including the principal of RMB 351,750,000 and its interest.

On 11 August 2009, the Company received from Liaoning Higher Court an indictment and additional defendant application. According to the indictment and additional defendant application, on 18 May 2009, Great Wall brought an additional lawsuit to Liaoning Higher Court against the Company, claiming the Company to bear the joint liability.

According to the civil written order (2009) Liao Min Er Chu Zi No.12) of the first instance judgment issued by Liaoning Higher Court, 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 filed an appeal to the Supreme People’s Court for the first instance judgment made by Liaoning Higher Court.

On 30 June 2011, the Supreme People’s Court of the People’s Republic of China issued the civil judgment (2011) Min Er Zhong Zi No.44 to quash the civil written order (2009) Liao Min Er Chu Zi No.12 and remand the case to Liaoning High People’s Court for retrial.

According to the civil written order (2011) Liao Min Er Chu Zi No.31) of the first instance judgment issued by Liaoning Higher Court, 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 filed an appeal to the Supreme People’s Court for the retrial. judgment made by Liaoning Higher Court. The case is currently under hearing.

Please refer to the announcements dated 12 August 2009, 16 February 2011, 20 July 2011, 29 January 2012 for details.

To the best knowledge of the directors, the Company did not have any material pending or threatened litigations or claims except the litigations above.

(II) ACQUISITION AND DISPOSAL OF ASSETS DURING THE REPORTING PERIOD**(III) DURING THE REPORTING PERIOD, THE COMPANY HAS NO INVESTMENT IN SECURITIES**

(IV) During the reporting period, the Company had not held any shares of other listed companies or any equities of such financial enterprises as commercial banks, securities companies, insurance companies, trust companies and futures companies. In addition, the Company had not shared in any proposed listed companies.

(IV) CONNECTED TRANSACTION

During the reporting period, there were no connected transactions nor had creditor rights and debt with connected parties at the end of the reporting period.

(VI) USE OF CAPITAL FOR CONNECTED PARTIES

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

(VII) SIGNIFICANT CONTRACTS AND THEIR EXECUTIONS

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

2. Guarantees:

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

As at the end of the reporting period, the actual bank occupation of external guarantee amount provided by the Company totaled RMB77,050,000, so the real amount that the Company should assume responsibility for guarantee was RMB77,050,000. The total guarantee amount represented 29.41% of the audited net assets of the Company for 2011.

(1) External guarantees of the Company

By the end of 2012, the actual occupation of external guarantee amount was RMB77,050,000, including 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.

(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 20.29% of the audited net assets of the Company for 2012, which was translated into liabilities in total in 2007.

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

(VIII) IMPLEMENTATION OF COMMITMENTS OF THE COMPANY, SHAREHOLDERS AND ACTUAL CONTROLLERS

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 Shenzhen Stock Exchange will not be less than RMB5 per share.

During the reporting period, New Northeast Electric Investments Co., Ltd. has strictly fulfilled the above commitments.

(IX) EMPLOYMENT AND DISMISSAL OF CERTIFIED PUBLIC ACCOUNTANT

Please refer to Annual Report section V (XVI) 4.



- (X) **THE COMPANY HAS NOT ISSUED ANY EQUITY INCENTIVE PLANS**

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

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

- (XIII) **DURING THE REPORTING PERIOD, THE COMPANY AND ITS SUBSIDIARIES HAVE NOT BEEN INCLUDED IN THE LIST OF POLLUTING ENTERPRISES RELEASED BY ENVIRONMENTAL PROTECTION DEPARTMENT. THERE IS NO MATERIAL ENVIRONMENTAL PROTECTION ISSUES AND OTHER SOCIAL SECURITY ISSUES IN THE COMPANY.**

- (XIV) **RECEPTION TO THE ACTIVITIES OF FIELD SURVEY, COMMUNICATION AND INTERVIEW DURING THE REPORTING PERIOD**

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

(XV) Announcement index on major matters in 2012

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, www.hkexnews.hk and www.nee.com.cn for details. The major information is disclosed as follows:

Publishing Date	Item
28 February 2012	Relocation Announcement
21 March 2012	Announcement for Litigation Progress
30 March 2012	Summary of Annual Report 2011
25 April 2012	The First Quarterly Report of 2012
16 May 2012	Notice of General Meeting of Shareholders Resolution of 2011
23 August 2012	Interim Results Forecast of 2012
11 October 2012	Resolutions Passed at the First Extraordinary General Meeting of 2012
16 October 2012	Announcement of Changes of Auditors of 2012
26 October 2012	The Third Quarterly Report of 2012

(XVI) SUBSEQUENT EVENTS:**1. Re-election and resignation of directors, supervisors and senior management**

As approved by the General Meeting of the Board held on 14 January 2013, due to expiration of the term of office, Mr. Wu Qicheng and Xiang Yongchun resigned as independent directors; Mr. Su Weiguang, Mr. Wang Shouguan, Mr. Liu Tongyan, Mr. Liu Qingmin, and Mr. Liu Bing were nominated as candidates for executive directors of the seventh session of the board of directors; Mr. Wang Yunxiao, Ms. Liang Jie and Mr. Liu Hongguang were nominated for candidates for independent directors of the seventh session of the board of directors, with the term of office to 10 March 2016.

As approved by the Meeting of Supervisory Committee held on 14 January 2013, due to expiration of the term of office, Mr. Bai Lihai resigned as Supervisor; Mr. Dong Lian Liansheng and Ms. Jiao Liyuan were nominated as candidates for Supervisors of the seventh session of Supervisory Committee, with the term of office to 11 March 2016; Meanwhile, Mr. Liu Xuehou was elected as the Supervisor representing staff of the the seventh session of Supervisory Committee.

The aforesaid matters have been considered and approved by the First Extraordinary General Meeting of 2013 held on 11 March 2013 (please refer to the announcement dated 14 January/11 March 2013 for details).

2. Appointment of Board of Directors

As approved by the the Board meeting held on 11 March 2013, Mr. Su Weiguo and Mr. Wang Shouguan were elected as Chairman and Vice Chairman respectively; the term of office is the same as the Board (i.e. from 11 March 2013 to 10 March 2016, the same below).Mr. Wang Shouguan is appointed as General Manager of the Company and Mr. Liu Tongyan is appointed as Assistant General Manager and Financial Controller,; Chairman, Mr. Su Weiguo will act on behalf of the secretary to the Board, till the Company officially appoints the secretary to the Board; Mr. Zhu Xinguang is appointed as Securities Affairs Representative.

3. Special Committee Members of the Board.**(1) Strategic Development Committee**

Presiding member: Mr. Su Weiguo

Members: Mr. Wang Shouguan Mr.Liu Tongyan Mr. Liu Qingmin Mr.Liu Bing

(2) Investment Management Committee

Presiding member: Mr. Su Weiguo

Members: Mr.Wang Shouguan Mr. Liu Hongguang Mr.Liu Tongyan Mr.Liu Bing

(3) Nomination Committee

Presiding member: Mr. Su Weiguo

Members: Mr.Wang Yunxiao Mr. Liu Hongguang

(4) Remuneration Committee

Presiding member: Wang Yunxiao

Members: Mr. Wang Shouguan Mrs. Liang Jie

(5) Audit Committee

Presiding member: Wang Yunxiao

Members: Mrs. Liang Jie Mr. Liu Hongguang

4. Changes of Auditors

To improve the efficiency of information disclosure and reduce information disclosure costs, as reviewed by the Board meeting dated 14 January 2013, it was proposed to the general meeting to remove Pengcheng CPAs and THKC respectively as the domestic auditors and overseas auditors of the Company and appoint CHCC as the auditors of the Company for the year 2012, to audit the financial statements of the Company in accordance with China Auditing Standards, and prepare financial statements in accordance with China Accounting Standards, and to shoulder the duties as overseas auditors under the Amended Listing Rules of the Stock Exchange (including but not limited to the annual financial report and annual audit of related items).

The aforesaid matters have been approved by the First Extraordinary General Meeting of 2013 held on 11 March 2013 (please refer to the announcement dated 14 January/11 March 2013 for details).

(I) Table of changes in share capital
Unit: share

Class	Shares	Beginning of the year	Change (+/-)	End of the year
1	Shares subject to trading moratorium	5,999,022	0	5,999,022
	State-owned legal person shares	0	0	0
	Public legal person shares	5,999,022	0	5,999,022
2	Shares not subject to trading moratorium	867,370,978	0	867,370,978
	Domestic listed A Shares	609,420,978	0	609,420,978
	Overseas listed H Shares	257,950,000	0	257,950,000
3	Total shares	873,370,000	0	873,370,000

(II) Table of shareholdings of the top ten shareholders

Total number of shareholders at the end of the reporting period was 84,564, including 84,487 shareholders of A shares and 77 shareholders of H shares. Unit: share

Shareholdings of the top ten shareholders
Unit: share

Name of shareholders	Nature of shareholder	Percentage	Number of shares held at the end of the year	Number of untradeable shares	Number of shares pledged or frozen
HKSCC Nominees Limited	Foreign natural person	28.35%	247,579,998	0	0
New Northeast Electric Investments Co., Ltd.	Domestic non-state-owned legal person	24.06%	210,113,872	19,022	110,000,000
Shenzhen Zhongda Software Development Co., Ltd	Domestic non-state-owned legal person	0.41%	3,550,000	3,550,000	0
Hu Li	Domestic natural person	0.25%	2,157,960	0	0
Wang Qiusheng	Domestic natural person	0.23%	2,006,600	0	0
Guaranteed securities accounts of customer credit trading of China Investment Securities Co., LTD	Domestic non-state-owned legal person	0.19%	1,652,500		
Xu Yipin	Domestic natural person	0.19%	1,647,295	0	0
Wang Dawei	Domestic natural person	0.19%	1,620,170	0	0
Wu Jizhen	Domestic natural person	0.18%	1,564,621	0	0
Shanxi Qinjian Science and Technology Investment Co., Ltd	Domestic non-state-owned legal person	0.16%	1,420,000	1,420,000	0

Note:

- 1) *So far as the Company is aware, there is no connected relationship among the top ten shareholders or are parties acting in concert as required in "Methods of Information Disclosure of Shareholding Changes of Listed Companies".*
- 2) *On 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 62,860,000 A shares subject to trading moratorium have been frozen since 29 December 2012. 3) 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 47,140,000 A shares subject to trading moratorium have been frozen since 29 December 2012.*
- 4) *Save as disclosed above, Directors were not aware of any person (not being a Director, supervisor or chief executive of the Company) had any interests or short positions in the shares or underlying shares of the Company which were required to be notified to the Company under the provisions of Divisions 2 and 3 of Part XV of the Securities and Futures Ordinance ("SFO") or which were required to be recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.*
- 5) *Purchase, sale or redemption of the Company's listed securities*
During the reporting period, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's shares.
- 6) *Pre-emptive rights*
There is no provision for pre-emptive rights under the laws of the PRC and the Articles of Association of the Company.
- 7) *Convertibles, options, warrants or other similar rights*
As of 31 December 2012, the Company did not issue any convertible securities, options, warrants or any other similar right.

(III) Information on the controlling shareholder and the actual controller

Name of the controlling shareholder : New Northeast Electric Investment Co., Ltd

Legal representative : He Yaohui

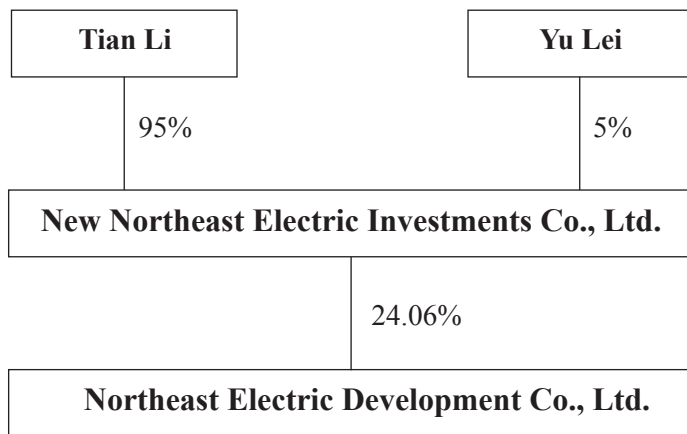
Incorporation date : 8 February 2002

Registered capital : RMB135 million

Scope of business : Investment holding, trading of motors and spare parts, electrical and mechanical equipment, metals and electrical appliances, wires and cables, electrical transmission and transformation equipment, building materials, materials, rubber products, plastic products, livestock produces, necessities products, wholesaling and retailing of knitting and weaving products, science and technology development.

Equity structure : Ms. Tian Li, the natural person, contributed RMB128,250,000, representing 95% of the registered capital;
Mr. Yu Lei, the natural person, contributed RMB6,750,000, representing 5% of the registered capital.

(IV) Framework of asset rights and controlling relationship between the Company and the actual controller



(V) INTRODUCTION TO OTHER CORPORATE SHAREHOLDERS HOLDING OVER 10% OF THE COMPANY'S SHARES:

During the reporting period, there have been no corporate shareholders holding over 10% of the Company's shares in the Company.

(I) PROFILE OF DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT

1. Basic information

Name	Sex	Age	Position	Terms of office	Number of shares held at the beginning of the year	Number of shares held at the end of the year	Remuneration (RMB0'000)
Su Weiguo	M	51	Chairman	2010/3/8-2013/3/7	0	0	280,169.57
Wang Shouguan	M	69	Vice Chairman	2010/3/8-2013/3/7	0	0	85,714.32
			Director/Vice general manager				
Liu Tongyan	M	45		2011/5/6-2013/3/7	0	0	225,861.87
Liu Qingmin	M	50	Director	2010/3/8-2013/3/7	0	0	144,970.62
Liu Bing	M	45	Director	2011/5/6-2013/3/7	0	0	240,551.60
Wu Qicheng	M	68	Independent Director	2010/3/8-2013/3/7	0	0	43,650.79
Xiang Yongchun	M	70	Independent Director	2010/3/8-2013/3/7	0	0	43,650.79
Wang Yunxiao	M	67	Independent Director	2010/3/8-2013/3/7	0	0	43,650.79
			Chairman of the Supervisory Committee				
Dong Liansheng	M	66		2010/3/8-2013/3/7	0	0	0
Liu Xuehou	M	57	Supervisor	2010/3/8-2013/3/7	0	0	142,979.60
Bai Lihai	M	36	Supervisor	2010/3/8-2013/3/7	0	0	166,316.23

Note:

- 1) *The remuneration of these staff includes all kinds of insurance and accumulation fund paid in accordance with the state and local policies. The total remuneration of top five persons amounts to RMB1,057,900.*
- 2) *None of directors, supervisors and senior management had been granted equity interest as an incentive by the Company during the reporting period.*
- 3) *As at the balance sheet date or at any time during the year, none of the directors and supervisors of the Company was directly or indirectly interested in any material contract of the Company other than the service contracts of directors and supervisors.*
- 4) *Save as disclosed above, none of any other directors, supervisors and senior management of the Company or their respective associates was granted by the Company or its subsidiaries any right to acquire shares or debentures of the Company or had exercised any such right as at 31 December 2012.*
- 5) *Save as those set out in the register required to be maintained by directors and supervisors under the SFO of Hong Kong, during the year, the Company did not engage in any arrangement which would enable the directors or supervisors of the Company or any other corporation to acquire any interest in any shares or debt securities of the Company, nor did the directors or supervisors had any interest which was required to be recorded in the register under the SFO.*
- 6) *Save as disclosed above, none of the directors, supervisors and senior management or any of their associates, as at 31 December 2012, had any interest in the shares of the Company or its associated corporations (as defined in the SFO). None of the directors and supervisors or their spouse or children under the age of 18 was granted any right to acquire securities of the Company or had exercised any such right.*
- 7) *Save as disclosed above, none of the directors, supervisors and senior management of the Company, as at 31 December 2012, had any interest or short positions in the shares, underlying share and debentures of the Company or its associated corporations (within the meaning of the SFO) which would have to be notified to the Company and the HKSE pursuant to Divisions 7 and 8 of Part XV of the SFO, or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein.*

2. Directors and supervisors holding positions in the shareholders unit

Name	Name of shareholders	Position held	Period of employment
Wang Shouguan	New Northeast Electric Investments Co., Ltd	Vice Chairman	2004/02/14 to 2013/01/31

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

(1) Executive Directors

Mr. Su Weiguo, male, born in 1962, a senior economist, graduated from Harbin University of Science and Technology in Heat Treatment and later from Dalian Marine University in International Economics with a bachelor degree in Engineering and a master degree in Law. He had served as the vice general manager of the Company from July, 1997 to July, 2008. From then until now, he has served as the chairman of the Company.

Mr. Wang Shouguan, male, born in 1944, university graduate, graduated from Beijing Iron and Steel College with major in Metallurgical Machinery Design and Manufacturing. He has served as the vice mayor of Yingkou City, the deputy director of the Department of Foreign Trade and Economic Cooperation of Liaoning Province. Now he is vice chairman of the Company and vice chairman of the New Northeast Electric Investments Co., Ltd, the controlling shareholder of the Company.

Mr. Liu Tongyan, male, born in 1968, graduated from insulation technology and cable studies in Harbin University of Science and Technology. He served as Head of Winding Workshop, Head of Production Section, Director of Production Department, Manager of Super High Pressure Project of Shenyang Transformers Ltd, Director of Human Resource Department of the Company, Executive Director and Senior Engineer of Fuxin Enclosed Busbars Co., Ltd, and Deputy General Manager of New Northeast Electric Group Ultra High-Voltage Equipment Co., Ltd. Currently, he serves as the Deputy General Manager of the Company.

Mr. Liu Qingmin, male, born in 1963, professor senior engineer with a master degree of engineering, graduated from Liaoning Technology & Engineering University specializing in Mechanical Manufacturing in Mechanical Department. He has served as engineer of Technical Section, head of the Sales Department, chief engineer, deputy general manager and general manager of Fuxin Enclosed Busbars Company Limited. Now he is the chairman and general manager of that company.

Mr. Liu Bing, male, born in 1968, postgraduate in engineering, graduated from Liaoning University of Technology in industrial electric automation in 1990. He served as Technical Section Chief, Director of Technical Center of Jinzhou Power Capacitors Co., Ltd, Deputy Chief Engineer, Director of Technical Center, Chief Engineer and Assistant General Manager of New Northeast Electric (Jinzhou) Power Capacitors Co., Ltd. Currently, Mr Liu serves as the Chairman and General Manager of New Northeast Electric (Jinzhou) Power Capacitors Co., Ltd.

(2) **Independent Directors**

Mr. Wang Yunxiao, male, born in 1946, senior accountant, graduated from Northeast University of Finance and Economics majoring in Accounting. He has served as assistant to the general manager and vice general manager of Liaoning Provincial Trust and Investment Company and general manager of Dalian Seaside Garden Company.

Liang Jie, born in 1961, graduated from a graduate course. She served as the Instructor and Deputy Director of accounting major of School of Economics and Management of Shenyang University of Technology, the Associate Professor and Director of accounting major of School of Management of Shenyang University of Technology, and the Assistant Dean and Professor of School of Economics and Management of Shenyang University of Technology. Currently, she is a member of the Party general branch of School of Management of Shenyang University of Technology, and Independent Director of Mega-info Media Co., Ltd.

Liu Hongguang, born in 1967, a senior economist. He is studying doctoral degree in technical economics and management in Dalian University of Technology. He has studied architecture and environmental engineering in Shenyang Agricultural University, and technical economics and management in Dalian University of Technology, and has respectively obtained a bachelor's degree in engineering and master's degree in business management. He had served the positions of Branch Deputy Manager of Shenyang Branch of China Construction Bank, General Manager of the Banking Division of Shenyang Branch of Hua Xia Bank, General Manager of the Banking Division and Financial Institutions Division of Dalian Branch of Guangdong Development Bank, Executive Director of Advanced Technology Materials (Dalian, Shenyang) Co., Ltd., General Manager of Yuan Zhong Leasing Co., Ltd.. He currently serves in Zhongrong International Trust Co., Ltd. as Chief Executive Officer.

(3) **SHAREHOLDERS REPRESENTATIVE SUPERVISOR**

Mr. Dong Liansheng, male, born in 1947, college graduate, graduated from the Chinese Department of Liaoning University majoring in Chinese. Now he is deputy general manager of Shenyang Kingdom Hotel Company Limited and chairman of the Company's Supervisory Committee.

Jiao Liyuan, born in 1963, associate degree, graduated from Shenyang Open University. She served as the clerk of quality management office and section chief of quality assurance group of Shenyang Transformer Factory, supervisor of technology and quality department and vice director of integrated management department of the Company. Currently, she is director of integrated management department and director of human resource department of the Company.

(4) Supervisor Representing Staff

Mr. Liu Xuehou, male, born in 1965, postgraduate, graduated from Dalian University of Technology in Computer. He has served as vice general manager, vice secretary of party committee, and chairman of trade union of New Northeast Electric (Jinzhou) Power Capacitors Co., Ltd. from February, 2005.

4. Annual remuneration

- (1) Policy making procedure for remuneration of directors, supervisors and senior management: the remuneration committee under the Board of the Company, in accordance with the duties of directors, supervisors and senior management, the Company's performance and remuneration level of relevant positions in the trade, is responsible for establishing and reviewing the Company's plans and proposals of remuneration.
- (2) Remuneration basis of directors, supervisors and senior management: The Company's remuneration committee, in accordance with remuneration management system and annual performance appraisal, has established remuneration standard based on positions and duties. During the reporting period, all directors' remuneration was not over RMB3,000, 000 per annum; each supervisor's not over RMB50, 000; all independent directors' remuneration was not over RMB750, 000 per annum.
- (3) Save as the service contracts of directors and supervisors, none of the directors or supervisors has a service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

5. Re-election and resignation of directors, supervisors and senior management during the reporting period

6. Interest of directors, supervisors and senior management

As at 31 December 2012, 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.

(II) STAFF OF THE COMPANY AND REMUNERATION POLICY

Occupational structure of the Company's staff:		Education level of company's staff:	
Salesman:	44	Bachelor degree or higher:	111
Technical staff:	48	College:	154
Financial staff:	17	Technical certificate:	27
Administrative staff:	120	Others:	309
Production staff:	279		
Others:	93		
Total:	601	Total:	601

As at the end of the reporting period, the number of employees on the payroll of the Company was 601 staff members. The remuneration of the employees of the Company includes their salaries, bonuses and other fringe benefits. The Company has different rates of remuneration for different employees, which are determined based on their performance, experience, position, and other factors in compliance with the relevant PRC laws and regulations.

During the reporting period, none of the Company's retired employees have needed expenses paid by the Company.

(I) CORPORATE GOVERNANCE

During the reporting period, the Company has strictly complied with provisions of the Company Law and Securities Law and other laws, regulations and regulatory documents to further improve its corporate governance structure and normalize its daily operation for better corporate standardization. By the end of the reporting period, the Company's actual corporate governance has met the requirements of regulatory documents on corporate governance of listed companies issued by China Securities Regulatory Commission.

1. Shareholders and general meeting of shareholders

The Company has strictly complied with the provision and requirement of the Company Law of the People's Republic of China, Articles of Association and Rule of Procedure of General Meeting to convene shareholders' meeting, normalize its voting procedure, and ensure its legality by employing lawyers to witness the meeting. The Company can ensure fair treatment toward all shareholders, especially minority shareholders and the full exercise of their own rights. Professional lawyers have been employed to serve as a witness at the meeting and issue their legal opinion.

2. Relationship between controlling shareholders and the listed company

The Company's controlling shareholders have strictly complied with the Company Law of the People's Republic of China, Articles of Association and Code of Conduct of the Controlling Shareholder to normalize their behaviors, exercise their rights according to law, as well as assume their corresponding obligations. During the reporting period, they had no behaviors to directly or indirectly interfere with the company's decisions or business activities by circumventing the general meeting of shareholders. The Company's Board of Directors, Supervisory Committee and relevant departments can work normally and independently.

3. Directors and the Board of Directors

The Company's directors have complied with the Company Law of the People's Republic of China, Articles of Association and Rule of Procedure of the Board Meeting to work, seriously attend relevant meetings, actively participate in trainings, and have a deep understanding of relevant laws and regulations. The Company has strictly complied with the election procedure as specified in Articles of Association to complete the election at expiration of office terms. At present, the Company has 8 directors, of whom there are 3 independent directors. Each of the elected directors has participated in relevant trainings organized by securities regulators. The composition of the Board of Directors has met requirements of relevant laws, regulations and the Articles of Association. The independent directors have, in accordance with the provisions of systems including Detailed Working Rules of Independent Directors, fulfilled their duties independently, attended the Company's Board Meetings and GMS, and expressed their independent opinions on the Company's significant matters so as to ensure the Company's normal operation.

4. Supervisors and the Supervisory Committee

The Company's Supervisory Committee has worked in light of relevant provisions of the Company Law, Articles of Association, and Rule of Procedure of Meeting of the Supervisory Committee, and its supervisors have been recommended, voted and elected in accordance with relevant laws and regulations. The supervisors have seriously fulfilled their duties, and supervised the Company's financial situation and the legality and compliance of significant matters, thus safeguarding the legal rights and interests of the Company and its shareholders.

5. Information disclosure and transparency

Pursuant to the Administrative Measures for the Matters Regarding Information Disclosure and Investor Relations Management System, the Company has seriously fulfilled its information disclosure obligation. Securities Times and www.cninfo.com.cn have been designated as the newspapers and website to disclose the Company's information, thus ensuring truthful, accurate, complete and timely information disclosure, as well as enabling all of the Company's shareholders to have equal chances for information.

6. Stakeholders

In accordance with Insider Management Rules, the Company has strengthened the confidential work of internal information, prevented insiders misusing the right of information, revealing inside information and executing insider dealings. The Company can fully respect and safeguard the legal rights and interests of the stakeholders, and realized the coordination and balance of interests among shareholders, staff and society so as to jointly push the Company's stable and sound growth.

7. Performance assessments and incentive and disciplinary systems

The Company has established a series of performance assessments and incentive and disciplinary systems. Its appointment of senior management is open and transparent, meeting the requirements of relevant laws and regulations.

8. Establishment and execution of internal audit system

The Company's Board of Directors has set up the Audit Committee, whose executive office is internal audit department. The internal audit department exercises its rights of audit supervision within the authorized scope of the Audit Committee. Pursuant to Internal Control Supervision and Checking System, the department has checked the Company's accounting books and related assets, and analyzed and evaluated its capital operation, assets employment and other financial operation, therefore making its assets real and full. The execution of internal audit has enabled the Company to avoid operation risks and enhance its economic benefit.

(II) EXECUTION OF DUTIES BY INDEPENDENT DIRECTORS DURING THE REPORTING PERIOD**1. Execution of duties by independent directors**

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

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

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

2. Board meetings attendance of independent directors

Name of directors	Position of directors	Number of attendance required	Number of attendance in person	Number of attendance by communication	Number of attendance by proxy	Number of absence	Two consecutive absences in person
Wu Qicheng	Independent directors	4	1	2	1	0	No
Xiang Yongchun	Independent directors	4	2	2	0	0	No
Wang Yunxiao	Independent directors	4	2	2	0	0	No

3. The dissenting opinions of independent directors to related matters of the Company

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

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

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

1. Independence of business

The Company' business has been absolutely independent from that of its controlling shareholders. The Company has been responsible for its own management decisions, profits and losses, independent of any shareholder or any other related party. It has been complete and independent in business structure.

2. Independence of personnel

The Company has an independent and complete human resources management system. Pursuant to the provision of relevant policies issued by the state, the Company has established a perfect personnel management system, and implemented the labor contract system to all the staff so as to systemize and normalize the personnel management. Independent management has been carried out in staff's social security and remuneration. Senior management and the chairman are all fulltime employees, earning their remuneration from the Company. They have held any position neither in a shareholding company holding over 5% of the Company's equity or its subsidiaries, nor in other enterprises same or similar to the Company's business.

3. Independence of assets

The Company's assets have been complete. None of the Company's capital, assets or other resources has been utilized without payment by any controlling shareholder, actual controller or any other enterprise under its control.

4. Independence of organization structure

The Company's organization structure has been sound, and absolutely independent from that of its controlling shareholders. The Board of Directors, Supervisory Committee and general manager have operated independently, having no affiliation with the function department of any controlling shareholder. The Company has established and improved its decision system and internal control system to realize effective operation.

5. Independence of financial affairs

The Company has set up an independent financial department, and established an independent financial accounting and management system. It has opened accounts in the bank and paid taxes according to law independently.

(IV) Relationship between general meeting and investors

1. DURING THE REPORTING PERIOD, THE COMPANY HELD ONE ANNUAL GENERAL MEETING OF SHAREHOLDERS:

The Company issued the notice on 29 March 2012 and convened the 2011 annual general meeting of shareholders on 15 May 2012 (please refer to the Announcements dated 30 March 2012 and 16 May 2012 for details).

The following resolutions were voted item by item at the meeting, and the voting results are as follows:

- (1) To consider and approve the 2011 Annual Report;
- (2) To consider and approve the Proposal of 2011 Net Profit Distribution;
- (3) To consider and approve the Resolution on Reappointment of the Company's Domestic Auditor for the Year 2012;
- (4) To consider and approve the Resolution on Reappointment of the Company's International Auditor for the Year 2012;
- (5) To consider and approve Work Report of the Board of Directors for the Year 2011;
- (6) To consider and approve Work Report of the Board of Directors for the Year 2011.

2. DURING THE REPORTING PERIOD, THE COMPANY HELD ONE EXTRAORDINARY GENERAL MEETING OF SHAREHOLDERS:

The Company issued the notice on 22 October 2012 and convened the 1st EGM of 2012 on 10 October 2012 (For details, please refer to announcements dated 13 October 2012 and 11 October 2012).

The following resolutions were voted item by item at the meeting, and the voting results are as follows:

To consider and approve the Amendment of the Articles of Association.

3. Relationship between investors and market value management

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

On 31 December 2012, market value of Company H shares was HK\$891,000,000. For details about categories of shareholders and their shareholdings, please refer to section 6 (1) of this Annual Report.

(V) CORPORATE GOVERNANCE

The Company has fully complied with the provisions of Code of Corporation Governance Practice as set out in Appendix 14 to the Listing Rules of Hong Kong Exchanges and Clearing Limited and certain proposed code of best practice. The Board of Directors has also thoroughly reviewed the internal control system during the reporting period and is of the opinion that the system is effective and sufficient and secured the achievement of the targets of the Company's operation and regulations.

1. Independent Non-executive Directors and Confirmation of Independence

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.

Pursuant to Rule 3.13 of the Listing Rules to the Stock Exchange, the Company has received from each of these independent non-executive directors the confirmation of independence. The Company considers Mr. Wu Qicheng, Mr. Xiang Yongchun and Mr. Wang Yunxiao to be independent from the Company.

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

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

The Board of Directors has formulated a written guideline for transactions of securities of listed companies by "directors and related employees". The Board of Directors has given written notices in advance to directors stating that no transactions of company securities should be carried out within 60 days prior to results announcement.

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

3. Directors' liability insurance

The requirement of "the issuer shall cover appropriate director liability insurance for directors" in Rule A.1.8 of Corporate Governance Code is changed from "the recommended best practice" to "Articles of the Code". The Company is keeping a close eye on markets and assessing feasible operation plans.

4. Board of Directors

The 6th session of the Board of Directors comprises 8 directors, including 5 executive directors, namely Mr. Su Weiguo, Mr. Wang Shouguan, Mr. Liu Tongyan, Mr. Liu Qingmin and Liu Bing and 3 independent directors namely Mr. Qicheng, Mr. Xiang Yongchun and Mr. Wang Yunxiao. The term of the Board of Directors will expire on 7 March 2013.

The Company has set up an Audit Committee, a Strategic Development Committee, a Remuneration Committee, a Nomination Committee and an Investment Management Committee pursuant to Rules 3.2.1 of the Listing Rules. Work of all committees was carried out orderly in accordance with the rules of work.

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

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

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

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

The Company has, in accordance with the provision of Rule 3.13 of the Listing Rules, required each of the independent non-executive directors to submit their annual confirmation of independence, and considered the independence of independent non-executive director.

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

Remunerations for directors of 2012 totaled RMB1,100,000 including basic salary, results-pegged salary, incentive salary and insurance (or bonus paid on discretion). Independent non-executive directors were only paid remuneration without any other salaries or returns. For details about remuneration of each director, please refer to the Report section 7 (1).

5. MEETING OF THE Board of Directors

During 2012, a total of 4 regular board meetings were held, with full attendance by all directors or their proxies on their behalf:

- (1) The 15th meeting of the 6th session of the Board of Directors was held to consider and approve the 2011 Annual Report, the Proposal of the 2011 Net Profit Distribution and the Work Report of the Board of Directors for the Year 2011, etc.
- (2) The 16th meeting of the 6th session of the Board of Directors was held on 20 April 2012 to consider and approve the First Quarterly Report of 2012.
- (3) The 7th meeting of the 6th session of the Board of Directors was held on 22 August 2012 to consider and approve the Unaudited Interim Report for the Period of Six Months Ended 30 June 2012, the Amendment of the Articles of Association, etc.
- (4) The 18th meeting of the 6th session of the Board of Directors was held on 25 October 2012 to consider and approve the Third Quarterly Report of 2012.

6. Audit Committee

Duties and main work of the Committee include scrutiny of the Company's financial reports, appointment of independent auditors, approval of auditing and audit-related services and monitoring of internal financial reporting procedure and management policies. During the reporting period, the committee comprised three independent non-executive directors of the Company, namely Mr. Wang Yunxiao, Mr. Wu Qicheng, and Mr. Xiang Yongchun, and Wang Yunxiao as a professional accountant, was appointed as the presiding member.

The committee convenes four meetings a year at least. Together with the management, it shall review the accounting principles, internal control systems and other financial affairs to ensure the integrity, justice and accuracy of the Financial statements and other related materials. In 2012, the committee convened four meetings to audit the Annual Report, Interim Financial Report and the First and Third Quarterly Reports respectively, with three independent directors, debriefing the internal control, and issuing relevant auditors' report and opinion.

In addition, at the meeting of board of directors held on 11 March 2013, the audit committee of the 7th Board of Directors comprised Mr. Wang Yunxiao, Ms. Liang Jie and Mr. Liu Hongguang considered and approved the 2012 annual financial accounts and results announcement.

7. Remuneration Committee

Duties and major work of the Committee include formulation of remuneration policies for directors and senior management and approval of terms of directors' service contracts. In 2011, the committee convened two committee meetings all of which were attended by all members. Chief member of the Committee is Mr. Xiang Yongchun while other members include, Mr. Wang Shouguan and Mr. Wang Yunxiao.

The Remuneration Committee of the Board has reviewed the remunerations disclosed by the Company's directors, supervisors, and senior management.

8. Nomination Committee

Duties and major work of the Committee include assessment of performance of directors and senior management, nomination of candidates for executive directors and independent directors of each new session, to review regularly the framework, membership and work of the board of directors. During the reporting period, the chief member of the Committee is Mr. Su Weiguo while other members include Mr. Wang Shouguan and Mr. Wu Qicheng. In 2011, the committee convened one committee meeting all of which was attended by all members.

9. Strategic Development Committee

Duties and major work of the Committee include scrutiny and assessment of the Company's development, financial budget, and investment and business operations. During the reporting period, the chief member of the Committee is Mr. Su Weiguo while other members include Mr. Wang Shouguan, Mr. Xiang Yongchun, Mr. Liu Bing and Mr. Liu Qingmin. In 2011, a total of 2 committee meetings were held, which were attended by all members of the committee.

10. Investment Management Committee

Duties and major work of the Committee include scrutiny and assessment of the Company's strategic plans on annual investment return. During the reporting period, the chief member of the Committee is Mr. Su Weiguo, while other members include Mr. Wang Shouguan, Mr. Xiang Yongchun and Mr. Bi Jianzhong. In 2011, a total of 2 committee meetings were held, which were attended by all members of the committee.

11. Remunerations of Auditors

To improve the efficiency of information disclosure and reduce information disclosure costs, the 1st EGM convened on 11 March 2013 issued removing Pengcheng CPAs and THKC respectively as the domestic auditors and overseas auditors of the Company and appoint Crowe Horwath China CPAs (special general partner) as the auditors of the Company, with total remuneration of RMB1, 000,000.

(VI) MEETING OF THE SUPERVISORY COMMITTEE

The supervisory committee comprises 3 members including 1 supervisor, who is elected by staff, to represent company staff. The supervisory committee is responsible for supervising the board of directors and its members and senior management to prevent their abuse of power or infringement upon lawful interests of shareholders, the Company and company staff. In 2012, the Supervisory Committee reviewed the Company's financial status and corporate operation pursuant to law and senior management's discharge of duties. According to the principle of honesty, the committee members carried out their work proactively.

During the reporting period, the supervisory committee has convened seven meetings with full attendance, details of which are as follows:

- (1) The 13th meeting of the sixth session of the Supervisory Committee was held on 29 March 2012 to consider and approve Annual Report 2011, the Work Report of the Supervisory Committee, etc.
- (2) The 14th meeting of the 6th session of the Supervisory Committee was held on 24 April 2012 to consider and approve the First Quarterly Report of 2012.
- (3) The 15th meeting of the sixth session of the Supervisory Committee was held on 22 August 2012 to consider and approve Interim Report 2012, the Work Report of the Supervisory Committee, etc.
- (4) The 16th meeting of the 6th session of the Supervisory Committee was held on 25 October 2012 to consider and approve the Third Quarterly Report of 2012.

(VII) THE SUPERVISORY COMMITTEE PROVIDED INDEPENDENT OPINION ON THE RELATED MATTERS OF THE COMPANY**1. The Company's legal operation**

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

2. The Company's financial status

The Supervisory Committee opines that during the reporting period, the financial department of the Company has established a sound internal control and management system by attentively performing related accounting system and codes of the State to integrate operation and financial management, so as to protect interests of investors. The 2011 financial statements truly reflect the Company's financial status and operating results. The auditors' report with an opinion qualified issued by the Company's auditor is true and objective in all material aspects, which truly reflects the Company's financial status and operating results in 2011.

3. Asset acquisitions and disposals

There are ACQUISITION AND DISPOSAL OF ASSETS DURING THE REPORTING PERIOD.

4. CONNECTED TRANSACTION

The supervisory committee opines that no insider dealings between the associates of the Company and connected transactions that damage the interests of some of the shareholders or the Company are found.

5. Self-assessment of the Company's internal control

The Company's Supervisory Committee, in accordance with the relevant provisions as specified in the Guideline for Internal Control and the Notice of concerning Doing a Good Job for the 2012 Annual Report of the Listed Companies published by Shenzhen Stock Exchange, gives the following opinions on self-assessment of the Company's internal control:

- (1) In accordance with relevant provisions of China Securities Regulatory Commission and Shenzhen Stock Exchange, the Company, under the basic principles of internal control, has established and improved the internal control systems covering all of links of the Company based on its own real situation, ensuring its normal business activities and protecting the security and integrity of its assets.
- (2) The Company has a whole internal control organization with an internal audit department and complete staff, ensuring full and effective implementation and supervision of key internal control activities.
- (3) During the reporting period, the Company had no breach of the Guideline for Internal Control of Shenzhen Stock Exchange and the System of Internal Control of the Company.

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

6. The insider management rules established by the Company

During the reporting period, the Insider Management Rules were considered and approved by the Board of Directors. In strict accordance with the rules, the Company established the Insider Archives for directors, supervisors, senior management members and insiders regarding inside information to ensure that the inside information of the Company was kept and disclosed in a fair, open and impartial way so as to prevent insider trading and other illegal actions.

By order of the Board

Dong Liansheng

Chairman of the Supervisory Committee

11 March 2013

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

Pursuant to the requirements of the Company Law, Securities Law, Listed Company Governing Rules, Basic Code of Corporate Internal Control and other relevant national laws and regulations, as well as the Application Guidelines on Corporate Internal Control issued by five ministries including Ministry of Finance, the Company has fulfilled relevant obligations in the light of the actual operating situation. Report of Corporate Internal control for 2012 is as follows:

1. Master plan for the establishment of internal control

Pursuant to the requirements of the Company Law, Securities Law, Basic Code of Corporate Internal Control, and Internal Control Guidance for Listed Companies, the Company has formulated and improved the internal control system and enhanced the business management level and risk prevention abilities. The fundamental objectives of internal control are:

- (1) To set up and perfect the internal organizational structure to meet the requirements of modern management, form a scientific decision-making mechanism, implementation mechanism and supervision mechanism, and ensure the achievement of company operation and management goals;
- (2) To establish effective risk control systems, strengthen risk management, and guarantee the healthy operation of the business activities of the company;
- (3) To establish favorable corporate internal economic environment, prevent and timely discover and correct all errors, fraud, and ensure the safety and integrity of the company's property;
- (4) To standardize the Company's accounting behavior, ensure the truthfulness and integrity of accounting information and improve the quality of accounting information;
- (5) To ensure the implementation of national relevant laws and regulations and the Company's internal control system.

2. Work plans on the establishment of a sound internal control system and its implementation

During the reporting period, under the guidance of the Board, the Company has formulated detailed work plans of internal control in the light of business and features and actual situation of the Company. It has take pertinent measures for risk assessment and carried out relevant decisions, fully mobilizing the enthusiasm of each function, emphasizing on the importance of internal control on the management, and systematically combing the existing management system and workflow. It supplements and perfects the production, technology and comprehensive quality management system, and clarifies responsibilities and authorities, and improves the corresponding authorization and accountability systems, to ensure the corporate management organization is clearly divided in terms of responsibilities, with sound functions.

3. The status of the setup of the internal control inspection and supervision department

The audit department of the Company is responsible for financial auditing and the implementation of process execution of the subordinate departments and subsidiaries to ensure the quality of internal control execution. The audit committee of the Board of the Company audits regularly or irregularly conducts risk review in key areas, and will report important risks to management or the board of directors to urge the improvement and perfection. It has effectively prevented the risk of business decision-making and management to guarantee the standardized operation and healthy development of the Company.

4. The status on implementation of Self-evaluation work on internal supervision and internal control

The audit department of the Company is responsible for organizing and coordinating the establishment and implementation of internal control system, internal supervision and assessment, strengthening communication supervision and inspection work between the audit committee of the board and effectively implementing internal control self assessment review and supervision responsibilities, including internal control review, financial revenue, economic benefit, economic responsibility, special audit and risk monitoring. It regularly or irregularly conducts internal controls auditing assessment of the Company and subordinate units. According to the Company's arrangement, it will carry out spot check on relevant units without notice, and effectively monitor the entire operating risk of the Company. For details, please refer to the Report of Internal Control Self-assessment.

5. The Board's arrangements for internal control work

The Board has an audit committee which is responsible for the communication supervision and review between domestic and overseas auditing, the inspection and supervision of effective implementation and self-assessment of internal control, hear the implementation status of each system and process in the Company on a irregular basis, and irregularly organize the domestic audit institution to check the implementation of internal control.

6. Perfection of internal control system on financial accounting to financial statements

In accordance with the laws and regulations of the Accounting Standards for Corporate and Internal Control Guidance for Listed Companies, the Company has established and improved the internal control system relating to the financial report and enhanced budget management, contract management, and basic accounting and performance assessment. The Company and its subsidiaries have implemented the unified financial management system, improved and strengthened the accounting and financial management functions and authorities, and revised certain financial management system according to the related regulations.

7. Defects in internal control, and rectifications of such defects

The systematicness, integrity and implementation effectiveness of the internal control is subject to further improvement. The Company will continue to complement the internal control system and enhance supervision and implementation. No major defects were identified in the design or implementation of the internal control system.

8. Conclusion of the effectiveness of internal control

The Company holds that it has favorable internal control environment by reviewing and assessing, systematic identification, assessment and response for Company risk. It has sound and perfect internal control and standardized business process, and strong ability of information transferring and communication, and the internal control system has been implemented effectively. The current internal control system is in compliance with related regulations and requirements, which can satisfy the corporate management and reasonably protect the truthfulness and integrity of financial reports. It has appropriately preventing material risk out of control, material management fraud and important process mistakes. Therefore, it can be concluded that the Company has reasonable and effective internal control systems, guaranteeing the achievement of objectives of internal control. Also, the Company can objectively analyze the actual situation of its control system and timely improve it to address and adapt for the development of the Company.

The directors opine, operation of the internal control system of the Company has been effective from 1 January 2011 to the end of the reporting period. Following the Basic Standard for Enterprise Internal Control, the Guidelines for Enterprise Internal Control of Listed Companies, and guidelines for Enterprise Internal Control Assessment and other relevant laws and regulations in the light of requirement for corporate development, the Company constantly strengthened the establishment and management of internal control, enhanced execution of internal control, pinpointed weak links in time, effectively improved the capacity of risk prevention of the Company and fostered the steady and sound growth of the Company.

Relevant Reports on Internal Control Disclosed by the Company:

- (1) Disclosure of the self-assessment report on internal control: Yes
- (2) Disclosure of the audit report on internal control over financial reporting issued by auditors: Yes
- (3) Disclosure of corporate social responsibility report: Yes

The aforesaid reports are made available on the specified information disclosure website for the Company.

(II) ASSESSMENT AND INCENTIVE MECHANISM FOR SENIOR MANAGEMENT

The Company has adopted position-related salary system and floating annual salary system for senior management. The floating annual salary was linked with the Company's overall results. The senior management was assessed on basis of overall individual performance and the realization of assigned operational target. All information disclosed to outsiders (including annual, interim results, the first quarterly results and the third quarterly results) must be reviewed and approved by the Board of Directors. For related contents of financial statements disclosed, the Chief Accountant must ensure that they are in compliance with the Accounting Principles adopted and related legislation which require that the Company's results and financial status are reflected truthfully and fairly.

(III) Management of information disclosure

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

(IV) THE RESPONSIBLE SYSTEM FOR MATERIAL ERRORS IN ANNUAL REPORT INFORMATION DISCLOSURE ESTABLISHED BY THE COMPANY

The responsible system for material errors in annual report information disclosure has been implemented, by the system, the confirmation of responsibility and investigation of annual report information disclosure has been cleared. During the reporting period, there are no correction of material accounting errors, addition of omitted material information and revision of results forecast.

(V) The insider management rules established by the Company

During the reporting period, according to the Insider Management Rules, the Company inform relevant insiders (including controlling shareholder) of filling out Insider Archives, including, without limitation, name, title, ID card number, securities account, working unit, time of accessing to inside information, particulars of inside information, stage of inside information, registering time, registrar and non-disclosure terms. Also such information is reported to CSRC Liaoning Bureau and Shenzhen Stock Exchange for filing, to ensure that the inside information of the Company was kept and disclosed in a fair, open and impartial way so as to prevent insider trading and other illegal actions.

Within 60 days before the disclosure of regular reports, the Company will inform relevant persons of prohibition from dealing in securities of the Company by way of letters on the Reminder of dealing in shares of the Company by the Directors, Supervisors, Senior Management Personnel and their relative 60 days within the price-sensitive period before the results announcement, Also, the board office, finance department, the internal auditors, and the external auditors and other related personnel are trained and reminded, and asked to fill in the Insider Archives, to maintain fair information disclosure.

After self-check by the Company, there were no insiders traded the shares of the Company before the disclosure of the significant price-sensitive internal information during the reporting period.



Notice is hereby given by Northeast Electric Development Company Limited (the “Company”) that the Annual General Meeting of Shareholders for 2012 (the “AGM”) will be held in No.2 Xingshun Street, Tiexi District, Shenyang, Liaoning, the PRC, at 9:30 a.m., on 6 May 2013 for the following purposes:

(I) To approve the 2012 Annual Report;

(II) To approve the Proposal of 2011 Net Profit Distribution:

During the reporting period, the Company recorded net profit distributable to shareholders of the listed company of RMB11,140,994.81; and the accrued profit distributable to shareholders at the end of the year was RMB-1,558,580,151.68. Therefore, the Board resolved not to make any profit distribution and not to transfer any capital reserve into share capital during the reporting period.

(III) To approve the Resolution in Relation to Reappointment of the Company’s Auditor for the year 2013:

It was proposed to reappoint Crowe Horwath China CPAs (special general partner) as the auditors of the Company for the year of 2013 for a term of one year, and authorized the Board to determine the remuneration.

(IV) To approve the Work Report of the Board of Directors for the year 2012;

(V) To approve the Work Report of the Supervisory Committee for the year 2012;

Notes:

- 1) Any holder of A shares who has registered on the register of the Company at China Securities Depository and Clearing Company Limited Shenzhen Branch by the close of business on 26 April 2013 is entitled to attend the Meeting.
- 2) In order to confirm the list of holders of H shares who is entitled to attend the meeting, the register of shareholders of the Company will be closed from 6 April 2013 to 6 May 2013 (both days inclusive), during which period no transfer of shares will be registered. The shareholders whose names appear on the register by the closes of business on 5 April 2013 are entitled to attend the meeting and vote at the meeting. Holders of H shares who intend to attend the meeting shall deposit the transfers and relevant share certificates at the Company's H shares registrar, Boardroom Limited located at 12/F, Li Yard, No.33 Xishen Road, Causeway Bay, Hong Kong not later than 16:30 p.m. on 5 April 2013.
- 3) Shareholders who intend to attend the meeting shall lodge the reply slips for attending the meeting to the Company before 17 April 2013.
- 4) Any shareholder entitled to attend and vote at the meeting is entitled to appoint one or more proxies (whether or not shareholder of the Company) to attend and vote at the meeting on his/her behalf.
- 5) In order to be valid, the proxy forms of shareholders and other notarially certified documents (if any) should be deposited at the Company not less than 24 hours before the time for holding the meeting.
- 6) The meeting is expected to last for half a day. Shareholders or their proxies attending the meeting shall bear their own travel and accommodation expenses.

By order of the Board

Su Weiguo

Chairman

11 March 2013

BALANCE SHEET (CONSOLIDATED)

For the year ended 31 December 2012 (Prepared in accordance with P.R.C. Accounting Rules and Regulations)

Date: Dec. 31, 2012

Prepared by: Northeast Electric Development Co., Ltd.

In RMB Yuan

Items	Notes	As at 31 December 2012	As at 31 December 2011
Current Assets:			
Monetary fund	V. 1	81,295,428.80	56,684,837.59
Settlement excess reserve			
Funds offered in inter-bank markets			
Tradable financial assets			
Bills receivable	V. 2	2,694,000.00	100,000.00
Amounts receivable	V. 4	152,791,168.72	169,640,050.02
Prepayment	V. 6	7,112,829.64	15,295,379.26
Premium receivable			
Reinsurance receivable			
Reserve of reinsurance arrangement receivable			
Interest receivable			
Dividends receivable	V. 3		7,027,538.11
Other receivables	V. 5	23,429,153.27	59,400,764.54
Purchase of buyback financial assets			
Inventories	V. 7	40,832,173.31	49,658,477.54
Non-current assets due within 1 year			
Other current assets			
Total current assets		308,154,753.74	357,807,047.06
Non-current assets:			
Deposits and advances			
Available-for-sale financial assets			
Held-to-maturity investments			

BALANCE SHEET (CONSOLIDATED) (Continued)

For the year ended 31 December 2012 (Prepared in accordance with P.R.C. Accounting Rules and Regulations)

Date: Dec. 31, 2012

Prepared by: Northeast Electric Development Co., Ltd.

In RMB Yuan

Items	Notes	As at 31 December 2012	As at 31 December 2011
Long-term accounts receivable			
Long-term equity investment	V. 9	107,224,888.88	109,303,378.03
Invested real estate			
Fixed assets	V. 10	62,775,673.37	69,377,374.24
Construction in progress	V. 11	228,933.81	228,933.81
Material of works			
Liquidation of fixed assets			
Producing bio-material assets			
Assets of oil and gas			
Intangible assets	V. 12	4,471,169.49	4,606,659.57
Expenditures of development			
Good will			
Long-term deferred expenses	V. 13	6,029,868.60	6,656,726.16
Deferred income tax assets	V. 14	9,320,208.65	9,074,116.87
Other non-current assets			
Total non-current assets		190,050,742.80	199,247,188.68
Total assets		498,205,496.54	557,054,235.74
Current liabilities:			
Short-term borrowings	V. 16	8,000,000.00	8,000,000.00
Borrowings from central bank			
Deposits received & by inter-banks			
Funds received from inter-bank markets			
Transactional financial liabilities			

BALANCE SHEET (CONSOLIDATED) (Continued)

For the year ended 31 December 2012 (Prepared in accordance with P.R.C. Accounting Rules and Regulations)

Date: Dec. 31, 2012

Prepared by: Northeast Electric Development Co., Ltd.

In RMB Yuan

Items	Notes	As at 31 December 2012	As at 31 December 2011
Bills payable			
Accounts payable	V. 17	59,772,901.29	72,505,815.69
Advance	V. 18	14,395,206.29	36,939,448.50
Buyback financial assets sold			
Fees payable & commission			
Employee compensation payable	V. 19	2,191,310.77	2,470,365.80
Taxes payable	V. 20	7,588,667.87	-868,881.41
Interest payable			
Dividends payable		40,017.86	40,017.86
Other payables	V. 21	48,476,364.50	60,046,480.12
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	V. 22		200,000.00
Total current liabilities		140,464,468.58	179,333,246.56
Non-current liabilities:			
Long-term borrowings			
Bonds payable			
Long-term accounts payable			
Special payables			
Estimated liabilities	V. 23	84,721,078.25	115,715,007.25

BALANCE SHEET (CONSOLIDATED) (Continued)

For the year ended 31 December 2012 (Prepared in accordance with P.R.C. Accounting Rules and Regulations)

Date: Dec. 31, 2012

Prepared by: Northeast Electric Development Co., Ltd.

In RMB Yuan

Items	Notes	As at 31 December 2012	As at 31 December 2011
Deferred income tax liabilities			
Other non-current liabilities			
Total non-current liabilities		84,721,078.25	115,715,007.25
Total liabilities		225,185,546.83	295,048,253.81
Shareholders' equity:			
Share capital	V. 24	873,370,000.00	873,370,000.00
Capital reserves	V. 25	883,422,403.92	883,422,403.92
Less: shares in store			
Capital reserves			
Surplus reserve	V. 26	108,587,124.40	108,587,124.40
Normal risk provision			
Retained profit	V. 27	-1,558,580,151.68	-1,569,721,146.49
Difference of exchange of foreign-currency report		-35,016,895.93	-34,994,770.33
Total interests attributable to parent company's owners		271,782,480.71	260,663,611.50
Minority interests		1,237,469.00	1,342,370.43
Total shareholder' equity		273,019,949.71	262,005,981.93
Total liabilities and shareholder' equity		498,205,496.54	557,054,235.74

BALANCE SHEET (PARENT COMPANY)

For the year ended 31 December 2012 (Prepared in accordance with P.R.C. Accounting Rules and Regulations)

Date: Dec. 31, 2012

Prepared by: Northeast Electric Development Co., Ltd.

In RMB Yuan

Items	Notes	As at 31 December 2012	As at 31 December 2011
Current Assets:			
Monetary fund		30,575.58	31,891.38
Tradable financial assets			
Bills receivable			
Amounts receivable			
Prepayment			
Interest receivable			
Dividends receivable			
Other receivables		364,599,007.23	388,920,709.34
Inventories			
Non-current assets due within 1 year			
Other current assets			
Total current assets		364,629,582.81	388,952,600.72
Non-current assets:			
Available-for-sale financial assets			
Held-to-maturity investments			
Long-term accounts receivable			
Long-term equity investment		91,251,518.10	91,251,518.10
Invested real estate			
Fixed assets		324,390.45	461,571.54
Construction in progress			
Material of works			
Liquidation of fixed assets			
Producing bio-material assets			

BALANCE SHEET (PARENT COMPANY) (Continued)

For the year ended 31 December 2012 (Prepared in accordance with P.R.C. Accounting Rules and Regulations)

Date: Dec. 31, 2012

Prepared by: Northeast Electric Development Co., Ltd.

In RMB Yuan

Items	Notes	As at 31 December 2012	As at 31 December 2011
Assets of oil and gas			
Intangible assets			
Expenditures of development			
Good will			
Long-term deferred expenses			
Deferred income tax assets			
Other non-current assets		-	
Total non-current assets		91,575,908.55	91,713,089.64
Total assets		456,205,491.36	480,665,690.36
Current liabilities:			
Short-term borrowings			
Transactional financial liabilities			
Bills payable			
Accounts payable			
Advance		665,000.00	665,000.00
Employee compensation payable		8,524.67	8,524.67
Taxes payable		12,817.59	11,674.73
Interest payable			
Dividends payable			
Other payables		79,527,463.55	80,796,732.42
Non-current liabilities due within 1 year			
Other current liabilities			
Total current liabilities		80,213,805.81	81,481,931.82

BALANCE SHEET (PARENT COMPANY) (Continued)

For the year ended 31 December 2012 (Prepared in accordance with P.R.C. Accounting Rules and Regulations)

Date: Dec. 31, 2012

Prepared by: Northeast Electric Development Co., Ltd.

In RMB Yuan

Items	Notes	As at 31 December 2012	As at 31 December 2011
Non-current liabilities:			
Long-term borrowings			
Bonds payable			
Long-term accounts payable			
Special payables			
Estimated liabilities		84,721,078.25	115,715,007.25
Deferred income tax liabilities			
Other non-current liabilities			
Total non-current liabilities		84,721,078.25	115,715,007.25
Total liabilities		164,934,884.06	197,196,939.07
Shareholder's equity:			
Share capital		873,370,000.00	873,370,000.00
Capital reserves		979,214,788.45	979,214,788.45
Less: shares in store			
Capital reserves			
Surplus reserve		108,587,124.40	108,587,124.40
Normal risk provision			
Retained profit		-1,669,901,305.55	-1,677,703,161.56
Total shareholder's equity		291,270,607.30	283,468,751.29
Total liabilities and shareholder's equity		456,205,491.36	480,665,690.36

PROFIT AND LOSS (CONSOLIDATED)

For the year ended 31 December 2012 (Prepared in accordance with P.R.C. Accounting Rules and Regulations)

Date: Dec. 31, 2012

Prepared by: Northeast Electric Development Co., Ltd.

In RMB Yuan

Items	Notes	2012	2011
I. Total operating revenue		217,220,841.81	248,679,812.93
Including: Operating income	V. 28	217,220,841.81	248,679,812.93
Interest income			
Earned premium			
Charges and commissions			
II. Total operating costs		210,652,271.21	284,976,940.07
Including: Operating costs	V. 28	156,257,604.05	190,929,237.00
Interest expenses			
Fees and commissions			
Surrender value			
Net amount of payouts			
Net provision drawn for insurance contract			
Policy dividend expenses			
Reinsurance expenses			
Taxes and surcharges for operations	V. 29	1,779,492.53	2,461,693.74
Sales expenses	V. 30	17,710,724.42	31,051,262.05
Administrative expenses	V. 31	31,231,758.49	37,474,405.02
Financial expenses	V. 32	-81,075.26	313,993.12
Losses on assets depreciation	V. 33	3,753,766.98	22,746,349.14
Plus: Incomes from changes of fair value (“-” refers to loss)			
Incomes from investment (“-” refers to loss)	V. 34	-6,151.36	-1,595,655.71
Including: investment income from associates and joint venture companies		-6,151.36	-1,733,043.08
Exchange gains (“-” refers to loss)			

PROFIT AND LOSS (CONSOLIDATED) (Continued)

For the year ended 31 December 2012 (Prepared in accordance with P.R.C. Accounting Rules and Regulations)

Date: Dec. 31, 2012

Prepared by: Northeast Electric Development Co., Ltd.

In RMB Yuan

Items	Notes	2012	2011
III. Operating profits (“-” refers to loss)		6,562,419.24	-37,892,782.85
Plus: Non-operating incomes	V. 35	7,106,628.54	9,951,742.55
Less: Non-operating expenses	V. 36	773,290.48	114,171.43
Including: Losses on disposal of non-current assets		21,964.40	37,187.94
IV. Total profits (“-” refers to loss)		12,895,757.30	-28,055,211.73
Less: Income tax expense	V. 37	1,859,663.92	4,596,947.60
V. Net profits (“-” refers to loss)		11,036,093.38	-32,652,159.33
Net profit attributable to owners of the parent company		11,140,994.81	-32,197,171.37
Minority interests		-104,901.43	-454,987.96
VI. Earnings per share:			
(1) Basic earnings per share	V. 38	0.01	-0.04
(2) Diluted earnings per share	V. 38	0.01	-0.04
VII. Other comprehensive income	V. 39	-22,125.60	-11,874,956.33
VIII. Total comprehensive income		11,013,967.78	-44,527,115.66
Total comprehensive income attributable to owners of the parent company		11,118,869.21	-44,072,127.70
Total comprehensive income attributable to minority shareholders		-104,901.43	-454,987.96

Notes: The company comparing the consolidated statements is required only to calculate and present the basic earnings per share and the diluted earnings per share (other than those of the parent company), on the basis of consolidation.

PROFIT AND LOSS (PARENT COMPANY)

For the year ended 31 December 2012 (Prepared in accordance with P.R.C. Accounting Rules and Regulations)

Date: Dec. 31, 2012

Prepared by: Northeast Electric Development Co., Ltd.

In RMB Yuan

Items	Notes	2012	2011
I. Total income of sales		3,850,000.00	
Minus: Cost of sales			
Sales tax and surcharges		211,750.00	
Expenses of sales			
Administrative expenses		2,850,889.28	4,205,501.71
Financial expenses		6,233.71	-5,313.08
Loss of asset Impairment		-27,000.00	66,156,317.55
plus: income of fair value variance (loss is posed as “-”)			
Return on investments (loss is posed as “-”)			
inclu.: return on investments to associates and related parties			
II. Total Profit (Total loss is posed as “-”)		808,127.01	-70,356,506.18
plus: Income of non-operational activities		6,993,929.00	9,252,860.00
minus: Expenses of non-operational activities		200.00	2,000.00
inclu.: loss of disposal of non-current assets			
III. Total Profit (Total loss is posed as “-”)		7,801,856.01	-61,105,646.18
minus: Income tax expenses			
IV. Net Profit (Total loss is posed as “-”)		7,801,856.01	-61,105,646.18
V. Earnings per share:			
(A) Primary earnings per share			
(B) Diluted earnings per share			
VI. Other Comprehensive Income			
VII. Total Comprehensive Income		7,801,856.01	-61,105,646.18

CASH FLOW (CONSOLIDATED)

For the year ended 31 December 2012 (Prepared in accordance with P.R.C. Accounting Rules and Regulations)

Date: Dec. 31, 2012

Prepared by: Northeast Electric Development Co., Ltd.

In RMB Yuan

Items	Notes	2012	2011
I. Net cash flow from operating activities:			
Cash from sales of goods, services provided		239,119,218.76	347,021,000.81
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 market			
Net increase of funds of buyback business			
Taxes refunded received			
Cash received relating to operations	V. 41 (1)	20,371,826.21	15,980,888.80
Subtotal of cash inflows from operating activities		259,491,044.97	363,001,889.61
Cash paid to purchase goods, received labor		152,205,254.89	235,020,480.05
Net increase of customer loans			
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		26,094,431.05	26,808,743.72

CASH FLOW (CONSOLIDATED) (Continued)

For the year ended 31 December 2012 (Prepared in accordance with P.R.C. Accounting Rules and Regulations)

Date: Dec. 31, 2012

Prepared by: Northeast Electric Development Co., Ltd.

In RMB Yuan

Items	Notes	2012	2011
Taxes paid		10,722,888.78	29,971,680.20
Cash paid relating to operations	V. 41(2)	73,822,166.22	105,009,253.61
Subtotal of cash outflows from operating activities		262,844,740.94	396,810,157.58
Net cash flow arising from operating activities		-3,353,695.97	-33,808,267.97
II. Net cash flow arising from investment activities:			
Cash received by withdrawn investment		35,000,000.00	53,000,000.00
Cash of return on investment			770,246.03
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		1,980.00	33,349.62
Net cash received from disposal of subsidiaries and other operating units			
Cash received from other investment-related activities			
Subtotal of cash inflows from investment activities		35,001,980.00	53,803,595.65
Cash paid in purchase/construction of fixed assets, intangible assets and other long-term assets		3,738,698.30	4,220,904.86
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		3,738,698.30	4,220,904.86
Net cash flow arising from investment activities		31,263,281.70	49,582,690.79

CASH FLOW (CONSOLIDATED) (Continued)

For the year ended 31 December 2012 (Prepared in accordance with P.R.C. Accounting Rules and Regulations)

Date: Dec. 31, 2012

Prepared by: Northeast Electric Development Co., Ltd.

In RMB Yuan

Items	Notes	2012	2011
III. Net cash flow arising from financing activities:			
Cash received for new investment			
Including: subsidiaries receive cash from minority shareholders			
Cash received from borrowing		8,000,000.00	8,000,000.00
Cash received by issuing bonds			
Cash received from other financial-related activities			
Subtotal of cash inflows from financing activities		8,000,000.00	8,000,000.00
Cash paid to repay loans		8,000,000.00	34,000,000.00
Cash paid to dividends, profit or interests		581,983.54	1,436,471.93
Including: subsidiaries' dividends, profits paid to minority shareholder			
Cash paid to other financial-related activities			79,125.00
Subtotal of cash outflows from financing activities		8,581,983.54	35,515,596.93
Net cash flow arising from financing activities		-581,983.54	-27,515,596.93
IV. Effect of change of foreign currency rates on cash and cash equivalents		289.02	-47,097.64
V. Net increase in cash and cash equivalents		27,327,891.21	-11,788,271.75
Plus: balance of cash and cash equivalents at beginning of period		42,095,840.09	53,884,111.84
VI. Plus: balance of cash and cash equivalents at the end of period		69,423,731.30	42,095,840.09

CASH FLOW (PARENT COMPANY)

For the year ended 31 December 2012 (Prepared in accordance with P.R.C. Accounting Rules and Regulations)

Date: Dec. 31, 2012

Prepared by: Northeast Electric Development Co., Ltd.

In RMB Yuan

Items	Notes	2012	2011
I. Cash flow generated in Operational activities:			
Cash from sales of goods, services provide		2,850,000.00	
Refunds of taxes and expenses			
Other cash from operation-related activities		75,712,490.52	53,577,722.87
Sub-total of inflow of cash in operational activities		78,562,490.52	53,577,722.87
Cash paid to purchase goods, received labor			
Cash paid to employees and for employees		1,184.31	1,020,361.41
Taxes and expenses paid		305,723.82	32,165.06
Other cash paid to operation-related activities		78,251,726.70	52,494,603.94
Sub-total of outflow of cash in operational activities		78,558,634.83	53,547,130.41
Net in/outflow of cash generated in operational activities		3,855.69	30,592.46
II. Cash flow generated in investment activities:			
Cash of withdrawn investment			
Cash received from return of investments			
Net cash received from disposal of fixed assets, intangible assets and other long-term assets			
Net amount of cash in disposing subsidiaries and other operating units			
Other cash received from investment-related activities			
Sub-total of inflow of cash in investment activities			
Cash paid in purchase/construction of fixed assets, intangible assets and other long-term assets		5,450.00	37,188.00
Cash paid to invest			
Net cash received from subsidiaries and other operational units			

CASH FLOW (PARENT COMPANY) (Continued)

For the year ended 31 December 2012 (Prepared in accordance with P.R.C. Accounting Rules and Regulations)

Date: Dec. 31, 2012

Prepared by: Northeast Electric Development Co., Ltd.

In RMB Yuan

Items	Notes	2012	2011
Cash paid to other investment-related activities			
Sub-total of outflow of cash in investment activities		5,450.00	37,188.00
Total in/outflow of cash in investment activities		-5,450.00	-37,188.00
III. Cash flow generated in financial activities:			
Cash received for new investment			
Cash received from borrowing			
Cash received from issuance of bonds			
Cash from other financial-related activities			
Cash from other financial-related activities			
Cash paid to repay loans			
Cash paid to allocate dividends, profit or repay interests			
Cash paid to other financial-related activities			
Sub-total of outflow of cash in financial activities			
Net cash generated in financial activities			
IV. Effect of change of foreign-currency rates on cash and cash equivalents		278.51	
V. Net increase of cash and equivalents		-1,315.80	-6,595.54
plus: Balance at beginning of period of cash and equivalents		31,891.38	38,486.92
VI. Balance of Cash and equivalents by end of period		30,575.58	31,891.38

CHANGE OF EQUITY (CONSOLIDATED)

For the year ended 31 December 2012 (Prepared in accordance with P.R.C. Accounting Rules and Regulations)

Date: Dec. 31, 2012
Prepared by: Northeast Electric Development Co., Ltd

In RMB Yuan

Item	Shareholders' equity due to parent company								Total Shareholders' Equity	
	Share Capital	Capital Reserve	Special Reserve	Minus: stocks in store	Normal Reserve	Risk Reserve	Retained Profit	Others		Minority Interests
I. Balance of last year	873,370,000.00	883,422,403.92	108,587,124.40				-1,569,721,146.49	-34,994,770.33	1,342,370.43	262,005,981.93
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				-1,569,721,146.49	-34,994,770.33	1,342,370.43	262,005,981.93
III. Variations of this year (decrease posed as "-")										
i. Net profit							11,140,994.81	-22,125.60	-104,901.43	11,013,967.78
ii. Other comprehensive income							11,140,994.81		-104,901.43	11,036,093.38
Sub-total of I. and II.							11,140,994.81	-22,125.60	-104,901.43	-22,125.60
iii. Shareholders' equity and capital decreased										
1. Capital invested										
2. Amount of shares taken as equity										
3. Other										
iv. Distribution of profit										

CHANGE OF EQUITY (CONSOLIDATED) (Continued)

For the year ended 31 December 2012 (Prepared in accordance with P.R.C. Accounting Rules and Regulations)

Date: Dec. 31, 2012

Prepared by: Northeast Electric Development Co., Ltd

In RMB Yuan

Item	Shareholders' equity due to parent company										Total Shareholders' Equity	
	Share Capital	Capital Reserve	Minus: stocks in store	Special Reserve	Reserve	Risk Reserve	Normal Reserve	Retained Profit	Others	Minority Interests		
1. Reserve												
2. Normal risk reserve												
3. Distribution to shareholders												
4. Others												
v. Internal carried-forward shareholders' equity												
1. Capital reserve to increase capital												
2. Reserve to increase capital												
3. Reserve to cover loss												
4. Others												
vi. Special reserve												
1. Withdrawal of special reserve												
2. Use of special reserve												
vii. Others												
IV. Balance by end of this year	873,370,000.00	883,422,403.92	-	-	108,587,124.40	-	-	-1,558,580,151.68	-35,016,895.93	1,237,469	273,019,949.71	

Notes: 1. "balance of last year" shall represent the "balance by end of period" reported in the statement of change of equity of last year.

2. "vii. Others" referred to in the table above represents the other items from "i. Net profit" to "vi. Special reserve" which are not attributable to the statement of change of equity. Other special items of significant amount shall be described in the relevant notes.

CHANGE OF EQUITY (CONSOLIDATED) (Continued)

For the year ended 31 December 2012 (Prepared in accordance with P.R.C. Accounting Rules and Regulations)

Date: Dec. 31, 2012)

Prepared by: Northeast Electric Development Co., Ltd

In RMB Yuan

Item	Shareholders' equity due to parent company										Total Shareholders' Equity
	Share Capital	Capital Reserve	Minus: stocks in store	Special Reserve	Reserve	Risk Reserve	Normal Reserve	Retained Profit	Others	Minority Interests	
I. Balance of last year	873,370,000.00	883,422,403.92		108,587,124.40				-1,537,523,975.12	-23,119,814.00	1,797,358.39	306,533,097.59
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				-1,537,523,975.12	-23,119,814.00	1,797,358.39	306,533,097.59
III. Variations of this year (decrease posed as "-")											
i. Net profit								-32,197,171.37	-11,874,956.33	-454,987.96	-44,527,115.66
ii. Other comprehensive income								-32,197,171.37		-454,987.96	-32,652,159.33
Sub-total of I. and II.											
iii. Shareholders' equity and Capital decreased									-11,874,956.33		-11,874,956.33
1. Capital invested											
2. Amount of shares taken as equity											
3. Others											
iv. Distribution of profit								-32,197,171.37	-11,874,956.33	-454,987.96	-44,527,115.66

CHANGE OF EQUITY (CONSOLIDATED) (Continued)

For the year ended 31 December 2012 (Prepared in accordance with P.R.C. Accounting Rules and Regulations)

Date: Dec. 31, 2012)

Prepared by: Northeast Electric Development Co., Ltd

In RMB Yuan

Item	Shareholders' equity due to parent company							Total Shareholders' Equity
	Share Capital	Capital Reserve	Minus: stocks in store	Special Reserve	Reserve	Risk Reserve	Normal Reserve	
1. Reserve								
2. Normal risk reserve								
3. Distribution to shareholders								
4. Others								
v. Internal carried-forward shareholders' equity								
1. Capital reserve to increase capital								
2. Reserve to increase capital								
3. Reserve to cover loss								
4. Others								
vi. Special reserve								
1. Provision of Special reserve								
2. Usage of Special reserve								
vii. Others								
IV. Balance by end of this year	873,370,000.00	883,422,403.92		108,587,124.40	-1,569,721,146.49	1,342,370.43	-34,994,770.33	262,005,981.93

Notes: 1. "balance of last year" shall represent the "balance by end of period" reported in the statement of change of equity of last year.

2. "vii. Others" referred to in the table above represents the other items from "i. Net profit" to "vi. Special reserve" which are not attributable to the statement of change of equity. Other special items of significant amount shall be described in the relevant notes.

CHANGE OF EQUITY (PARENT COMPANY)

For the year ended 31 December 2012 (Prepared in accordance with P.R.C. Accounting Rules and Regulations)

Date: Dec. 31, 2012)

Prepared by: Northeast Electric Development Co., Ltd.

In RMB Yuan

Items	2012					Total Shareholders' Equity
	Share Capital	Capital Reserve	Minus: stocks in store	Special Reserve	Normal Risk Reserve	
I. Balance of last year	873,370,000.00	979,214,788.45		108,587,124.40	-1,677,703,161.56	283,468,751.29
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	-1,677,703,161.56	283,468,751.29
III. Variations of the year (decrease posed as "-")						
i. Net profit					7,801,856.01	7,801,856.01
ii. Other comprehensive income					7,801,856.01	7,801,856.01
Sub-total of I. and II.					7,801,856.01	7,801,856.01
iii. Shareholders' equity and Capital decreased						
1. Capital invested						
2. Amount of shares taken as equity						
3. Others						
iv. Distribution of profit						
1. Reserve						

CHANGE OF EQUITY (PARENT COMPANY) (Continued)

For the year ended 31 December 2012 (Prepared in accordance with P.R.C. Accounting Rules and Regulations)

Date: Dec. 31, 2012)

Prepared by: Northeast Electric Development Co., Ltd.

In RMB Yuan

Items	2012					Total Shareholders' Equity
	Share Capital	Capital Reserve	Minus: stocks in store	Special Reserve	Normal Risk Reserve	
2. Distribution to shareholders						
3. Others						
v. Internal carried-forward shareholders' equity						
1. Capital reserve to increase capital						
2. Reserve to increase capital						
3. Reserve to cover loss						
4. Others						
vi. Special reserve						
1. Provision of Special reserve						
2. Usage of Special reserve						
vii. Others						
IV. Balance by end of the year	873,370,000.00	979,214,788.45	108,587,124.40	-1,669,901,305.55	291,270,607.30	

Notes: 1. "balance of last year" shall represent the "balance by end of period" reported in the statement of change of equity of last year

2. "vii. Others" referred to in the table above represents the other items from "i. Net profit" to "vi. Special reserve" which are not attributable to the statement of change of equity. Other special items of significant amount shall be described in the relevant notes.

CHANGE OF EQUITY (PARENT COMPANY) (Continued)

For the year ended 31 December 2012 (Prepared in accordance with P.R.C. Accounting Rules and Regulations)

Date: Dec. 31, 2012)

Prepared by: Northeast Electric Development Co., Ltd.

In RMB Yuan

Items	2011				Total Shareholders' Equity
	Share Capital	Capital Reserve	Special Reserve	Normal Risk Reserve	
I. Balance of last year	873,370,000.00	979,214,788.45	108,587,124.40	-1,616,597,515.38	344,574,397.47
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	-1,616,597,515.38	344,574,397.47
Variations of this year (decrease posed as "-")					
i. Net profit				-61,105,646.18	-61,105,646.18
ii. Other comprehensive income					
Sub-total of I. and II.				-61,105,646.18	-61,105,646.18
iii. Shareholders' equity and Capital decreased					
1. Capital invested					
2. Amount of shares taken as equity					
3. Others					
iv. Distribution of profit					
1. Reserve					

CHANGE OF EQUITY (PARENT COMPANY) (Continued)

For the year ended 31 December 2012 (Prepared in accordance with P.R.C. Accounting Rules and Regulations)

Date: Dec. 31, 2012)

Prepared by: Northeast Electric Development Co., Ltd.

In RMB Yuan

Items	2011					Total Shareholders' Equity
	Share Capital	Capital Reserve	Special Reserve	Normal Risk Reserve	Retained Profit	
2. Distribution to shareholders						
3. Others						
v. Internal carried-forward shareholders' equity						
1. Capital reserve to increase capital						
2. Reserve to increase capital						
3. Reserve to cover loss						
4. Others						
vi. Special reserve						
1. Provision of Special reserve						
2. Usage of Special reserve						
vii. Others						
IV. Balance by end of this year	873,370,000.00	979,214,788.45	108,587,124.40	-1,677,703,161.56	283,468,751.29	

Notes: 1. "balance of last year" shall represent the "balance by end of period" reported in the statement of change of equity of last year.

2. "vii. Others" referred to in the table above represents the other items from "i. Net profit" to "vi. Special reserve" which are not attributable to the statement of change of equity. Other special items of significant amount shall be described in the relevant notes.

Notes to the Financial Statements

For the year ended 31 December 2012 (All amounts expressed in RMB unless otherwise specified)

I. Company Overview**1. History of the Company**

Northeast Electric Development Co., Ltd. (formerly known as Northeast Electricity Transmitting & Transformation Machinery Manufacturing Ltd.) (“the company” or “company”) is a share-holding limited company established by directed placement initiated 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 was officially founded on 18 February 1993 with 824.54 million shares which were adjusted to 585.42 million shares in 1995. In 1995, the company issued 257.95 million of H-shares in Hong Kong and was listed on the Hong Kong Stock Exchange on 6 July 1995. In the same year the company issued 30 million of A-shares in a public offering and was listed on the Shenzhen Stock Exchange on 13 December 1995.

Business license registration number: 210100402002708; Registered capital: RMB 873,370,000.00; Legal Representative: Su Wei Guo; Business address: No.1 Xin Tai Road, Bayuquan District, Yingkou, Liaoning Province.

Parent company of the company is New Northeast Electric Investment Co., Ltd, which is also the ultimate holding company of the Group.

2. Principal Industry

Mechanical and electrical equipment manufacturing industry.

3. Business scope

The company engages in production and sales of electricity transmitting and transforming equipments and related accessories, provision of relevant after-sale services, and provision of electricity transforming technology developing, consulting, transferring and experimenting services.

4. Main products

Main products of the company are gas insulated switchgear, high-tension switch, power capacitor, enclosed busbar and other system protection and transmission equipment.

II. Significant Accounting Policies of the Company, Accounting Estimates, and Prior Periods Adjustments

1. Basis of preparation of financial statements

The financial statements of the company have been prepared based on the actual transactions and events on a going concern basis and in accordance with the requirements of “Accounting Standards for Business Enterprises – Basic Standards” and 38 Specific Standards issued by the Ministry of Finance in February 2006, and application guidelines, explanations and other relevant regulations.

2. Statement of compliance with the Accounting Standards for Business Enterprises

The financial statements of the company for the year ended 31 December 2012 are in compliance with the Accounting Standards for Business Enterprises, and truly and completely present the financial position of the Consolidated and Company as of 31 December 2012 and of their financial performance, cash flows and other information for the year then ended.

3. Accounting period

The accounting period commences on 1st January and ends on 31st December each year.

4. Functional currency

The functional currency of the company is Renminbi (“RMB”).

5. Accounting treatment for business combination under common control and not under common control.

(1) Business combination under common control

Business combination under common control is accounted for using pooling of interest method. Assets and liabilities obtained by the absorbing party in the business combination shall be measured at their carrying amounts at the combination date as recorded by the party being absorbed, except for necessary adjustments arise from difference in accounting policies adopted. The difference between the carrying amount of the consideration paid for the combination (or the aggregate face value of shares issued as consideration) and the carrying amount of the net assets obtained shall be adjusted to capital reserve. If the capital reserve is not sufficient to absorb the difference, any excess shall be adjusted against retained earnings.

II. Significant Accounting Policies of the Company, Accounting Estimates, and Prior Periods Adjustments (Continued)**5. Accounting treatment for business combination under common control and not under common control (Continued)****(1) Business combination under common control (Continued)**

Expenses that are directly attributable to business combination such as audit fee, legal services fee and consultancy fee are expensed in the profit or loss in the period incurred. Commissions and other charges paid for issuance of debentures or undertake of liabilities for the purpose of business combination shall be included in the initial amount recognized for the debentures or liabilities undertaken. Commissions and other charges paid for issuance of equity securities for the purpose of business combination shall be deducted from capital reserve. If the capital reserve is not sufficient to absorb the commissions and charges, any excess shall be adjusted against retained earnings.

(2) Business combination not under common control

Business combination not under common control is accounted for using acquisition method. The cost of business combination is the fair value of consideration paid including cash and non-cash assets, liabilities undertaken, debts and equity securities issued for the controlling interest of the acquiree at the acquisition date. Expenses such as audit fee, legal services fee and consultancy fee and other relevant expenses incurred by the company as acquirer are expensed in the profit or loss in the period incurred. Transaction costs for debt and equity securities issued for the purpose of business combination shall be included in the initial recognized amount of the debt and equity securities issued.

The cost of investment acquired in a business combination shall be the cost of business combination determined on the acquisition date. The acquiree's identifiable assets, liabilities and contingent liabilities are recognized at their fair values at the acquisition date. Goodwill is recognized by the difference between the cost of business combination over the fair value of net identifiable assets acquired. In case the cost of business combination is smaller than the fair value of net identifiable assets acquired, the excess of the fair value of net identifiable assets acquired over the cost of business combination will be recognized in current profit or loss after a review of computation.

II. Significant Accounting Policies of the Company, Accounting Estimates, and Prior Periods Adjustments (Continued)

6. Preparation of consolidated financial statements

(1) Scope of consolidation

The consolidated scope of consolidated financial statements is determined based on the concept of control, and comprise the company and its subsidiaries.

For subsidiaries obtained during the reporting period through a business combination involving entities under common control, the subsidiaries will be recognized in consolidated financial statement from the beginning of the period. For subsidiaries acquired during the reporting period through a business combination not involving entities under common control, the subsidiaries will be recognized in consolidated financial statements from the date of acquisition. For subsidiaries disposed during the reporting period, the subsidiaries will be de-consolidated from the date of disposal.

(2) Preparation method of consolidated financial statements

Consolidated financial statements are prepared based on the financial statements of the Company and its subsidiaries and other relevant information of the Company and its subsidiaries, long-term equity investments are adjusted according to method of equity. Where the accounting policies and the accounting periods of the Company and subsidiaries are inconsistent, the financial statements of the subsidiaries are adjusted in accordance with the accounting policies and accounting period of the Company. All significant intra-group balances, transactions and unrealized profits are eliminated in the consolidated financial statements. The portion of a subsidiary's equity not attributable to the Company are recognized as minority interests and presented separately in the consolidated financial statements under equity. Where the amount of losses for the current period attributed to the minority shareholders of a subsidiary exceeds the minority shareholders' portion of the opening balance of shareholders' equity of the subsidiary, the excess amount is allocated against minority interests.

7. Cash and cash equivalents

For the purpose of preparing the cash flow statement, investments which are short-term (mature within three months), highly liquid, readily convertible to known amount of cash and subject to insignificant risk of changes in value are regarded as cash equivalents.

II. Significant Accounting Policies of the Company, Accounting Estimates, and Prior Periods Adjustments (Continued)**8. Foreign currency translation****(1) Foreign currency transactions**

Foreign currency transactions are translated into RMB using the exchange rate prevailing at the dates of transactions, which is the exchange rate at the beginning of the month when the transaction occurred.

On each balance sheet date, foreign-currency monetary items are translated into RMB using the spot rates at the balance sheet date, exchange differences arising from these translations are recognized in profit or loss as finance cost. Non-monetary items denominated in foreign currencies that are measured at historical costs are translated at the balance sheet date using the spot exchange rates at the date of transactions. Non-monetary items denominated in foreign currency that are measured at fair value are translated into RMB using the spot rate at the date when fair value is determined and the exchange differences arising from which are recognized in profit or loss, except for those arising from the available-for-sale non-monetary items which should be recognized in capital surplus.

(2) Foreign currency financial statements translation

The asset and liability items in the balance sheets for overseas operations are translated at the spot exchange rates at the balance sheet date. Among the shareholders' equity items, the items other than "undistributed profits" are translated at the spot exchange rates of the transaction dates. The income and expense items in the income statements of overseas operations are translated at the spot exchange rates or similar rates at the transaction dates. The differences arising from the above translation are presented separately in the shareholders' equity. The cash flows of overseas operations are translated at the spot exchange rates or similar rates at the dates of the cash flows occurred. The effect of exchange rate changes on cash is presented separately in the cash flows statement.

Exchange differences arose from translation of foreign currency financial statements shall be disclosed as a separate line item under shareholders' equity in the balance sheet.

II. Significant Accounting Policies of the Company, Accounting Estimates, and Prior Periods Adjustments (Continued)

9. Financial instruments

Financial instruments refer to the contracts which give rise to a financial asset in one entity and a financial liability or equity instrument in another entity.

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

The company recognizes a financial asset or a financial liability when it becomes a party to the contractual provisions of the financial instrument.

A financial asset shall be derecognized when one of the following criteria is met:

- ① The right of receiving the cash flow generated from the financial asset has expired;
- ② The financial asset is transferred and satisfy the derecognition criteria.

The entire or part of financial liability shall be derecognized if its current obligation has been discharged completely or partially.

(2) Classification and valuation of financial asset and financial liability

Financial asset and financial liability are initially classified into five categories: financial asset or financial liability at fair value through profit or loss, held-to-maturity investments, receivables, available-for-sale financial assets and other financial liabilities. Financial assets and financial liabilities are initially recognized at fair value. Gain or loss arising from change in the fair value of financial assets and financial liabilities at fair value through profit or loss is recognised in profit or loss. For financial asset and financial liability at fair value through profit and loss, the relevant transaction costs are directly recognized in profit or loss; for other financial assets and financial liabilities, the relevant transaction costs are recognized in the initial recognition amount.

- ① financial assets and financial liabilities at fair value through profit or loss

Financial assets and financial liabilities at fair value through profit or loss comprise trading financial assets or liabilities and those designated at fair value through profit or loss at inception. Trading financial assets includes stocks, bonds and funds acquired or incurred principally for the purpose of selling in the short term; derivative financial instruments. Financial asset or liability designated at fair value through profit or loss are designated based on enterprise's risk management and strategic investment need.

These financial assets or financial liabilities are subsequently measure at fair value. Unless it is used as effective hedging tool, realized and unrealized gain or loss are accounted in to current profit and loss.

II. Significant Accounting Policies of the Company, Accounting Estimates, and Prior Periods Adjustments (Continued)**9. Financial instruments (Continued)****(2) Classification and valuation of financial asset and financial liability (Continued)**

② Held-to-maturity investment

Held-to-maturity investments are non-derivative financial assets whose maturity and redemption amount are fixed or ascertained and in respect of which the company has clear intentions and ability to hold until maturity. Such financial assets are subsequently measured using the effective interest method on the basis of amortized cost. Gains or losses arising from derecognition, impairment or amortization are recognized in current profit or loss. Upon disposal of held-to-maturity investments, difference between sales proceeds and the carrying amount of investment shall be accounted as investment gain or loss.

③ Receivables

Receivables represent the receivables arising from sales of products or provision of services to external customers, including accounts receivable, other receivables and long-term receivables.

Initial recognition of receivable is based on the contracted or agreed price of goods or services, it is measured at amortized costs using the effective interest rate method. Upon collection or disposal of receivables, the difference between the amount received and the carrying amount shall be included in the current profit or loss.

④ Available-for-sale financial asset

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or those financial assets that are not classified in any of the above categories. Subsequent to initial recognition, these financial assets are measured at fair value. The discount or premium of the financial asset is amortized using the effective interest rate method. Gains and losses arising from fair value changes in available-for-sale financial assets, except for impairment losses and foreign currency monetary item's translation differences which are recognized in profit or loss, are recognized as other comprehensive income in capital reserves until the financial assets are derecognized or impaired upon which the cumulative gains or losses are transferred out from capital reserves to profit or loss. Dividends or interest income derived from available-for-sale financial assets is recognized in profit or loss.

II. Significant Accounting Policies of the Company, Accounting Estimates, and Prior Periods Adjustments (Continued)

9. Financial instruments (Continued)

(2) Classification and valuation of financial asset and financial liability (Continued)

⑤ Other financial liabilities

Other financial liabilities represent those financial liabilities not measured at fair value through profit or loss. Other financial liabilities are measured at amortized cost or at cost. Any gain or loss arising from amortization or derecognition of other financial liability shall be accounted into current profit or loss.

(3) Transfer of financial assets

① Recognition of a certain item of financial asset is terminated when the Company transfers almost all of the risks and reward of such asset to the transferee or give up control over such asset.

② If the transfer of financial asset is completed and the derecognition criteria are satisfied, difference between the followings shall be accounted into current profit or loss:

A. carrying amount of transferred financial asset;

B. the sum of value received and total accumulated fair value change under shareholders' equity.

③ If the partial transfer of financial asset satisfied the derecognition condition, the entire carrying amount of transferred financial asset shall be divided pro rata between the derecognized and current recognized parts based on their fair value, difference between the followings shall be accounted into current profit or loss:

A. carrying amount of the derecognized part;

B. the sum of value received due to this transfer and total accumulated fair value change under shareholders' equity of this derecognized part.

④ If the transfer does not satisfy the derecognition condition, the recognition shall be continued. The value received shall be recognized as financial liability.

⑤ For the financial asset transferred but continuous involvement is maintained, financial asset and financial liability shall be recognized at the same time according to the degree of continuous involvement.

II. Significant Accounting Policies of the Company, Accounting Estimates, and Prior Periods Adjustments (Continued)**9. Financial instruments (Continued)****(4) Recognition of fair value**

- ① In an active market, quotation by such market is taken as fair value;
- ② Without an active market, valuation technique is used to establish the fair value.

(5) Impairment of financial asset (excludes receivables)

All carrying amount of financial assets (excludes receivables) shall be assessed at balance sheet date. Provision for impairment shall be made when there is an objective evidence shows that such financial assets impairs.

- ① Held-to-maturity investment

Impairment loss is recognized according to the differences between carrying amount and present value of estimated future cash flow. If there are objective evidences show the value of this financial asset is recovered and it related to the matters happened after the impairment loss recognition, the impairment loss recognized shall be reversed and accounted in current profit or loss. However the reversal shall not result in a carrying amount of the financial asset that exceeds what the amortized cost would have been and had the impairment not been recognized at the date when the impairment is reversed.

- ② Available-for-sale financial asset

If there are objective evidences show the fair value of available-for-sale financial asset has a significant decline and this decline is not temporary, impairment loss shall be recognized. If an available-for-sale financial asset is impaired, the cumulative loss arising from decline in fair value that had been recognized directly in capital reserves is removed from capital reserves and recognized in profit or loss. The cumulative loss that is removed from capital reserves is the difference between its acquisition cost (net of any principal repayment and amortization) and its current fair value, less any impairment loss previously recognized in profit or loss.

If there are objective evidences show the value of available-for-sale debt instrument is recovered and it related to the matters happened after the impairment loss recognition, the impairment loss recognized shall be reversed and accounted in current profit or loss. Impairment losses recognized for equity instruments classified as available-for-sale are not reversed through profit or loss. Fair value gains that arise after the impairment are directly recognized in other comprehensive income, but not profit and loss.

II. Significant Accounting Policies of the Company, Accounting Estimates, and Prior Periods Adjustments (Continued)

10. Accounts receivables

(1) Individual significant accounts receivable for which separate bad-debt provision is made

- ① Basis or monetary level for determination of significant account receivable

An account receivable is considered individually significant if it is larger than RMB1 million. The amount is being determined based on the company's scale of operation, nature of business and status of customer settlements

- ② Provision for individual significant accounts receivable for which separate bad-debt provisions is made

The Company conducts impairment tests in respect of its significant accounts receivables and makes provision when there is objective evidence of impairment.

(2) Accounts Receivables for which collective bad debt provision is made

Basis for selection

Category Individual insignificant accounts, other receivables, individual significant accounts which there is no objective evidence for impairment and had collective provision based on ageing

Method for making collective bad debt provision

Method Aging Analysis of Accounts

The provisions are made based on Aging Analysis of Accounts:

Age of Accounts	Percentage of Provision for Accounts Receivable	Percentage of Provision for Other Receivables
Within 1 year (including 1 year)		
1-2 years		
2-3 years	40%	40%
3-4 years	60%	60%
Over 4 years	100%	100%

II. Significant Accounting Policies of the Company, Accounting Estimates, and Prior Periods Adjustments (Continued)**10. Accounts receivables (Continued)****(3) Individually insignificant accounts but separate bad-debt provision is made**

Reason for making separate bad-debt provision	Obvious evidence that the amount is irrecoverable.
Method of provision	According to the difference between the future cash flow and carrying amount of such Accounts Receivable

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

Inventories are classified as finished goods, raw materials, work in progress, and low-value consumable stores.

(2) Valuation of inventories

Inventories are recorded at actual costs. Cost is determined using the weighted average method.

(3) Determination of net realizable value and provision for decline in the value of inventories

Net realizable value for finished goods, merchandise and materials held for sale is the estimated selling price in the ordinary course of business, less the estimated expenses necessary to make the sale and the related taxes.

Net realizable value of materials held for use in the production is the estimated selling price in the ordinary course of business, less the estimated costs to completion and estimated expenses necessary to make the sale and the related taxes.

The net realizable value of the inventories held to satisfy sales or service contracts is based on the contract price. If the quantities of inventories specified in sales contracts are less than the quantities held by the Company, the net realizable value of the excess portion of inventories shall be based on general selling prices (market prices).

Inventories at the end of the year are stated at the lower of cost or net realizable value. Provision for decline in value is made and recognized as expenses when the net realizable value is lower than cost. If the factors that give rise to the provision in prior years are not in effect in current year, as a result that the net realizable value of the inventories is higher than cost, provision should be reversed within the impaired cost, and recognized in profit or loss.

II. Significant Accounting Policies of the Company, Accounting Estimates, and Prior Periods Adjustments (Continued)

11. Inventories (Continued)

(4) Inventory system

Perpetual inventory system is adopted.

(5) Amortization of low-value consumables stores and packing material

Low-value consumables stores and packing materials are expensed in full upon issuance.

12. Long-term equity investments

(1) Initial recognition

① **Long-term equity investments obtained through a business combination involving entities under common control**

The initial investment cost of a long-term equity investment obtained through a business combination involving entities under common control is the Company's share of the subsidiary's equity at the combination date after adjusting difference in accounting policies adopted by the subsidiary.

② **Long-term equity investments cost of a long-term equity investment obtained through business combinations involving entities not under common control**

The initial investment cost of a long-term equity investment obtained through a business combination involving entities not under common control is the cost of business combination at the acquisition date. For business combinations involving entities not under common control achieved in stage, the initial investment cost should be the sum of the carrying value of equity investments in the acquiree held prior to the date of acquisition and the cost of additional investment on the date of acquisition.

II. Significant Accounting Policies of the Company, Accounting Estimates, and Prior Periods Adjustments (Continued)

12. Long-term equity investments (Continued)

(1) Initial recognition (Continued)

③ Long-term equity investments acquired other than through a business combination:

For long-term investments obtained with cash considerations, initial costs are measured at the consideration paid.

For long-term equity investments obtained with issuance of equity securities, initial costs are measured at fair value of the securities issued (excluding the declared dividend not yet paid). Where the acquisition is funded by investors, the initial investment cost is measured at the value stipulated in the investment contract or agreement, unless the value so agreed is deemed unfair.

For long-term equity investments obtained by transfer of non-monetary assets, when the fair value of the transferred assets can be reliably determined, the initial investment cost should be measured by the fair value of the transferred assets, unless there is concrete evidence that the fair value of acquired asset is more reliable. When the fair values of the transferred assets and acquired assets cannot be reliably determined, the initial investment cost should be measured by the carrying amount of the transferred asset plus the relevant tax payable for obtaining the long-term equity investments.

For long-term equity investments obtained by debt reorganization, fair value is used as the basis to measure the initial investment costs.

(2) Subsequent measurement and recognition of profit & loss

The cost method is used for the investments in subsidiaries and when the Company does not jointly control or has significant influence over the investee, and the long-term equity investments are not quoted in active markets, and have no reliably measurable fair values. The equity method is used to account for long-term equity investments when the Company can jointly control or has significant influence over the investees.

II. Significant Accounting Policies of the Company, Accounting Estimates, and Prior Periods Adjustments (Continued)

12. Long-term equity investments (Continued)

(2) Subsequent measurement and recognition of profit & loss (Continued)

When the equity method is used to account for long-term equity investment:

- ① For long-term equity investments accounted for using the equity method, where the initial investment cost of a long-term equity investment exceeds the Group's share of the fair value of the investee's identifiable net assets at the acquisition date, the long-term equity investment is measured at the initial investment cost; where the initial investment cost is less than the Group's share of the fair value of the investee's identifiable net assets at the acquisition date, the difference is included in profit or loss and the cost of the long-term equity investment is adjusted accordingly.
- ② Under the equity method, after the long-term equity investments are acquired, investment gains or losses are recognized and the carrying amount of the long-term equity investment is adjusted. When recognizing the Company's share of the net profit or loss of the invested entity, the Company makes adjustments based on fair values of the investees' identifiable assets and liabilities at the acquisition date and in accordance with the Company's accounting policy and accounting period to investee's net profits which also eliminates profit or loss from intertransactions with associates and joint ventures attributed to investor which is calculated pro rata on the basis of share percentage (except that loss from inter-group transactions deemed as asset impairment loss, which shall be fully recognized).
- ③ The Company discontinues recognizing its share of net losses of the investee after the carrying amount of the long-term equity investment and any long-term interest that in substance forms part of the company's net investment in the associate or the jointly controlled enterprises is reduced to zero, except to the extent that the company has an obligation to assume additional losses. Where net profits are subsequently made by the associate or jointly controlled enterprises, the Company resumes recognizing its share of those profits only after its share of the profits equals the share of losses not recognized.
- ④ When the investees appropriate profit or declare dividends, the carrying amount of long-term equity investments are reduced correspondingly by the share of the distribution.
- ⑤ For other changes of shareholders' equity other than net profits or losses of jointly controlled enterprises or associates, the company adjusts the carrying amount of the long-term equity investment and recognizes it in shareholders' equity.

II. Significant Accounting Policies of the Company, Accounting Estimates, and Prior Periods Adjustments (Continued)**12. Long-term equity investments (Continued)****(3) Basis for determining the existence of joint control or significant influence**

Joint control is the contractual agreed sharing of control over an investee's economic activity, and exists only when the strategic financial and operating decisions relating to the activity require unanimous consent of the parties sharing the control.

Significant influence is the power to participate in the financial and operating policy decision of an investee but is not control or joint control over those policies. When the company directly or indirectly via its subsidiaries holds over 20% but lower than 50% of voting rights of the investee, unless there are obvious evidences that the company cannot participate in the financial and operating policy decision of the investee and therefore cannot have significant influence over the investee, the company is deemed to have significant influence over the investee. When the company holds less than 20% of voting rights of the investee, it is deemed to have no significant influence over the investee, unless there are obvious evidences that the company can participate in the financial and operating policy decision of the investee and exercise significant influence over the investee.

(4) Method of impairment testing and provision

For the impairment loss assessment and provision on the long-term investments in subsidiaries, jointly controlled enterprises and associates, refer to Note II. 25.

For the impairment loss assessment and recognition on the other long-term equity investments not quoted in an active market and whose fair value cannot be reliably measured, please refer to Note II. 9 (5).

13. Investment properties

Investment properties of the company are those held for rental income or capital gains, or both, including land use rights already leased out, land use rights held for sale after capital appreciation and buildings already leased out.

Investment properties are initially recognized at cost, and depreciated or amortized according to the accounting policies applicable to fixed assets and intangible assets.

The company adopts the cost model for subsequent measurement of investment properties, for accounting policies related to impairment loss of investment properties, please refer to Note II.25.

II. Significant Accounting Policies of the Company, Accounting Estimates, and Prior Periods Adjustments (Continued)

14. Fixed assets

(1) Recognition criteria of fixed assets

Fixed assets represent the tangible assets held by the company for use in production of goods or for operation and administrative purposes with useful lives over one accounting year. Fixed assets will be recognized when:

- ① it is probable that future economic benefits that are associated with the fixed asset will flow to the company;
- ② the cost can be measured reliably

(2) Depreciation for fixed assets

Fixed assets are depreciated using the straight-line method. Depreciation starts from the date when the fixed asset is available for its intended use and ceases when the fixed asset is derecognized or classified as non-current assets held for sale (except for fully depreciated fixed assets and land which is accounted for separately). Without taking impairment provision into consideration, based on the fixed asset types, expected useful life and estimated residual value, the annual depreciation rates used are as following:

Type	Service life (year)	Scrape value rate (%)	Annual depreciation rate (%)
Buildings and structures	20-40	3%	2.43%-4.85%
Machinery and equipment	8-20	3%	4.85%-12.13%
Motor vehicles and others	6-17	3%	5.71%-16.17%

(3) Impairment loss testing and provision for fixed assets

For the impairment loss testing and provision, refer to Note II.25.

(4) Recognition and measurement of fixed assets acquired under finance leases

The leased asset is recognized at the lower of the fair value of the leased asset and the present value of the minimum lease payments.

When a leased asset can be reasonably determined that its ownership will be transferred at the end of the lease term, it is depreciated over the period of expected use; otherwise, the lease asset is depreciated over the shorter period of the lease term and the period of expected use.

II. Significant Accounting Policies of the Company, Accounting Estimates, and Prior Periods Adjustments (Continued)**14. Fixed assets (Continued)****(5) Other explanations**

- ① There is an annual review over the usage life, estimated residual value and depreciation method by the end of each year. If there is a change of expected useful life and estimated residual value, an adjustment will be made if necessary.
- ② Repair costs will be capitalized if the recognition criteria of fixed asset is satisfied, and charged to current profit and loss when the recognition criteria is not satisfied.
- ③ Repair costs which is capitalized should be depreciated separately on straight line basis over the expected useful life or the time until next repair, whichever is shorter.

15. Construction in progress**(1) Measurement of construction-in-progress**

Construction-in-progress is measured at actual cost and is measured project by project.

(2) Transfer of construction-in-progress to fixed assets

Construction-in-progress is transferred into fixed assets when it is ready for its intended use based on actual cost. When a construction-in-progress is ready for its intended use but the actual cost is not yet determined, the estimated cost incurred up to the date when the construction-in-progress is ready for its intended use should be transferred into fixed asset and depreciated according to the company's accounting policy. The cost of the fixed asset will be adjusted when the actual cost of the fixed asset is determined, however, no adjustments will be made with regard to the amount depreciated since the construction-in-progress is transferred into fixed asset.

(3) Provision for impairment for construction-in-progress

For the method of impairment testing and provision for impairment, refer to note II.25.

II. Significant Accounting Policies of the Company, Accounting Estimates, and Prior Periods Adjustments (Continued)

16. Borrowing costs

(1) Capitalization of borrowing costs

Qualifying asset are assets such fixed assets, investment properties and inventories that necessarily take a substantial period of time to get ready for their intended use. Borrowing costs are borrowing interest, amortization of discount or premium on debt, other supplementary costs and certain foreign exchange differences that occurred from the borrowings in foreign currencies.

Borrowing costs incurred directly attributable to the acquisition and construction of a qualifying asset are capitalized as part of the cost of the asset. Other borrowing costs are recognized as expenses in the income statement when incurred.

Borrowing costs are started to be capitalized when all of the followings are satisfied:

- ① Expenditures for the qualifying asset have been incurred, expenditures for the qualifying asset includes payment of cash, transfer of non-cash asset and undertaking of interest-bearing liability
- ② Borrowing costs have been incurred
- ③ The activities relating to the acquisition and construction that are necessary to prepare the asset for its intended use have commenced

(2) Borrowing costs during capitalization

The borrowing costs that are directly attributable to the acquisition and construction of qualifying asset are capitalized before the asset is substantially ready for its intended use or sale. Borrowing costs incurred afterwards are recognized in profit or loss.

Capitalization should be suspended during the periods in which abnormal interruption has been lasted for more than three months during the process of acquisition, construction or production. If part of the project or asset is ready to be used individually, that part's capitalization of borrowing costs shall be suspended.

II. Significant Accounting Policies of the Company, Accounting Estimates, and Prior Periods Adjustments (Continued)

16. Borrowing costs (Continued)

(3) Amount of Borrowing Costs Capitalized

Amount of borrowing costs capitalized is computed quarterly.

Where funds are borrowed specifically for the acquisition, construction of a qualifying asset, the amount of interest to be capitalized is the interest expense calculated using effective interest rates during the period less any interest income earned from depositing the borrowed funds or any investment income on the temporary investment of those funds before being used on the asset.

For the general borrowings obtained for the acquisition or construction of a qualifying fixed asset, the amount of borrowing costs eligible for capitalization is determined by applying the weighted average effective interest rate of general borrowings used, to the weighted average of the excess amount of cumulative expenditures on the asset over the amount of specific borrowings.

Interest on borrowings are adjusted for the amortization of discount or premium under effective interest rate method.

During the capitalization period, exchange differences related to the principal and interest on a specific purpose borrowing denominated in foreign currency are capitalized as part of the cost of the qualifying asset.

17. Intangible assets

(1) Initial recognition of intangible assets

Intangible assets are stated as cost. Consideration paid for the acquisition of intangible asset with a credit period longer than normal circumstances is in fact a financing arrangement; the cost of intangible assets should be stated at the discounted value of the consideration paid.

The Company's intangible assets obtained during reorganization were initially recorded at their fair value. In case the intangible asset is acquired by transfer of non-monetary assets and the fair value of the transferred asset can be measure reliably, the cost of intangible acquired should be stated at the fair value of the transferred asset, unless there are concrete evidence that the fair value of the intangible asset is more reliable. Where the fair value of the transferred asset and intangible assets cannot be measured reliably, the cost of intangible asset acquired shall be measured at the carrying amount of the transferred asset and the related taxes.

II. Significant Accounting Policies of the Company, Accounting Estimates, and Prior Periods Adjustments (Continued)

17. Intangible assets (Continued)

(2) Subsequent measurement of intangible assets

① Useful life of intangible asset

Useful life of an intangible asset is determined by the period over which it is expected to bring economic benefits to the company. For an intangible asset with no foreseeable limit to the period over which it is expected to bring economic benefits to the Group, it is treated as an intangible asset with indefinite useful life.

② Amortization of intangible assets

Intangible assets with definite useful lives are amortized using the straight-line method over their useful lives. Intangible assets with indefinite useful lives are not amortized but will be reviewed for impairment at each year end.

For intangible assets, review of their useful lives and amortization method is performed at each year-end, with adjustment made as appropriate.

③ The company will write off the carrying amount of an intangible asset to profit and loss when it expects that the intangible asset will not bring any future economic benefits to the company.

④ Impairment for intangible asset

For impairment loss testing and provision for intangible assets, please refer to note II.25.

18. Long-term deferred expenses

Long term deferred expenses are expenditures that have been incurred but should be recognized as expenses over more than one year in the current and subsequent periods. Long term deferred expenses are amortized on the straight-line basis over the expected beneficial period. Long term deferred expenses includes:

- (1) Prepaid rental for operating lease, amortized over the lease term
- (2) Expenditures paid for improvement of fixed assets under operating lease, amortized over the lease term or remaining useful life of the asset, whichever is shorter.
- (3) Decoration that are capitalized in relation to fixed asset acquired under finance lease, amortized over the remaining time until the next decoration, lease term or remaining useful life, whichever is shorter.

II. Significant Accounting Policies of the Company, Accounting Estimates, and Prior Periods Adjustments (Continued)**18. Long-term deferred expenses (Continued)**

For long-term deferred expenses which will not benefit the company in subsequent period, the carrying amount of the long-term deferred expenses is transferred to current profit and loss.

19. Provisions

- (1) Provisions for unsettled litigations, product warranties, onerous contracts and disposal of oil and gas assets etc. are recognized when the Group has a present obligation, it is probable that an outflow of economic benefits will be required to settle the obligation, and the amount of the obligation can be measured reliably.
- (2) A provision is initially measured at the best estimate of the expenditure required to settle the related present obligation. Factors surrounding a contingency, such as the risks, uncertainties and the time value of money, are taken into account as a whole in reaching the best estimate of a provision. Where the effect of the time value of money is material, the best estimate is determined by discounting the related future cash outflows.
- (3) When provisions are recognized in respect of the disposal of oil and gas assets, the provisions should be included in the cost of the oil and gas assets, the amount of provisions should be based on the estimated future economic outflows according to the relevant regulations.
- (4) When provisions in respect of the disposal of oil and gas assets are not recognized due to the recognition criteria are not met, the related expenses are charged to profit or loss when they are incurred.

20. Revenue**(1) Revenue from sales of goods**

Sales of goods are recognized when a Group has delivered products to the customer and the customer has accepted the goods, the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold, and it is probable that the economic benefit associated with the transaction will flow to the Group and the relevant revenue and costs can be measured reliably.

(2) Revenue from the rendering of services

On the balance sheet date, when transaction result of the rendering of services could be measured reliably, related revenue from rendering of services is recognized according to the percentage of completion. Total revenue for the rendering of services is determined according to amounts stipulated in contracts or agreements received or receivable by workers, unless such amounts are deemed unfair.

II. Significant Accounting Policies of the Company, Accounting Estimates, and Prior Periods Adjustments (Continued)

20. Revenue (Continued)

(2) Revenue from the rendering of services (Continued)

When transaction result of the rendering of services could not be measured reliably, the treatments are as follows:

- ① if the costs incurred are expected to be recoverable, revenues are recognized to the extent that the costs incurred that are expected to be recoverable, and an equivalent amount is charged to profit or loss as service cost;
- ② if the costs incurred are not expected to be recoverable, the costs incurred are recognized in profit or loss and no service revenue is recognized.

(3) Revenue from transfer of assets use rights

Revenue from transfer the right to use assets are recognized when it is probable that the economic benefits associated with the transfer will flow to the company and the amount of revenue can be measured reliably. The amount of revenue is measured as follows:

- ① Interest income is measured based on the time and effective interest rates for the company to transfer the right to use its cash
- ② Royalty fee is measured based on the relevant contracts or agreement

21. Government Grant

Government grant can be classified as asset-related government grant and income-related government grant.

(1) Recognition and measurement of government grant

Government grants are recognized when the Company fulfills the conditions attaching to them and are able to receive them.

When government grants are received in the form of monetary assets, they are measured at the amount received or receivable (When there is concrete evidence that the government is paid on fixed amount, the government grant can be measured at the amount receivable, otherwise the government grant should be measured at the amount actual received). When the grant is in the form of non-monetary assets, it is measured at fair value. When fair value cannot be measured reliably, nominal amount is assigned.

II. Significant Accounting Policies of the Company, Accounting Estimates, and Prior Periods Adjustments (Continued)**21. Government Grant (Continued)****(2) Accounting treatment for government grant**

Asset-related government grant is recognized as deferred income and is amortized evenly in profit or loss over the useful lives of related assets.

Government grants measured at nominal amount are recognized immediately in profit or loss for the current period.

For government grants related to income, where the grant is a compensation for related expenses or losses to be incurred by the enterprise in the subsequent periods, the grant shall be recognized as deferred income, and included in the periods in which the related costs are recognized; where the grant is a compensation for related expenses or loss already incurred by the enterprise, the grant shall be recognized immediately in profit or loss for the current year.

22. Deferred tax assets and deferred tax liabilities

Deferred tax assets and liabilities are calculated and recognized based on the temporary difference arising between the tax bases of assets and liabilities and their carrying amounts. Except goodwill arising from business combination and deferred tax which are directly recognized in equity, deferred tax expenses are charged to current profit or loss as tax expenses.

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

- (1) No deferred tax liability is recognized for a temporary difference arising from the initial recognition of goodwill. No deferred tax asset or deferred tax liability is recognized for the temporary differences resulting from the initial recognition of assets or liabilities due to a transaction other than a business combination, which affects neither accounting profit nor taxable profit.
- (2) No deferred tax asset or deferred tax liability is recognized for the temporary differences resulting from the initial recognition of assets or liabilities due to a transaction other than a business combination, which affects neither accounting profit nor taxable profit.
- (3) Deferred tax liabilities are recognized for temporary differences arising from investments in subsidiaries, jointly controlled entities and associates, except where the Group is able to control the timing of the reversal of the temporary difference, and it is probable that the temporary difference will not reverse in the foreseeable future.

II. Significant Accounting Policies of the Company, Accounting Estimates, and Prior Periods Adjustments (Continued)

22. Deferred tax assets and deferred tax liabilities (Continued)

Deferred tax assets are recognized for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilized except:

- (1) where the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss;
- (2) in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are only recognized to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

At the balance sheet date, deferred tax assets and deferred tax liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized and the liability is settled.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date. The carrying amount of a deferred tax asset is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the benefit of the deferred tax asset to be utilized. The reduction should be recognized into the current profit or loss. For deferred tax asset directly recognized into equity at its initial recognition, the reduction should be recognized into equity. Any such reduction is recovered to the extent that it becomes probable that sufficient taxable profits will be available.

23. Operating lease and finance lease

A finance lease is a lease that transfers substantially all the risks and rewards incidental to ownership of a leased asset. An operating lease is a lease other than a finance lease.

(1) Operating lease

- ① As lessee of operating leases, rental payments under operating leases are recognized as costs or expenses on a straight-line basis over the lease term (including rent-free periods). Initial direct costs that are attributable to a operating lease incurred by the Group are charged to current profit or loss.

When the lessor bears the lease related expenses which shall be undertaken by the company, the company shall deduct part of the expense from the rent and amortize the net amount over the lease term.

II. Significant Accounting Policies of the Company, Accounting Estimates, and Prior Periods Adjustments (Continued)**23. Operating lease and finance lease (Continued)****(1) Operating lease (Continued)**

- ② As lessor of operating leases, rental income from operating leases is recognized in profit or loss on a straight-line basis over the lease term (including rent-free periods). Initial direct costs with significant amount are capitalized when incurred, and are recognized in profit or loss on the same basis as rental income over the lease term. Other initial direct costs with an insignificant amount are charged to profit or loss in the period in which they are incurred. When the company bears the lease related expenses which should be undertaken by the lessee, the company shall deduct this part of expense from the rent income, and amortize the net amount over the lease term.

(2) Finance lease

- ① When the company is a lessee, the leased asset is recorded at the amounts equal to the lower of the fair value of the leased asset and the present value of the minimum lease payments. The difference between the recorded amount of the leased asset and the minimum lease payments is accounted for as unrecognized finance charge and is amortized using the effective interest method over the period of the lease.
- ② When the company is a lessor, the difference between the recorded amount of the leased asset and the minimum lease receivables is accounted for as unrecognized finance income and is recognized as rental income over the period of the lease. Initial direct costs shall be deducted from the total lease receivables and amortized over the lease term.

24. Assets held for sale

Non-current assets meet the following criterion shall be recognized as assets held for sale:

- (1) The resolution has been made to dispose this non-current asset;
- (2) There is an irrevocable transfer agreement has been made between the company and the transferee;
- (3) The whole transfer shall be completed within one year.

Assets held for sale should be stated at the amount equal to the lower of the fair value less costs to sell and the carrying amount. Any excess of the original carrying amount over the fair value less costs to sell is recognized as an asset impairment loss.

Intangible assets and other non-current assets meet conditions to be the held for sale shall be treated according to the same principles above.

II. Significant Accounting Policies of the Company, Accounting Estimates, and Prior Periods Adjustments (Continued)

25. Impairment of Asset

The following method of impairment recognition applies to the long-term equity investments on subsidiaries, associates and joint control entities investment properties stated at cost, fixed assets, construction in process, productive biological assets, intangible assets, goodwill, oil and gas mine use rights and other relevant assets (except for inventories, investment property stated at fair value, deferred tax asset, financial asset):

- (1) Indication of impairment are assessed on balance sheet date. If there is an indication, the recoverable amount shall be estimated and the impairment test shall be taken. No matter there is an indication of impairment, the test shall be taken annually for goodwill arise from business combination, intangible assets with indefinite life and intangible assets under development.
- (2) Recoverable amount is the higher of an asset's fair value less costs to sell and the present value of the future cash flows expected to be derived from the asset. The Company estimates recoverable value for individual assets. When it is difficult to estimate individually, the recoverable value of the cash generating units which the asset belongs to will be estimated.
- (3) The definition of cash generating units is determined on the basis of whether the cash generating units generate cash flows which are largely independent of those from other cash generating units. Where the carrying amount of an asset or a cash generating unit exceeds its recoverable amount, the asset or cash generating unit is considered impaired and is written down to its recoverable amount. The difference between the carrying amount and recoverable amount is recognized in the current period's profit or loss and provision for impairment is made accordingly.
- (4) In connection with impairment tests for goodwill, the carrying value of the goodwill arising from business combination is allocated to relevant cash generating units from the date of acquisition on a reasonable basis. If it is difficult to allocate such goodwill to a relevant cash generating unit, it should be allocated to a relevant cash generating unit group. A relevant cash generating unit or cash generating unit group is defined as one which can benefit from the synergies of the business combination and is no larger than the reporting segments determined by the Group.

II. Significant Accounting Policies of the Company, Accounting Estimates, and Prior Periods Adjustments (Continued)**25. Impairment of Asset (Continued)**

(5) In connection with impairment tests for cash generating unit or cash generating unit groups that comprise goodwill, where indications of impairment exists in a cash generating unit or cash generating unit group related to goodwill, impairment tests should be performed first on cash generating units or cash generating unit groups that do not comprise goodwill and recognize impairment loss after estimating the recoverable amount. Then impairment tests on cash generating units or cash generating unit groups that comprise goodwill should be performed and the carrying value and recoverable amount should be compared. Where the recoverable amount is lower than the carrying value, the impairment loss should first be offset against the carrying value of the goodwill allocated to cash generating units or cash generating unit groups.

(6) Impairment loss once recognized, shall not be reversed in the following accounting period.

26. Employees' salaries and wages

The employees' wages, bonuses, allowances and subsidies, welfare, social insurance, housing fund, etc., are recognized in the accounting period while they provide service. If it is matured one year after the balance sheet date and the effect of discounting is material, its shall be stated at present value.

27. Changes in significant accounting policy and accounting estimates

(1) Changes in accounting policy

None

(2) Changes in accounting estimates

None

28. Prior periods adjustments

None

Notes to the Financial Statements (Continued)

For the year ended 31 December 2012 (Prepared in accordance with P.R.C. Accounting Rules and Regulations)

III. Tax

1. Major types of tax and tax rates

Types of tax	Tax base	Tax rate
Value-added tax	Taxable revenue after offsetting deductible input VAT	17%
Business tax	Taxable turnover amount	5%
City maintenance and construction tax	Amount of VAT and business tax paid	7%
Education surcharge	Amount of VAT and business tax paid	3%, 5%
Enterprise income tax	Taxable income	See III.2

2. Tax concession and approval documents

- (1) Enterprise Income Tax Rates for the Company and its subsidiaries Jinzhou Jinrong Electric Co., Ltd., Fuxin Enclosed Busbar Co Ltd., Shenyang Kaiyi Electric Co., Ltd., New Northeast Electric (Jingzhou) Capacitor Co., Ltd. and Northeast Electric (Beijing) Co., Ltd. are 25%.
- (2) Northeast Electric (HK) Co., Ltd. a wholly owned subsidiary of the company registered in HKSAR of P. R. China, its profits tax rate is 16.5%.
- (3) Gaocai Technology Co., Ltd. (referred to as Gaocai Tec) is a company wholly owned by the company's subsidiary – Northeast Electric (HK) Co., Ltd., and was registered in the British Virgin Islands. No enterprise income tax is imposed on it.

IV. Business Combination and the Consolidated Financial Statements

1. Subsidiaries

(1) Subsidiaries obtained through incorporation or investment

Name of Subsidiary	Type	Place of Registration.	Nature of Business	Registered Capital	Business Scope	Paid-up Capital by end of period
	WHOLLY OWNED					
Northeast Electric (HK) Co Ltd	SUBSIDIARY	HK	TRADE	USD20M	INVESTMENT, TRADE	USD20M
	WHOLLY OWNED					
Gaocai Technology Co., Ltd.	SUBSIDIARY	BVI	INVESTMENT	USD1.00	INVESTMENT	USD1.00
	WHOLLY OWNED					
Northeast Electric (Beijing) Co Ltd	SUBSIDIARY	BEIJING	SALES	RMB2M	SALES OF MACHINERY, ELECTRONIC EQUIPMENT, HARDWARES AND ETC	RMB2M
	WHOLLY OWNED					
Shenyang Kaiyi Electric Co Ltd	SUBSIDIARY	SHEN YANG	MANU-FACTURING	RMB1M	MANUFACTURING OF HIGH-VOLTAGE ELECTRIC EQUIPMENT, SWITCH CONTROLLING EQUIPMENT, POWER CAPACITOR, ETC	RMB1M
	WHOLLY OWNED					
Fuxin Enclosed Busbar Co Ltd	SUBSIDIARY	FUXIN	MANU-FACTURING	USD8.50M	MANUFACTURING OF ENCLOSED BUSBAR	USD8.50M

Notes to the Financial Statements (Continued)

For the year ended 31 December 2012 (Prepared in accordance with P.R.C. Accounting Rules and Regulations)

IV. Business Combination and the Consolidated Financial Statements (Continued)

1. Subsidiaries (Continued)

(1) Subsidiaries obtained through incorporation or investment (Continued)

Name of Subsidiary	Ending balance of other item which forms substantially a part of net investments in the subsidiaries		Share holding (%)		Voting Right (%)	Consolidated or not (Y/N)	Minority Interest	Amount in profit or loss attributed to the minority shareholders
	Direct holding	Indirect holding	Direct	Indirect				
Northeast Electric (HK) Co Ltd	100.00		100.00		100.00	Y		
Gaocai Technology Co., Ltd.		100.00		100.00	100.00	Y		
Northeast Electric (Beijing) Co Ltd		100.00		100.00	100.00	Y		
Shenyang Kaiyi Electric Co Ltd	10.00	90.00		100.00	100.00	Y		
Fuxin Enclosed Busbar Co Ltd		100.00		100.00	100.00	Y		

(2) Subsidiaries acquired through business combination involving enterprises under common control

Name of Subsidiary	Type	Place of Registration.	Nature of Business	Registered Capital	Business Scope	Paid-up
						Capital by end of period
New Northeast Electric (Jinzhou) Power Capacitor Co Ltd	WHOLLY OWNED SUBSIDIARY	Jin zhou	Manufacturing.	USD15.45M	Manufacturing. Power capacitor, compensator for reactive power, etc	USD15.45M
Jinzhou Jinrong Electric Appliance Co., Ltd.	SUBSIDIARY	Jin zhou	Manufacturing.	RMB3M	HV Dry type Capacitor Banks	RMB2.0925M

IV. Business Combination and the Consolidated Financial Statements (Continued)

1. Subsidiaries (Continued)

(2) Subsidiaries acquired through business combination involving enterprises under common control (Continued)

Name of Subsidiary	Ending balance of other item which forms substantially a part of net investments in the subsidiaries	Share holding (%)		Voting Right (%)	Consolidated or not (Y/N)	Minority Interest	Amount in profit or loss attributed to the minority shareholders
		Direct holding	Indirect holding				
New Northeast Electric (Jinzhou) Power Capacitor Co Ltd			100.00	100.00	Y		
Jinzhou Jinrong Electric Appliance Co., Ltd.			69.75	69.75	Y	766,027.26	

(3) Subsidiaries acquired through business combination involving enterprises not under common control

Name of Subsidiary	Type	Place of Registration.	Nature of Business	Registered Capital	Business Scope	Paid-up Capital by end of period
Shenyang Gaodongjia Desiccation Co., Ltd.	Subsidiary	Shen Yang	Manufacturing.	USD0.7785M	Manufacturing. Of Metal Box, Drier, etc	USD0.54495M

Name of Subsidiary	Ending balance of other item which forms substantially a part of net investments in the subsidiaries	Share holding (%)		Voting Right (%)	Consolidated or not (Y/N)	Minority Interest	Amount in profit or loss attributed to the minority shareholders
		Direct holding	Indirect holding				
Shenyang Gaodongjia Desiccation Co., Ltd.			70.00	70.00	Y	471,441.74	

IV. Business Combination and the Consolidated Financial Statements (Continued)

2. Scope of consolidation

All subsidiaries and their financial statements are included in the consolidation scope of the Company in this accounting period.

3. Entities newly included or excluded in the consolidation scope in the current year

None

V. Notes to Consolidated Financial Statements

1. Cash and deposits

Item	December 31, 2012			December 31, 2011		
	Amount in foreign currency	Exchange rates	Amount in RMB	Amount in foreign currency	Exchange rates	Amount in RMB
Cash:						
RMB			3,951.74			17,934.71
USD	1,209.00	6.2855	7,599.17	1,162.34	6.3009	7,323.79
Deposits:						
RMB			68,654,524.88			41,178,442.36
USD	213.09	6.2855	1,339.40	212.09	6.3009	1,339.86
HKD	932,744.79	0.81085	756,316.11	1,088,691.26	0.8107	882,602.00
Others:						
RMB			11,871,697.50			14,597,194.87
Total			81,295,428.80			56,684,837.59

Remarks:

The 43.42% increment this year was mainly because the subsidiaries New Northeast electric (Jinzhou) power capacitor co., Ltd collected a huge amount of its account receivables.

Other cash and deposit amounting to RMB11,871,697.50 is the security deposits for performance guarantee. All of the above security deposits are with more than three months term.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2012 (Prepared in accordance with P.R.C. Accounting Rules and Regulations)

V. Notes to Consolidated Financial Statements (Continued)

2. Notes receivables

Types	December 31, 2012	December 31, 2011
Bank acceptance notes	2,694,000.00	100,000.00
Total	2,694,000.00	100,000.00

Total amount of notes that are not mature but have been endorsed by the Company at the end of period are 12,968,040.00, and the top five are:

Issuing company	Issuing date	Maturity date	Amount	Remark
Tebian Electric Apparatus Shenyang Transformer Group co., Ltd	2012-8-24	2013-2-24	3,748,575.00	
Yingkou Hong Yue Machinery Processing co.,Ltd	2012-10-17	2013-4-16	2,800,000.00	
Tebian Electric Apparatus Shenyang Transformer Group co., Ltd	2012-11-16	2013-5-16	2,087,895.00	
Jinzhou century Tong Li electric appliance co., LTD	2012-10-26	2013-4-26	700,000.00	
Shenzhen Lian Sheng electric appliance co., Ltd	2012-8-16	2013-2-16	400,000.00	
Total			9,736,470.00	

Remarks:

The increase in bank acceptance notes is due the increased use of bank acceptance notes by the company's customers.

3. Dividend receivables

Item	December 31,		December 31,		Outstanding reason	Impairment loss (Y/N)
	2011	Increment	Decrement	2012		
Dividends aged over 1 year						
Weida High-Voltage Electric Co., Ltd.	7,027,538.11		7,027,538.11			
Total	7,027,538.11		7,027,538.11			

Remarks:

The decrease of dividend receivables is due to the subsidiary of the company, Northeast Electric (Hong Kong) co., Ltd. transferred the right of dividend receivable from Weida High Voltage Electric co., Ltd to a creditor for offsetting its liabilities.

V. Notes to Consolidated Financial Statements (Continued)

4. Account receivables

(1) Accounts receivable by categories are analyzed as follows:

Type	December 31, 2012			
	Book balance		Bad-debt provision	
	Amount	Percentage (%)	Amount	Percentage (%)
Individually significant and subject to separate provision				
Aging combination	187,566,128.96	100.00	34,774,960.24	18.54
Individually insignificant but subject to separate provision				
Total	187,566,128.96	100.00	34,774,960.24	18.54

Type	December 31, 2011			
	Book balance		Bad-debt provision	
	Amount	Percentage (%)	Amount	Percentage (%)
Individually significant and subject to separate provision				
Aging combination	196,323,562.36	100.00	26,683,512.34	13.59
Individually insignificant but subject to separate provision				
Total	196,323,562.36	100.00	26,683,512.34	13.59

Remarks:

The company regards individual account receivables over RMB1 million is significant, based on the scale of operation, nature of the operation and status of customers' settlement.

Accounts receivable with insignificant balance but have obvious evidence that the chance of recovery is remote are regarded as individually insignificant but subject to separate provision.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2012 (Prepared in accordance with P.R.C. Accounting Rules and Regulations)

V. Notes to Consolidated Financial Statements (Continued)

4. Account receivables (Continued)

(1) Accounts receivable by categories are analyzed as follows (Continued):

Accounts receivables that the related provisions for bad debts are provided on grouping basis using the Aging Analysis Method are analyzed as follows:

Age of Account	December 31, 2012			December 31, 2011		
	Book balance		Bad-debt provision	Book balance		Bad-debt provision
	Amount	% of total balance		Amount	% of total balance	
Within 1 year	98,495,193.67	52.51		116,014,546.22	59.09	
1 – 2 years	37,846,550.54	20.18		46,842,448.84	23.86	
2 – 3 years	25,321,960.45	13.50	10,128,784.18	6,960,033.60	3.55	2,784,013.44
3 – 4 years	3,140,620.60	1.67	1,884,372.36	6,517,587.00	3.32	3,910,552.20
Over 4 years	22,761,803.70	12.14	22,761,803.70	19,988,946.70	10.18	19,988,946.70
Total	187,566,128.96	100.00	34,774,960.24	196,323,562.36	100.00	26,683,512.34

(2) There's no receivables from shareholders holding 5% or above voting shares of the company.

(3) The five largest accounts receivable are analyzed as follows:

Name of company	Relationship	Amount	Age	Percentage to total Accounts Receivable (%)
Shanxi Province electric power company	Non-related	14,899,240.65	2-5 years	7.94
Beijing electric power company	Non-related	12,938,058.99	Within 1 year	6.90
Zhejiang Province electric power company	Non-related	12,117,456.00	Within 1 year	6.46
Jiangsu Province electric power company	Non-related	10,165,350.00	1-2 years	5.42
Sichuan Province electric power company	Non-related	9,759,500.00	Within 1 year	5.20
Total		59,879,605.64		31.92

V. Notes to Consolidated Financial Statements (Continued)

5. Other receivables

(1) Other receivables by categories are analyzed as follows:

Type	December 31, 2012			
	Book balance		Bad-debt provision	
	Amount	Ratio (%)	Amount	Ratio (%)
Individually significant and subject to separate provision	95,259,294.20	78.20	95,259,294.20	100.00
Aging combination	26,554,398.48	21.80	3,125,245.21	11.77
Individually insignificant but subject to separate provision				
Total	121,813,692.68	100.00	98,384,539.41	80.77

Type	December 31, 2011			
	Book balance		Bad-debt provision	
	Amount	Ratio (%)	Amount	Ratio (%)
Individually significant and subject to separate provision	100,509,316.67	61.14	100,509,316.67	100.00
Aging combination	63,886,380.22	38.86	4,485,615.68	7.02
Individually insignificant but subject to separate provision				
Total	164,395,696.89	100.00	104,994,932.35	63.87

Remarks:

The company regards individual other receivable over RMB1 million as significant based on the scale of operation, nature of the operation and status of customers' settlement.

Other receivables with insignificant balance but have obvious evidence that the chance of recovery is remote are regarded as individually insignificant but subject to separate provision.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2012 (Prepared in accordance with P.R.C. Accounting Rules and Regulations)

V. Notes to Consolidated Financial Statements (Continued)

5. Other receivables (Continued)

(1) Other receivables by categories are analyzed as follows (Continued):

Individually significant other receivables and subject to separate provision are analyzed as follows:

Content of Receivable	Balance on book	Provision of bad debts	Percentage of provision	Reason for provision
Benxi Steel (Group) Co., Ltd.	76,090,000.00	76,090,000.00	100.00%	See Notes V.(4)
Jinzhou Power Capacity Co., Ltd.	19,169,294.20	19,169,294.20	100.00%	See Notes V.(4)
Total	95,259,294.20	95,259,294.20	100.00%	

Other receivables that the related provisions for bad debts is provided on grouping basis using the Aging Analysis Method are analyzed as follows:

Age of Account	December 31, 2012			December 31, 2011		
	Book balance		Bad-debt provision	Book balance		Bad-debt provision
	Amount	% of total balance		Amount	% of total balance	
Within 1 year	7,986,623.13	30.08		57,575,466.14	90.12	-
1 – 2 years	15,247,548.92	57.42		1,466,152.15	2.29	-
2 – 3 years	299,679.65	1.13	119,871.86	236,324.20	0.38	94,068.09
3 – 4 years	37,933.58	0.14	22,760.15	542,225.35	0.85	325,335.21
Over 4 years	2,982,613.20	11.23	2,982,613.20	4,066,212.38	6.36	4,066,212.38
Total	26,554,398.48	100.00	3,125,245.21	63,886,380.22	100.00	4,485,615.68

(2) Reversal or settlement of bad debts already provided:

Company	Reason of reverse and collection	Basis of bad debt recognition	Accumulated provision	Reversed or settled amount
			for bad debt before reversal or settlement	
Jinzhou Power Capacity Co., Ltd.	Part of the receivable was collected due to effort spent by the company	Unhealthy financial position and no business operation	24,419,316.67	5,250,022.47
Total			24,419,316.67	5,250,022.47

V. Notes to Consolidated Financial Statements (Continued)

5. Other receivables (Continued)

(3) There's no other receivables from shareholders holding 5% or above voting shares of the company.

(4) Characteristics or contents of other receivables of significant amount:

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, High Court of Liaoning Province has made ultimate ruling (No.(2005) Liao Min Er Zhong Zi Di 220), that Ben Steel had owed the company RMB15,900,000.00 and related interest. The company had applied for Enforcement. As a result Intermediate Court of Shenyang has established the case and delivered Enforcement Notice to Ben Steel on Mar. 10, 2006. On Mar. 30, 2006, The Intermediate Court of Shenyang has made first ruling concerning the remaining principals by Rulings Nos. of (2005) Shen Zhong Min Si He Chu Zi Di 21, 22 and 23, that Ben Steel should repay the company principal of RMB60,190,000.00 and related interest. On Apr. 30, 2006, Ben Steel has appealed to High Court of Liaoning Province. On May 14, 2008, High Court of Law of Liaoning Province has ordered retry of the case to Shenyang City Medium Court of Law by Rulings of 214th, 215th, 216th of (2006) Liao Min Er Zhong Zi, revocating Rulings of 21rd, 23rd, 22nd of Shen Zhong Min Si He Chu Zi by the latter Court of Law. On Jun. 9, 2009 the City Medium Court of Law 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 the Provincial High Court. On Oct. 26 and 29, 2009, the Provincial High 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 for retrial. The Supreme Court of the People made Civil Rulings No (2010)Min Shen Zi Di 1144, 1145 and 1146 on Dec. 13 2010, overruled retrial appeal of the Company. Since the other receivable is long outstanding and the chance of recovery is remote, the company has made a provision in full for this other receivable.
2. By end of period there are receivables due from Jinzhou Power Capacity Co. Ltd of RMB 19,169,294.20. The Company has made full amount of provision due to unhealthy financial position and no operation activities of Jinzhou Power Capacity Co. Ltd.
3. By end of period, account receivable of RMB15,000,000.00 is due to sellout of shares of Shenyang Zhaoli High-voltage Electric Equipment Co Ltd in last year. The total amount is RMB 50,000,000.00 and RMB35,000,000.00 was collected in this accounting period.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2012 (Prepared in accordance with P.R.C. Accounting Rules and Regulations)

V. Notes to Consolidated Financial Statements (Continued)

5. Other receivables (Continued)

(5) Top 5 of Other Receivables:

Company	Relationship	Amount	Age	% of total other receivables
Benxi Steel (Group) Co., Ltd	Non-related	76,090,000.00	Over 4 years	62.46
Jinzhou Power Capacity Co. Ltd	Non-related	19,169,294.20	Over 4 years	15.74
New Northeast Electric Group High-voltage Switches Co Ltd	Non-related	15,000,000.00	1-2 years	12.31
Fuxin Aluminum alloy factory	Non-related	534,518.86	Over 4 years	0.44
Jia Shujie	Non-related	450,000.00	Within 1 year	0.37
Total		111,243,813.06		91.32

6. Prepayments

(1) Prepayments are listed by ages:

Age of Account	December 31, 2012		December 31, 2011	
	Amount	Ratio (%)	Amount	Ratio (%)
Within 1 year	6,795,272.68	95.54	14,767,225.37	96.55
1 – 2 years	9,399.27	0.12	165,798.45	1.08
2 – 3 years	66,592.45	0.94	6,490.00	0.04
Over 3 years	241,565.24	3.40	355,865.44	2.33
Total	7,112,829.64	100.00	15,295,379.26	100.00

Remarks:

Large amount prepayments within 1 year are constituted mainly by prepayments of goods.

V. Notes to Consolidated Financial Statements (Continued)

6. Prepayments (Continued)

(2) Top 5 companies of Prepayment:

Name of company	Relationship	Amount	Age	Reason for unsettlement
Yingkou ShangHuang machinery manufacturing co., Ltd	Non-related	3,000,000.00	Within 1 year	Prepayment for goods
New Northeast Group Electric High-Voltage Equipment Co., Ltd. (Shengyang)	Non-related	2,439,986.76	Within 1 year	Prepayment for goods
Fuxin City Heating Co	Non-related	589,845.80	Within 1 year	Prepayment for heating fee
Hebei weiye corrugated pipe manufacturing co., Ltd	Non-related	144,040.00	Within 1 year	Prepayment for materials
Shanghai luxi high strength bolt nut manufacturing factory	Non-related	132,787.20	Within 1 year	Prepayment for materials
Total		6,306,659.76		

(3) There's no prepayment from shareholders holding 5% or above shares of the company.

Remarks:

53.50% decrease of prepayments by end of period is due to decrease of prepayment of goods.

7. Inventories

(1) Classification of inventories

Item	December 31, 2012			December 31, 2011		
	Book balance	Provision for decline in value	Book value	Book balance	Provision for decline in value	Book value
Raw Material	19,606,255.83	71,485.28	19,534,770.55	17,904,190.34	81,749.67	17,822,440.67
Work in progress	9,668,853.47		9,668,853.47	5,574,877.51		5,574,877.51
Finished goods	14,140,577.23	2,512,027.94	11,628,549.29	19,189,629.43	2,430,454.87	16,759,174.56
Goods in transit				9,501,984.80		9,501,984.80
Total	43,415,686.53	2,583,513.22	40,832,173.31	52,170,682.08	2,512,204.54	49,658,477.54

Notes to the Financial Statements (Continued)

For the year ended 31 December 2012 (Prepared in accordance with P.R.C. Accounting Rules and Regulations)

V. Notes to Consolidated Financial Statements (Continued)

7. Inventories (Continued)

(2) Provisions for decline in value

Type of inventory	December 31, 2011	Provisions during the period	Decrease during the period		December 31, 2012
			Reverse	Set-off	
Raw Material	81,749.67			10,264.39	71,485.28
Finished goods	2,430,454.87	81,573.07			2,512,027.94
Total	2,512,204.54	81,573.07		10,264.39	2,583,513.22

(3) Analysis for provisions for decline in value

Type of inventory	Basis for provisions accrual	Reason for revert to inventory	Ratio of reverted amount to
		provision during the period	total balance of inventory
Raw Material	Net realizable value lower than cost		
Finished goods	Net realizable value lower than cost		

8. Investments in associates

Company invested	Business type	Reg. place	Legal representative	Business nature	Reg. capital	% of shares held	% of Voting rights held	Organization code
Weida High-Voltage Electric Co., Ltd.	Limited Co.	BVI	LoYuet	holding	USD12,626	20.80%	20.80%	
				Investment				
Company invested	Total Asset by end of period		Total Liabilities by end of period	Total Net Asset by end of period	Total Operating Income of the period	Net Profit of the period		
Weida High-Voltage Electric Co., Ltd.	191,067,469.65		82,426.96	190,985,042.69		51.89		-29,576.56

V. Notes to Consolidated Financial Statements (Continued)

9. Long-term equity investments

(1) Classification

Company invested	Accounting method	Investment cost	December 31, 2011	Increment	Decrement	December 31, 2012
1. Investment in associate						
Wei Da High-Voltage						
Electric Co Ltd	Equity method	42,847,035.48	39,727,887.83		2,998.95	39,724,888.88
2. Other long term equity investment						
Shenyang Zhaoli High-voltage Electric						
Equipment Co Ltd	Cost method	216,055,412.40	69,575,490.20	12,808.35	2,088,298.55	67,500,000.00
Total			109,303,378.03	12,808.35	2,091,297.50	107,224,888.88

Company invested	% of Shares held	% of Voting rights held	Note to difference between voting and holding ratio	Provision for impairment	Current provision for impairment	Cash dividends
1. Investment in associate						
Wei Da High-Voltage						
Electric Co Ltd	20.80%	20.80%		13,539,804.41		
2. Other long-term equity investment						
Shenyang Zhaoli High-voltage Electric						
Equipment Co	6.89%	6.89%		7,552,065.74	2,088,298.55	
Total				21,091,870.15	2,088,298.55	

Remarks:

- Movement on investments in Wei Da High-Voltage Electric Co Ltd comprise share of net loss of Year 2012 under equity method of RMB6,151,36, and exchange gain arising from translation of financial statements of RMB3,152.41
- Movement on investments in Shengyang Zhaoli High-voltage Electric Equipment Co Ltd comprise of exchange gain of RMB12,808.35 arising from translation of financial statements and provisions for impairment of RMB2,088,298.55.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2012 (Prepared in accordance with P.R.C. Accounting Rules and Regulations)

V. Notes to Consolidated Financial Statements (Continued)

10. Fixed assets

(1) Fixed assets

Item	December 31, 2011	Increment	Decrement	December 31, 2012
I. Total fixed assets – at cost	150,467,455.72	1,388,209.80	944,412.38	150,911,253.14
Including: Buildings and structures	48,193,147.57			48,193,147.57
Machinery and equipment	77,256,389.52	454,847.18	141,492.38	77,569,744.32
Motor Vehicles and others	25,017,918.63	933,362.62	802,920.00	25,148,361.25
		Current year addition	Charge for the year	
II. Accumulated depreciation	79,073,970.41	7,503,440.51	339,460.89	86,237,950.03
Including: Buildings and structures	32,626,175.14	776,134.27		33,402,309.41
Machinery and equipment	33,541,715.34	5,095,250.88	111,899.23	38,525,066.99
Motor Vehicles and others	12,906,079.93	1,632,055.36	227,561.66	14,310,573.63
III. Total net book value	71,393,485.31			64,673,303.11
Including: Buildings and structures	15,566,972.43			14,790,838.16
Machinery and equipment	43,714,674.18			39,044,677.33
Motor Vehicles and others	12,111,838.70			10,837,787.62
IV. Total provision for Impairment	2,016,111.07		118,481.33	1,897,629.74
Including: Buildings and structures	317,644.79			317,644.79
Machinery and equipment	1,538,466.28		28,481.33	1,509,984.95
Motor Vehicles and others	160,000.00		90,000.00	70,000.00
V. Total Carrying Amount	69,377,374.24			62,775,673.37
Including: Buildings and structures	15,249,327.64			14,473,193.37
Machinery and equipment	42,176,207.90			37,534,692.38
Motor Vehicles and others	11,951,838.70			10,767,787.62

Total depreciation during the period is RMB7,503,440.51.

V. Notes to Consolidated Financial Statements (Continued)

10. Fixed assets (Continued)

- (2) There is no temporarily idle fixed asset by the end of period.
- (3) There is no fixed asset acquired under financial lease by the end of period.
- (4) There is no fixed asset leased out under operating lease by the end of period.
- (5) There's no fixed asset held-for-sale by the end of period.
- (6) There's no fixed asset with certificate of title to be obtained.

Remarks:

Net book value of buildings of RMB4,951,425.58 are pledged to Bank of China, Fuxin Branch by Fuxin Enclosed Busbar Company Limited – a wholly owned subsidiary of the Company is for loan of RMB 8 million.

11. Construction in progress

(1) Details

Item	December 31, 2012		December 31, 2011		
	Book balance	Provision for Impairment	Net book value	Provision for Impairment	Net book value
Reconstruction of Mutual					
Inductor Plant	228,933.81		228,933.81		228,933.81
Total	228,933.81		228,933.81		228,933.81

Notes to the Financial Statements (Continued)

For the year ended 31 December 2012 (Prepared in accordance with P.R.C. Accounting Rules and Regulations)

V. Notes to Consolidated Financial Statements (Continued)

12. Intangible assets

(1) Details

Item	December 31, 2011	Increment	Decrement	December 31, 2012
I. Total original cost	7,431,501.05			7,431,501.05
Utility model patent	450,000.00			450,000.00
Software	207,000.00			207,000.00
Land use rights	6,774,501.05			6,774,501.05
II. Total accumulated amortization	2,824,841.48	135,490.08		2,960,331.56
Utility model patent	450,000.00			450,000.00
Software	207,000.00			207,000.00
Land use rights	2,167,841.48	135,490.08		2,303,331.56
III. Total net book value	4,606,659.57			4,471,169.49
Utility model patent	-			-
Software				
Land use rights	4,606,659.57			4,471,169.49
IV. Total provision for impairment				
Utility model patent				
Software				
Land use rights				
V. Total carrying amount	4,606,659.57			4,471,169.49
Utility model patent	-			-
Software				
Land use rights	4,606,659.57			4,471,169.49

Amortization during the period is RMB135,490.08.

Remarks:

Land use right of RMB4,471,169.49 are pledged to Bank of China, Fuxin Branch by Fuxin Enclosed Busbar Company Limited – a wholly owned subsidiary of the Company for loan of RMB 8 million.

V. Notes to Consolidated Financial Statements (Continued)

13. Long-term deferred expenses

Item	December 31, 2011	Increment	Amortization	Other decrement	December 31, 2012	Reasons for other decrement
Rents for buildings	1,353,690.05	738,760.20	738,760.20		1,353,690.05	
Rents for machinery	3,450,000.00	1,800,000.00	1,800,000.00		3,450,000.00	
Rents for lands	320,833.25		110,000.04		210,833.21	
Improvement expenditures for fixed assets rented	1,532,202.86		516,857.52		1,015,345.34	
Total	6,656,726.16	2,538,760.20	3,165,617.76		6,029,868.60	

Remarks:

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

14. Deferred tax assets/liabilities

(1) Deferred tax assets and liabilities without taking into consideration the offsetting of balances

① Deferred tax assets and deferred liabilities recognized

Item	December 31, 2012	December 31, 2011
Deferred Tax Assets		
Provision for impairment for assets	9,320,208.65	9,074,116.87
Total	9,320,208.65	9,074,116.87

② Details of deferred tax assets not recognized

Item	December 31, 2012	December 31, 2011
Deductible temporary difference	206,120,322.93	234,625,429.09
Deductible loss	241,582,635.42	419,573,155.23
Total	447,702,958.35	654,198,584.32

V. Notes to Consolidated Financial Statements (Continued)

14. Deferred tax assets/liabilities (Continued)

(1) Deferred tax assets and liabilities without taking into consideration the offsetting of balances (Continued)

- ③ Deductible loss that are not yet recognized as deferred tax assets are due in the following years listed below

Year	December 31, 2012	December 31, 2011	Notes
2012		175,762,510.01	
2013	6,397,409.63	6,397,409.63	
2014	7,651,714.29	7,651,714.29	
2015	178,321,012.30	178,321,012.30	
2016	46,554,999.71	51,440,509.00	
2017	2,657,499.49		
Total	241,582,635.42	419,573,155.23	

- ④ Details of temporary deductible differences:

Item	Amount
Deductible difference	
Bad debt provision	36,278,359.26
Provision for decline in value of inventory	1,002,475.33
Total	37,280,834.59

V. Notes to Consolidated Financial Statements (Continued)

15. Details of provisions for assets impairment

Item	December 31, 2011	Increment	Decrement		December 31, 2012
			Reversal	Write off	
I. Bad debt provision	131,678,444.69	6,844,182.22	5,250,022.47		133,272,604.44
II. Provision for decline in value of inventory	2,512,204.54	71,308.68			2,583,513.22
III. Provision for impairment of long-term equity investment	19,000,058.01	2,091,812.14			21,091,870.15
IV. Provision for impairment of fixed assets	2,016,111.07			118,481.33	1,897,629.74
Total	155,206,818.31	9,007,303.04	5,250,022.47	118,481.33	158,845,617.55

Remarks:

Write-off of provision for fixed assets are due to disposal of those fixed assets.

Increments of provision for long-term equity investment are the provision for loss on investments in Shenyang Zhaoli High-Voltage Electric equipment Co Ltd of RMB 2,088,298.55 and exchange difference arising from translation of financial statements

16. Short-term borrowings

(1) Classification:

Item	December 31, 2012	December 31, 2011
Bank borrowings, Secured	8,000,000.00	8,000,000.00
Total	8,000,000.00	8,000,000.00

Remarks:

The details of assets pledged to Bank of China, Fuxin Branch by Fuxin Enclosed Busbar Company Limited – a wholly owned subsidiary of the Company for RMB 8 million loan is shown in the Notes to financial statements V.10 and V. 12. This loan was obtained by different installments and loan period is from August 3, 2012 to December 3, 2013.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2012 (Prepared in accordance with P.R.C. Accounting Rules and Regulations)

V. Notes to Consolidated Financial Statements (Continued)

17. Accounts payable

(1) Aging analysis

Age of account	December 31, 2012	December 31, 2011
Within 1 year	44,382,540.91	41,515,980.56
1-2 years	3,492,634.80	17,254,270.47
2-3 years	1,356,229.03	2,250,440.88
Over 3 years	10,541,496.55	11,485,123.78
Total	59,772,901.29	72,505,815.69

(2) There's no accounts payable to shareholders holding 5% or above voting shares of the company.

(3) Remarks of large amount accounts payables aged over 1 year:

Large amount accounts payables aged over 1 year are mainly due to settlements of purchases not to be made.

18. Receipts in advance

(1) Aging analysis

Age of account	December 31, 2012	December 31, 2011
Within 1 year	10,954,208.79	34,735,001.00
1-2 years	2,758,130.00	1,202,694.50
2-3 years	17,367.50	336,753.00
Over 3 years	665,500.00	665,000.00
Total	14,395,206.29	36,939,448.50

(2) There's no advance from shareholders holding 5% or above voting shares of the company

(3) Remarks of large amount receipt in advance aged over 1 year:

Large amounts of receipts aged over 1 year are mainly sales proceeds received in advance in which revenue recognition criteria are not yet satisfied

V. Notes to Consolidated Financial Statements (Continued)

19. Salaries payable

Item	December 31, 2011	Increment	Decrement	December 31, 2012
I. Salaries, bonus, subsidies and grants	106.34	15,692,253.59	15,692,253.59	106.34
II. Staff welfare	62,636.11	694,785.57	694,785.57	62,636.11
III. Social insurance	839,509.12	6,183,488.40	6,879,298.87	143,698.65
1. Basic medical insurance	250.40	1,520,858.91	1,510,154.94	10,954.37
2. Supplementary medical insurance				-
3. Basic retirement insurance	750,755.76	3,856,789.96	4,496,928.46	110,617.26
4. Annuity				-
5. Unemployment insurance	80,084.63	404,569.36	473,328.78	11,325.21
6. Work injury insurance	5,912.43	270,018.55	267,850.64	8,080.34
7. Maternity insurance	2,505.90	131,251.62	131,036.05	2,721.47
IV. Housing funds	429,141.34	2,251,913.00	2,249,554.00	431,500.34
V. Termination benefits				-
VI. Union expenses and employees education expenses	1,138,972.89	537,710.33	123,313.89	1,553,369.33
VII. Non-monetary benefits				-
VIII. Others		15,160.00	15,160.00	-
Including: cash-settled share-based payment				
Total	2,470,365.80	25,375,310.89	25,654,365.92	2,191,310.77

Remark:

There's no long outstanding salaries payable to employees.

V. Notes to Consolidated Financial Statements (Continued)

20. Tax payable

Item	December 31, 2012	December 31, 2011
Value-added tax	5,672,769.22	2,208,725.26
Enterprise income tax	906,939.79	-3,834,594.56
Individual income tax	36,821.46	52,693.54
City maintenance and construction tax	487,790.63	303,052.18
Education surcharge	211,823.32	132,649.78
Tenure tax	59,149.50	59,149.50
Housing property tax	20,614.66	75,997.89
Other	192,759.29	133,445.00
Total	7,588,667.87	-868,881.41

21. Other payables

(1) Aging analysis

Age of account	December 31, 2012	December 31, 2011
Within 1 year	4,112,599.00	13,638,272.96
1-2 years	3,545,367.19	5,320,034.64
2-3 years	2,940,372.74	4,020,349.01
Over 3 years	37,878,025.57	37,067,823.51
Total	48,476,364.50	60,046,480.12

(2) There's no other payables to shareholders holding 5% or above voting shares of the company.

(3) For other payables to related party, please see Note VI. 4.

(4) Remarks to large amount Other Payable aged over 1 year

Large amount other payables aged over 1 year are mainly unpaid current account balances.

Remarks:

Included in other payables is RMB 26,695,903.10 payable to Shenyang Transformer Co., LTD which is the unpaid current account balance

V. Notes to Consolidated Financial Statements (Continued)

22. Other current liabilities

Item	December 31, 2012	December 31, 2011
Deferred Income		200,000.00
Total		200,000.00

23. Estimated liabilities

Item	December 31, 2011	Increment	Decrement	December 31, 2012
Guarantee for loans	115,715,007.25		30,993,929.00	84,721,078.25
Total	115,715,007.25		30,993,929.00	84,721,078.25

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 RMB 30,000,000.00, and the company therefore undertake obligation of joint guarantee. In 2001 China Ever Bright Bank Co., Ltd has filed a lawsuit against “NET” to the 1st District Court of Beijing City, and requesting the debtor to repay principal of RMB26,402,000.00 and overdue interests of RMB4,591,929.00, and for the company to undertake joint obligation to repay. The Court has ruled on Apr. 19, 2002 that the company should undertake joint obligation of repayment of the above-mentioned principal and overdue interest. The company has appealed to the Higher People’s Court of Beijing City on Aug. 15, 2002. On May 13, 2003, the Higher People’s Court of Beijing City has made final judgment the 1st sentence should be carried on. The company has estimated liabilities of RMB30,993,929.00. 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’. By December 31, 2012, the Company has repaid RMB 24,000,000.00 which is written in the repayment agreement. Thus the guarantee liability of this estimated liability has been exempted. RMB 6,993,929.00 non-operating income from gains of debt restructuring was recognized by the Company.

V. Notes to Consolidated Financial Statements (Continued)**23. Estimated liabilities (Continued)****Remarks (Continued):**

2. The company has provided guarantee for the bank loan of RMB 13,000,000.00 between Bank of China Jinzhou Branch and the company's subsidiary –“Jinrong”, and thus undertake obligation of joint guarantee. Bank of China Jinzhou Branch has filed a lawsuit in Feb. 2005 to the District Court of Jinzhou City Liaoning Province, asking for “Jinrong”'s repayment of RMB13,000,000.00 and the relative interests, along with request that the company undertake joint obligation of repayment. The subject District Court has ruled in May 2005 that the company should undertake the joint obligation of repayment of the captioned loan principal and interests. The company has not filed for appeal, and the Ruling has been effective. Intermediate Court of Liaoning Province Jinzhou City has issued Enforcement Notice No. (2005)Jin Zhi Zi Di 89 in Sep., 2005. And on Jun. 23, 2010 the Court has made Enforcement Ruling No. (2005) JinZhiYiZiDi89, 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 company has provided guarantee for loans of RMB17,000,000.00 between Jinzhou Power Capacitor Co., Ltd. (later referred as Jin Cap) and Jinzhou City Commercial Bank. The bank has launched lawsuit to the Intermediate Court of Jinzhou City against Jin Cap for repayment of principal of RMB17,000,000.00 and relative interests, and asking for the company to assume repayment. The court has sentenced the company to assume joint liability for repaying RMB17,000,000.00 and relative interests by Ruling no. (2007)Jin Min San Chu Zi Di 00049 in Jun. 2007, which has come into effectiveness for the company has not appealed. The company therefore estimate liability of RMB17,000,000.00. Up till the reporting date, the company has not paid the above mentioned liability.
4. The company has provided guarantee for Jindu Hotel for loans of RMB24,000,000.00 from ICBC Shenyang City Sub-branch, assuming joint liability. As the loan is overdue, the bank has sued Jundu Hotel to the Intermediate Court of Shenyang City for repayment of loan principal of RMB24,000,000.00 and relative interests, and for the company to assume joint obligation to repay. Ruling No.(2003)Shen Zhong Min(3)Chu Zi Di 94 by the Court has ruled the company to take up joint obligation of repaying RMB24,000,000.00 and relative interests. The Higher Court of Shenyang City Liaoning Province has maintained the above first ruling by its Ruling No.(2003)Liao Min Er He Zhong Zi Di 160. 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 above-mentioned 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 up the mentioned liability.
5. The company provide guarantee and assume joint liability for loans of RMB22,900,000.00 from ICBC Jinzhou City Sub-branch to Jin Power Cap., which loan agreement amount is RMB42,900,000.00. ICBC Jinzhou City Sub-branch has sued against Jin Cap in Dec. 2006 to the Intermediate Court of Jinzhou City, for the borrower to repay loan principal of RMB22,900,000.00 and relative interest of RMB3,466,578.25, and for the company to assume joint repayment. The Court has sentenced by Ruling No. (2007) Jin Min San Chu Zi 00019 that the company should take up joint obligation to repay loan principal of RMB22,900,000.00 and loan interest of RMB3,466,578.25. On Apr. 14, 2008, the Intermediate Court of Jinzhou City issued Enforcement Notice, requesting the Company to take the captioned liabilities. Therefore the company has estimated liability of RMB26,366,578.25. The company has not paid the above mentioned debt by end of reporting date.

V. Notes to Consolidated Financial Statements (Continued)

24. Share capital

Item	December 31, 2011	Increment/Decrement (+/-)				December 31, 2012
		New shares issued	Stock dividend	Reserve to shares	Others Sub total	
I. Shares subject to trading restriction						
1. State-owned legal person						
2. Other domestic shares	5,999,022.00					5,999,022.00
Inclu.: Domestic non-state-owned legal shares	5,999,022.00					5,999,022.00
Sub-total	5,999,022.00					5,999,022.00
II. shares not subject to trading restriction						
1. Ordinary share in RMB (A Share)	609,420,978.00					609,420,978.00
2. foreign shares listed overseas (H Share)	257,950,000.00					257,950,000.00
Sub-total	867,370,978.00					867,370,978.00
Total shares	873,370,000.00					873,370,000.00

25. Capital reserve

Item	December 31, 2011	Increment	Decrement	December 31, 2012
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

Notes to the Financial Statements (Continued)

For the year ended 31 December 2012 (Prepared in accordance with P.R.C. Accounting Rules and Regulations)

V. Notes to Consolidated Financial Statements (Continued)

26. Surplus reserves

Item	December 31, 2011	Increment	Decrement	December 31, 2012
Statutory surplus reserve	80,028,220.48	-	-	80,028,220.48
Optional surplus reserve	28,558,903.92	-	-	28,558,903.92
Total	108,587,124.40	-	-	108,587,124.40

27. Accumulated losses

Item	Ratio of appropriation		
	or distribution	Year 2012	Year 2011
Accumulated losses at the end of last year		-1,569,721,146.49	-1,537,523,975.12
Adjustment for accumulated losses at the beginning of the year			
Accumulated losses at the beginning of the year		-1,569,721,146.49	-1,537,523,975.12
Add: Net Profit attributable shareholders of the Company for the year		11,140,994.81	-32,197,171.37
Less: Appropriation for statutory surplus reserve			
Appropriation for optional surplus reserve			
Provision for general risk			
Ordinary shares dividends payable			
Ordinary shares dividends converted to equity			
Accumulated losses at end of period		-1,558,580,151.68	-1,569,721,146.49

V. Notes to Consolidated Financial Statements (Continued)

28. Revenue and cost of sales

(1) Revenue and cost of sales

Item	Year 2012	Year 2011
Main business income	217,072,835.43	248,459,517.72
Other business income	148,006.38	220,295.21
Total income	217,220,841.81	248,679,812.93
Main business cost	156,177,240.41	190,700,026.20
Other business cost	80,363.64	229,210.80
Total cost of sales	156,257,604.05	190,929,237.00

(2) Main business (by products)

Products	Year 2012		Year 2011	
	Business income	Cost of sale	Business income	Cost of sale
Enclosed Busbar	56,034,663.79	37,990,027.35	50,008,006.34	40,527,156.94
Power Capacitor	113,964,496.29	77,793,794.25	166,575,157.61	120,967,139.29
High-voltage Switches	47,073,675.35	40,393,418.81	31,876,353.77	29,205,729.97
Total	217,072,835.43	156,177,240.41	248,459,517.72	190,700,026.20

(3) Main business (by regions)

Regions	Year 2012		Year 2011	
	Business income	Cost of sale	Business income	Cost of sale
Northeast	66,998,073.63	44,993,074.70	21,318,368.87	14,073,063.39
Central North	62,967,325.61	51,496,271.28	42,715,698.11	37,229,432.32
Central	15,444,457.47	10,316,092.76	92,928,485.18	67,376,612.34
Central East	43,565,396.07	29,710,184.61	21,830,076.56	17,109,882.88
Central South	6,811,495.84	4,496,410.34	43,299,265.76	31,776,252.27
Southwest	17,765,865.78	12,762,253.53	22,874,875.38	20,888,223.74
Northwest	3,520,221.03	2,402,953.19	3,492,747.86	2,246,559.26
Total	217,072,835.43	156,177,240.41	248,459,517.72	190,700,026.20

Notes to the Financial Statements (Continued)

For the year ended 31 December 2012 (Prepared in accordance with P.R.C. Accounting Rules and Regulations)

V. Notes to Consolidated Financial Statements (Continued)

28. Revenue and cost of sales (Continued)

(4) Top 5 customers of business income

Customer name	Year 2012	Ratio of total business income (%)
Beijing electric power Co.	45,446,153.98	20.92
Yinkou An Tai Equipment and parts Co. Ltd.	20,987,862.91	9.66
Zhejiang Province electric power Co.	20,713,600.00	9.54
Yinkou Hong Yue Machinery Processing Co. Ltd.	12,387,016.50	5.70
Power grid development branch of Zhejiang Province electric power Co.	11,861,759.05	5.46
Total	111,396,392.44	51.28

Remarks:

1. Business income includes incomes of main business and others business, income from main business are the sales of enclosed busbar, electric capacitor and high-voltage switches.
2. Decrease in income is due to decline in sales of New northeast electric (jinzhou) power capacitor co., Ltd, a wholly-owned subsidiary of the Company. Except some of the large domestic competitors in this industry, Cooper in America, ABB in Europe and other foreign enterprises have built their plants in mainland China. Those increased competition has led to the decline in income to the company.

29. Business tax and surcharges

Item	Tax Ratio	Year 2012	Year 2011
Business tax	5%	200,750.00	
City maintenance and construction tax	7%	923,178.99	1,449,397.84
Education Surcharges	3%, 2%	655,563.54	1,012,295.90
Total		1,779,492.53	2,461,693.74

Remarks:

Business tax and surcharges of the period are mainly constituted by City Maintenance and Construction Tax and Education Surcharges. Decrease of business tax and surcharges are due to decline of the turnover tax in current year.

V. Notes to Consolidated Financial Statements (Continued)

30. Selling expenses

Item	Year 2012	Year 2011
Consultation fee	3,886,883.50	7,707,170.00
Loading and Unloading Expenses	300,000.00	512,530.00
Bidding fee	1,289,225.11	1,172,127.05
Salaries & Benefits of employees	1,300,464.66	1,547,928.83
Exhibition fee		500,000.00
Transportation fee	4,325,043.03	8,530,462.21
Entertainment fee	466,360.90	788,580.80
Repairment and maintenance	31,485.55	201,178.91
Material Consumption	282,829.33	875,088.37
After-Sales services Expenses	495,686.41	514,962.20
Meeting fee	53,755.00	63,786.00
Advertising fee	531,800.00	1,660,000.00
Sub-contracting expense	3,011,426.00	2,944,794.00
Travelling expense	1,386,286.79	2,836,439.54
Storage charges	39,600.00	441,959.20
Office expenses	146,973.88	651,546.65
Other	162,904.26	102,708.29
Total	17,710,724.42	31,051,262.05

Remarks:

Selling expense declined due to decrease in revenue during the current period and the strict control over expenditures executed by the Company.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2012 (Prepared in accordance with P.R.C. Accounting Rules and Regulations)

V. Notes to Consolidated Financial Statements (Continued)

31. Administrative expenses

Item	Year 2012	Year 2011
Salaries & Benefits of employees	13,466,416.67	15,011,915.36
Heating Expenses	1,392,167.01	1,321,489.31
Travelling expense	1,677,387.09	1,820,395.25
Depreciation Expenses	2,777,387.61	2,948,362.61
Material Consumption	686,145.60	1,227,530.88
Entertainment	1,673,431.82	2,916,391.39
Listing fees	588,536.80	1,065,795.37
Legal Counseling		30,000.00
Meeting	1,200.00	19,130.00
Repairment and maintenance	397,873.07	641,447.65
Office Expenses	3,429,497.04	3,612,361.46
Rents & Leases	729,787.10	1,907,046.91
Long-term Deferred Expenses Amortization	702,675.26	729,897.56
Audit fee, Evaluation, Consulting Expenses	968,910.11	1,790,500.00
Taxes	1,739,016.70	1,091,958.56
Lawsuit Expenses	55,860.00	75,000.00
Intangible Assets Amortization	135,490.08	135,490.12
R & D for new products	360,393.44	1,028,034.09
Other	449,583.09	101,658.50
Total	31,231,758.49	37,474,405.02

V. Notes to Consolidated Financial Statements (Continued)

32. Finance expenses

Item	Year 2012	Year 2011
Interest Expenses	581,983.54	1,436,471.93
Less: Interest Income	753,262.12	1,284,700.72
Loss on Exchange		
Less: Gain on Exchange	514.65	5,101.70
Bank Commission Charges	90,717.97	167,323.61
Total	-81,075.26	313,993.12

33. Assets impairment loss

Item	Year 2012	Year 2011
I. Bad debt expenses	1,594,159.75	2,455,082.39
II. Provision for decline in value on inventory	71,308.68	1,131,208.74
III. Impairment loss on long-term equity investment	2,088,298.55	19,000,058.01
IV. Impairment loss on fixed assets		160,000.00
Total	3,753,766.98	22,746,349.14

Remarks:

Decrease in assets impairment loss was due to there was a relative large amount of impairment loss on long-term equity investment being made in the last year.

34. Return on investments

(1) Details of return on investment

Item	Year 2012	Year 2011
Return on long-term equity investment under equity method	-6,151.36	-1,733,043.08
Gain on disposal on long-term equity investment		137,387.37
Total	-6,151.36	-1,595,655.71

Notes to the Financial Statements (Continued)

For the year ended 31 December 2012 (Prepared in accordance with P.R.C. Accounting Rules and Regulations)

V. Notes to Consolidated Financial Statements (Continued)

34. Return on investments (Continued)

(2) Return on long-term equity investment under equity method

Company invested	Year 2012	Year 2011
New Northeast Electric (Shenyang) High-voltage Switches Co Ltd		-1,726,109.70
Wei Da High-voltage Electric Co. Ltd	-6,151.36	-6,933.38
Total	-6,151.36	-1,733,043.08

Remarks:

The significant decrease on loss on long-term equity investment under equity method compared to last year was due to the disposal of New Northeast Electric (Shenyang) High-voltage Switches Co. Ltd. last period.

35. Non-operating income

Item	Year 2012	Year 2011
Gain on disposal of non-current assets	98,249.96	220,697.36
Include: Gain on disposal of fixed assets	98,249.96	220,697.36
Gain on disposal of intangible assets		
Gain on debt reconstruction	6,993,929.00	
Government grants		268,446.97
Others	14,449.58	9,462,598.22
Total	7,106,628.54	9,951,742.55

Details on government grant:

Item	Year 2012	Year 2011	Remarks
Research on ±800KV Direct Current Electricity Transmitting		268,446.97	Grants by Liaoning Committee of Economy and Information, Liaoning Department of Finance.
Total		268,446.97	

Remarks:

For details of gain on debt reconstruction, see Note V.23.1

V. Notes to Consolidated Financial Statements (Continued)

36. Non-operating expenses

Item	Year 2012	Year 2011
Loss on disposal of non-current assets	21,964.40	37,187.94
Include: loss on disposal of fixed assets	21,964.40	37,187.94
Others	751,326.08	76,983.49
Total	773,290.48	114,171.43

Remarks:

Non-operating expenses was mainly contributed by the payment (RMB 750,000.00) of penalty for New Northeast Electric (Jinzhou) electric capacitor Co. Ltd., a subsidiary of the Company.

37. Income tax expenses

Item	Year 2012	Year 2011
Current income tax expense	2,105,755.70	941,249.20
Deferred income tax expense	-246,091.78	3,655,698.40
Total	1,859,663.92	4,596,947.60

38. Calculations of basic earnings per share and diluted earnings per share

Item		Year 2012	Year 2011
Net Profit attributable to Ordinary Shareholders of the Company	P1	11,140,994.81	-32,197,171.37
Non-recurring Profit & Loss attributable to Ordinary Shareholders of the Company	F	10,460,286.76	9,845,631.83
Net Profit attributable to Ordinary Shareholders of the Company after deduction of non-recurring profit & loss	P2=P1-F	680,708.05	-42,042,803.20
Impact on Net Profit attributable to Ordinary Shareholders of the Company by dilution	P3		
Impact on Net Profit attributable to Ordinary Shareholders of the Company after deduction of non-recurring profit & loss by dilution	P4		
Total Shares at beginning of period	S0	873,370,000.00	873,370,000.00

Notes to the Financial Statements (Continued)

For the year ended 31 December 2012 (Prepared in accordance with P.R.C. Accounting Rules and Regulations)

V. Notes to Consolidated Financial Statements (Continued)

38. Calculations of basic earnings per share and diluted earnings per share (Continued)

Item		Year 2012	Year 2011
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 converted to equity during the period	Si		
Number of months from the month of increasing shares till end of reporting period	Mi		
Shares decreased by buy-back during the period	Sj		
Number of months from the month of decreasing shares till end of reporting period	Mj		
Reverse Split during the period	Sk		
No. of months during the period	M0	12.00	12.00
	$S=S0+S1+Si*Mi/$		
Weighted average number of ordinary shares outstanding	$M0-Sj*Mj/M0-Sk$	873,370,000.00	873,370,000.00
Plus: weighted average ordinary shares assuming potential diluted ordinary shares changed to ordinary shares	X1		
Weighted average ordinary shares to calculate diluted earnings per share	$X2=S+X1$	873,370,000.00	873,370,000.00
Inclu: weighted average ordinary shares increased by convertible company bonds			
weighted average ordinary shares increased by stock options			
weighted average ordinary shares increased by implementing buyback			
Basic earnings per share attributable to ordinary shareholders	$Y1=P1/S$	0.01	-0.04
Basic earnings per share attributable to ordinary shareholders after deduction of non-recurring profit & loss	$Y2=P2/S$	0.001	-0.05
Diluted earnings per share attributable to ordinary shareholders	$Y3=(P1+P3)/X2$	0.01	-0.04
Diluted earnings per share attributable to ordinary shareholders after deduction of non-recurring profit & loss	$Y4=(P2+P4)/X2$	0.001	-0.05

V. Notes to Consolidated Financial Statements (Continued)

39. Other comprehensive income

Item	Year 2012	Year 2011
Exchange difference on translation of financial statements	-22,125.60	-11,874,956.33
Less: Net amount taken into Profit & Loss for disposing offshore operations		
Sub-total	-22,125.60	-11,874,956.33
Total	-22,125.60	-11,874,956.33

Remarks:

The exchange difference on translation of financial statement is arising from the translation of financial statements of North East Electric (HongKong) Co Ltd and Gao Cai Technology Co Ltd.

40. Notes to cash flows statement

(1) Cash received from other operating activities

Item	Year 2012	Year 2011
Current accounts	5,956,690.67	4,157,920.68
Deposits	13,661,873.42	10,527,300.00
Interest income	753,262.12	1,284,691.05
Others		10,977.07
Total	20,371,826.21	15,980,888.80

Remarks:

Deposits are bidding deposits received from suppliers of subsidiary – Fuxin Enclosed Busbar Company Limited and New Jin Cap. and refund of security deposits for letter of guarantees.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2012 (Prepared in accordance with P.R.C. Accounting Rules and Regulations)

V. Notes to Consolidated Financial Statements (Continued)

40. Notes to cash flows statement (Continued)

(2) Cash paid to other operating activities

Item	Year 2012	Year 2011
Current accounts	32,211,321.01	61,125,152.54
Cash Deposits	12,728,897.42	4,210,410.00
Expenses paid by cash	28,881,947.79	39,673,691.07
Total	73,822,166.22	105,009,253.61

Remarks:

Current accounts are mainly for repayments of payables. Cash Deposits are bidding deposits paid to customer by subsidiary – Fuxin Enclosed Busbar Company Limited and New Jin Cap. and security deposits paid for letter of guarantee.

41. Supplementary information to cash flows statement

(1) Supplementary information to cash flows statement

Supplementary Information	Year 2012	Year 2011
I. Reconciliation from net profit to cash flows from operating activities		
Net Profit	11,036,093.38	-32,652,159.33
Add: Provisions for assets impairment	3,753,766.98	22,746,349.14
Depreciation of fixed assets, depreciation of oil and gas assets, depreciation of production bio-assets	7,503,440.51	7,446,375.60
Amortization of intangible assets	135,490.08	135,490.12
Amortization of long term deferred expenses	3,165,617.76	3,148,657.76
Loss on disposal of fixed assets, intangible assets and other non-current assets (gain is shown as “-”)	-76,285.56	-220,697.36
Loss on write-off of fixed assets (gain is shown as “-”)		37,187.94
Loss on changes in fair value (gain is shown as “-”)		-
Finance costs (gain is shown as “-”)	581,983.54	1,515,596.93
Loss on investments (gain is shown as “-”)	6,151.36	1,595,655.71

V. Notes to Consolidated Financial Statements (Continued)

41. Supplementary information to cash flows statement (Continued)

(1) Supplementary information to cash flows statement (Continued)

Supplementary Information	Year 2012	Year 2011
Decrease in deferred tax assets (increase is shown as “-”)	-246,091.78	3,655,698.40
Increase in deferred tax liabilities (decrease is shown as “-”)		-
Decrease in inventories (increase is shown as “-”)	8,754,995.55	46,221,835.66
Decrease in operating receivables (increase is shown as “-”)	53,326,585.94	129,317,564.31
Increase in operating payables (decrease is shown as “-”)	-91,295,443.73	-216,755,822.85
Others		-
Net cash flows generated from operational activities	-3,353,695.97	-33,808,267.97
II. Significant non-cash investment and financing activities		-
Debts changed to capital		-
Convertible bonds mature within 1 year		-
Fixed assets acquired under finance lease		-
III. Changes in cash and cash equivalents:		-
Cash at end of period	69,423,731.30	42,095,840.09
Less: cash at beginning of period	42,095,840.09	53,884,111.84
Add: cash equivalents at end of period		-
Less: cash equivalents at beginning of period		-
Net increase in cash and cash equivalents	27,327,891.21	-11,788,271.75

Notes to the Financial Statements (Continued)

For the year ended 31 December 2012 (Prepared in accordance with P.R.C. Accounting Rules and Regulations)

V. Notes to Consolidated Financial Statements (Continued)

41. Supplementary information to cash flows statement (Continued)

(2) Composition of cash and cash equivalents

Item	Year 2012	Year 2011
I. Cash		
Include: Cash on hand	11,550.91	25,258.50
Bank Deposits available on demand	69,412,180.39	42,062,384.22
Other cash assets available on demand		8,197.37
Deposits with Central Bank available on demand		
Deposits with other banks		
Inter-bank lending		
II. Cash equivalents		
Include.: Bonds investment mature within 3 months		
III. Balance of cash and cash equivalents by end of period	69,423,731.30	42,095,840.09

(3) Relationship between cash and deposit and cash and cash equivalents

Items listed under cash and cash equivalents	Year 2012	Year 2011
Ending balance of cash and deposit	81,295,428.80	56,684,837.59
Less: Deposit subject to restriction	11,871,697.50	14,588,997.50
Add: Treasury bonds held with maturity not more than three months		
Ending balance of cash and cash equivalents	69,423,731.30	42,095,840.09
Less: Opening balance of cash and cash equivalents	42,095,840.09	53,884,111.84
Net increase/(decrease) in cash and cash equivalents	27,327,891.21	-11,788,271.75

Remark:

Pledged deposits are not included in the balance of cash and cash equivalents by end of period, for detail see Note V.1, under Item of cash and deposits.

VI. Related Parties and Related Parties Transactions

1. Parent company of the Company

Parent Company	Relationship	Type	Place of Registration	Legal Rep.	Business Nature
New Northeast Electric					
Investment Co Ltd	Parent Company	Limited	Ying Kou	He yaohui	Investment

Parent Company	Registered Capital	Percentage of shares held by Parent Company (%)	Voting shares ratio held by Parent Co (%)	Ultimate controlling party of the company	Organization Code
New Northeast Electric					
Investment Co Ltd	135 million	24.06%	24.06%	Tian Li	73465110-1

New Northeast Electric Investment Co Ltd pledged the unrestricted circulated A Shares of 62,860,000 shares and 47,140,000 shares of the company held by it to Shanghai Pudong Development Bank Shenyang Branch. Those pledged shares have been registered with the China Securities Registration and Settlement Co., Ltd. Shenzhen branch on October 30, 2012. The pledge period starts from October 30, 2012 and until New Northeast Electric Investment Co Ltd completed the pledge rescinding registration. By December 31, 2012, New Northeast Electric Investment Co Ltd holds 210,113,872 A shares of the company, representing 24.06% of the company's total share; the accumulated pledged shares are 110,000,000 shares represents 52.35% of its shares holding on the company, and 12.59% of the company's total share.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2012 (Prepared in accordance with P.R.C. Accounting Rules and Regulations)

VI. Related Parties and Related Parties Transactions (Continued)

2. Subsidiaries of the Company

Full names of subsidiary	Relationship	Type	Place of		Business Nature
			Registration	Legal Rep.	
	Wholly-owned				
Northeast Electric (HK) Co., Ltd	subsidiary	Limited	HK	Tian Jiang	Investment, Trade
	Wholly owned				
Gaocai Technology Co., Ltd.	subsidiary	Limited	BVI	Wang Shan Kuan	Investment
	Wholly owned				
Northeast Electric (BEIJING) Co., Ltd	subsidiary	Limited	Beijing	Jia Shu Jie	Sales of machinery, electric products
	Wholly-owned				
Shenyang Kaiyi Electric Co Ltd	subsidiary	Limited	Shenyang	Jiao Li Yuan	Manufacturing of high- voltage electric equipment
	Wholly-owned				
Fuxin Enclosed Busbar Company Limited	subsidiary	Limited	Fuxin	Liu Qing Min	Production and sales of enclosed busbar
	Wholly-owned				
New Northeast (Jinzhou) Electric Capacitor Co., Ltd.	subsidiary	Limited	Jinzhou	Du Kai	Production of Power Capacitor
	Wholly-owned				
Jinzhou Jinrong Electric Appliance Co., Ltd.	Subsidiary	Limited	Jinzhou	Li Hong Liang	Dry high-voltage Capacitors
	Wholly-owned				
Shenyang Gaodongjia Desiccation Co., Ltd.	Subsidiary	Limited	Shenyang	Wang Hai Yang	Metal box and desiccation equipment

Full names of subsidiary	Registered Capital	Percentage of shares held	Percentage of Voting Right held	Organization
				Code
Northeast Electric (HK) Co., Ltd	USD20 million	100.00	100.00	-
Gaocai Technology Co., Ltd.	USD 1.00	100.00	100.00	-
Northeast Electric (BEIJING) Co., Ltd	RMB2 million	100.00	100.00	66216024-9
Shenyang Kaiyi Electric Co Ltd	RMB1 million	100.00	100.00	79846962-4
Fuxin Enclosed Busbar Company Limited	USD8.5 million	100.00	100.00	70168064-3
New Northeast (Jinzhou) Electric Capacitor Co., Ltd.	USD15.45 million	100.00	100.00	75278947-0
Jinzhou Jinrong Electric Appliance Co., Ltd.	RMB 3 million	69.75	69.75	24203413-1
Shenyang Gaodongjia Desiccation Co., Ltd.	USD 0.7785 million	70.00	70.00	60460565-X

VI. Related Parties and Related Parties Transactions (Continued)**3. Associates of the Company**

See Note V.8 for detail.

4. Related parties' receivable and payable**(1) Receivables from related parties of the listed company**

Item	Related Party	December 31, 2012		December 31, 2011	
		Book value	Provision for bad debt	Book value	Provision for bad debt
Dividend Receivable	Weida High-voltage Electric Co Ltd			7,027,538.11	

(2) Payable to related parties of the listed company

Item	Related Party	December 31, 2012	December 31, 2011
Other payables	Weida High-voltage Electric Co Ltd	318,076.31	648,560.00

VII. Contingent Events

1. Contingent Liabilities due to litigations and impacts to the Financial Reports

China Great Wall Asset Management Corp Shenyang Rep. Office (hereinafter referred to as 'Great Wall Asset') vs. Shenyang High-voltage Switches Co Ltd (hereinafter referred to as 'Shenyang High Switches') on infringement of loan contract.

Shenyang High Switches 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 RMB35.175million. 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, 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 Shenyang High Insulate, Xintai Warehouse and Chengtai Energy. Great Wall Asset sued Shenyang High Switches to Liaoning Provincial High Court (hereinafter referred to as 'Liao High Court') for repayment of RMB35,175million on Feb. 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 Switches' loans. The Company has received subpoena for court appearance (Ref. (2009)Liao Min Er Chu Zi No.12) from Liao High Court on Jul. 21, 2009. Civil Ruling of No. (2009)Liao Min Er Chu Zi Di12 by Supreme Court of Liaoning Province 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 Feb. 11, 2011, Great Wall Asset appealed to the Supreme Court of the People. On Jun. 30, 2011, the Supreme Court has made the Civil Ruling No. (2011) Min Er Chu Zi 44, setting aside Judgment No. (2009) Liao Min Er Chu Zi 12, and requesting Supreme Court of Liaoning Province for Retrial. The lawsuit has been finalized by December 31, 2012. And civil judgment (2011) Liao Min Er Chu Zi No.31 has been issued on December 24, 2012. The court rejected petition judgment as that plaintiff Great Wall Asset demanded the Company to bear the joint liability of Shenyang High Switches' debt without facts and legal evidence. The copy of civil petition of appeal has been received by the company due to Great Wall Asset lodged an appeal after the court decision.

The Company believes that Great Wall Asset's charge is of no solid ground, and will not generate any negative impact on financial status.

2. Contingent liability by providing guarantee and relevant impact on financial statements

Other contingent liabilities by providing guarantees. See Note V. 24 under Item of Estimated Liabilities for detail.

VII. Contingent Events (Continued)**3. Other contingent liabilities and relevant impacts on financial statements**

- (1) Up to Dec. 31, 2012, RMB 12,968,040.00 of bank acceptance notes which are not yet matured has been endorsed by the Company.
- (2) By end of Dec. 31, 2012, the Company has issued Performance Guarantee of RMB 7,122,310.00 with Bank of China Fuxin Branch

VIII. Commitment

There's no major commitment during the period.

IX. Post Balance Sheet date events

There's no Post Balance Sheet Date Event during the period.

X. Other Major events

As mentioned above in Note V.24 (1), the Company has paid RMB 24,000,000.00 according to the agreement with Liaoning shun lung trade co., Ltd. Liability to guarantee under estimated liability has been exempted. There is a non-operating income of RMB 6,993,929.00 has been recognized from debt reconstruction by December 31, 2012.

Since December 30, 2010 the date of agreement signed between the company and Shunlong Comm. Trade, Shunlong Comm. Trade becomes the related party of the Company. According to Change of Business Registration Notice granted by SAIC of Yingkou City, the sole shareholder of Shunlong Comm. Trade transferred all the shares to Liaoning Kaiyi High-voltage Electric Equipment Industries and Trade Co Ltd (hereinafter referred to as 'Kaiyi High-voltage') in December 9, 2010, and the actual controller of the Company - New Northeast Electric Investment Co Ltd (hereinafter referred to as 'New Northeast Elec. Investment') holds 100% shares of Kaiyi High-voltage, and the latter company holds 100% shares of Liaoning Shunlong Commercial and Trade Co Ltd (hereinafter referred to as 'Shunlong Comm. Trade'), thus the Company shares the same controller with Shunlong Comm. Trade. New Northeast Elec. Investment transferred 95% shares of Kaiyi High-voltage to New Northeast Electric Group Co Ltd, and transferred the remaining 5% shares to Liaoning Haohui Electric Equipment Co Ltd in April 29, 2011. And since then the company and Shunlong Comm. Trade are no longer related parties.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2012 (Prepared in accordance with P.R.C. Accounting Rules and Regulations)

XI. Major notes to company level financial statements

1. Accounts receivables

(1) Accounts receivables by categories are analyzed as follows:

Types	December 31, 2012			
	Book balance		Provision for bad debt	
	Amount	Ratio (%)	Amount	Ratio (%)
Individually significant and subject to separate provision				
Aging combination	179,400.00	100.00	179,400.00	100.00
Sub-total	179,400.00	100.00	179,400.00	100.00
Individually insignificant but subject to separate provision				
Total	179,400.00	100.00	179,400.00	100.00

Types	December 31, 2011			
	Book balance		Provision for bad debt	
	Amount	Ratio (%)	Amount	Ratio (%)
Individually significant and subject to separate provision				
Aging combination	179,400.00	100.00	179,400.00	100.00
Sub-total	179,400.00	100.00	179,400.00	100.00
Individually insignificant but subject to separate provision				
Total	179,400.00	100.00	179,400.00	100.00

Remarks:

The company regards individual account receivables over RMB1 million as significant, based on the scale of operation, nature of the operation and status of customers' settlement.

Accounts receivable with insignificant balance but have obvious evidence that the chance of recovery is remote are regarded as Individually insignificant but subject to separate provision.

XI. Major notes to company level financial statements (Continued)**1. Accounts receivables (Continued)****(1) Accounts receivables by categories are analyzed as follows (Continued):**

Accounts receivables that the related provisions for bad debts are provided on grouping basis using the Aging Analysis Method are analyzed as follows:

Age of account	December 31, 2012			December 31, 2011		
	Book balance		Provision for bad debt	Book balance		Provision for bad debt
	Amount	% of total balance		Amount	% of total balance	
Within 1 year						
1 – 2 years						
2 – 3 years						
3 – 4 years						
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

(2) There are no receivables from shareholders holding 5% or above voting shares of the company.

2. Other receivables**(1) Other receivables by categories are analyzed as follows:**

Types	December 31, 2012			
	Book balance		Provision for bad debt	
	Amount	Ratio (%)	Amount	Ratio (%)
Individually significant and subject to separate provision	76,090,000.00	17.23	76,090,000.00	100.00
Aging combination	365,414,504.90	82.77	815,497.67	0.22
Sub-total	365,414,504.90	82.77	815,497.67	0.22
Individually insignificant but subject to separate provision				
Total	441,504,504.90	100.00	76,905,497.67	17.42

Notes to the Financial Statements (Continued)

For the year ended 31 December 2012 (Prepared in accordance with P.R.C. Accounting Rules and Regulations)

XI. Major notes to company level financial statements (Continued)

2. Other receivables (Continued)

(1) Other receivables by categories are analyzed as follows (Continued):

Types	December 31, 2011			
	Book balance		Provision for bad debt	
	Amount	Ratio (%)	Amount	Ratio (%)
Individually significant and subject to separate provision	76,090,000.00	16.33	76,090,000.00	100.00
Aging combination	389,763,207.01	83.67	842,497.67	0.22
Sub-total	389,763,207.01	83.67	842,497.67	0.22
Individually insignificant but subject to separate provision				
Total	465,853,207.01	100.00	76,932,497.67	16.51

Remarks:

The company regards individual other receivable over RMB1 million as significant based on the scale of operation, nature of the operation and status of customers' settlement.

Other receivables with insignificant balance but have obvious evidence that the chance of recovery is remote are regard as individually insignificant but subject to separate provision.

Individually significant other receivables and subject to separate provision are analyzed as follows:

Name of company	Book balance	Provision for bad debt	Ratio (%)	Reason
Benxi iron and steel (group) co., LTD	76,090,000.00	76,090,000.00	100.00%	Note V. 5(4)
Total	76,090,000.00	76,090,000.00	100.00%	

XI. Major notes to company level financial statements (Continued)**2. Other receivables (Continued)****(1) Other receivables by categories are analyzed as follows (Continued):**

Other receivables that the related provisions for bad debts is provided on grouping basis using the Aging Analysis Method are analyzed as follows:

Age of account	December 31, 2012			December 31, 2011		
	Book balance		Provision for bad debt	Book balance		Provision for bad debt
	Amount	% of total balance		Amount	% of total balance	
Within 1 year	37,952,323.64	10.39		13,322,868.71	3.42	-
1 – 2 years	12,762,826.96	3.49		16,639,420.00	4.27	-
2 – 3 years	16,639,420.00	4.55		72,675,812.26	18.65	-
3 – 4 years	72,675,812.26	19.89		7,255.34	0.01	-
Over 4 years	225,384,122.04	61.68	815,497.67	287,117,850.70	73.65	842,497.67
Total	365,414,504.90	100.00	815,497.67	389,763,207.01	100.00	842,497.67

(2) There are no other receivables from shareholders holding 5% or above voting shares of the Company by December 31, 2012.

(3) Nature or contents of large amount other receivables:

Except for intra-group transactions with subsidiaries, other receivables with large amount includes balance of Benxi Steel, see Note V.5. (4).

Notes to the Financial Statements (Continued)

For the year ended 31 December 2012 (Prepared in accordance with P.R.C. Accounting Rules and Regulations)

XI. Major notes to company level financial statements (Continued)

2. Other receivables (Continued)

(4) Top 5 customers of other receivables

Name of Company	Relationship	Amount	Age	Percentage over total other receivables (%)
Shenyang Kaiyi Electric Co Ltd	Wholly-owned subsidiary	150,633,332.90	1- 4 years	34.12
Northeast Electric (HK) Co Ltd	Wholly-owned subsidiary	123,166,166.77	1- 4 years	27.90
Benxi Steel (Group) Co Ltd.	Non-related	76,090,000.00	Over 4 years	17.23
Northeast Electric (Beijing) Co Ltd	Wholly-owned subsidiary	49,553,199.80	1- 3 years	11.22
New northeast electric (jinzhou) power capacitor co., LTD	Wholly-owned subsidiary	39,487,782.91	Over 4 years	8.94
Total		438,930,482.38		99.42

(5) Other receivable due from related parties

Company name	Relationship	Amount	Ratio to total account receivables (%)
Shenyang Kaiyi Electric Co Ltd	Wholly-owned subsidiary	150,633,332.90	34.12
Northeast Electric (HK) Co Ltd	Wholly-owned subsidiary	123,166,166.77	27.90
Northeast Electric (Beijing) Co Ltd	Wholly-owned subsidiary	49,553,199.80	11.22
New northeast electric (jinzhou) power capacitor co., LTD	Wholly-owned subsidiary	39,487,782.91	8.94
Fuxin Enclosed Busbar Company Limited	Wholly-owned subsidiary	1,725,965.35	0.39
Shenyang Gaodongjia Desiccation Co., Ltd.	Subsidiary	7,255.34	0.00
Total		364,573,703.07	82.58

XI. Major notes to company level financial statements (Continued)

3. Long-term equity investments

(1) Classification

Invested company	Accounting method	Cost of Investment	December 31, 2011	Increment	Decrement	December 31, 2012
Investment to subsidiaries						
Northeast Electric (HK) Co Ltd	Cost Method	156,699,451.63	90,413,551.10			90,413,551.10
Shenyang Gaodongjia						
Desiccation Co., Ltd.	Cost Method	837,967.00	837,967.00			837,967.00
Shenyang Kaiyi Electric Co Ltd	Cost Method	100,000.00	-			-
Total		157,637,418.63	91,251,518.10			91,251,518.10

Invested company	Percentage of shares held	Percentage of voting rights held	Reason for difference between		Provision for impairment	Provision during the period	Cash dividends
			percentages of shares held and voting rights held	Provision for impairment			
Investment to subsidiaries							
Northeast Electric (HK) Co Ltd	100	100			66,285,900.53		
Shenyang Gaodongjia Desiccation							
Co., Ltd.	70	70					
Shenyang Kaiyi Electric Co Ltd	10	10			100,000.00		
Total					66,385,900.53		

XI. Major notes to company level financial statements (Continued)**4. Revenue and cost of sales****(1) Revenue and cost of sales**

Item	Year 2012	Year 2011
Main business income	3,850,000.00	
Total Operating Income	3,850,000.00	
Cost of sales		
Total Cost of Sales		

(2) Main business (by products)

Products	Year 2012		Year 2011	
	Business income	Cost of sale	Business income	Cost of sale
Consulting fee	3,850,000.00			
Total	3,850,000.00			

(3) The large amount of operating income

Customer name	Year 2012	Ratio of total business income (%)
New northeast electric (jinzhou) power capacitor co., Ltd	1,000,000.00	25.97
Northeast Electric (Beijing) Co Ltd	2,850,000.00	74.03
Total	3,850,000.00	100.00

Remarks:

The recognized income was the consulting fee received by providing services to the Company's wholly-owned subsidiaries New northeast electric (jinzhou) power capacitor co., Ltd and Northeast Electric (Beijing) Co Ltd.

XI. Major notes to company level financial statements (Continued)**5. Supplementary information to cash flows statement****(1) Supplementary information to cash flows statement**

Supplementary Information	Year 2012	Year 2011
I. Reconciliation from net profit to cash flows from operating activities		
Net Profit	7,801,856.01	-61,105,646.18
Add: Provisions for assets impairment	-27,000.00	66,156,317.55
Depreciation of fixed assets, depreciation of oil and gas assets, depreciation of production bio-assets	142,631.09	140,305.73
Amortization of intangible assets		
Amortization of long term deferred expenses		
Loss on disposal of fixed assets, intangible assets and other non- current assets (gain is shown as "-")		
Loss on write-off of fixed assets (gain is shown as "-")		
Loss on changes in fair value (gain is shown as "-")		
Finance costs (gain is shown as "-")		
Loss on investments (gain is shown as "-")		
Decrease in deferred tax assets (increase is shown as "-")		
Increase in deferred tax liabilities (decrease is shown as "-")		
Decrease in inventories (increase is shown as "-")		
Decrease in operating receivables (increase is shown as "-")	24,348,423.60	44,238,333.05
Increase in operating payables (decrease is shown as "-")	-32,262,055.01	49,398,717.69
Others		
Net cash flows generated from operational activities	3,855.69	30,592.46
II. Significant non-cash investment and financing activities		
Debts changed to capital		
Convertible bonds mature within 1 year		
Fixed assets acquired under finance lease		
III. Changes in cash and cash equivalents:		
Cash at end of period	30,575.58	31,891.38
Less: cash at beginning of period	31,891.38	38,486.92
Add: cash equivalents at end of period		
Less: cash equivalents at beginning of period		
Net increase in cash and cash equivalents	-1,315.80	-6,595.54

Notes to the Financial Statements (Continued)

For the year ended 31 December 2012 (Prepared in accordance with P.R.C. Accounting Rules and Regulations)

XI. Major notes to company level financial statements (Continued)

5. Supplementary information to cash flows statement (Continued)

(2) Composition of cash and cash equivalents

Item	Year 2012	Year 2011
I. Cash	30,575.58	31,891.38
Include: Cash on hand	7,723.46	9,478.66
Bank Deposits available on demand	22,852.12	22,412.72
Other cash assets available on demand		
Deposits with Central Bank available on demand		
Deposits with other banks		
Inter-bank lending		
II. Cash equivalents		
Include.: Bonds investment mature within 3 months		
III. Balance of cash and equivalents by end of period	30,575.58	31,891.38

(3) Relationship between cash and deposit and cash and cash equivalents

Items listed under cash and cash equivalents	Year 2012	Year 2011
Ending balance of cash and deposit	30,575.58	31,891.38
Less: Deposit subject to restriction		
Add: Treasury bonds held with maturity not more than three months		
Ending balance of cash and cash equivalents	30,575.58	31,891.38
Less: Opening balance of cash and cash equivalents	31,891.38	38,486.92
Net increase/(decrease) in cash and cash equivalents	-1,315.80	-6,595.54

XII. Supplementary information**1. Details of non-recurring profit & loss**

Item	Year 2012	Year 2011
Profit & loss on disposal of non-current asset	76,285.56	320,896.79
Tax return/exemption with ultra vires approval/or no official approval		
Government grant taken into profit & loss of the period (except for those closely related to business of the company and those granted by the government in fixed amount or quantity according national standards)		268,446.97
Fund appropriation fees charged on non-financial enterprise taken into profit & loss of the period		
Revenue generated when cost of investment is less than fair value of identifiable net assets acquired when acquiring subsidiary, associates, or joint venture		
Profit & loss of non-monetary asset swap		
Profit & loss entrusting third party to invest or manage asset		
Force majeure, for example, provision for impairment on assets due to natural disaster		
Profit & loss on debt restructuring	6,993,929.00	
Expenses on reorganization of enterprise		
Profit & loss over difference between fair value and inappropriate transaction price		
Net Profit & Loss arising business combination involving entities under common control in relation to the period from the beginning of the year to the date of combination		
Profit & loss by contingent events non-related to normal business of the company		
Except for effective hedging related to the operation of the company, profit & loss arising from fair value change on financial assets or liabilities held for trading, disposal of financial assets or liabilities held for trading or available-for-sale securities		
Reverse of account receivable provision under separate impairment test	5,250,022.47	
Profit & loss on entrusted loans		
Profit & loss on subsequent measurement at fair value for investment properties		
Impact on profit & loss by non-recurring adjustment according to Law of tax, of accounting, and legal regulations		
Trustee fee by entrusted operations		
Other Incomes and Expenses except for the above-mentioned	-736,876.50	9,385,614.73
Other items complied with definitions of non-recurring profit & loss		
Total non-recurring profit and loss amount	11,583,360.53	9,974,958.49
Less: Amount of impact on Income Tax	1,123,073.77	129,326.66
Net non-recurring profit and loss amount	10,460,286.76	9,845,631.83
Less: Impact on Minority Interests (after tax)		
Non-recurring profit and loss attributable to the company's ordinary shareholders	10,460,286.76	9,845,631.83

Notes to the Financial Statements (Continued)

For the year ended 31 December 2012 (Prepared in accordance with P.R.C. Accounting Rules and Regulations)

XII. Supplementary information (Continued)

2. Difference on figures by domestic and foreign accounting standards

Difference of net profit and net asset attributable to the company in the consolidated financial statement prepared in accordance with China Accounting Standards and Hong Kong Financial Reporting Standards are as follows:

Item	Net Profit		Net Assets	
	Year 2012	Year 2011	Year 2012	Year 2011
In accordance with China Accounting Standards	11,036,093.38	-32,652,159.33	273,019,949.71	262,005,981.93
Adjusted items and amounts in accordance with Hong Kong Financial Reporting Standards				
Gain on debt restructuring				10,243,866.77
Discounted value		-1,205,578.62		-1,205,578.62
In accordance with Hong Kong Financial Reporting Standards Discounted Value	11,036,093.38	-33,857,737.95	273,019,949.71	271,044,270.08

3. Return on net assets and earnings per share

(1) Return on net assets

Profit for the period	Year 2012	Year 2011
Net profit attributable to ordinary shareholders	11,140,994.81	-32,197,171.37
Net profit attributable to ordinary shareholders after deduction of non-recurring profit and loss	680,708.05	-42,042,803.20

XII. Supplementary information (Continued)

3. Return on net assets and earnings per share (Continued)

(1) Return on net assets (Continued)

Computation:

Item		Year 2012	Year 2011
Net Profit attributable to Ordinary Shareholders of the Company	P1	11,140,994.81	-32,197,171.37
Non-recurring Profit & Loss attributable to Ordinary Shareholders of the Company	F	10,460,286.76	9,845,631.83
Net Profit attributable to Ordinary Shareholders of the Company after deduction of non-recurring profit & loss	P2=P1-F	680,708.05	-42,042,803.20
Opening net assets attributable to the company's ordinary shareholders	E0	260,663,611.50	304,735,739.20
New issue of shares or debt-to-equity swap belong to net asset attributable to ordinary shareholder during reporting period	Ei		
Number of months from the month of increasing net assets till end of reporting period	Mi		
Decrement of net asset attributable to ordinary shareholder due to buy-back or cash dividend during the year	Ej		
Number of months from the month of decreasing net assets till end of reporting period	Mj		
Net assets movement caused by other matters	Ek	-22,125.60	-11,874,956.33
Number of months from the month of movement in net assets caused by other matters till the end of reporting period	Mk	6.00	6.00
No. of months during the period	M0	12.00	12.00
Net assets attributable to the Company's ordinary shareholders	E1	271,782,480.71	260,663,611.50
	$E2=E0+P1/2+Ei*$		
Weighted average net assets attributable to the company's ordinary shareholder	$Mi/M0-Ej*Mj/M0+Ek*Mk/M0$	266,223,046.11	282,699,675.35
Weighted average return on equity attributable to the company's ordinary shareholders	Y1=P1/E2	4.18%	-11.39%
Weighted average return on equity after deducting non-recurring profit and loss attributable to company's ordinary shareholders	Y2=P2/E2	0.26%	-14.87%

Notes to the Financial Statements (Continued)

For the year ended 31 December 2012 (Prepared in accordance with P.R.C. Accounting Rules and Regulations)

XII. Supplementary information (Continued)

3. Return on net assets and earnings per share (Continued)

(2) Earnings per share

Profit for the period	Basic earnings per share		Diluted earnings per share	
	Year 2012	Year 2011	Year 2012	Year 2011
Net profit attributable to ordinary shareholders	0.01	-0.04	0.01	-0.04
Net profit attributable to ordinary shareholders after deduction of non-recurring profit or loss	0.001	-0.05	0.001	-0.05

4. Explanation to extraordinary matters and reasons

Items	Variation between beginning and end of period	Variation percentage between beginning and end of period	Notes
Cash and deposits	24,610,591.21	43.42%	More cash collected from receivables
Notes Receivable	2,594,000.00	2594.00%	Bank acceptance settlement used by the company's customers increased
Prepayments	-8,182,549.62	-53.50%	Advance payment of good purchase decreased
Dividends receivable	-7,027,538.11	-100.00%	Subsidiary company Northeast Electric (Hong Kong) co., Ltd. used dividend receivable from Weida High Voltage Electric co., Ltd to offset liabilities under agreement
Other receivables	-35,971,611.27	-60.56%	Collection of RMB 35 million owed by New northeast electric group development co., Ltd
Advance receipt	-22,544,242.21	-61.03%	Advance receipt decreased in the end of year
Tax payable	8,457,549.28	-973.38%	Increment of value-added tax payable but not yet paid by the end of year
Selling expenses	-13,340,537.63	-42.96%	Sales declined and strict control over expenses
Financial expenses	-395,068.38	-125.82%	Less interest expense than last year
Assets Impairment loss	-18,992,582.16	-83.50%	A relative large amount of provision for long term equity investment impairment loss than last year
Return on investments	1,589,504.35	-99.61%	Associates account for under equity method are less than last year
Non-operating expense	659,119.05	577.31%	More penalties paid than last year
Income tax expenses	-2,737,283.68	-59.55%	More deferred tax asset reversed last year

XIII. The approval of financial statements

The financial statements and notes to financial statements have been approved by the first meeting of the seventh board of directors on March 11, 2013.

Northeast Electric Development Co., Ltd.

March 11, 2013



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

- (I) Accounting Statements bearing signatures and seals of the Chairman, Chief Accountant and Head of Financial Department of the Company;
- (II) Originals of auditor's reports bearing seals of the Accountants and signatures and seals of the Certified Public Accountants;
- (III) Originals of all the Company's documents and originals of announcements, which have been disclosed on the newspapers designated by China Securities Regulatory Commission(CSRC) during the reporting period;
- (IV) Original of the annual report of the Company.



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