ANNUAL REPORT 2013 年報

NEE

输送光明和动力的桥梁

東北電氣發展股份有限公司

NORTHEAST ELECTRIC DEVELOPMENT CO., LTD.

CONTENTS

(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, Wang Shouguan and Head of Financial Section, Bai Lihai represent: guaranteeing the truthfulness and integrity of the financial report of the Annual Report.**

(III) **This report is considered and approved by the sixth meeting of the seventh session of the board held on 3 March 2014.**

(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 GAAP 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 Qingmin
4.	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)
	Representative for securities affairs	:	Zhu Xinguang
	Joint Company Secretary and authorized representative for receipt of summons and notices	:	Chen Yiping
	Business address and address for receipt of summons and notice in Hong Kong	:	Room 801 & 803, 8th Floor, Beverly House, No 93-107 Lockhart Road, Wanchai, Hong Kong
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, Yingkou City, Liaoning Province, the PRC
	Postal Code	:	115009
	Tel	:	0417-6897566 0417-6897567
	Fax	:	417-6897565
	Website	:	www.nee.com.cn
	E-mail address	:	nee@nee.com.cn nemm585@sina.com
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	:	Northeast Electric
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 license : 210100402002708

Registered taxation number : 210804243437397

11 Auditing institutions

Domestic auditors : Ruihua CPAs (special general partner)

Office address : 4th Floor of Tower 2,No.16 Xisihuanzhong Road,Haidian District, Beijing

(I) Principal accounting data and financial indicators in the past five years prepared under the PRC GAAP

1. Principal accounting data and financial indicators

Unit: RMB

	2013	2012	Increase/decrease of the year over last year (%)	2011	2010	2009
Operating revenues (RMB)	195,974,125.82	217,220,841.81	-9.78	248,679,812.93	348,449,492.28	423,742,945.28
Net profit attributable to shareholders of listed company (RMB)	9,886,802.75	11,140,994.81	-11.26	-32,197,171.37	-8,559,879.24	7,670,166.7
Net profit attributable to shareholders of listed company after extraordinary items (RMB)	3,229,217.03	680,708.05	374.39	-42,042,803.20	-8,435,362.9	7,670,434.76
Net cash flow arising from operating activities (RMB)	31,448,167.32	-3,353,695.97	-1037.72	-33,808,267.97	27,303.4	22,238,854.7
Basic earnings per share (RMB/Share)	0.01	0.01	0	-0.04	-0.01	0.01
Diluted earnings per share (RMB/Share)	0.01	0.01	0	-0.04	-0.01	0.01
Earnings/net assets ratio (%)	3.53	4.1	decreased by 0.58 percentage points	-12.35	2.81	2.41
	As at the end of 2013	**As at the end of 2012**	**Increase/decrease at the end of 2013 over the end of 2012 (%)**	**As at the end of 2011**	**As at the end of 2010**	**As at the end of 2009**
Total assets (RMB)	462,731,004.91	498,205,496.54	-7.12	557,054,235.74	844,337,174.25	836,557,537.85
Net assets attributable to shareholders of listed company (Shareholders' fund attributable to shareholders of listed company) (RMB)	279,693,302.29	271,782,480.71	2.91	260,663,611.50	304,735,739.2	318,542,326.44

2. Extraordinary items and the related amount

Unit: RMB

Item	2013	2012	2011	Remarks
Profit and loss on disposal of non-current assets (including the part of provision for assets impairment being written off)	191,898.47	76,285.56	320,896.79	Revenues in disposal of fixed assets
Government subsidiaries accounted for as current profit and loss (excluding those closely related to the enterprise's business and enjoyed according to the State's standard quote or quantity)			268,446.97	
Profit and loss from debt restructuring	5,511,900.00	6,993,929.00		Profit on debt restructuring arising from repayment of Shun Loong Trading
Gains/losses from fair value changes of trading financial assets and trading financial liabilities, and investment income from disposal of trading financial assets, trading financial liabilities and available-for-sale financial assets, except effective hedging activities related to the Company's normal operations	237,991.33			Banking interest income
Reversal of account receivable provision by single devaluation test		5,250,022.47		
Other non-operating income and expense other than the above items	61,015.21	-736,876.50	9,385,614.73	
Other profit and loss items falling within the definition of extraordinary profit and loss	687,351.18			Disposal of subsidiary revenues
Effect of income tax	32,570.47	1,123,073.77	129,326.66	
Effect of minority interests (after tax)				
Total	6,657,585.72	10,460,286.76	9,845,631.83	--

3. Asset Impairment Provision

As at 31 December 2013

Unit: RMB

Item		Opening balance	Increase in current period	Decrease in current period: Transfer in due to recovery of assets value	Decrease in current period: Transfer out due to other reasons	Decrease in current period: Total	Closing balance
I.	Bad debt preparation in total	133,272,604.44	7,818,401.86	0.00	8,453,499.19	8,453,499.19	132,637,507.11
	Including: Accounts receivable	34,774,960.24	7,706,216.56		7,720,297.42	7,720,297.42	34,760,879.38
	Other receivables	98,497,644.20	112,185.30		733,201.77	733,201.77	97,876,627.73
	Prepayments	0.00				0.00	0.00
II.	Short-term investment devaluation preparation in total					0.00	
	Including: Investment in equity					0.00	
	Investment in bond					0.00	
III.	Inventory devaluation preparation in total	2,583,513.22	491,500.86	0.00	46,641.35	46,641.35	3,028,372.73
	Including: Merchandise inventory	2,512,027.94	491,500.86		38,873.21	38,873.21	2,964,655.59
	Product in production	0				0.00	0.00
	Raw material	71,485.28			7,768.14	7,768.14	63,717.14
IV.	Long-term investment devaluation preparation in total	21,091,870.15			634,565.90	0.00	20,457,304.25
	Including: Long-term investment in equity	21,091,870.15			634,565.90	634,565.90	20,457,304.25
	Long-term investment in bond					0.00	
V.	Fixed assets devaluation preparation in total	1,897,629.74		0.00	70,000.00	70,000.00	1,827,629.74
	Including: Houses, buildings	317,644.79				0.00	317,644.79
	Transportation and others	70,000.00			70,000.00	70,000.00	0.00
	Machinery and equipment	1,509,984.95				0.00	1,509,984.95
VI.	Intangible assets devaluation preparation in total					0.00	
	Including: Patent right					0.00	
	Trade mark right					0.00	
VII.	Total devaluation preparation for construction in progress					0.00	
VIII.	Entrusted loan devaluation preparation in total					0.00	
IX.	Total	158,845,617.55	8,309,902.72	0.00	8,570,140.54	8,570,140.54	157,950,813.83

(II) There is no difference in net profit prepared under PRC GAAP and HKFRS.

(I) MANAGEMENT DISCUSSION AND ANALYSIS

In 2013, the macro-economy witnessed a weak recovery. Though the total amount of investment in electricity recorded a modest growth, the demand for electrical equipments was volatile. In face of increasingly vehement production and operation risks and challenges, the board of directors and management proactively addressed challenges, put efforts in production and management, cut costs and expenses, took initiatives in technological renovation projects, and improved government level. Accordingly, the Company has maintained a healthy and sustainable growth momentum. During the reporting period, the Company achieved operating income of RMB 195.97 million, representing a decrease of 9.78%; RMB 9.89 million of net profits attributable to shareholders of the parent company decreased from the same period of last year by RMB 1.25 million, and net profits after extraordinary items attributable to shareholders increased by RMB 2.80 million.

During the reporting period, the Company's main operation conditions are summarized as follows:

(1) Operating income decreased by 9.78% from the same period of last year. The main reason is as follows: the new orders of the slowdown of certain power source construction and electric investment decreased, power capacitors, and delayed delivery of certain contracts due to customers' reasons.

(2) The Company proactively optimized the product mix, improved contract quality, and strengthened control on operating costs and expenses, and thus its gross margin of products rose stably, representing a decrease of 1.3 percentages. It contributed to the year-on-year increase of the Company's operating results again the decrease of operating incomes as compared to the same period of last year.

(3) To continuously development and expand markets, the Company renovated the power capacitors product lines, production equipment and inspection equipment under an overall planning. Following the technological renovation, the Company's entire competitive strength would be improved in terms of power capacitor products, and achieve advanced, supporting and automatic production equipment as well as upgrade of product testing means so as to fully elevate the product competitiveness and foster the Company's continued and stable growth.

(4) The Company put efforts in management and monitoring of accounts payable in the execution of sales contracts, and strengthened the collection ratio of sales, and reinforced the collection and liquidation work of accounts receivable of relatively long ageing, reduced bad debt risks and improved the corporate cash flow.

(5) The Company perfected other receivables management work and thus improved the fund usage efficiency by enhancing finance management.

(6) The Company spurred employees' enthusiasm over competition, continuously tapped its own potentials and effectively mobilized employees' initiatives and creativeness by strengthening human resource management, enhancing performance assessment management and building the incentive and restrictive mechanism.

(7) The Company continued to deepen the system development, tracked relevant law, regulations, rules, policies and industry regulatory standards, and fully combined or revised relevant systems, and perfected corporate system frameworks so as to improve the Company's internal control regulation and governance level, effectively prevent operation risks to keep the all of the Company's decisions and acts on track and guarantee its normal operation and healthy development based on the Company's actual situations.

(8) Proactively promoting debt restructuring and protecting investors' legitimate rights and interests. During the reporting period, the Company entered into the debt restructuring agreement with Liaoning Shun Long Commercial & Trade Co., Ltd. upon approval of the board of directors based on its own request for operation and development strategies. Thus, it exempted the Company's joint liability for guarantee for the litigation of Jindu Hotel for loans and interest of RMB24,000,000.00 from ICBC Shenyang Sub-branch, and swept away the debt's potentially negative impact on the Company, and gained income from debt restructuring to ensure the Company's normal operation order and maintain its and all investors' legitimate rights and interests.

(9) The Company put much stress on investor relations work. Aside from reply to investors' questions via telephone and Shenzhen Stock Exchange's interactive platform (深交所互动易平台), the Company also held special events on the investor reception day, and communicated with investors face to face, and augmented the depth and breadth between investors and the Company.

(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

The Company recorded operating revenue of RMB195,974,125.82, total profit of RMB12,743,200.33 and the net profit of RMB9,660,829.86.

2 Operation and results of major controlling company and investee company

Name	Industry	Major products or services	Registered capital	Percentage of share (%)	Total assets (RMB)	Net assets (RMB)	Operating revenues (RMB)	Operating profit (RMB)	Net profit (RMB)
Northeast Electric (Hong Kong) Limited	Trading	Trading	US$20,000,000	100	189,964,796.85	95,059,711.82	0.00	-858,497.93	-859,938.42
Great Talent Technology Limited	Investments	Investments	US$1	100	82,550,999.50	-66,287.77	0.00	-6,461.97	-6,461.97
Northeast Electric (Beijing) Limited	Sales	High-voltage switches	RMB2,000,000	100	50,779,540.05	-6,378,377.50	25,315,555.65	2,299,258.85	2,289,178.71
Shenyang Kaiyi Electric Co., Ltd.	Manufacture and sales	Electronic equipment	RMB1,000,000	100	158,737,877.32	-5,414,761.18	0.00	-1,559,045.25	-1,510,013.41
Fuxin Enclosed Busbars Co., Ltd.	Manufacture	Enclosed busbars	US$8,500,000	100	108,970,544.07	63,977,544.07	62,438,159.96	86,699.36	162,572.43
New Northeast Electric (Jinzhou) Power Capacitors Co., Ltd.	Manufacture	Power capacitor	US$15,450,000	100	217,844,461.52	152,086,069.63	108,386,479.41	8,647,721.55	4,288,935.11
Jinzhou Jinrong Electric Co., Ltd.	Manufacture	Dry-type capacitor	RMB3,000,000	69.75	2,141,816.38	1,785,303.72	0.00	-747,017.81	-747,017.81
Great Power Technology Limited	Investment and trading	Investment and trading	US$12,626	20.8	187,267,866.04	187,171,057.30	0.00	-40,015.22	-40,015.22
Shenyang Zhaoli High-voltage Electric Equipment Co., Ltd.	Manufacture	Manufacture of switches controlling equipment	US$168,000,000	6.89.	3,737,344,561.68	877,052,956.32	1,761,613,938.14	-26,855,335.01	-27,667,579.12

3. Acquiring and disposing subsidiaries during the reporting period

√ Applicable □ Not applicable

Name	Objective of acquiring and disposing subsidiaries during the reporting period	Method of acquiring and disposing subsidiaries during the reporting period	Effects on overall production and results
Shenyang Gaodongjia Desiccation Equipment Co., Ltd.	Disposing the subsidiaries without production	Corporation liquidation	Investment revenues arising from the consolidated statements are RMB687,351.18

(III) Analysis of principal businesses

1. Summary

	2013	2012	Changes	Reason for changes
Operating incomes	195,974,125.82	217,220,841.81	-9.78%	Performed less sales contracts
Operating costs	138,487,244.09	156,257,604.05	-11.37%	Decrease in incomes and control management
Operating expenses	15,781,817.05	17,710,724.42	-10.89%	Management control enhancement and decrease in incomes
Administrative expenses	29,255,459.55	31,231,758.49	-6.33%	Management control enhancement and decrease in incomes
Finance costs	2,799.96	-81,075.26	-103.45%	Decrease in interest incomes

Company's review of the development strategy disclosed before and the progress of the operating plan during the reporting period

Company's undisclosed development strategy and operating plan in prior periods.

Reasons for the difference of less or more than 20% between the actual operating results and the current year's profit forecast disclosed publicly

□ Applicable √ Not applicable

2. Incomes

During the reporting period, the Company achieved operating income of RMB 19,597,000, representing a decrease of 9.78% as compared to the same period of last year. The main reason is as follows: the new orders of the slowdown of certain power source construction and electric investment project, and factors such as the delayed delivery of certain contracts due to customers' reasons.

Is the revenues from the physical goods of the Company more than the revenue from the provision of labor services?

√ Yes □ No

By industry	Item	2013	2012	Year-on-year increase/decrease (%)
	Sales volume	108,143,445.45	113,964,496.29	-5.11
	Production volume	66,067,880.75	73,861,490.46	-10.55
Power capacitor	Stock volume	9,521,488.78	10,583,355.5	-10.03
	Sales volume	62,427,820.64	56,034,663.79	11.41
	Production volume	49,098,602.85	36,615,234.35	34.09
Enclosed busbars	Stock volume	2,985,696.07	1,916,206.85	55.81
	Sales volume	25,315,555.65	47,073,675.35	-46.22
	Production volume	23,414,068.39	31,031,604.95	-24.55
High-voltage switches	Stock volume	0	140,170.94	-100.00

Major customers

Total sales of the top five customers (RMB)	118,850,386.92
Proportion of total sales of the top five customers over total sales for the year (%)	60.65

The top five customers

√ Applicable □ Not applicable

No.	Name	Sales (RMB)	Percentage over the annual total amount of sales (%)
1	Yinkou Hong Yue Machinary Processing Co. Ltd.	45,142,932.74	23.04
2	Yinkou An Tai Equipment and parts Co. Ltd.	30,038,050.95	15.33
3	Beijing electric power Co.	23,265,983.00	11.87
4	Busbars Liuheng	12,649,572.65	6.45
5	Yingkou Chongzheng Electric Equipment Co., Ltd.	7,753,847.58	3.96
Total	——	118,850,386.92	60.65

3. Costs

By industry

Unit: RMB

By industry	2013 Amount	2013 As a percentage of operating costs (%)	2012 Amount	2012 As a percentage of operating costs (%)	Year-on-year increase/ decrease (%)
Manufacture of transformation equipments	138,420,271.28	100	156,177,240.41	100	-11.37

By product

Unit: RMB

By product	2013 Amount	2013 As a percentage of operating costs (%)	2012 Amount	2012 As a percentage of operating costs (%)	Year-on-year increase/ decrease (%)
Enclosed busbars	47,982,020.65	34.66	37,990,027.35	24.33	-6.26
Power capacitor	67,024,182.24	48.42	77,793,794.25	49.81	-35.69
High-voltage switches	23,414,068.39	16.92	40,393,418.81	25.86	38.31

Note

By product	2013 Direct material	2013 Direct labor	2013 Manufacture expenses	2012 Direct material	2012 Direct labor	2012 Manufacture expenses
Enclosed busbars	83.85%	5.14%	4.88%	89.79%	4.82%	5.39%
Power capacitor	76.97%	3.42%	19.61%	77.31%	3.72%	18.97%

Major suppliers

Total purchases attributable to the top five suppliers (RMB)	58,187,758.21
Proportion of total purchases attributable to the top five suppliers over total purchases for the year (%)	53.19

The top five suppliers

√ Applicable □ Not applicable

No.	Name	Purchase (RMB)	Percentage over the annual total purchase (%)
1	New Northeast Group Electric High-Voltage Equipment Co., Ltd. (Shengyang)	21,431,111.12	19.59
2	Dandong Changxing Electric Appliance Co., Ltd.	12,295,470.09	11.24
3	Shenyang Jinhua Commerce Co., Ltd.	9,607,968.40	8.78
4	Shenyang Haqingdong Aluminum Co., Ltd.	9,224,787.20	8.43
5	Shenyang Taihua Copper Co., Ltd.	5,628,421.40	5.15
Total	——	58,187,758.21	53.19

Note: None of directors, associates or any shareholders holding 5% (or above) of the Company hold any interest in suppliers or customers as disclosed above.

4. **Expenses**

	2013	2012	Changes	Reasons for changes
Operating expenses	15,781,817.05	17,710,724.42	-10.89%	Strict control on costs
Administrative expenses	29,255,459.55	31,231,758.49	-6.33%	Strict control on costs
Financial expenses	2,799.96	-81,075.26	-103.45%	Decrease in interest incomes
Income tax expenses	3,082,370.47	1,859,663.92	65.75%	

5. Cash flows

Unit: RMB

Item	2013	2012	Year-on-year increase/decrease (%)
Subtotal of cash inflows from operating activities	245,028,153.18	259,491,044.97	-5.57
Subtotal of cash outflows from operating activities	213,579,985.86	262,844,740.94	-18.74
Net cash flows from operating activities	31,448,167.32	-3,353,695.97	
Subtotal of cash inflows from investment activities	25,658,924.66	35,001,980.00	-26.69
Subtotal of cash outflows from investment activities	23,168,124.28	3,738,698.30	519.68
Net cash flows from investment activities	2,490,800.38	31,263,281.70	-92.03
Subtotal of cash inflows from financing activities	8,000,000.00	8,000,000.00	0
Subtotal of cash outflows from financing activities	8,609,006.67	8,581,983.54	0.31
Net cash flows from financing activities	-609,006.67	-581,983.54	4.64
Net increase in cash and cash equivalents	33,313,242.11	27,327,891.21	21.9

Reasons for a year-on-year change of more than 30% for the relevant amounts:

√ Applicable □ Not applicable

Item	2013	2012	Year-on-year increase/decrease (%)
Subtotal of cash outflows from investment activities	23,168,124.28	3,738,698.30	Mainly due to increase in taxes paid and cash related to other operating activities
Net cash flows from investment activities	2,490,800.38	31,263,281.70	Mainly due to decrease in differences between the received cash and paid one which is related to operating activities

Explanation on reasons for material differences between the Company's cash flow from operating activities and net profits for the year

√ Applicable □ Not applicable

Mainly due to funds appropriated for operating receivables and payables.

(IV) Analysis of Assets and Liability

1. Significant changes in assets

Unit: RMB

	End of 2013		End of 2012			
	Amount	As a percentage of total assets (%)	Amount	As a percentage of total assets (%)	Increase/ decrease (%)	Explanation for significant change
Monetary assets	107,965,560.91	23.33	81,295,428.80	16.32	7.01	Increase in recovery of monetary fund
Account receivables	121,290,113.35	26.21	152,791,168.72	30.67	-4.46	Increase in recovery of accounts receivable
Inventories	32,079,932.08	6.93	40,832,173.31	8.2	-1.27	Decrease in inventories
Long-term equity investments	104,228,374.95	22.52	107,224,888.88	21.52	1	Decrease in total assets
Fixed assets	67,580,392.95	14.6	62,775,673.37	12.6	2	Reconstruction of fixed assets of subsidiaries
Construction in progress			228,933.81	0.05	-0.05	Transferred to fixed assets

2. Significant change in liabilities

Unit: RMB

	2013		2012			
	Amount	As a percentage of total assets (%)	Amount	As a percentage of total assets (%)	Increase/ decrease (%)	Explanation for significant change
Advance from customers	9,283,263.47	2.00	14,395,206.29	2.89	-0.89	Due to booked revenue
Taxes payable	5,062,951.40	1.09	7,588,667.87	1.52	-0.43	Due to decrease in VAT payable
Estimated liabilities	60,721,078.25	13.11	84,721,078.25	17.01	-3.89	Due to debt restructuring
Minority interests	540,054.37	0.12	1,237,469.00	0.25	-0.13	Mainly due to liquidation of equities in subsidiaries.

(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 decreased during this period, thus increasing profits of the Company;

(2) Income from debt restructuring in this period. (See details in the announcements on 4 November 2013).

(VI) 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.

See Item V(2) for investment and acquisition situations

(VII) PROSPECT OF THE COMPANY'S FUTURE DEVELOPMENT

1. Industry competitive landscape and development trend

The outbreak of the severe haze in recent years drew more and more social concern to environmental protection. "Power alternative" is the general trend for alleviating the issue of the atmosphere environment and haze. The core resolution is to change energy and power development direction and it is crucial to speed up the construction of the ultra-high voltage grid. The acceleration of new energy construction and the intelligent grid brings about favorable opportunities for the Company's industry development. Total grid investments are expected to maintain the stable and low speed in 2014, especially the projection of the accelerated implementation of ultra-high voltage grid project construction. The troughs of power source construction is expected to continue in 2014, and of them, the proportion of thermal power will be gradually lowered in the energy structure as estimated and the focus on investment will be transferred to solar energy, nuclear energy, and nuclear energy construction will be promoted in coastal regions.

Despite the huge market demands on electric equipment, it is noted that the situations of overcapacity of the industry and the fierce market competition will be unchanged, and the industry profit margin is on the downside, bringing pressures to the Company's operation.

2. Development strategies of the Company

The Company will proactively integrate all effective resources and enhance inputs to promote the growth of principal operations so as to radically improve the Company's asset quality and profitability, and, elevate its sustainable development capability, comprehensive competitiveness and anti-risk capability.

3. Business plan for the following year

In 2014, the Company will continue to fully carry out the annual operation strategy featuring stable operation, focusing on the following work:

(1) strengthening the market expansion. The Company is to improve its judgment and utilization ability of market situations, consolidate existing customers, develop new customers, expand product sales, raise its bargaining ability of product sales and ability of addressing price changes, and augment the product profitability.

(2) Continuing to tap potentials, streamlining management and further reducing all costs and expenses.

(3) The Company will maximize the effect of technical renovation by strengthening coordination and onsite management, perfect production progress feedback links, focusing on the quality control procedures in the production progress, and endeavoring to tap production potentials.

(4) The Company will continue to put efforts in human resource development, perfect talent selection mechanism, and strengthen the professionalized team cultivation and growth ladder establishment, and further perfect the incentive and assessment mechanism to foster the corporate sustainable development.

(5) According to the frequent release of regulation standard, the Company will continue to fully streamline the system, complete the corporate system framework, and constantly promote the continued deepening of internal control and management work so as to guarantee the Company's stable operation.

(6) The Company will continue to promote debt restructuring work, liquidate and settle historical outstanding debts to tap the idle assets and recover or reduce economic losses maximally.

(7) The Company will seek and explore to adjust its asset structure and product mix, improve profitability, expand new financing channels, and develop new economic growth drivers so as to meet the Company's requirements for sustainable operation and development.

(VIII) Company's fund demands for future development and usage plan

To guarantee the Company's continued, healthy and steady growth, its fund resource for executing the operation plan of the following year is mainly bank loans, refinancing and its own fund. In 2014, the Company's fund demands mainly involve two aspects: one is fund demands for normal production and operation, and the other is that for technical investment of projects. To achieve the operation and development goals for 2014, the Company will formulate a reasonable fund demand plan based on business growth requirements and production and operation plans. It will strictly control all costs and expenditures, and reasonably arrange the fund usage plan to support the Company's healthy and fast growth by fund procurement under entire planning. On the other hand, it will proactively exploit new financing channels and take various financing methods including bank loans and refinancing to meet fund demands in light of the capital market.

(IX) Main risks and countermeasures

1. Macro-economic risks and industry risks

The development of the Company's industry is closely tied to the national macro policies. Various factors such as national macro policies, aggravated macro-economic risks, energy development strategy, industry structure, market structure adjustment, industry resource integration and changes in market supply and demands may impact the Company's profitability.

Countermeasures: the Company will strengthen the judgment to macro economy, timely grasp national, industry and regional related policies, and proactively implement them against the Company's development to guarantee the science and effectiveness of its strategic development, and production as well as operation.

2. Market competition risks

The Company's industry is an industry of adequate market competitions. With the enhanced production and manufacture layout and marketing development strengths of many multinationals in the foreign power transmission and transformation equipment industry, the future market competition of certain products would be fierce, bidding prices would be reduced and the profit margin will be squeezed.

Countermeasures: the Company will reinforce market development, and proactively develop new customers while provide professional technology support to key customers. Also, it will integrate favorable resources, innovate the marketing mechanism, take key customers for profit breakthrough, and enhance cost control and management to stabilize the market position and improve its anti-risk capabilities.

(X) Analysis of the Company's financial status under Appendix 16 of Rules Governing the Listing of Securities on Hong Kong Exchange

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 RMB107,965,560.91.

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 2013, the Company had bank loans amounting to RMB8,000,000, representing 1.73% of the total assets. These bank loans bear floating interest rate.

The debt equity ratio of the Company was 0.92% (debt equity ratio= total bank loan/total share capital reserve * 100%).

At the end of the year 2013, the Company had fixed asset and land with net book value of RMB9,000,000 as security.

Please refer to Notes to the Consolidated Financial Statements for contingencies.

To improve its financial management, the Company and its subsidiaries (collectively as "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 forward settlement agreement with financial institutions so as to focus the exchange rate and avoid the risk.

(XI) 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.

(XII) 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 VIII(v) of this Annual Report.

(XIII) Financial summaries

The financial summaries are detailed in section III(i) of this Annual Report.

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

(XIV) Reserve

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

(XV) Bank loans and other loans

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

(XVI) Fixed assets

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

(XVII) Retirement welfare

During the year, the Company adopted PRC GAAP 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.

(XVIII) Share capital

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

(XIX) Pre-emptive right

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

(XX) Impact of medical insurance scheme reform on the results of the Company

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

(XXI) Income tax: during the reporting period, the applicable income tax rate 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.

(XXII) 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.

(XXIII) Resolution on the current year's profit distribution or the conversion of reserve into share capital

The Board of the Company proposed to distribute profit ended on 31 December 2013 as follows:

During the reporting period, the Company recorded net profit distributable to shareholders of the listed company of RMB9,886,802.75; and the accrued profit distributable to shareholders at the end of the year was RMB-1,548,693,348.93. 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 did not declare any cash dividends in the past three years.

Unit: RMB

Year	Amount (tax included)	Net profit attributable to shareholders of listed company in consolidated financial statements	Ratio of the cash dividends to the net profit attributable to shareholders of listed company in consolidated financial statements (%)
2013	0.00	9,886,802.75	0
2012	0.00	11,140,994.81	0
2011	0.00	-32,197,171.37	0

(XXIV) 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.

(XXV) Independent directors' special representation and independent opinion

As current independent directors of the Seventh Session of the Board of Northeast Electric Development Co., Ltd (the "Company"), Wang Yunxiao, Liang Jie and Liu Hongguang have, in accordance with the relevant requirements set out in "Guidance Opinions on the Establishment of Independent Director System by Listed Companies", "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" (Zhen Jian Fa [2003]No. 56), "Notice on Regulation of External Guarantee Acts of Listed Companies" (Zhen Jian Fa [2005] No. 120) and based on the relevant information available by the Board to the Company, issued the following specific explanations and independent views after reviewing the information provided in a pragmatic manner on the basis that the information available are true, accurate and complete:

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

   During the reporting period, the board of the Company revised, considered and adopted a series of management systems 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, debt restructuring 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 report 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 external guarantees**

   As at the end of the reporting period, the actual bank loan of external guarantee provided by the Company totaled RMB53,050,000, and so the real amount that the Company should assume responsibility for guarantee was RMB53,050,000, accounting for 19.52% of the audited net assets of the Company for 2013. During the reporting period, the Company cautiously treated and handled the external guarantee matters and made complete information disclosure in accordance with relevant provisions of supervision departments, thus making full disclosure and effective control of external guarantee risks. It hasn't made any guarantee for its shareholders, effective controller as well as the connected parties. 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. Independent opinion on connected transactions

The independent directors believe that there are no insider dealings between the Company and its associates or connected transactions that damage the interests of some of the shareholders or the Company existed. The Company has been operating legally and properly, and its financial conditions, transactions of asset acquisition and disposal and connected transactions are without problem.

4. Independent opinion on Asset acquisition and disposal

The independent directors believe that there are no asset acquisition and disposal during the reporting period. During the reporting period, the debt restructuring transaction between the Company and Liaoning Shun Long Commercial & Trade Co., Ltd does not constitute connect transaction. Such debt restructuring agreement is prepared properly on the basis of normal commercial terms and it is fair and reasonable to all of the shareholders with no prejudice to the interest of the minority shareholders, which will bring positive effects to the Company.

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

During the reporting period, there is no appropriation of funds by the controlling shareholders or their subsidiaries for non-operating purposes. At end of the reporting period, the connected party occupied the capital of the Company mainly for daily operations, and relevant affairs have fulfilled necessary decision-making process and obligation of information disclosure.

Independent directors will continuously keep en eye on capital flow between the Company, its controlling shareholders and other connected parties as well as the external guarantees provided by the Company, and urge the Company to prevent and control risks to earnestly protect all shareholders' interest.

6. Independent opinion on nominating candidate for executive directors

The Company has carefully reviewed the Proposal on Nominating Jiao Liyuan as Candidate for Executive Directors proposed on the 6th meeting of the Seventh Session of the Board of Directors and concluded as follows:

(1) The nomination process of candidate for directors is in compliance with Company Law and Articles of Association;

(2) After reviewing the candidate' biography, the candidate does not fall within the ambit of articles 57 or 58 of the Company Law and isn't identified by the China Securities Regulatory Commission as being prohibited from access to the securities market.

(3) The candidate for directors has the corresponding qualifications and meets the requirements of relevant responsibilities;

(4) Proposal on Nominating Jiao Liyuan as Candidate for Executive Directors is subject to consideration and approval by the General Meeting.

In conclusion, the independent directors agree to nominate Jiao Liyuan as the candidate executive directors of the Seventh Session of the Board of Directors and will submit to the General Meeting for consideration.

7. Independent opinions on the Renewal of Auditors

Ruihua CPAs (special general partner) was appointed as the annual financial report auditor for 2013. According to its performance in auditing the 2013 Annual Report, we believe Ruihua CPAs (special general partner) has strong capacity to fulfill its duties and promptly communicate the issues in auditing. We agreed to renew the contract with Ruihua CPAs (special general partner) as the annual financial report auditor for 2014 and submitted to the General Meeting for consideration.

8. Independent opinion on the Proposal of Profit Distribution

During the reporting period, the Company recorded net profit distributable to shareholders of the listed company of RMB9,886,802.75, and the accrued profit distributable to shareholders at the end of the year was RMB-1,548,693,348.93. 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 Board that there would be no profit distribution in 2013 is reasonable, and no declaration 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 General Meeting for consideration.

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

By order of the Board
Su Weiguo
Chairman
3 March 2014

(I) Material litigation and arbitration

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

On 13 January 2014, the Company received from its lawyer the civil judgment (2013) Min Er Zhong Zi No.66 by Supreme Court: to reject the appeal and upheld, it is final judgment.

On the basis of the final judgment, the Company shall not bear joint liability for the compensation, and the litigation will not have an impact on the Company's financial situation and its current profits.

Please refer to the temporary announcements dated 29 January 2013 and 14 January 2014.

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

(II) During the reporting period, there is no acquisition or disposal of assets in the Company.

(III) During the reporting period, the Company has no investment in securities

(IV) During the reporting period, no shares of other listed companies or pre-public companies or equities of commercial banks, securities companies, insurance companies, trust companies and futures companies was held by the Company.

(V) Connected transactions

During the reporting period, there were no connected transactions nor claims and debts between the Company and the connected parties.

(VI) Use of capital for connected parties

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

(VII) Significant contracts and their execution

1. During the reporting period, the Company did not enter into any material 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. There was no entrusted loan. The entrusted asset management is as follows:

Unit: RMB 0,000

Name of the principal	Association relationship	Whether it is a connected transaction	Product type	Value of entrusted assets	Commencement date	Termination date	Method of remuneration	Actual principal amount recovered	Amount provided for impairment (if any)	Anticipated revenue	Actual income or loss
Yingkou branch of Pudong Development Bank	no	no	Guaranteed revenue	200	28 August, 2013	27 Feburary, 2014		0	0	4.8	3.3
Total				**200**				**0**	**0**	**4.8**	**3.3**
Source of entrusted asset management											Owned fund
Cumulative amount of principal and revenue overdue:											204.8

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 RMB53,050,000, so the real amount that the Company should assume responsibility for guarantee was RMB53,050,000. The total guarantee amount represented 19.52% of the audited net assets of the Company for 2013.

(1) External guarantees of the Company

In 2013 the actual occupation of external guarantee amount was RMB53,050,000, including RMB52,900,000 for Jinzhou Power Capacitors Co., Ltd and RMB150,000 for Shenyang Kingdom Hotel Co., Ltd.

(2) There was no guarantee 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 19.47% of the audited net assets of the Company (not including minority shareholders' interest) for 2012, which was fully translated into liabilities in 2007.

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

(XIII) 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 actual controller 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

To improve the efficiency of information disclosure and reduce information disclosure costs and audit costs, as reviewed by the 1st extraordinary general meeting of the year dated 11 March 2013, the Company removed Pengcheng CPAs and THKC respectively as the domestic auditors and overseas auditors of the Company and appointed Crowe Horwath China CPAs (special general partner) as the auditors of the Company with compensation of RMB800,000.

Crowe Horwath China CPAs (special general partner) was officially changed into "Ruihua CPAs (special general partner)" from 1 July, 2013.

(X) The Company has not issued any equity incentive plans

(XI) During the reporting period, the Company, the Board of Directors and the directors has 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 management were not subject to any compulsory procedures.

(XII) No other significant events as listed in section 67 of the Securities Law and section 30 of Details for Administration on Information Disclosure of Listed Companies was happened during the reporting period.

(XIII) During the reporting period, the Company and its subsidiaries have not been included in the list of polluting enterprises released by environment protection department. There is no material environmental protection issues or 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) Subsequent events

1. Re-election and resignation of directors, supervisors and senior management

(1) On 19 February, 2014, Mr. Liu Bing ("Mr. Liu Bing") resigned as an Executive Director with effect from 19 February 2014 due to the change of work (please refer to announcement dated 19 February, 2014 for details).

(2) On 18 February, 2014, Ms. Jiao Liyuan resigned as a supervisor in the Company due to change of work. As the resignation of Ms. Jiao Liyuan caused the number of supervisors less than the quorum, the Company will promptly elect new supervisor in compliance with the requirement of the Company Law and the Articles of Association. Before the newly elected supervisor takes office, Ms. Jiao Liyuan will continue to perform the duties of supervisor (please refer to announcement dated 19 February, 2014 for details).

(3) As approved by the 6th meeting of the Seventh Session of the Board of Directors held on 3 March 2014, Ms. Jiao Liyuan was nominated as the candidate for executive director of the 7th Session of the Board of Directors, and her term of office is the same as the Board until 10 March 2016. Such proposal will be submitted to the annual general meeting on 17 April, 2014 for consideration (please refer to announcement dated 3 March, 2014 for details).

(4) As approved by the 5th meeting of the Seventh Session of the Supervisory Committee held on 3 March 2014, Mr. Qiu Yongjian was nominated as the candidate for supervisor of the Session of the Supervisory Committee, and his term of office is the same as the Supervisory Committee until 10 March 2016. Such proposal will be submitted to the annual general meeting on 17 April, 2014 for consideration (please refer to announcement dated 3 March, 2014 for details).

(I) Table of changes in share capital

Unit: shar

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 78,898

Unit: share

Shareholdings of the top ten shareholders					
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	29.25%	255,439,998	0	0
New Northeast Electric Investments Co., Ltd.	Domestic non-state-owned legal person	24.06%	210,113,872	19,022	170,000,000
Li Yubin	Domestic natural person	0.46%	4,056,197	0	0
Shenzhen Zhongda Software Development Co., Ltd	Domestic non-state-owned legal person	0.41%	3,550,000	3,550,000	0
Xue Na	Domestic natural person	0.28%	2,468,782	0	0
Hu Li	Domestic natural person	0.25%	2,166,760	0	0
Qi Yue	Domestic natural person	0.2%	1,786,410	0	0
Wu Wei	Domestic natural person	0.19%	1,660,690	0	0
Xu Yipin	Domestic natural person	0.19%	1,647,295	0	0
Wang Dawei	Domestic natural person	0.19%	1,620,170	0	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) Based on the information that is publicly available to the Company as at the latest practicable date prior to the printing of this annual report and within the knowledge of the Directors, there was sufficient public float of the Company's shares.

3) On 14 October 2013, New Northeast Electric Investments Co., Ltd. carried out the registration of the pledge of stocks with Shenyang Branch of Shanghai Pudong Development Bank Co., Ltd., so 36,000,000, 50,770,000 and 59,230,000 A shares not subject to trading moratorium have been frozen since 14 October 2013. On 7 November 2013, New Northeast Electric Investments Co., Ltd. carried out the registration of the pledge of stocks with Shenyang Branch of Shanghai Pudong Development Bank Co., Ltd., so 24,000,000 A shares not subject to trading moratorium have been frozen since 7 November 2013. The total amount of loans is RMB30,000,000.

4) Save as disclosed above, Directors were not aware of any person (not being a Director or chief executive of the Company) having 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 shares

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 of pre-emptive rights in accordance with the laws of the PRC and the Articles of Association of the Company.

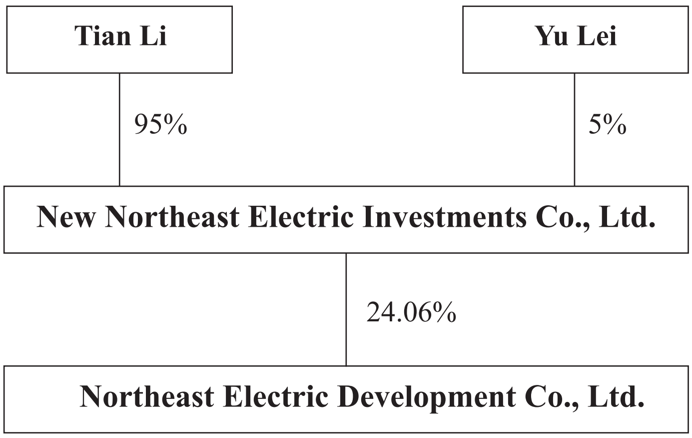
7) Convertibles, options, warrants or other similar rights

As of 31 December 2013, 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, metal 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	52	Chairman	2013/3/11-2016/3/10	0	0	29.2
Wang Shouguan	M	70	Vice Chairman	2013/3/11-2016/3/10	0	0	12.9
Liu Qingmin	M	51	Director	2013/3/11-2016/3/10	0	0	16.3
Liu Bing	M	46	Resigned Director	2013/3/11-2014/2/19	0	0	21.2
Wang Yunxiao	M	68	Independent Director	2013/3/11-2016/3/10	0	0	4.8
Liang Jie	F	53	Independent Director	2013/3/11-2016/3/10	0	0	4.8
Liu Hongguang	M	47	Independent Director	2013/3/11-2016/3/10	0	0	4.8
Dong Liansheng	M	67	Supervisory Committee	2013/3/11-2016/3/10	0	0	0.6
Liu Xuehou	M	58	Supervisor	2013/3/11-2016/3/10	0	0	16.3
Jiao Liyuan	F	51	Supervisor	2013/3/11-2016/3/10	0	0	17.9
Liu Tongyan	M	46	Resigned Director/Vice general	2013/3/11-2013/5/6	0	0	4.2
Wu Qicheng	M	69	Resigned Independent Director	2010/3/8-2013/3/10	0	0	0.6
Xiang Yongchun	M	71	Resigned Independent Director	2010/3/8-2013/3/10	0	0	0.6
Bai Lihai	M	37	Resigned Supervisor	2010/3/8-2013/3/10	0	0	1.8

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 RMB1,360,000.*

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 2013.*

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 2013, 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 2013, 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

During the reporting period, no directors or supervisors held position in the shareholder's company.

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 and general manager of the Company and vice chairman of the New Northeast Electric Investments Co., Ltd.

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 executive director of Fuxin Enclosed Busbars Company Limited from September, 2007 to August, 2009, executive director and general manager of that company from September, 2009 to July, 2010. Now he is the chairman and general manager of that company.

(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 the vice general manager of Shenyang Kingdom Hotel Company Limited and chairman of the Company's Supervisory Committee.

Ms. Jiao Liyuan, female, born in 1963, associate degree, graduated from Shenyang Radio & TV University in Industrial Enterprise Adminstrative Management. She served as the vice director of integrated management department and human resource department, Party branch secretary and chairman of trade union of the company from September, 2007 to February, 2009. From February, 2009 to June, 2012, she is director of integrated management department and human resource department, Party branch secretary and chairman of trade union of the company. From then until now, she is the Party branch secretary, director of integrated management department, director of human resource department and supervisor 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

(1) The seventh session of the Board of Directors of Northeast Electric Development Co., Ltd. was elected at the first EGM of 2013 on 11 March 2013, comprising of five executive Directors, namely Mr. Su Weiguo, Mr. Wang Shouguan, Mr. Liu Tongyan, Mr. Liu Bing and Mr. Liu Qingmin; and three independent non-executive Directors, namely Mr. Wang Yunxiao, Ms. Liang Jie and Mr. Liu Hongguang. Mr. Su Weiguo was appointed as the Chairman and Mr. Wang Shouguan was appointed as the General Manager (please refer to the announcement dated 11 March 2013 for details).

(2) The seventh session of the Supervisory Committee of Northeast Electric Development Co., Ltd. was elected at the first EGM of 2013 on 11 March 2013, comprising of two supervisors of shareholders elected at the EGM, namely Mr. Dong Liansheng and Ms. Jiao Liyuan, and one supervisor of employees elected at the previous representative assembly of workers, namely Mr. Liu Xuehou. Mr. Dong Liansheng was appointed as the chairman of the Supervisory Committee (please refer to the announcement dated 11 March 2013 for details).

(3) Appointment of Board of Directors

As approved by 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 was appointed as General Manager of the Company and Mr. Liu Tongyan was appointed as Assistant General Manager and Financial Controller; Mr. Su Weiguo, as Chairman, 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.

(4) On 10 March, 2013, Mr. Wu Qicheng and Mr.Xiang Yongchun resigned as independent non-executive directors and Mr. Bai Lihai resigned as supervisor due to the expiration of the term of office (please refer to announcement dated 10 March, 2013 for details).

(5) On 6 May 2013, Mr. Liu Tongyan resigned as an Executive Director and other positions in the Company upon the approval by the board of directors with effect from 6 May 2013 due to the change of work (please refer to announcement dated 6 May 2013 for details).

6. Interest of directors, supervisors and senior management

As at 31 December 2013, 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:	59	Bachelor degree or higher:	108
Technical staff:	72	College:	141
Financial staff:	14	Technical certificate:	29
Administrative staff:	85	Others:	284
Production staff:	228		
Others:	104		
Total:	562	Total:	562

As at the end of the reporting period, the number of employees on the payroll of the Company was 562. 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 6 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 miusing 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	Resigned Independent Director	1	0	1	0	0	No
Xiang Yongchun	Resigned Independent Director	1	0	1	0	0	No
Wang Yunxiao	Independent director	6	2	4	0	0	No
Liang Jie	Independent director	5	2	3	0	0	No
Liu Hongguang	Independent director	5	1	3	1	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) Lindependence 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 11 March 2013 and convened the 2012 annual general meeting of shareholders on 6 May 2013 (please refer to the Announcements dated 11 March 2013 and 6 May 2013 for details).

2. During the reporting period, the company held one extraordinary general meeting of shareholders:

The Company issued the notice on 14 January 2013 and convened the 1st EGM of 2012 on 11 March 2013 (For details, please refer to announcements dated 14 January 2013 and 11 March 2013).

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 2013, market value of Company H shares was HK$751,000,000. 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. Wang Yunxiao, Ms. Liang Jie and Mr. Liu Hongguang 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. Liability insurance and continuous professional development of directors

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 investigation and assessing feasible operation plans.

Additionally, according to the requirement of Rule A. 6.5 of Corporate Governance Code, all of the directors are actively engaging in continuous profession development to develop and refresh their knowledge and skills so as to ensure that their contribution to the Board remains informed and relevant. The Company is also committed to arranging and funding suitable training to all directors and emphasizes the role, function and responsibility of director in listed company.

4. Board of Directors

As of the announcement of this Annual Report, the 7th session of the Board of Directors comprises 6 directors, including 3 executive directors, namely Mr. Su Weiguo, Mr. Wang Shouguan and Mr. Liu Qingmin and 3 independent directors namely Mr. Wang Yunxiao, Ms. Liang Jie and Mr. Liu Hongguang. The term of the Board of Directors will expire on 10 March 2016.

The Company has set up Audit Committee, Strategic Development Committee, Remuneration Committee, Nomination Committee and 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. The functions of those committees includes but not limited to following aspects:

(a) develop and review an issuer's policies and practices on corporate governance and make recommendations to the Board;

(b) review and monitor the training and continuous professional development of directors and senior management;

(c) review and monitor an issuer's policies and practices on compliance with legal and regulatory requirements;

(d) develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and directors; and

(e) review an issuer's compliance with the code and disclosure in the Corporate Governance Report;

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 2013 totaled RMB1,357,651.09 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).

Please see note vii(20)(2) to financial statements for details of information on top 5 person of highest compensation.

5. Meeting of the Board of Directors

During the reporting period, a total of 6 regular board meetings were held, with full attendance by all directors or their proxies on their behalf:

(1) The 19th meeting of the Sixth Session of the Board of Directors was held on 14 January 2013 to consider and approve the Amendment of the Articles of Association, the Proposal on Change of Auditors, the Proposal on Nominating Mr. Su Weiguo as the Executive Director of the Seventh Session of the Board of Directors, the Proposal on Nominating Mr. Wang Shouguan as the Executive Director of the Seventh Session of the Board of Directors, the Proposal on Nominating Mr. Liu Tongyan as the Executive Director of the Seventh Session of the Board of Directors, the Proposal on Nominating Mr. Liu Qingmin as the Executive Director of the Seventh Session of the Board of Directors, the Proposal on Nominating Mr. Liu Bing as the Executive Director of the Seventh Session of the Board of Directors, the Proposal on Nominating Mr. Wang Yunxiao as the Independent Director of the Seventh Session of the Board of Directors, the Proposal on Nominating Mr. Liu Hongguang as the Independent Director of the Seventh Session of the Board of Directors, the Proposal on Nominating Ms. Liang Jie as the Independent Director of the Seventh Session of the Board of Directors, the Proposal on the Annual Remuneration of the Members of the Seventh Session of the Board of Directors, and the Proposal on the Annual Remuneration of the Members of the Seventh Session of the Supervisory Committee; the Proposal on Holding the First Extraordinary General Meeting of Shareholders of 2013.

(2) The 1st meeting of the Seventh Session of the Board of Directors was held on 11 March 2013 to consider and approve the Proposal on Election of Chairman and Vice Chairman, the Proposal on Establishment of Special Committees of the Board, the Proposal on Appointment of General Manager and Assistant to General Manager, the Proposal on the Exercising of the Functions of Secretary to the Board by the Chairman of the Board, the Proposal on Appointment of Securities Affairs Representative, 2012 Annual Report, the Proposal of 2012 Net Profit Distribution, the Proposal on Reappointment of Auditor for the Year 2013, the 2012 Work Report of the Board of Directors, the 2012 Work Report of the General Manager, the Self-assessment Report of the Company's Internal Control, the Proposal on Amendment of Some Administrative Systems, the Application for Revoking Special Treatment of the "Delisting Risk Warning" on A Shares of the Company; the above-said resolutions VI to IX, together with the 2012 Work Report of the Supervisory Committee, have been submitted to the 2012 Annual General Meeting of Shareholders held at No.2 Xingshun Street, Tiexi District, Shenyang, Liaoning, the PRC at 9:30 a.m. on 6 May 2013 for review.

(3) The 2nd meeting of the Seventh Session of the Board of Directors was held on 22 April 2013 to consider and approve the First Quarterly Report of 2013.

(4) The 3rd meeting of the Seventh Session of the Board of Directors was held on 12 August 2013 to consider and approve the Interim Report for the Period of Six Months Ended 30 June 2013, the Net Profit Distribution Plan for the Period of Six Months Ended 30 June 2013 and the Proposal on the Appointment of Director of Internal Auditing Department.

(5) The 4th meeting of the Seventh Session of the Board of Directors was held on 25 October 2012 to consider and approve the Third Quarterly Report of 2013.

(6) The 5th meeting of the Seventh Session of the Board of Directors was held on 4 November 2013 to consider and approve the Proposal on Debt Resturcture.

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, Ms. Liang Jie, and Mr. Liu Hongguang, and Wang Yunxiao as a professional accountant, was appointed as the presiding member.

The committee convenes two 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 2013, 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.

The audit committee, in accordance with the relevant provisions of listing rules and the Implementation Details of the Audit Committee made by the Company, has performed the following duties earnestly and diligently:

(1) Negotiating with the auditor of the Company on the plan, content and schedule of the audit of 2013 and establishing audit procedure of the 2013 Annual Report of the Company;

(2) Thoroughly reviewing the Company's primary financial statement and giving its own audit opinions before the auditor enters;

(3) Communicating and exchanging with certified public accountants in charge of the audit of the Company on the problems found in the course of the audit and the time to submit the audit report when the auditor enters;

(4) Reviewing the 2013 financial statements of the Company again and giving written audit opinions after the auditor gives its primary audit opinions.

The audit committee has, together with the management, reviewed the accounting principles, accounting standards and methods adopted by the Company and have studied matters relating to auditing, internal controls and financial reporting. The audit committee has given its consent to the financial accounting principles, standards and methods adopted by the Company for the audited annual accounts for the year ended 31 December 2013.

In addition, at the Board meeting held on 3 March 2014, the audit committee of the Seventh Session of the Board of Directors, being comprised by Mr. Wang Yunxiao, Ms. Liang Jie and Mr. Liu Hongguang reviewed and approved annual financial accounts and results announcement of 2013.

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 2013, the committee convened two committee meetings all of which were attended by all members. Chief member of the Committee is Mr. Wang Yunxiao, while other members include, Mr. Wang Shouguan and Ms. Liang Jie.

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 Yunxiao and Mr. Liu Hongguang. In 2013, the committee convened one committee meeting, which was attended by all members of the committee.

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. Liu Qingmin, and Mr. Liu Bing. In 2013, the committee convened one committee meeting, which was 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. Liu Hongguang and Mr. Liu Bing. In 2013, the committee convened one committee meeting, which was 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 RMB800,000.

12. Shareholder's rights

(a) Shareholders' rights to convene an extraordinary general meeting:

Pursuant to the Article 69 of the Articles of Association, shareholders holding more than 10% (including 10%) of the outstanding shares with voting right of the Company may demand in writing to convene an extraordinary general meeting.

(b) Shareholders may propose to the Board of Directors procedures for making enquiries and the Company provides adequate information to ensure such enquiries be properly resolved. The Company enhanced its investor relations management in accordance with Management System of Investor Relations, and designated the secretary of the Board being responsible for the management of investor relations to conduct day-to-day investor relations management work. During the reporting period, the Company strengthened communication with investors and promoted continuous and healthy development of the Company in way of interactive investors' platform, phone call and etc.

(c) Shareholders' right to put forward proposed procedures and adequate contact information at the shareholders' general meetings:

Pursuant to the Article 73 of the Articles of Association, at the shareholders' general meeting of the Company, shareholders holding more than 3% (including 3%) of the total voting shares of the Company are entitled to put forward new proposals in written form. The Company shall include those matters which are within the scope of duties of the shareholders' general meeting into the agenda.

The original copies of all company documents and announcements which have been disclosed are kept in the office of the secretary of the Board for inspection.

In conclusion, during the reporting period, the Company has strictly complied with the provisions in Corporate Governance Code and Section VIII "Shareholders' Rights and Obligations" of the Articles of Association.

(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 2013, 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 five meetings with full attendance, details of which are as follows:

1. The 17th meeting of the Sixth Session of the Supervisory Committee was held on 14 January 2013, to consider and approve:

   the Proposal on Nominating Mr. Dong Liansheng as Candidates for Supervisor of Shareholders of the Seventh Session of the Supervisory Committee, the Proposal on Nominating Ms. Jiao Liyuan as Candidates for the Supervisor of Shareholders of the Seventh Session of the Supervisory Committee and the Proposal on Nominating Mr. Liu Xuehou as Candidates for the Supervisor of Employees of the Seventh Session of the Supervisory Committee.

2. The 1st meeting of the Seventh Session of the Supervisory Committee was held on 11 March 2013 to consider and approve the Proposal on Electing the Chairman of Supervisory Committee, 2012 Work Report of the Supervisory Committee, 2012 Annual Report, the Proposal of 2012 Net Profit Distribution, and the Report on Self-assessment of Internal Control.

3. The 2nd meeting of the Seventh Session of the Supervisory Committee was held on 22 April 2013 to consider and approve the 2013 First Quarterly Report and Work Report of the Supervisory Committee.

4. The 3rd meeting of the Seventh Session of the Supervisory Committee was held on 12 August 2013 to consider and approve the 2013 Interim Report.

5. The 4th meeting of the Seventh Session of the Supervisory Committee was held on 23 October 2013 to consider and approve the 2013 Third Quarterly Report.

(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 2013 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 2013.

3. Asset acquisitions and disposals

During the reporting period, the company has no acquisition and disposal of assets.

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 2013 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

3 March 2014

(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 2013 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.

(II) The Board's representation about the responsibilities for internal control

According to the internal control system, it is the responsibility of the Board of the Company to set up and effectively implement internal control, assess its effectiveness and truthfully disclose assessment report of internal control. The Supervisory Committee is responsible for monitoring the establishment and implementation of the internal control system by the Board. The management bears the responsibility of organizing and leading the daily operation of corporate internal control. The Board of Directors, Supervisory Committee, directors, supervisors and senior management of the Company hereby warrant that there are no false representations, misleading statements or material omissions contained in this report, and severally and jointly accept full responsibility for the truthfulness, accuracy and completeness of its content.

The goals of corporate internal control is to ensure the legal and compliance operation, safeguarding the safety of assets, the truthfulness and completeness of the financial report and relevant information, and to perk up the operation efficiency and results of the Company and promote the materialization of the development strategies of the Company. Due to the inherent constraints of internal control, only reasonable guarantees could be offered in respect of the above targets. In addition, as the changes of situations might lead to inappropriate internal control or less compliance with control policies or procedures, there is risk to speculate the effectiveness of future internal control based on internal control assessment result.

The directors opine, operation of the internal control system of the Company has been effective from 1 January 2013 to the end of the reporting period. The Company will constantly comply with the requirements of the Basic Standard for Enterprise Internal Control, the Guidelines for Enterprise Internal Control, and the Guidelines for Enterprise Internal Control Assessment and other relevant laws and regulations and take the actual demand of corporate development into consideration, to strengthen the establishment and management of internal control, enhance the execution of internal control, pinpoint weak links in time, effectively improve the capacity of risk prevention of the Company and foster the steady and sound growth of the Company.

(III) Basis of establishing internal control of financial reports

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 developed a series of financial management system according to the related regulations.

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.

(IV) 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.

(V) 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.

(VI) 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.

(VII) 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 Archieves, 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 2013 (the "AGM") will be held in the Conference room of the Company of No.2 Xingshun Street, Tiexi District, Shenyang, Liaoning, the PRC, at 9:30 a.m., on 6 May 2013 for the following purposes:

Proposal I **2013 Annual Report**

Proposal II **Proposal of 2013 Net Profit Distribution**

During the reporting period, the Company recorded net profit distributable to shareholders of the listed company of RMB9,886,802.75; and the accrued profit distributable to shareholders at the end of the year was RMB-1,548,693,348.93. Therefore, the Board resolved not to make any profit distribution and not to transfer any capital reserve into share capital during the reporting period.

Proposal III **Reappointment of the Company's Auditor for the year 2014**

It was proposed to reappoint Ruihua CPAs (special general partner) as the auditors of the Company for the year 2014 for a term of one year, and authorized the Board to determine the remuneration.

Proposal IV **2013 Work Report of the Board of Directors**

Proposal V **2013 Work Report of the Supervisory Committee**

Proposal VI **Amendment of the Articles of Association**

Proposal VII **Proposal on Nominating Jiao Liyuan as Candidate for Executive Directors**

Proposal VIII **Proposal on Nominating Qiu Yongjian as Candidate for Supervisor of Shareholders**

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 11 April 2014 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 17 March 2014 to 17 April 2014 (both days inclusive), during which period no transfer of shares will be registered. The shareholders whose names appear on the register by the closes of business on 14 March 2014 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 31/F, 148 Electric Road, North Point, Hong Kong not later than 16:30 p.m. on 14 March 2014.*

3) *Shareholders who intend to attend the meeting shall lodge the reply slips for attending the meeting to the Company before 27 March 2014.*

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
3 March 2014

瑞华会计师事务所
Ruihua
Certified Public Accountants

Ruihua Certified Public Accountants
4th Floor of Tower 2,No.16 Xisihuanzhong Road,Haidian District, Beijing
Post Code: 100039
Tel: 0086-10-88219191
Fax:0086-10-88210558

Auditor's Report

Ruihua Shen Zi [2014] 48030001

All Shareholders of Northeast Electric Development Co., Ltd,

We have audited the accompanying financial statements of Northeast Electric Development Company Limited ("the Company"), which comprise the consolidated and company balance sheets as at 31 December 2013, the consolidated and company income statements, the consolidated and company cash flows statements and the consolidated and company statements of changes in equity for the year then ended, and notes to the financial statements.

I. Management's responsibility for the financial statements

The Company's management is responsible for the preparation and fair presentation the financial statements. This responsibility includes: (1) preparation and fair presentation of financial statements in accordance with Accounting Standards for Business Enterprises; (2) designing, implementing and maintaining internal control which is necessary to enable that the financial statements are free from material misstatement, whether due to fraud or error.

II. Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with China Standards on Auditing for Certified Public Accountants. Those standards require that we comply with ethical requirements of the Chinese Certified Public Accountants and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidences about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgments, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or errors. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of these financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

III. Opinion

In our opinion, the financial statements have been prepared in accordance with Accounting Standards for Business Enterprises and present fairly, in all material respects, the consolidated and company financial positions as at 31 December 2013 and the consolidated and company results of operations and cash flows for the year ended 31 December 2013.

Ruihua Certified Public Accountants	Certified Accountant of P.R.C.
	Ms. Chen Songpo
Beijing, P.R.C	Certified Accountant of P.R.C.
	Ms. Xin Zhihua
March. 3, 2014	

Date: Dec. 31, 2013

Prepared by: Northeast Electric Development Co., Ltd.

In RMB Yuan

Items	Notes VII	2013-12-31	2012-12-31
Current Assets:			
Cash and deposits	1	107,965,560.91	81,295,428.80
Settlement excess reserve		-	-
Inter-bank lending funds		-	-
Trading financial assets		-	-
Notes Receivable	2	40,000.00	2,694,000.00
Accounts receivables	3	121,290,113.35	152,791,168.72
Prepayments	4	1,448,055.55	7,112,829.64
Premiums Receivable		-	-
Reinsurance Accounts Receivable		-	-
Provision of cession receivable		-	-
Interest receivable	5	33,066.67	-
Dividends receivable		-	-
Other receivables	6	10,142,841.62	23,429,153.27
Redemptory monetary capital for sale		-	-
Inventories	7	32,079,932.08	40,832,173.31
Non-current asset due within 1 year	8	2,694,021.76	-
Other current assets		-	-
Total current assets		**275,693,591.94**	**308,154,753.74**
Non-current Assets:			
"Issue entrusted loans and disbursements"		-	-
Financial assets available for sale		-	-
Held-to-maturity investments		-	-
Long-term receivables		-	-
Long-term equity investments	9	104,228,374.95	107,224,888.88

Date: Dec. 31, 2013

Prepared by: Northeast Electric Development Co., Ltd.

In RMB Yuan

Items	**Notes VII**	**2013-12-31**	**2012-12-31**
Investment real estate		-	-
Fixed assets	10	67,580,392.95	62,775,673.37
Construction in progress	11	-	228,933.81
"Engineering material"		-	-
Liquidation of fixed assets		-	-
Productive biological assets		-	-
"Oil and gas assets"		-	-
Intangible Assets	12	4,335,679.37	4,471,169.49
Development expenditures		-	-
Goodwill		-	-
Long-term deferred expenses	13	170,229.08	6,029,868.60
"Deferred tax assets"	14	10,722,736.62	9,320,208.65
Other non-current assets		-	-
Total non-current assets		**187,037,412.97**	**190,050,742.80**
Total Assets		**462,731,004.91**	**498,205,496.54**
Current Liabilities:			
Short-term borrowings	17	8,000,000.00	8,000,000.00
Borrowing from the Central Bank		-	-
Deposits from customers and interbank		-	-
Inter-bank borrowing funds		-	-
Trading financial liabilities		-	-
Notes payable		-	-
Accounts payable	18	50,492,644.44	59,772,901.29
Receipts in advance	19	9,283,263.47	14,395,206.29

Date: Dec. 31, 2013

Prepared by: Northeast Electric Development Co., Ltd.

In RMB Yuan

Items	Notes VII	2013-12-31	2012-12-31
Buyback Financial Assets sold		-	-
Fees payable & commission		-	-
Salaries payable	20	2,316,818.27	2,191,310.77
Tax payable	21	5,062,951.40	7,588,667.87
Interest payable		-	-
Dividends payable		40,017.86	40,017.86
Other payables	22	46,580,874.56	48,476,364.50
Reinsurance account payable		-	-
Reserve of Reinsurance Arrangement		-	-
Acting trading securities		-	-
Acting underwriting securities		-	-
Non-current liabilities due within 1 year		-	-
Other current liabilities		-	-
Total current liabilities		**121,776,570.00**	**140,464,468.58**
Non-current liabilities:			
Long-term borrowings		-	-
Bonds payable		-	-
Long-term payables		-	-
Special payables		-	-
Estimated liabilities	23	60,721,078.25	84,721,078.25
Deferred tax liability		-	-
Other non-current liabilities		-	-
Total non-current liabilities		**60,721,078.25**	**84,721,078.25**
Total liabilities		**182,497,648.25**	**225,185,546.83**

Date: Dec. 31, 2013

Prepared by: Northeast Electric Development Co., Ltd.

In RMB Yuan

Items	**Notes VII**	**2013-12-31**	**2012-12-31**
Shareholders' Equity:			
Share capital	24	873,370,000.00	873,370,000.00
Capital reserve	25	883,422,403.92	883,422,403.92
Less: treasury stock		-	-
Special reserve		-	-
Surplus reserves	26	108,587,124.40	108,587,124.40
Provision for general risk		-	-
Accumulated losses	27	-1,548,693,348.93	-1,558,580,151.68
Translation reserve		-36,992,877.10	-35,016,895.93
Total equity attributable to the equity holders of the Company		**279,693,302.29**	**271,782,480.71**
Minority interests		540,054.37	1,237,469.00
Total shareholders' equity		**280,233,356.66**	**273,019,949.71**
Total liabilities and shareholders' equity		**462,731,004.91**	**498,205,496.54**

Date: Dec. 31, 2013

Prepared by: Northeast Electric Development Co., Ltd.

In RMB Yuan

Item		Notes VII	Year 2013	Year 2012
I.	**Main operating income**		**195,974,125.82**	**217,220,841.81**
	Including: Sales income	28	195,974,125.82	217,220,841.81
	Interest income		-	-
	Premium earned		-	-
	Fee and commission income		-	-
II.	**Main operating costs**		**189,662,867.18**	**210,652,271.21**
	Including: Cost of sales	28	138,487,244.09	156,257,604.05
	Interest expenses		-	-
	Fee and commission expense		-	-
	Surrender value		-	-
	Net payments for insurance claims		-	-
	Net insurance reserve paid		-	-
	Premium expenses		-	-
	Expenses of reinsurance		-	-
	Business tax and surcharges	29	1,361,456.81	1,779,492.53
	Selling expenses	30	15,781,817.05	17,710,724.42
	Administrative expenses	31	29,255,459.55	31,231,758.49
	Finance expenses	32	2,799.96	-81,075.26
	Assets Impairment loss	33	4,774,089.72	3,753,766.98
	Add: Income of fair value variance (loss is posed as "-")		-	-
	Return on investments (loss is posed as "-")	34	679,028.01	-6,151.36
	Including: return on investments to associates and related parties		-8,323.17	-6,151.36
	Exchange gain (loss is posed as "-")		-	-

Date: Dec. 31, 2013

Prepared by: Northeast Electric Development Co., Ltd.

In RMB Yuan

Item		Notes VII	Year 2013	Year 2012
III.	**Operational Profit (Loss is posed as "-")**		**6,990,286.65**	**6,562,419.24**
	Add: Non-operating income	35	5,756,935.78	7,106,628.54
	Less: Non-operating expenses	36	4,022.10	773,290.48
	Including: loss of disposal of non-current assets		1,480.42	21,964.40
IV.	**Total Profit Total loss is posed as "-"**		**12,743,200.33**	**12,895,757.30**
	Less: Income tax expenses	37	3,082,370.47	1,859,663.92
V.	**Net Profit Net loss is posed as "-"**		**9,660,829.86**	**11,036,093.38**
	Net profit attributable to equity holders of the Company		9,886,802.75	11,140,994.81
	Minority interests		-225,972.89	-104,901.43
VI.	**Earnings per share**			
	(A) Basic earnings per share	38	0.01	0.01
	(B) Diluted earnings per share	38	0.01	0.01
VII.	**Other Comprehensive Income**	39	**-1,975,981.17**	**-22,125.60**
VIII.	**Total Comprehensive Income**		**7,684,848.69**	**11,013,967.78**
	Total Comprehensive Income Attributable to the Equity Holders of the Company		7,910,821.58	11,118,869.21
	Total Comprehensive Income of Minority shareholders		-225,972.89	-104,901.43

Date: Dec. 31, 2013

Prepared by: Northeast Electric Development Co., Ltd.

In RMB Yuan

Item	Notes VII	Year 2013	Year 2012
I. Cash flow from operating activities			
Cash received from sales of goods or rendering services		236,379,205.01	239,119,218.76
Net cash increased of customer deposit and trade deposit		-	-
Net cash increased of borrowing funds from central bank		-	-
Net cash increased of borrowing funds from other financial insititutions		-	-
Cash received from original insurance premium		-	-
Net cash received from reinsurance premium		-	-
Net cash increased of deposit of insured and investment		-	-
Net cash increased of trading financial assets disposal		-	-
Interest, commission and fees received in cash		-	-
Net cash increased of borrowing funds		-	-
Net cash increased of buyback business		-	-
Tax refunds received		181,727.09	-
Cash received relating to other operating acitivities	40(1)	8,467,221.08	20,371,826.21
Sub-total of cash inflows		**245,028,153.18**	**259,491,044.97**
Cash paid to goods purchased and labor service received		122,361,114.15	152,205,254.89
"Net cash increased of customer loans and disbursements"		-	-
Net cash increased of deposit in central bank and other financial insititutions.		-	-
Original insurance indemnity paid in cash		-	-
Interest, commission and fees paid in cash		-	-
Cash paid to policy dividend		-	-
Cash paid to and for employees		27,130,504.33	26,094,431.05

Date: Dec. 31, 2013

Prepared by: Northeast Electric Development Co., Ltd.

In RMB Yuan

Item	Notes VII	Year 2013	Year 2012
Payments of taxes and surcharges		21,191,998.19	10,722,888.78
Cash payments relating to other operating acitivities	40(2)	42,896,369.19	73,822,166.22
Sub-total of cash outflows		**213,579,985.86**	**262,844,740.94**
Net Cash Flow from operating activities		**31,448,167.32**	**-3,353,695.97**
II. Cash flow from investing activities			
Cash received from return of investments		25,000,000.00	35,000,000.00
Cash received from earnings on investments		204,924.66	-
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		454,000.00	1,980.00
Net cash received in disposing subsidiaries and other operating units		-	-
Cash received relating to other investing acitivities		-	-
Sub-total of cash inflows		**25,658,924.66**	**35,001,980.00**
Cash paid in purchase/construction of fixed assets, intangible assets and other long-term assets		11,168,095.35	3,738,698.30
Cash paid for investment		12,000,000.00	-
Net cash increased in hypothecated loan		-	-
Net cash paid in disposing subsidiaries and other operating units		-	-
Cash paid relating to other investing acitivities	40(3)	28.93	-
Sub-total of cash outflows		**23,168,124.28**	**3,738,698.30**
Net Cash Flow from investing activities		**2,490,800.38**	**31,263,281.70**

Date: Dec. 31, 2013

Prepared by: Northeast Electric Development Co., Ltd.

In RMB Yuan

Item	Notes VII	Year 2013	Year 2012
III. Cash flow from financing activities			
Cash received by absorbing investment		-	-
Including: cash received by subsidiaries from minority shareholders		-	-
Cash received from borrowings		8,000,000.00	8,000,000.00
Cash received from bond issued		-	-
Cash received relating to other financing acitivities		-	-
Sub-total of cash inflows		**8,000,000.00**	**8,000,000.00**
Cash paid for repayments of debts		8,000,000.00	8,000,000.00
Cash paid for distribution of dividends, profits and interest		609,006.67	581,983.54
Including: cash paid by subsidiaries to minority shareholders		-	-
Cash paid relating to other financing acitivities		-	-
Sub-total of cash outflows		**8,609,006.67**	**8,581,983.54**
Net Cash Flow from financing activities		**-609,006.67**	**-581,983.54**
IV. Effect of change of foreign currency rates on cash and cash equivalents		-16,718.92	289.02
V. Net increase of cash and equivalents		**33,313,242.11**	**27,327,891.21**
Add: Balance at beginning of period of cash and equivalents		69,423,731.30	42,095,840.09
VI. Balance of Cash and equivalents by end of period		**102,736,973.41**	**69,423,731.30**

Date: Dec. 31, 2013

Prepared by: Northeast Electric Development Co., Ltd.

In RMB Yuan

	2013									
	Attributable to the equity holders of the Company									
Item	**Share capital**	**Capital reserve**	**Less: treasury stock**	**Special reserves**	**Surplus reserves**	**Provision for general risk**	**Accumulated losses**	**Other**	**Minority Interests**	**Total shareholders' equity**
I. Balance at December 31, 2012	**873,370,000.00**	**883,422,403.92**	**-**	**-**	**108,587,124.40**	**-**	**-1,558,580,151.68**	**-35,016,895.93**	**1,237,469.00**	**273,019,949.71**
Add: Changes in accounting policies	-	-	-	-	-	-	-	-	-	-
Correction of errors	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
II. Balance at January 1, 2013	**873,370,000.00**	**883,422,403.92**	**-**	**-**	**108,587,124.40**	**-**	**-1,558,580,151.68**	**-35,016,895.93**	**1,237,469.00**	**273,019,949.71**
III. Movements for the year (loss "- ")	-	-	-	-	-	-	**9,886,802.75**	**-1,975,981.17**	**-697,414.63**	**7,213,406.95**
A. Net profit	-	-	-	-	-	-	9,886,802.75	-	-225,972.89	9,660,829.86
B. Other comprehensive income	-	-	-	-	-	-	-	-1,975,981.17	-	-1,975,981.17
Sub-total of I. and II.	-	-	-	-	-	-	9,886,802.75	-1,975,981.17	-225,972.89	7,684,848.69
C. Shareholder's investment and capital decreased	-	-	-	-	-	-	-	-	-471,441.74	-471,441.74
1. Capital invested	-	-	-	-	-	-	-	-	-471,441.74	-471,441.74
2. Dividend paid included in equity	-	-	-	-	-	-	-	-	-	-
3. Other	-	-	-	-	-	-	-	-	-	-
D. Distribution of profit	-	-	-	-	-	-	-	-	-	-
1. Extraction of surplus reserves	-	-	-	-	-	-	-	-	-	-

Date: Dec. 31, 2013

Prepared by: Northeast Electric Development Co., Ltd.

In RMB Yuan

	2013									
	Attributable to the equity holders of the Company									
Item	**Share capital**	**Capital reserve**	**Less: treasury stock**	**Special reserves**	**Surplus reserves**	**Provision for general risk**	**Accumulated losses**	**Other**	**Minority Interests**	**Total shareholders' equity**
2. Extraction provision for general risk	-	-	-	-	-	-	-	-	-	-
3. Distribution to shareholders	-	-	-	-	-	-	-	-	-	-
4. Other	-	-	-	-	-	-	-	-	-	-
E. Transfer within equity	-	-	-	-	-	-	-	-	-	-
1. Transfer-in from capital reserves	-	-	-	-	-	-	-	-	-	-
2. Transfer-in from surplus reserves	-	-	-	-	-	-	-	-	-	-
3. Loss covered by surplus reserves	-	-	-	-	-	-	-	-	-	-
4. Other	-	-	-	-	-	-	-	-	-	-
F. Speical reserves	-	-	-	-	-	-	-	-	-	-
1. Extraction of the special reserves	-	-	-	-	-	-	-	-	-	-
2. Usage of the special reserves	-	-	-	-	-	-	-	-	-	-
G. Other	-	-	-	-	-	-	-	-	-	-
IV. Balance at December 31, 2013	**873,370,000.00**	**883,422,403.92**	**-**	**-**	**108,587,124.40**	**-**	**-1,548,693,348.93**	**-36,992,877.10**	**540,054.37**	**280,233,356.66**

Date: Dec. 31, 2013

Prepared by: Northeast Electric Development Co., Ltd.

In RMB Yuan

	2012									
	Attributable to the equity holders of the Company									
Item	Share capital	Capital reserve	Less: treasury stock	Special reserves	Surplus reserves	Provision for general risk	Accumulated losses	Other	Minority Interests	Total shareholders' equity
I. Balance at December 31, 2011	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
Add: Changes in accounting policies	-	-	-	-	-	-	-	-	-	-
Correction of errors	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
II. Balance at January 1, 2012	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. Movements for the year (loss "- ")	-	-	-	-	-	-	11,140,994.81	-22,125.60	-104,901.43	11,013,967.78
A. Net profit	-	-	-	-	-	-	11,140,994.81	-	-104,901.43	11,036,093.38
B. Other comprehensive income	-	-	-	-	-	-	-	-22,125.60	-	-22,125.60
Sub-total of I. and II.	-	-	-	-	-	-	11,140,994.81	-22,125.60	-104,901.43	11,013,967.78
C. Shareholder's investment and capital decreased	-	-	-	-	-	-	-	-	-	-
1. Capital invested	-	-	-	-	-	-	-	-	-	-
2. Dividend paid included in equity	-	-	-	-	-	-	-	-	-	-
3. Other	-	-	-	-	-	-	-	-	-	-
D. Distribution of profit	-	-	-	-	-	-	-	-	-	-
1. Extraction of surplus reserves	-	-	-	-	-	-	-	-	-	-

Date: Dec. 31, 2013

Prepared by: Northeast Electric Development Co., Ltd.

In RMB Yuan

	2012									
	Attributable to the equity holders of the Company									
Item	**Share capital**	**Capital reserve**	**Less: treasury stock**	**Special reserves**	**Surplus reserves**	**Provision for general risk**	**Accumulated losses**	**Other**	**Minority Interests**	**Total shareholders' equity**
2. Extraction provision for general risk	-	-	-	-	-	-	-	-	-	-
3. Distribution to shareholders	-	-	-	-	-	-	-	-	-	-
4. Other	-	-	-	-	-	-	-	-	-	-
E. Transfer within equity	-	-	-	-	-	-	-	-	-	-
1. Transfer-in from capital reserves	-	-	-	-	-	-	-	-	-	-
2. Transfer-in from surplus reserves	-	-	-	-	-	-	-	-	-	-
3. Loss covered by surplus reserves	-	-	-	-	-	-	-	-	-	-
4. Other	-	-	-	-	-	-	-	-	-	-
F. Speical reserves	-	-	-	-	-	-	-	-	-	-
1. Extraction of the special reserves	-	-	-	-	-	-	-	-	-	-
2. Usage of the special reserves	-	-	-	-	-	-	-	-	-	-
G. Other	-	-	-	-	-	-	-	-	-	-
IV. Balance at December 31, 2013	873,370,000.00	883,422,403.92	-	-	108,587,124.40	-	-1,558,580,151.68	-35,016,895.93	1,237,469.00	273,019,949.71

Legal Representative: Su weiguo Chief Financial Officer: Wang shouguan Chief Accounting Officer: Bai lihai

Date: Dec. 31, 2013

Prepared by: Northeast Electric Development Co., Ltd.

In RMB Yuan

Items	Notes XIII	2013-12-31	2012-12-31
Current Assets:			
Cash and deposits		19,189.62	30,575.58
Trading financial assets		-	-
Notes Receivable		-	-
Accounts receivables	1	-	-
Prepayments		-	-
Interest receivable		-	-
Dividends receivable		-	-
Other receivables	2	354,263,352.53	364,599,007.23
Inventories		-	-
Non-current asset due within 1 year		-	-
Other current assets		-	-
Total current assets		**354,282,542.15**	**364,629,582.81**
Non-current Assets:			
Financial assets available for sale		-	-
Held-to-maturity investments		-	-
Long-term receivables		-	-
Long-term equity investments	3	90,413,551.10	91,251,518.10
Investment real estate		-	-
Fixed assets		242,267.37	324,390.45
Construction in progress		-	-
"Engineering material"		-	-
Liquidation of fixed assets		-	-
Productive biological assets		-	-

Date: Dec. 31, 2013

Prepared by: Northeast Electric Development Co., Ltd.

In RMB Yuan

Items	Notes XIII	2013-12-31	2012-12-31
"Oil and gas assets"		-	-
Intangible Assets		-	-
Development expenditures		-	-
Goodwill		-	-
Long-term deferred expenses		-	-
"Deferred tax assets"		-	-
Other non-current assets		-	-
Total non-current assets		**90,655,818.47**	**91,575,908.55**
Total Assets		**444,938,360.62**	**456,205,491.36**
Current Liabilities:			
Short-term borrowings		-	-
Trading financial liabilities		-	-
Notes payable		-	-
Accounts payable		-	-
Receipts in advance		665,000.00	665,000.00
Salaries payable		8,671.52	8,524.67
Tax payable		26,387.56	12,817.59
Interest payable		-	-
Dividends payable		-	-
Other payables		87,442,181.86	79,527,463.55
Non-current liabilities due within 1 year		-	-
Other current liabilities		-	-
Total current liabilities		**88,142,240.94**	**80,213,805.81**

Date: Dec. 31, 2013

Prepared by: Northeast Electric Development Co., Ltd.

In RMB Yuan

Items	Notes XIII	2013-12-31	2012-12-31
Non-current liabilities:			
Long-term borrowings		-	-
Bonds payable		-	-
Long-term borrowings		-	-
Special payables		-	-
Estimated liabilities		60,721,078.25	84,721,078.25
Deferred tax liability		-	-
Other non-current liabilities		-	-
Total non-current liabilities		**60,721,078.25**	**84,721,078.25**
Total liabilities		**148,863,319.19**	**164,934,884.06**
Shareholders' Equity:			
Share capital		873,370,000.00	873,370,000.00
Capital reserve		979,214,788.45	979,214,788.45
Less: treasury stock		-	-
Special reserve		-	-
Surplus reserves		108,587,124.40	108,587,124.40
Provision for general risk		-	-
Accumulated losses		-1,665,096,871.42	-1,669,901,305.55
Total shareholders' equity		**296,075,041.43**	**291,270,607.30**
Total liabilities and shareholders' equity		**444,938,360.62**	**456,205,491.36**

Date: Dec. 31, 2013

Prepared by: Northeast Electric Development Co., Ltd.

In RMB Yuan

Items		Notes XIII	Year 2013	Year 2012
I.	**Main operating income**	4	**-**	**3,850,000.00**
	Less: Cost of sales	4	-	-
	Business tax and surcharges		-	211,750.00
	Selling expenses		-	-
	Administrative expenses		2,195,193.09	2,850,889.28
	Finance expenses		4,760.51	6,233.71
	Assets Impairment loss		-541,555.44	-27,000.00
	Add: Income of fair value variance (loss is posed as "-")		-	-
	Return on investments (loss is posed as "-")	5	949,414.89	-
	Including.: return on investments to associates and related parties		-	-
III.	**Operational Profit (Loss is posed as "-")**		**-708,983.27**	**808,127.01**
	Add: Non-operating income		5,514,885.10	6,993,929.00
	Less: Non-operating expenses		1,467.70	200.00
	Including: loss of disposal of non-current assets		-	-
IV.	**Total Profit Total loss is posed as "-"**		**4,804,434.13**	**7,801,856.01**
	Less: Income tax expenses		-	-
V.	**Net Profit Net loss is posed as "-"**		**4,804,434.13**	**7,801,856.01**
VI.	**Earnings per share**			
	(A) Basic earnings per share		-	-
	(B) Diluted earnings per share		-	-
VII.	**Other Comprehensive Income**		**-**	**-**
VIII.	**Total Comprehensive Income**		**4,804,434.13**	**7,801,856.01**

Date: Dec. 31, 2013

Prepared by: Northeast Electric Development Co., Ltd.

In RMB Yuan

Items	Notes XIII	Year 2013	Year 2012
I. Cash flow from operating activities			
Cash received from sales of goods or rendering services		-	2,850,000.00
Tax refunds received		-	-
Cash received relating to other operating acitivities		11,057,560.80	75,712,490.52
Sub-total of cash inflows		**11,057,560.80**	**78,562,490.52**
Cash paid to goods purchased and labor service received		-	-
Cash paid to and for employees		768,444.79	1,184.31
Payments of taxes and surcharges		168,403.67	305,723.82
Cash payments relating to other operating acitivities		10,132,168.59	78,251,726.70
Sub-total of cash outflows		**11,069,017.05**	**78,558,634.83**
Net Cash Flow from operating activities		**-11,456.25**	**3,855.69**
II. Cash flow from investing activities			
Cash received from return of investments		-	-
Cash received from earnings on investments		-	-
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		-	-
Net cash received in disposing subsidiaries and other operating units		-	-
Cash received relating to other investing acitivities		-	-
Sub-total of cash inflows		-	-
Cash paid in purchase/construction of fixed assets, intangible assets and other long-term assets		-	5,450.00
Cash paid for investment		-	-
Net cash paid in disposing subsidiaries and other operating units		-	-

Date: Dec. 31, 2013

Prepared by: Northeast Electric Development Co., Ltd.

In RMB Yuan

Items	Notes XIII	Year 2013	Year 2012
Cash paid relating to other investing acitivities		-	-
Sub-total of cash outflows		-	**5,450.00**
Net Cash Flow from investing activities		-	**-5,450.00**
III. Cash flow from financing activities			
Cash received by absorbing investment		-	-
Cash received from borrowings		-	-
Cash received from bond issued		-	-
Cash received relating to other financing acitivities		-	-
Sub-total of cash inflows		-	-
Cash paid for repayments of debts		-	-
Cash paid for distribution of dividends, profits and interest		-	-
Cash paid relating to other financing acitivities		-	-
Sub-total of cash outflows		-	-
Net Cash Flow from financing activities		-	-
IV. Effect of change of foreign currency rates on cash and cash equivalents		**70.29**	**278.51**
V. Net increase of cash and equivalents		**-11,385.96**	**-1,315.80**
Add: Balance at beginning of period of cash and equivalents		30,575.58	31,891.38
VI. Balance of Cash and equivalents by end of period		**19,189.62**	**30,575.58**

Date: Dec. 31, 2013

Prepared by: Northeast Electric Development Co., Ltd.

In RMB Yuan

		2013							
Item		**Share capital**	**Capital reserve**	**Less: treasury stock**	**Special reserves**	**Surplus reserves**	**Provision for general risk**	**Accumulated losses**	**Total shareholders' equity**
I.	**Balance at December 31, 2012**	**873,370,000.00**	**979,214,788.45**	**-**	**-**	**108,587,124.40**	**-**	**-1,669,901,305.55**	**291,270,607.30**
	Add: Changes in accounting policies	-	-	-	-	-	-	-	-
	Correction of errors	-	-	-	-	-	-	-	-
	Other	-	-	-	-	-	-	-	-
II.	**Balance at January 1, 2013**	**873,370,000.00**	**979,214,788.45**	**-**	**-**	**108,587,124.40**	**-**	**-1,669,901,305.55**	**291,270,607.30**
III.	**Movements for the year (loss "- ")**	-	-	-	-	-	-	**4,804,434.13**	**4,804,434.13**
	A. Net profit	-	-	-	-	-	-	4,804,434.13	4,804,434.13
	B. Other comprehensive income	-	-	-	-	-	-	-	-
	Sub-total of I. and II.	**-**	**-**	**-**	**-**	**-**	**-**	**4,804,434.13**	**4,804,434.13**
	C. Shareholder's investment and capital decreased	-	-	-	-	-	-	-	-
	1. Capital invested	-	-	-	-	-	-	-	-
	2. Dividend paid included in equity	-	-	-	-	-	-	-	-
	3. Other	-	-	-	-	-	-	-	-
	D. Distribution of profit	-	-	-	-	-	-	-	-
	1. Extraction of surplus reserves	-	-	-	-	-	-	-	-
	2. Distribution to shareholders	-	-	-	-	-	-	-	-

Date: Dec. 31, 2013

Prepared by: Northeast Electric Development Co., Ltd.

In RMB Yuan

Item		2013							
		Share capital	Capital reserve	Less: treasury stock	Special reserves	Surplus reserves	Provision for general risk	Accumulated losses	Total shareholders' equity
	3. Other	-	-	-	-	-	-	-	-
	E. Transfer within equity	-	-	-	-	-	-	-	-
	1. Transfer-in from capital reserves	-	-	-	-	-	-	-	-
	2. Transfer-in from surplus reserves	-	-	-	-	-	-	-	-
	3. Loss covered by surplus reserves	-	-	-	-	-	-	-	-
	4. Other	-	-	-	-	-	-	-	-
	F. Speical reserves	-	-	-	-	-	-	-	-
	1. Extraction of the special reserves	-	-	-	-	-	-	-	-
	2. Usage of the special reserves	-	-	-	-	-	-	-	-
	G. Other	-	-	-	-	-	-	-	-
IV.	**Balance at December 31, 2013**	**873,370,000.00**	**979,214,788.45**	-	-	**108,587,124.40**	-	**-1,665,096,871.42**	**296,075,041.43**

Date: Dec. 31, 2013

Prepared by: Northeast Electric Development Co., Ltd.

In RMB Yuan

Item		2012							
		Share capital	Capital reserve	Less: treasury stock	Special reserves	Surplus reserves	Provision for general risk	Accumulated losses	Total shareholders' equity
I.	**Balance at December 31, 2011**	**873,370,000.00**	**979,214,788.45**	-	-	**108,587,124.40**	-	**-1,677,703,161.56**	**283,468,751.29**
	Add: Changes in accounting policies	-	-	-	-	-	-	-	-
	Correction of errors	-	-	-	-	-	-	-	-
	Other	-	-	-	-	-	-	-	-
II.	**Balance at January 1, 2012**	**873,370,000.00**	**979,214,788.45**	-	-	**108,587,124.40**	-	**-1,677,703,161.56**	**283,468,751.29**
III.	**Movements for the year (loss "- ")**	-	-	-	-	-	-	**7,801,856.01**	**7,801,856.01**
	A. Net profit	-	-	-	-	-	-	7,801,856.01	7,801,856.01
	B. Other comprehensive income	-	-	-	-	-	-	-	-
	Sub-total of I. and II.	-	-	-	-	-	-	**7,801,856.01**	**7,801,856.01**
	C. Shareholder's investment and capital decreased	-	-	-	-	-	-	-	-
	1. Capital invested	-	-	-	-	-	-	-	-
	2. Dividend paid included in equity	-	-	-	-	-	-	-	-
	3. Other	-	-	-	-	-	-	-	-
	D. Distribution of profit	-	-	-	-	-	-	-	-
	1. Extraction of surplus reserves	-	-	-	-	-	-	-	-
	2. Distribution to shareholders	-	-	-	-	-	-	-	-

Date: Dec. 31, 2013

Prepared by: Northeast Electric Development Co., Ltd.

In RMB Yuan

Item	2012							
	Share capital	Capital reserve	Less: treasury stock	Special reserves	Surplus reserves	Provision for general risk	Accumulated losses	Total shareholders' equity
3. Other	-	-	-	-	-	-	-	-
E. Transfer within equity	-	-	-	-	-	-	-	-
1. Transfer-in from capital reserves	-	-	-	-	-	-	-	-
2. Transfer-in from surplus reserves	-	-	-	-	-	-	-	-
3. Loss covered by surplus reserves	-	-	-	-	-	-	-	-
4. Other	-	-	-	-	-	-	-	-
F. Speical reserves	-	-	-	-	-	-	-	-
1. Extraction of the special reserves	-	-	-	-	-	-	-	-
2. Usage of the special reserves	-	-	-	-	-	-	-	-
G. Other	-	-	-	-	-	-	-	-
IV. Balance at December 31, 2013	**873,370,000.00**	**979,214,788.45**	**-**	**-**	**108,587,124.40**	**-**	**-1,669,901,305.55**	**291,270,607.30**

Legal Representative: Su weiguo Chief Financial Officer: Wang shouguan Chief Accounting Officer: Bai lihai

Notes to the Financial Statements

(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 company limited by shares established by directed placement initiated by the Northeast Electrical Transmission and Transformation Equipment Company Corporation Limited ("NET"), which approved by the Shenyang Corporate System Reformation Committee under approval: Shen Ti 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, Xiongyue Town, Bayuquan District, Yingkou, Liaoning Province.

2. Principal Industry

Electrical machinery and equipment manufacturing industry.

3. Business scope

The company engages in production and sales of power transmission equipments and related accessories, provision of relevant after-sale services, and provision of power transmission technology developing, consulting, transferring and testing services.

4. Main products

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

5. Parent company of the company

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

6. The financial statements are approved on 3 March 2014 in the 6^{th} meeting of the 7^{th} board of directors

II. 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 in accordance with the requirements of "Accounting Standards for Business Enterprises – Basic Standards" and 38 Specific Accouting Standards issued by the Ministry of Finance in 15 February 2006, and application guidelines, explanations and other relevant regulations which announced subsequently (together the "Accouting Standards for Business Enterprises"), and the disclosure requirements in accordance with the "Disclosure Requirement on Listed Issuers No.15- General Requirements on Financial Statements (2010 amendments)" issued by China Securities Regulatory Commission.

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

The financial statements of the company for the year ended 31 December 2013 are in compliance with the Accounting Standards for Business Enterprises, and truly and completely present the financial position of the Company as at 31 December 2013 and of its operating results, cash flows and other information for the year then ended. In addition, all material aspects of the financial statements of the company are complied with the requirements of "Disclosure Requirement on Listed Issuers No.15- General Requirements on Financial Statements (2010 amendments)" issued by China Securities Regulatory Commission in relation to the disclosure requirements on financial statements and its accompanying notes.

In 26 January 2014, the Ministry of Finance released five accounting principles (known as new accounting principles) including: No. 9 of Accounting Standards for Business Enterprises-Employee Compensation, No. 30 of Accounting Standards for Business Enterprises-Presentation of Financial Statements, No. 33 of Accounting Standards for Business Enterprises-Consolidated Financial Statements, No. 39 of Accounting Standards for Business Enterprises-Fair Value Measurements, and No. 40 of Accounting Standards for Business Enterprises-Arrangement for Joint Venture. According to new accounting principles, since 1 January 2014, the Company started to adopt the above five new principles.

During the reporting period, the Company has not early applied the new accounting principles that has been issued but is not yet effective. According to the evaluation of the Company and the auditors, the application of the new accounting principles has no impact on the financial statements of the Company.

IV. Significant accounting policies and accounting estimates

1. Accounting period

The accounting period of the company is divided into annual and interim, interim accounting period represents a reporting period which is shorter than an annual accounting period. The annual accounting period of the company commences on 1st January and ends on 31st December each year.

2. Recording currency

The recording currency of the Company and the subsidiaries incorporated and operated in mainland China is Renminbi (RMB), which is the currency of the primary economic environment in which they operate. The recording currency of the subsidiaries incorporated outside mainland China is Hong Kong Dollar (HKD), which is the currency of the primary economic environment in which they operate. The financial statement of the company is represented in RMB.

3. Accounting treatment for business Combinations

Business combinations represent the consolidation of the transactions and events of two or more individual enterprises. Business combinations can be classified as business combination under common control and business combination not under common control.

IV. Significant accounting policies and accounting estimates *(Continued)*

3. Accounting treatment for business Combinations *(Continued)*

(1) Business combination under common control

A business combination under common control is a business combination in which all of the combining entities are ultimately controlled by the same party or parties both before and after the combination, and that control is not transitory. For business combination under common control, the party obtains the control of the other parties at the combination date is the acquiring party, other parties involve in the business combination are the parties being acquired. The combination date is the date on which the acquiring party effectively obtains control of the party being acquired.

Assets and liabilities that are obtained by the acquirer in a business combination shall be measured at their carrying amounts at the combination date as recorded by the party being acquired. The difference between the carrying amount of the net assets obtained and the carrying amount of the consideration paid for the combination (or the aggregate face value of shares issued as consideration) shall be adjusted to share premium under capital reserve (or capital premium). If the share premium under capital reserve (or capital premium) is not sufficient to absorb the difference, any excess shall be adjusted against retained earnings.

Expenses that are directly attributable to business combination are expense in the profit and loss at the period incurred.

(2) Business combination not under common control

A business combination not under common control is a business combination in which all of the combining entities are not ultimately controlled by the same party or parties both before and after the combination. For business combination not under common control, the party obtains the control of the other parties at the combination date is the acquirer, other parties involve in the business combination are the acquirees. The combination date is the date on which the acquirer effectively obtains control of the acquirees.

For business combination not under common control, 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. Costs that are directly attributable to the business combination such as audit fee, legal services fee, consultancy fee and other relevant expenses incurred by the company as acquirer are expensed in the profit or loss in the period incurred. Transaction fees of equity securities or debt securities issued for a business combination are included in the initially recognised amount of equity securities or debt securities. For conditions that existed at the date of the acquisition and within 12 months of the acquisition date, when there are updated or new evidence which affect the fair value of the contingent assets and liabilities acquired or undertaken

IV. Significant accounting policies and accounting estimates *(Continued)*

3. Accounting treatment for business Combinations *(Continued)*

(2) Business combination not under common control *(Continued)*

as consideration of the business combination, the goodwill arising from the business combination shall be amended accordingly. The cost of combination and identifiable net assets obtained by the acquirer in a business combination are measured at fair value at the acquisition date. Where the cost of the combination exceeds the acquirer's interest in the fair value of the acquiree's identifiable net assets, the difference is recognised as goodwill; where the cost of combination is lower than the acquirer's interest in the fair value of the acquiree's identifiable net assets, the difference is recognised in profit or loss for the current year after a review of computation.

In relation to the deductible temporary difference acquired from the aquire which were not recognized as deferred tax assets due to non-fulfillment of the recognition criteria, for conditions that existed at the date of the acquisition and within 12 months of the acquisition date, when there are updated or new evidence that indicates future taxable profits will be available to utilize the deductible temporary differences, the relevant deferred tax assets shall be recognized and set-off against goodwill, when the amount of goodwill is less than the deferred tax assets that shall be recognized, the difference shall be recognized in profit or loss. Except for the above circumstances, deferred tax assets recognized in relation to business combination are recognized in profit or loss for the period.

For a business combination not involving enterprises under common control and achieved in stages, the company would determine whether the business combination shall be regarded as "a bundle of transactions" in accordance with "Interpretation 5 on Accounting Standards for Business Enterprises" (Refer to note IV 4(2)). When the business combination is regarded as "a bundle of transactions", the accounting treatment for the business combination shall be in accordance with the previous paragraphs and note IV 4(10) "Long term equity investment"; when the business combination is not regarded as "a bundle of transactions", the accounting treatment for the business combination in company and consolidated financial statements shall be as follows:

In the company's financial statements, the initial cost of the investment shall be the sum of the carrying amount of its previously-held equity interest in the acquiree prior to the acquisition date and the amount of additional investment made to the acquiree at the acquisition date. The other comprehensive income involved in the previously-held equity interest in the acquiree prior to the acquisition date shall be reclassified as investment income upon disposal of the investment.

In the consolidated financial statements, the fair value of the previously-held equity interest in the acquiree is remeasured at the acquisition date, The difference between the fair value and the carrying amount is recognized as investment income for the current period; the amount recognized in other comprehensive income relating to the previously-held equity interest in the acquiree is reclassified as investment income for the current period.

IV. Significant accounting policies and accounting estimates *(Continued)*

4. Preparation of consolidated financial statements

(1) Scope of consolidation

The consolidated scope of consolidated financial statements is determined based on the concept of control. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its operating activities. The scope of consolidation includes the company and all of its subsidiaries. Subsidiaries are the enterprises or entities controlled by the company.

(2) Preparation method of consolidated financial statements

Subsidiaries are consolidated from the date on which the company obtains control of their net assets and operating policies and are deconsolidated from the date that such control ceases. For subsidiaries being disposed, the operating results and cash flows prior to the date of disposal are included in the consolidated income statement and consolidated cash flow statement; for subsidiaries disposed during the period, the opening balances of the consolidated balance sheet would not be restated. For subsidiaries acquired from a business combination not under common control, their operating results and cash flows subsequent to the acquisition date are included in the consolidated income statement and consolidated cash flow statement, and the opening balances and comparative figures of the consolidated balance sheet would not be restated. For subsidiaries acquired from a business combination under common control, their operating results and cash flows from the date of commencement of the accounting period in which the combination occurred to the date of combination are included in the consolidated income statement and consolidated cash flow statement, and the comparative figures of the consolidated balance sheet would be restated

In preparing the consolidated financial statements, where the accounting policies and the accounting periods are inconsistent between the company and subsidiaries, the financial statements of subsidiaries are adjusted in accordance with the accounting policies and accounting period of the company. For subsidiaries acquired from a business combination not under common control, the individual financial statements of the subsidiaries are adjusted based on the fair value of the identifiable net assets at the acquisition date.

All significant inter-group balances, transactions and unrealised profits are eliminated in the consolidated financial statements.

The portion of a subsidiary's equity and the portion of a subsidiary's net profits and losses for the period not attributable to company are recognised as minority interests and profits and losses attributable to minority interests. Minority interest is presented separately in the consolidated balance sheet within shareholders' equity. Net profit or loss attributable to minority shareholders are presented separately in the consolidated income statement below the net profit line item. When the amount of loss for the current period attributable to the minority shareholders of a subsidiary exceeds the minority shareholders' portion of the opening balance of shareholders' equity of the subsidiary, the excess is allocated against the minority interests.

IV. Significant accounting policies and accounting estimates *(Continued)*

4. Preparation of consolidated financial statements *(Continued)*

(2) Preparation method of consolidated financial statements *(Continued)*

When control to a subsidiary ceased due to disposal of a portion of an interest in a subsidiary, the fair value of the remaining equity interest is remeasured at the date control ceased. The difference between the sum of the consideration received from disposal of equity interest and the fair value of the remaining equity interest, less the net assets attributable to the company since acquisition date, is recognized as the investment income from the loss of control. Other comprehensive in relation to the subsidiary are reclassified as investment income during the period when control ceases. Subsequent measurement of the remaining interests shall be in accordance with relevant accounting standards such as "Accounting Standards for Business Enterprises 2 – Long-term Equity Investments" or "Accounting Standards for Business Enterprises 22 – Financial Instruments Recognition and Measurement", which are detailed in Note IV 10 "Long-term equity investments" or Note IV 7 "Financial instruments".

The company shall determine whether loss of control arising from disposal in a series of transactions should be regarded as a bundle of transactions. When the economic effects and terms and conditions of the disposal transactions met one or more of the following situations, the transactions shall normally be accounted for as a bundle of transactions:

(i) The transactions are entered into after considered the mutual consequences of each individual transaction;

(ii) The transactions needed to be considered as a whole in order to achieve a deal with commercial sense;

(iii) The occurrence of an individual transaction depends on the occurrence of one or more individual transactions in the series;

(iv) The result of an individual transaction is not economical, but it would be economical after taken into account of other transactions in the series.

When the transactions are not regarded as a bundle of transactions, the individual transactions shall be accounted as "disposal of a portion of an interest in a subsidiary which does not lead to loss of control" (Detailed in Note IV 10 (2) (4)) and "disposal of a portion of an interest in a subsidiary which lead to loss of control" (detailed in previous paragraph). When the transactions are regarded as a bundle of transactions, the transactions shall be accounted as a single disposal transaction; however, the difference between the consideration received from disposal and the share of net assets disposed in each individual transactions before loss of control shall be recognized as other comprehensive income, and reclassified as profit or loss arising from the loss of control when control is lost.

IV. Significant accounting policies and accounting estimates *(Continued)*

5. Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, deposits that can be readily drawn on demand, and short-term (usually mature with three months since acquisition) and highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

6. Foreign currency translation

(1) Foreign currency transactions

Foreign currency transactions are, on initial recognition, translated to the recording currency using the exchange rates prevailing at the dates of the transactions, except when the Company carried on a business of currency exchange or involve in currency exchange transactions, at which the actual exchange rates would be used.

(2) Foreign currency translations for foreign-currency monetary items and foreign-currency non-monetary items

At the balance sheet date, monetary items denominated in foreign currency are translated into the recording currency using the spot rate of the balance sheet date. Exchange differences arising from these translations are recognised in profit or loss for the current year, except for (i) those attributable to foreign currency borrowings that have been taken out specifically for the acquisition, construction or production of qualifying assets, which are capitalised as part of the cost of those assets; (ii) exchange difference arising from changes in carrying amount of available for sale foreign-currency monetary items other than changes in amortized cost, which is recognized in other comprehensive income.

Non-monetary items denominated in foreign currency that are measured in terms of historical cost are translated into the recording currency at the balance sheet date using the spot rate at the date of the transactions. Non-monetary items denominated in foreign currency that are measured at fair value are translated into the recording currency using the spot rate on the date when fair value is determined and the resulting exchange differences will be recognized as fair value change (include exchange difference) in profit or loss or in other comprehensive income as capital surplus in the current year

IV. Significant accounting policies and accounting estimates *(Continued)*

6. Foreign currency translation *(Continued)*

(3) Translation of foreign currency financial statements

For the purpose of preparing consolidated financial statements involving foreign operations, the exchange difference arising from monetary items involved in the net investment to the foreign operation will be recognized as "exchange difference arising translation of foreign operations" under shareholders' equity items, when the foreign operation is disposed, the exchange difference will be transferred to profit or loss during the period of disposal.

The asset and liability items in the balance sheets for overseas operations are translated at the spot exchange rates on 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 of the transaction dates. Opening balance of undistributed profits is equal to the closing balance of undistributed profits after translation in last year; closing balance of undistributed profit is computed according to the items in profit distribution after translation. The exchange difference arising from translation of assets, liabilities and equity items are recognized in other comprehensive income and is shown separately under shareholders' equity in the balance sheet, such exchange difference will be reclassified to profit or loss in current year when the foreign operation is disposed according to the proportion of disposal.

The cash flows of overseas operations are translated at the spot exchange rates on the dates of the cash flows. The effect of exchange rate changes on cash is presented separately in the cash flow statement.

The opening balances are presented as the balances after translation in the financial statements of last year.

7. Financial instruments

(1) Determination of fair value of financial assets and financial liabilities

Fair value represents the transaction amount in arm's length transaction between knowledgeable and willing parties. The fair value of a financial instrument that is traded in an active market is determined at the quoted price in the active market. Quoted price in the active market represent quoted price which can be easily obtained periodically from exchange market, brokers, industry associations or pricing services agency etc, which are the transactions amount in arm's length transactions. The fair value of a financial instrument that is not traded in an active market is determined by using a valuation technique. Valuation techniques include using prices of recent market transactions between knowledgeable and willing parties, reference to the current fair value of another financial asset that is substantially the same with this instrument, discounted cash flow analysis and option pricing models, etc.

IV. Significant accounting policies and accounting estimates *(Continued)*

7. Financial instruments *(Continued)*

(2) Classification, recognition and measurement of financial assets

Acquisition and disposal of financial assets in general are recognized and derecognized at the transaction dates. At initial recognition, financial assets can be classified as financial assets at fair value through profit or loss, held-to-maturity investments, loans and receivables, and available-for-sale financial assets. Financial assets are measured at fair value at initial recognition, for financial assets at fair value through profit or loss, the relevant transaction costs are recognize directly in profit or loss for the period, for other financial assets, the relevant transaction costs are recognized in the amount of initial recognition.

(i) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and other financial assets which are designated to be measured in fair value at inception in which the changes in fair value are recognized in profit or loss.

Financial assets held for trading represents financial assets that met one of the following conditions:

A. The purpose of obtaining the financial asset is for selling such asset in the shot term;

B. The assets was included in the portfolio of financial instruments which has objective evidence showing that the Company manages the portfolio so as to obtain short term gains;

C. The assets is a derivative except for those derivatives which are designated as an effective hedging instrument, or are included in a financial guarantee contract, or are derivatives for which there are no quoted price in active market or the fair value of the underlying equity instruments cannot be measured reliably and the derivative have to be settled by delivering the underlying equity instrument.

Financial assets which met one of the following conditions can be designed as financial assets at fair value through profit or loss at inception:

A. The designation can eliminate or substantially eliminate the inconsistencies between profit or loss from the financial assets arising from different measurement basis

B. The portfolio of financial assets and liabilities in which the financial asset belongs to are designated as measured at fair value in the risk management report or investment strategic report handed in to key management personnel.

C. Financial assets at fair value through profit or loss are subsequently measured at fair value. The gain or loss arising from fair value changes, dividend income and interest income arising from such financial assets are recognized in profit or loss.

IV. Significant accounting policies and accounting estimates *(Continued)*

7. Financial instruments *(Continued)*

(2) Classification, recognition and measurement of financial assets *(Continued)*

(ii) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed maturity and fixed or determinable payments that management has the positive intention and ability to hold to maturity. Held-to-maturity investments with maturities over 12 months when the investments were made but are due within 12 months at the balance sheet date are included in the current portion of non-current assets; held-to-maturity investments with maturities no more than 12 months when the investments were made are included in other current assets.

Held-to-maturity financial assets are subsequently measured using the effective interest method on the basis of amortized cost. The gain or loss on de-recognition, impairment or amortization are recognized in profit or loss.

Effective interest rate method means the amortized cost, periodic interest income or payment of financial assets or financial liabilities (including a portfolio of financial assets or financial liabilities) are calculated based the effective interest rate. Effective interest rate means the interest rate used for discounting the future expected cash flows of a financial asset or financial liability to its carrying amount.

When calculating the effective interest rate, the Company will estimate the future cash flows (except for considering loss arising from credit risk) of financial assets and liabilities based on all terms and conditions of the underlying contracts, at the same time considering the charges, transaction costs, discounts or premiums, etc paid or received by the parties involved in the financial assets or financial liabilities.

(iii) Loans and receivables

Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Financial assets classified by the Company as loans and receivables include bills receivable, accounts receivable, interest receivable, divided receivable and other receivables etc.

Loans and other receivables are subsequently measured at amortized cost using the effective interest rate method. The gain or loss arising from de-recognition, impairment or amortization are recognized in profit or loss in the current period.

IV. Significant accounting policies and accounting estimates *(Continued)*

7. Financial instruments *(Continued)*

(2) Classification, recognition and measurement of financial assets *(Continued)*

(iv) Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are either designated in this category or not classified financial assets at fair value through profit or loss, loans and receivables and held-to-maturity investments at initial recognition.

The closing cost of available-for-sale debt instruments are determined based on amortized cost method, which means the amount of initial recognition less the amount of principle already repaid, add or less the accumulated amortized amount arising from the difference between the amount due on maturity and the amount initially recognized using effective interest rate method, and less the amount of impairment losses recognized. The closing cost of available-for-sale equity instruments is equal to its initial acquisition cost.

Available-for-sale financial assets subsequently measured at fair value, the gains or losses arising from changes in fair value, except for impairment losses and exchange difference related to monetary financial assets and amortized cost which are recognized in profit or loss, are recognized in other comprehensive income under capital surplus and reclassified to profit or loss when the financial assets are de-recognized.

The dividend income received or receivable when holding available- for-sale financial assets are recognized as investment income.

(3) Impairment of financial assets

The Company assesses the carrying amounts of financial assets other than those at fair value through profit or loss at each balance sheet date. If there is objective evidence that a financial asset is impaired, an impairment loss is provided for.

When the amount of a financial asset is material, the financial asset will be assessed for impairment losses on individual basis, for the amount of a financial asset which is individually not material; the financial asset will be assessed for impairment losses on individual basis or assessed for impairment losses collectively together with a portfolio of financial assets which has similar credit risks characteristics. The financial asset which is not considered as impaired when assessed on individual basis (included financial asset which the individual amount is immaterial or not), will be assessed for impairment losses again on collective group basis together with a portfolio of financial assets which has similar credit risk characteristics. The financial assets which are considered as individual impaired will not be assessed for impairment losses ton collective group basis together with a portfolio of financial assets which has similar credit risk characteristics.

IV. Significant accounting policies and accounting estimates *(Continued)*

7. Financial instruments *(Continued)*

(3) Impairment of financial assets *(Continued)*

(i) Impairment losses on held-to-maturity investments and loans and receivables

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

(ii) Impairment losses on available-for-sale financial assets

If there are objective evidences shows 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 financial asset is recovered and it is related to the matters happened after the impairment loss recognition, the impairment loss recognized shall be reversed, impairment losses recognized for equity instruments classified as available-for-sale are reversed through other comprehensive income, while impairment losses recognized for debt instruments classified as available-for-sale are reversed through current profit or loss.

The impairment losses recognized on investment in equity instruments which fair value cannot be measured reliably and do not a quoted price inactive market, or derivatives that have to be settled by delivery underlying equity instruments shall not be reversed.

IV. Significant accounting policies and accounting estimates *(Continued)*

7. Financial instruments *(Continued)*

(4) Recognition and measurement on transfer of financial assets

Financial assets shall be de-recognized when one of the following conditions is met:

(i) The contractual right for receiving cash flows from the financial asset is terminated;

(ii) The financial asset is transferred, and the risk and rewards of ownership of the financial asset have been substantially transferred to the transferee.

(iii) The financial asset is transferred; the Company neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset, but ceases the control over the financial asset.

If the Company neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset, and the control over the financial asset is not ceased, the financial asset and the related financial liabilities should be recognized base on the degree of continuing involvement. The degree of continuing movement means the level of risks bore by the Company resulting from the change in value of the financial asset.

When the de-recognition criteria is met and the financial asset is wholly transferred, the difference between the carrying amount and the sum of the consideration received and the cumulative changes in fair value that had been recognized directly in equity, is recognized in profit or loss.

When the de-recognition criteria is met and the financial asset is partially transferred, the carrying amount of the financial asset transferred and retained should be apportioned based on fair value, the difference between the carrying amount of the transferred portion and the sum of the consideration received and the cumulative changes in fair value of the transferred potion that had been recognized directly in equity and the apportioned carrying amount, is recognized in profit or loss.

For financial assets that are transferred with recourse or endorsement, the Company need to determined whether the risk and rewards of ownership of the financial asset have been substantially transferred. If the risk and rewards of ownership of the financial asset have been substantially transferred, the financial assets shall be derecognized. If the risk and rewards of ownership of the financial asset have been retained, the financial assets shall not be de-recognized. If the Company neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset, the Company shall assess whether the control over the financial asset is retained, and the financial assets shall be accounting for according to the above paragraphs.

IV. Significant accounting policies and accounting estimates *(Continued)*

7. Financial instruments *(Continued)*

(5) Classification and measurement of financial liabilities

Financial liabilities at initial recognition are classified into financial liabilities at fair value through profit or loss and other financial liabilities. Financial liabilities are initially recognized at fair value. For financial liabilities at fair value through profit or loss, the relevant transaction costs are recognized in current profit or loss, for other financial liabilities, the relevant transaction costs are recognized in the amount of initial recognition.

(i) Financial liabilities at fair value through profit or loss

The classification and conditions for financial liabilities classified as held for trading and designated as financial liabilities at fair value through profit or loss at inception is the same as financial assets classified as held for trading and designated as financial asset at fair value through profit or loss at inception.

Financial liabilities at fair value through profit or loss are subsequently measured at fair value. The gain or loss arising from fair value changes, dividend income and interest expenses arising from such financial liabilities are recognized in profit or loss.

(ii) Other financial liabilities

Financial liabilities for derivatives which have no quoted price in active market or the fair value of the underlying equity instruments cannot be measured reliably and the derivative have to be settled by delivering the underlying equity instrument are subsequent measured at cost. Other financial liabilities are subsequently measured on amortized cost using effective interest rate method, the gain or loss on de-recognition and amortization is recognized in current profit or loss.

(6) De-recognition of financial liabilities

A financial liability shall be derecognized or partly derecognized when the current obligation is discharged or partly discharged. When the Company (debtor) and the creditor have signed a contract which use a new financial liability to replace the existing financial liability, and the contract terms of the new financial liability are substantially different with the existing financial liability, the existing financial liability shall be de-recognized, and the new financial liability shall be recognized at the same time.

When financial liability is derecognized or partly derecognized, the difference between the carrying amount of the derecognized portion of the financial liability and the consideration paid (include transfer of non-monetary assets or undertaking of new financial liabilities) shall be recognized in profit or loss.

IV. Significant accounting policies and accounting estimates *(Continued)*

7. Financial instruments *(Continued)*

(7) Derivatives and embedded derivatives

Derivatives are measured at fair value at the signing date of underlying contract on initial recognition, and are subsequently measured at fair value.

For combined instruments contain embedded derivatives which are not designated as financial assets or financial liabilities at fair value through profit or loss, and the embedded derivative and the main contract does not have a material relation in terms of risk and economic attributes, and when an individual instrument which is the same as the embedded derivative can be defined as derivative, the embedded derivative shall be separated from the combined instrument and treated as an individual derivative. If the embedded derivative cannot be separately measured at acquisition or subsequent balance sheet date, the combined instrument shall be designated as financial assets or financial liabilities at fair value through profit or loss.

(8) Offsetting financial assets and financial liabilities

When the Company has the legal right to offset recognized financial assets and financial liabilities, and the legal right can be executed at present, and the Company has a plan to settle the financial assets and financial liabilities at the same time or at net amount, the financial assets and financial liabilities can be presented on the balance sheet after offsetting. Except for the above circumstances, financial assets and financial liabilities cannot be offset and shall be presented separately on the balance sheet.

(9) Equity instruments

An equity instrument is a contract that proves the residual interest of the assets after deducting all liabilities in the Company. In business combination, the transaction cost for issuing equity instrument by the acquirer shall be deducted from the share premium; the excess of the transaction cost over the share premium shall be deducted from retained profits. For other equity instruments, the increased amount in shareholders' equity shall be the net amount of consideration received less transaction cost.

The distribution made by the Company to the owner of equity instrument (except for divided) shall be deducted from shareholders' equity. Fair value change of equity instruments shall not be recognized by the Company.

IV. Significant accounting policies and accounting estimates *(Continued)*

8. Receivables

Receivables comprise accounts receivable and other receivables, etc.

(1) Recognition and provision method of receivables with amounts that are individually significant and subject to separate assessment for provision for bad debts

The Company considers receivables with amounts over RMB 1 million as individually significant.

The Company assesses individually significant receivables for impairment on individual basis, financial assets which is not impaired on individual basis will be assessed for impairment collectively with a portfolio of financial assets which share similar credit risk characteristics. For receivables that are individually impaired, the receivable will not be assessed for impairment collectively with a portfolio of financial assets which share similar credit risk characteristics.

(2) Grouping basis and method of provision on receivables that are subject to provision for bad debts collectively on credit risk characteristics:

(i) Basis for grouping is as follows:

Group	Grouping basis
Group 1	Individual insignificant accounts receivable, other receivables, and individual significant accounts which not impaired on individual basis will be assessed for impairment on collective basis based on aging
Group 2	Amount due from subsidiaries (internal current account)

(i) Methods of determining provision for bad debts by grouping are as follows:

Group	Method of provision
Group 1	Aging analysis method
Group 2	No provision would be made

(iii) The provision ratios used under the ageing analysis method for the above groupings are as follows:

Age of accounts	Provision ratio used for accounts receivable (%)	Provision ratio used for other receivables (%)
Within 1 year		
1-2 years		
2-3 years	40	40
3-4 years	60	60
Over 4 years	100	100

IV. Significant accounting policies and accounting estimates *(Continued)*

8. Receivables *(Continued)*

(3) Receivables with amounts that are not individually significant but subject to separate assessment for provision for bad debts

Item	Method of provision
Reason for making separate assessment	There are objective evidence that the Company will not be able to collect the amount
Method of provision	Based on the amount of the present value of the future cash flows expected to be derived from the receivable below its carrying amount.

9. Inventories

(1) Classifications of inventories

Inventories are classified as raw materials, work in progress, finished goods and goods in transit, etc.

(2) Costing of inventories

Inventories are recorded at actual costs on acquisition. Cost of inventories comprises purchase cost, overhead and other costs. Cost for consuming and delivery of inventories is determined using the weighted average method.

(3) Basis for determining net realizable values of inventories and method for making provision for decline in the value of inventories

Net realizable value is determined based on the estimated selling price in the ordinary course of business, less the estimated costs to completion and estimated costs necessary to make the sale and related taxes. The assessment on the net realizable value of inventories shall be made based on concrete evidence obtained, the purpose of holding inventories and the effect of subsequent events.

At balance sheet date, inventories are stated at the lower of cost or net realizable value. Provision for decline in the value of inventories is made when the carrying amounts of the inventories are over their net realizable value. Amount of provision for is determined at the excess amount of the carrying amounts of an inventory item over its net realizable value.

When an inventory is impaired, if the factors that give rise to the provision previously do not exist anymore which result in a net realizable value of the inventory higher than its cost, the original provision should be reversed and recognized in profit or loss.

(4) The Company adopts the perpetual inventory system.

IV. Significant accounting policies and accounting estimates *(Continued)*

10. Long-term equity investments

(1) Recognition of cost of investment

The initial investment cost of a long-term equity investment obtained through a business combination involving entities under common control is the carrying amount of the Company's share of the subsidiary's equity at the combination date. For a long-term equity investment obtained through a business combination involving entities not under common control, the cost of business combination includes the sum of assets paid by the acquirer, liabilities paid or undertaken and the fair value of equity securities issued; Transaction costs such as audit fee, legal service fee, consultancy fee and other relevant costs incurred by the acquirer for the purpose of business combination are recognized in profit or loss as incurred; the transaction costs for the issuance of equity securities or debt securities by the acquirer for the purpose of business combination shall be recorded in the initial recognized amount of the equity securities or debt securities.

For long-term equity investments acquired other than through a business combination, the investment shall be initially recognized at cost, the cost of investment varies between different ways of acquisition, which is recognized based on the actual amount of cash consideration paid by the Company, fair value of equity instruments issued by the Company, value of investment contracts or agreement made, fair value or original carrying amount of non-monetary assets transferred or the fair value of the long-term equity investments, etc. The costs directly attributable to the acquisition of long-term equity investments, taxes or other necessary expenses are also included in the cost of investment.

(2) Subsequent measurement and recognition of profit and loss

The cost method is used for an investment and when the Company does not have joint control or 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 has joint control or significant influence over the investee. The long-term equity investment would be accounted as available for sale financial assets or financial assets at fair value through profit or loss when the Company does not have control, joint control or significant influence and the fair value of the long-term equity investment can be reliably measured.

In addition, the financial statements on company level use cost method to account for long-term investments which the Company has control over the investee.

IV. Significant accounting policies and accounting estimates *(Continued)*

10. Long-term equity investments *(Continued)*

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

(i) Long-term equity investment accounted for using cost method

Long-term equity investments accounted for using the cost method are measured at the initial investment costs, apart from the consideration paid for the acquisition of investment or cash dividend declared but not yet paid or appropriated profits which included in the consideration, investment income for the period shall include cash dividend declared by the investee or appropriated profit recognized.

(ii) Long-term equity investment accounted for using equity method

For long-term equity investment accounted for using equity method, where the initial investment cost exceeds the Company's share of the fair value of the investee's identifiable net assets at the time of acquisition, the initial investment cost of the long-term equity investment will not be adjusted; where the initial investment cost is less than the Company's share of the fair value of the investee's identifiable net assets at the time of acquisition, the difference is included in profit or loss for the current year and the cost of the long-term equity investment is adjusted accordingly.

For long-term equity investment accounted for using equity method, gain or loss on investment represent the amount of net profit or loss recognized by the investee shared by the Company. 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, for unrealized profits or loss arising from inter-transactions with associates and joint ventures, the Company eliminates the unrealized profit or loss attributed to the Company on a pro rata basis of share percentage. However, unrealized loss from inter-transactions between the Company and the investee which is regarded as asset impairment loss in accordance with "Accounting Standards for Business Enterprises 8 – Impairment of Assets" shall not be eliminated. The share of other comprehensive income of investee will be recognized in the other comprehensive income of the Company under capital surplus and the carrying amount of long-term equity investment will be adjusted accordingly.

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 investee 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 investee, the Company resumes recognizing its share of those profits only after its share of the profits equals the share of losses not recognized.

IV. Significant accounting policies and accounting estimates *(Continued)*

10. Long-term equity investments *(Continued)*

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

(iii) Acquisition of minority interest

When preparing consolidated financial statements, the difference between the increased in long-term equity investment due to acquisition of minority interest of a subsidiary and the share of net asset of the subsidiary since the acquisition date (or combination date) calculated under the new ownership ratio shall be adjusted to the capital surplus, when capital surplus is insufficient, the excess shall be adjusted to retained profits.

(iv) Disposal of long-term equity investment

When preparing consolidated financial statements, when the parent company disposes part of its subsidiary without loss of control, the difference between the consideration received and the share of net asset for the disposed portion of long-term equity investment shall be recognized in shareholders' equity; when the parent company disposes part of its subsidiary with loss of control, the accounting treatment should be in accordance with the accounting policies stated at Note IV 4 (2) "Preparation of consolidated financial statements".

For disposal of long-term equity investment in other situations, the difference between the considerations received and the carrying amount of the disposed investment shall be recognized in profit or loss; for long-term equity investment accounted for using equity method, the other comprehensive income recognized in shareholder's equity shall be reclassified to profit or loss on pro rata basis upon disposal. The retained interest is recognized at its carrying amount as long-term equity investment or other relevant financial assets, and subsequently measured in accordance with the accounting policies on long-term equity investment or financial assets previously stated. When the retained interest which originally accounted for under cost method changed to be accounted for under equity method, restatement shall be made in accordance with relevant standards.

(3) Basis for determining the existence of joint control or significant influence

Control refers to the power to govern the financial and operating policies of an investee, so as to obtain benefits from their operating activities. Joint control is the contractually agreed sharing of control over an economic activity, and exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control. Significant influence refers to the power to participate in making decisions on the financial and operating policies of an enterprise, but not the power to control, or jointly control, the formulation of such policies with other parties. When assessing whether the investor has control or significant influence over investee, potential voting rights of the investee such as convertible bonds and executable options held by the investor and other parties have been taken into consideration.

IV. Significant accounting policies and accounting estimates *(Continued)*

10. Long-term equity investments *(Continued)*

(4) Impairment of long-term equity investments

At each balance sheet date, the Company assesses whether there are any indications of impairment on long-term equity investments. If there are indications of impairment, then the recoverable amount of the investment will be estimated. If the recoverable amount of the asset is lower than its carrying amount, the difference is recognized in profit or loss as impairment.

Impairment loss on long-term equity investment will not be reversed in subsequent period once they are recognized.

11. Investment properties

Investment properties, which are properties held to earn rental or capital appreciation or both, including land use rights that have already been leased out, land use rights that are held for the purpose of sale after capital appreciation, buildings that have been already been leased out, etc.

Investment properties are measured initially at cost. Subsequent expenditures incurred in relation to an investment property is included in the cost of the investment property when it is probable that the associated economic benefits will flow to the Company and its cost can be reliably measured; otherwise, the expenditures are recognized in profit or loss in the period in which they are incurred.

The Company adopts the cost model for subsequent measurement of the investment properties, and they are depreciated or amortized on a basis consistent with the Company adopts for buildings and land use rights.

Impairment loss assessment and provision for impairment loss for investment properties are detailed at Note IV 17 “Impairment loss on non-current and non-financial assets”.

When owner-occupied property or inventories are transferred to investment property or when investment property transfer to owner-occupied property, the initial recognized amount shall be the carrying amount of the property before such transfer.

An investment property is derecognized on disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposal. The net amount of proceeds from sale, transfer, retirement or damage of an investment property net of its carrying amount and related taxes and expenses is recognized in profit or loss for the current year.

IV. Significant accounting policies and accounting estimates *(Continued)*

12. Fixed assets

(1) Recognition criteria for fixed asset

Fixed assets are tangible assets that are held for producing goods, rendering of services, leasing out to other parties or administrative purposes, with useful life more than one year. Fixed assets are recognized when the following conditions are met:

(i) it is probable that future economic benefits that are associated with the fixed asset will flow to the company

(ii) the cost can be measured reliably

(2) Depreciation for different categories of fixed assets

Fixed assets are depreciated by categories 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 categories, expected useful life and estimated residual value, the annual depreciation rates used are as following:

Category	Useful life (year)	Residual value rate (%)	Annual depreciation reate (%)
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

Residual value represents the proceeds from disposal less cost of disposal of a fixed asset the Company can receive when fixed asset is fully depreciated.

(3) Impairment loss assessment and provision for fixed assets

The impairment loss assessment method and provision method of fixed asset is detailed at Note IV 17 "Impairment loss on non-current and non-financial assets".

IV. Significant accounting policies and accounting estimates *(Continued)*

12. Fixed assets *(Continued)*

(4) Basis for identification of fixed assets held under a finance lease and its measurement

A lease that transfers substantially all the risks and rewards incidental to ownership of an asset is a finance lease, the ownership of the asset may or may not transferred. At the inception of lease, 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 leased asset is depreciated over the shorter period of the lease term and the period of expected use.

(5) Other explanations

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.

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.

Repair cost 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.

13. Construction in progress

Construction in progress is measured at actual cost. When construction in progress is ready for its intended use, all actual costs incurred are transferred into fixed assets. When construction in progress is ready for its intended use but the actual cost is not yet determined, the estimated cost according to the construction budget or actual costs 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.

The impairment loss assessment method and provision method of construction in progress is detailed at Note IV 17 "Impairment loss on non-current and non-financial assets".

IV. Significant accounting policies and accounting estimates *(Continued)*

14. Borrowing costs

Borrowing costs include loan interests, discount or premium amortization, 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 is capitalized as part of the cost of the asset, borrowing costs are started to be capitalized when expenditures for the qualifying asset have been incurred, borrowing costs have been incurred and the activities relating to the acquisition and construction that are necessary to prepare the asset for its intended use have commenced. The capitalization ceases when the qualifying assets are ready for its intended use or at a state that is saleable. Other borrowing costs are recognized in current profit or loss.

Borrowing costs arising from specific borrowings is capitalized after deducting any interest income earned from depositing the unused specific borrowings in the banks or any investment income arising on the temporary investment of those borrowings. For general borrowings, the amount of borrowing costs eligible for capitalization is determined by applying the weighted average effective interest rate of general borrowings, to the weighted average of the excess amount of cumulative expenditures on the asset over the amount of specific borrowings. The capitalization rate is calculated based on the weighted average effective interest rate.

During the capitalization period, exchange differences related to specific borrowings denominated in foreign currency are capitalized as part of the cost of the qualifying asset. Exchange differences related to general borrowings denominated in foreign currency are recognized in current profit or loss.

Qualifying assets represent fixed assets, investment properties, inventories etc. that necessarily take a substantial period of time to get ready for their intended use or sale.

Capitalization of borrowing costs is suspended during periods in which the acquisition or construction of a fixed asset is interrupted abnormally and the interruption lasts for more than 3 months, until the acquisition or construction is resumed.

IV. Significant accounting policies and accounting estimates *(Continued)*

15. Intangible assets

(1) Intangible assets

An intangible asset is an identifiable non-monetary asset without physical substance owned or controlled by the Company.

Intangible assets are initially stated at cost. Outgoings related to intangible assets are recognized as cost of intangible assets if it is probable that future economic benefits attributable to the asset will flow to the Company and the amount of outgoings can be measured reliably. Otherwise, the outgoings are expensed in profit or loss as incurred.

Land use rights acquired are usually accounted for as intangible assets. Cost of self-constructed buildings and structures and the relevant land use rights are separately accounted for as fixed assets and intangible assets. If the buildings and structures are acquired, the consideration for acquisition shall be apportioned between land use rights and buildings, if the consideration cannot be apportioned reasonably; both the land use rights and buildings are accounted for as fixed assets.

Intangible assets with finite useful lives are amortized at cost less residual value and accumulated impairment using the straight-line method over their useful lives since it is ready for use. Intangible assets with infinite useful life would not be amortized.

For an intangible asset with a finite useful life, the useful life and amortization method are reviewed at each year-end, relevant adjustments will be regarded as a change in accounting estimates. In addition, intangible asset with a infinite useful life are reviewed, if there are objective evidence that the economic benefit derived from the intangible asset is finite, then the life of that intangible asset would be estimated and it would be amortized in accordance with the accounting policies in relation to intangible assets with finite useful life.

IV. Significant accounting policies and accounting estimates *(Continued)*

15. Intangible assets *(Continued)*

(2) Research and development

The expenditure on an internal research and development project is classified into expenditure on the research phase and expenditure on the development phase.

Expenditure on the research phase is recognized in profit or loss in the period in which it is incurred.

Expenditure on the development phase is capitalized as intangible assets only if all of the following conditions are satisfied, expenditure on the development phase which cannot met all of the following conditions are recognized in current profit or loss:

(i) it is technically feasible to complete the intangible asset so that it will be available for use or sale;

(ii) management intends to complete the intangible asset, and to use or sell it;

(iii) it can be demonstrated how the intangible asset will generate economic benefits, including demonstrating that there is an existing market for products produced by the intangible asset or there is an existing market for the intangible asset itself, if the intangible asset is to be used internally, the usage of it can be demonstrated;

(iv) there are adequate technical, financial and other resources to complete the development and the ability to use of sell the intangible assets; and

(v) the expenditure attributable to the intangible asset during its development phase can be reliably measured.

Expenditures on research and development which cannot be distinguished between the research phase and development phase are recognized in profit or loss as incurred.

(3) Impairment loss assessment and provision for intangible assets

The impairment loss assessment method and provision method of intangible asset is detailed at Note IV 17 “Impairment loss on non-current and non-financial assets”.

IV. Significant accounting policies and accounting estimates *(Continued)*

16. 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, including:

(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 qualified to be 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 of the fixed asset, whichever is shorter.

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.

17. Impairment loss on non-current and non-financial assets

At balance sheet date, the Company will assess whether there are any indications of impairment on non-current and non-financial assets such as fixed assets, construction in progress, intangible asset with finite useful life, investment properties accounted for using cost model, long-term equity investments in joint ventures and associates. If any indication exists that an asset may be impaired, the recoverable amount of the asset is estimated and impairment test will be performed. Impairment test will be performed on goodwill, intangible asset with infinite useful life and intangible asset which are not yet ready for use each year, regardless of whether any indications for impairment exist.

If the result of the impairment test indicates that the recoverable amount of an asset is less than its carrying amount, a provision for impairment and an impairment loss are recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The 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. Fair value of an asset is determined based on the transaction amount in arm's length transaction; when there are no transactions but has an active market for the asset, the fair value is determined based on the bid price in the market; when there no transactions and active market for the asset, the fair value is estimated based on the best information available. Costs to sell include legal fee, taxes, logistics charges and other expenses that incurred directly to bring the asset to saleable condition. Present value of the future cash flows expected to be derived from the asset is calculated by discounting the expected future cash flows from continuous use of the asset and disposal of the asset using an appropriate discount rate. Provision for asset impairment is determined and recognized on the individual asset basis. If it is not possible to estimate the recoverable amount of an individual asset, the recoverable amount of a group of assets to which the asset belongs is determined. A group of assets is the smallest group of assets that is able to generate independent cash inflows.

IV. Significant accounting policies and accounting estimates *(Continued)*

17. Impairment loss on non-current and non-financial assets *(Continued)*

When performing impairment test on goodwill that is separately presented in the financial statements, the carrying value of goodwill is allocated to the related asset groups or groups of asset groups which are expected to benefit from the synergies of the business combination. If the result of the test indicates that the recoverable amount of an asset group or group of asset groups, including the allocated goodwill, is lower than its carrying amount, the corresponding impairment loss is recognized. The impairment loss is first deducted from the carrying amount of goodwill that is allocated to the asset group or group of asset groups, and then deducted from the carrying amounts of other assets within the asset groups or groups of asset groups in proportion to the carrying amounts of assets other than goodwill.

Once the above asset impairment loss is recognized, it will not be reversed for the value recovered in the subsequent periods.

18. Provisions

Provision is made when there is an obligation in relation to contingent events and the following conditions are met:

(1) the Company has a present obligation

(2) it is probable that an outflow of economic benefits will be required to settle the obligation

(3) the amount of the obligation can be measured reliably.

At balance sheet date, a provision is measured at the best estimate of the expenditures 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.

If the expenditures required to settle the provision is expected to be wholly or partially compensated by third party, and the compensation is expected to be received, the compensation is recognized as asset but should exceed the carrying amount of the provision.

IV. Significant accounting policies and accounting estimates *(Continued)*

19. Revenue

(1) Revenue from sales of goods

Revenue from sales of goods are recognized when the risk and reward of ownership of goods is transferred to the buyer, the Company 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 Company and the relevant revenue and costs can be measured reliably.

(2) Revenue from the rendering of services

On the balance sheet date, when the outcome of 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 the service provider, unless such amounts are deemed unfair.

The outcome of rendering of services can be measured reliably when all of the following conditions are met:

(i) The amount of revenue can be measured reliably;

(ii) It is probable that the economic benefit associated with the transaction will flow to the Company

(iii) The percentage of completion of service can be measured reliably

(iv) The cost incurred and to be incurred for rendering the service can be measured reliably.

When the outcome of rendering of services could not be measured reliably, when the costs incurred are expected to be recovered, revenues are recognized to the extent that the costs incurred that are expected to be recovered, and an equivalent amount is charged to profit or loss as service cost; when the costs incurred are not expected to be recovered, the costs incurred are recognized in profit or loss and no service revenue is recognized.

When an enterprise has entered into a contract or an agreement comprising both sale of goods and rendering of services, if the sale of goods component and the services rendering component can be separately identifiable and measurable, the sale of goods component shall be accounted for as sale of goods and the services rendering component shall be accounted for as rendering of services. If the sale of goods component and the services rendering component cannot be separately identifiable, or cannot be separately measurable despite being separately identifiable, both the sale of goods component and the services rendering component shall be accounted for as sale of goods.

IV. Significant accounting policies and accounting estimates *(Continued)*

19. Revenue *(Continued)*

(3) Revenue from construction contracts

On the balance sheet date, when the outcome of construction contracts could be measured reliably, related revenue and cost for the construction contract is recognized according to the percentage of completion.

The outcome of construction contract can be measured reliably when all of the following conditions are met:

(i) The amount of total contract sum can be measured reliably;

(ii) It is probable that the economic benefit associated with the contract will flow to the Company

(iii) The actual contract cost incurred can be clearly distinguished and measured reliably

(iv) The percentage of completion of the contract and the cost expected to be incurred in order to complete the contract can be measured reliably

When the outcome of a construction contract could not be measured reliably, but the contract cost incurred is recoverable, revenues are recognized to the extent that the actual costs incurred that are expected to be recovered, and an equivalent amount is charged to profit or loss as contract cost; when the costs incurred are not recoverable, the costs incurred are recognized in profit or loss and no contract revenue is recognized. When the factor that causes the outcome of construction contract does not exist anymore, the relevant revenue and cost of construction contract is recognized based on percentage of completion.

When the expected total contract cost exceeds the expected total contract revenue, the expected loss shall be recognized in current profit and loss.

(4) Revenue from transfer of asset use rights

The revenue is recognized on accrual basis based on the relevant contract or agreement.

(5) Interest income

Interest income is measured based on the time and effective interest rates for the Company to transfer the right to use its cash.

IV. Significant accounting policies and accounting estimates *(Continued)*

20. Government Grant

Government grants are transfers of monetary or non-monetary assets from the government to the Company at nil consideration, except for the investment made to the Company by the government at a capacity of an owner. Government grant can be classified as asset-related government grant and income-related government grant.

When government grants are received in the form of monetary assets, they are measured at the amount received or receivable. When the grant is in the form of non-monetary assets, it is measured at fair value. When fair value cannot be measured reliably, it is measured at a nominal amount. Government grant measured at nominal amount are recognized in the current profit or loss.

Asset-related government grant is recognized as deferred income and is amortized evenly in profit or loss over the useful lives of related assets. For government grants related to income, where the grant is a compensation for related expenses or losses to be incurred by the Company in the subsequent periods, the grant shall be recognized as deferred income, and recognized in profit or loss 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 Company, the grant shall be recognized immediately in profit or loss for the current year.

When the government grant previously recognized are needed to be repaid, the carrying amount of deferred income in relation to the government grant shall be reversed, when the amount of repayment exceeds the carrying amount of deferred income, the excess shall be recognized in profit or loss. When there are balances of deferred income relating to the government grant, the amount of repayment are directly recognized in profit or loss.

21. Deferred tax assets/ deferred tax liabilities

(1) Current income tax

At balance sheet date, current tax payables (or recoverable) in relation to current or prior period are calculated based on the amount of expected income tax payable (or recoverable) under applicable tax laws. Current tax expense is calculated based on taxable income which is adjusted from current accounting profit before tax under applicable tax laws.

IV. Significant accounting policies and accounting estimates *(Continued)*

21. Deferred tax assets/ deferred tax liabilities *(Continued)*

(2) 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.

No deferred tax liability is recognized for a temporary difference arising from the initial recognition of goodwill. No deferred tax liability is recognized for the taxable 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 (or deductible loss). Deferred tax liabilities are not recognized for taxable temporary differences arising from investments in subsidiaries, joint ventures and associates if the Company 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. Apart from the above exceptions, the Company recognizes deferred tax liabilities arising from all other taxable temporary differences.

No deferred tax asset is recognized for the deductible 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 (or deductible loss). Deferred tax assets are not recognized for deductible temporary differences arising from investments in subsidiaries, joint ventures and associates if it is probable that the temporary difference will not reverse in the foreseeable future, or it is not probable that taxable profit will be available in the future against which the deductible temporary differences can be utilized. Apart from the above exceptions, the Company recognizes deferred tax assets arising from all other deductible temporary differences to the extent that it is probable that taxable profit will be available in the future against which the deductible temporary differences can be utilized.

In respect of deductible losses and tax credits that can be carry forward to future years, deferred tax assets are only recognized for to the extent that it is probable that taxable profit will be available in the future against which the deductible losses and tax credits can be utilized.

At the balance sheet date, deferred tax assets and deferred tax liabilities are measured at the tax rates according to the applicable tax laws that are expected to apply to the period when the asset is realized or 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 when it is no longer probable that sufficient taxable profits will be available to allow the benefit of the deferred tax asset to be utilized. When it is probable that sufficient taxable profits will be available to allow the benefit of the deferred tax asset to be utilized, the previously written down amount shall be reversed.

IV. Significant accounting policies and accounting estimates *(Continued)*

21. Deferred tax assets/ deferred tax liabilities *(Continued)*

(3) Income tax expense

Income tax expense comprises current income tax expense and deferred tax expense.

Apart from current tax and deferred tax arising from transactions and events related to other comprehensive income or shareholders' equity are recognized in other comprehensive income or directly in equity, and deferred tax arising from business combination which adjusts the carrying amount of goodwill, all other current income tax expense and deferred tax expense or income are recognized in current profit or loss.

22. Leases

A finance lease is a lease that transfers substantially all the risks and rewards incidental to ownership of an asset, the ownership of the asset may or may not transferred at the end of the lease. An operating lease is a lease other than a finance lease.

(1) The company as a lessee in operating lease

Operating lease rental expenses are recognized on straight line basis to relevant asset cost or current profit or loss. Direct cost at the inception of lease is recognized in profit or loss. Contingent rentals are recognized in profit or loss based on actual occurrence.

(2) The company as a lessor in operating lease

Operating lease rental income is recognized in profit or loss on straight line basis. Material direct cost at the inception of lease is capitalized when incurred, and are amortized 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. Contingent rentals are recognized in profit or loss based on actual occurrence.

IV. Significant accounting policies and accounting estimates *(Continued)*

22. Leases *(Continued)*

(3) The company as a lessee in finance lease

At the inception of lease, the leased asset is recorded at 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 and the minimum lease payments is accounted for as unrecognized finance charge. In addition, direct cost in relation to the negotiation of the lease and signing of lease contract can be capitalized to the recorded amount of the leased asset. Minimum lease payments less unrecognized finance charge are presented in the balance sheet separately as long-term liability or long-term liability which due within one year.

Unrecognized finance charge is amortized using the effective interest method over the period of the lease. Contingent rentals are recognized in profit or loss based on actual occurrence.

(4) The company as a lessor in finance lease

At the inception of lease, the finance lease receivable is recognized as the sum of the minimum lease receipts and initial direct costs, at the same time recording the unguaranteed residual value; The difference between the sum of minimum lease receipts, initial direct costs and unguaranteed residual value and the sum of their present value are unrecognized interest income. Finance lease receivable less unrecognized interest income is presented in the balance sheet separately as long-term receivables and long-term receivables due within one year.

Unrecognized interest income is amortized using the effective interest method over the period of the lease. Contingent rentals are recognized in profit or loss based on actual occurrence.

23. Assets held for sale

When the Company has passed a resolution to disposed an non-current asset, and has signed an irrevocable contract with transferee, and the transfer shall be completed within one year, then the non-current asset shall be accounted for as asset held for sale, which will not be depreciated or amortized and is stated at the lower of its carrying amount or its fair value less costs to dispose. Non-current assets held for sale include individual asset and disposal group. If a disposal group is a group of asset, and goodwill arising from business combination is allocated to the group of asset in accordance with "Accounting standards for business enterprise 8 – Impairment of assets", or the disposal group is an operation operating but such asset, then the disposal group includes goodwill arising from business combination.

When an asset or disposal group previously recognized as assets held for sale no longer satisfy the conditions to be regarded as assets held for sale, the Company ceased to account for the asset as asset held for sale, and the asset is measured at the lower of:

IV. Significant accounting policies and accounting estimates *(Continued)*

23. Assets held for sale *(Continued)*

(1) The carrying amount of the asset or disposal group prior to be classified as assets held for sale, adjusted for depreciation, amortization or impairment as if they are never being classified as assets held for sale;

(2) The recoverable amount of the asset or disposal group at the date where the decision of not disposing the asset or disposal group was made.

24. Staff costs

Staff costs are accrued in the accounting period which the staff of the Company rendered service, cost of assets or expenses during the period are increased accordingly.

(1) Retirement benefit

Pursuant to relevant regulations of PRC, the Company has joined a social insurance system established and managed by the government organization. At the applicable rates based on the amounts stipulated by national government, the Company has joined and made contributions to the basic pension insurance. The contributions to social insurance mentioned above are recognized as cost of assets or charged to profit or loss on an accrual basis. After retirement of staff, the government organization bears the liability to pay the pension to the retired staff, the Company will have no further payment obligations after periodic contributions mentioned above pursuant to national regulations.

(2) Housing fund and other social insurance benefit

Pursuant to relevant regulations of PRC, the Group has joined a social insurance system established and managed by the government organization. At the applicable rates based on the amounts stipulated by national government, the Company has joined and made contributions to the housing fund, basic medical insurance, unemployment insurance, injury insurance and maternity insurance. The contributions to social insurance and housing fund mentioned above are recognized as cost of assets or charged to profit or loss on an accrual basis.

25. Profit distributions

Dividends or distributions of profits proposed in the profit appropriation plan which will be considered and approved after the balance sheet date, are not recognized as a liability at the balance sheet date but disclosed in the notes separately.

IV. Significant accounting policies and accounting estimates *(Continued)*

26. Profit distributions

The Company determines the operating segments on the basis of internal structure, management requirements and internal reporting system, and determines reporting segments based on the operating segments. Two or more operating segments can be aggregated into one operating segment if the segments have similar economic characteristics and the segments are similar in each of the following respects:

(1) the nature of each product and service;

(2) the nature of production process;

(3) the type or class of customers for their products and services;

(4) the methods used to distribute their products or provide their services;

(5) the influence brought by law, administrative regulations on production and provision of services.

27. Changes in significant accounting policy and accounting estimates

(1) Changes in accounting policy

The company has no changes in accounting policy during the year.

(2) Changes in accounting estimates

The company has no changes in accounting e during the year.

28. Prior periods adjustments

The company has no prior periods adjustments for the year.

V. Tax

1. Major types of tax and tax rates

Types of tax	Tax base and tax rate
Value-added tax	17 % on taxable revenue after offsetting deductible input VAT
Business tax	5% on taxable turnover amount
City maintenance and construction tax	5% or 7% on amount of turnover tax paid
Education surcharge	3% or 5% on amount of turnover tax paid
Enterprise income tax	25% on taxable income

2. Tax concessions

(1) The profit tax rate for Northeast Electric (HK) Co., Ltd., a wholly owned subsidiary of the company registered in HKSAR of PRC is 16.5%.

(2) Gaocai Technology Co., Ltd., a company wholly owned by the company's subsidiary – Northeast Electric (HK) Co., Ltd., was registered in the British Virgin Islands and no enterprise income tax is imposed on it.

3. Other explanations

Shenyang Kaiyi Electric.,Co., Ltd., a subsidiary of the company, is subject to the verification and collection of enterprise income tax

VI. 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	Enterprise type	Legal Representative	Organization Code
Northeast Electric (HK) Co., Ltd.	WHOLLY OWNED SUBSIDIARY	HK	TRADE	USD20M	INVESTMENT, TRADE	Limited	Tian Jiang	
Gaocai Technology Co., Ltd.	WHOLLY OWNED SUBSIDIARY	BVI	INVESTMENT	USD1.00	INVESTMENT	Limited	Wang Shankuan	
Northeast Electric (Beijing) Co., Ltd.	WHOLLY OWNED SUBSIDIARY	BEIJING	SALES	RMB2M	SALES OF MACHINERY, EQUIPMENT, ETC	Limited	Jia Shujie	66216024-9
Shenyang Kaiyi Electric Co., Ltd.	WHOLLY OWNED SUBSIDIARY	SHEN YANG	MANU-FACTURING	RMB1M	MANUFACTURING AND SALE OF ELEC TRICALEQUIPMENT EQUIPMENT,POWER CAPACITOR,ETC	Limited	Jiao Liyuan	79846962-4
Fuxin Enclosed Busbar Co., Ltd.	WHOLLY OWNED SUBSIDIARY	FUXIN	MANU-FACTURING	USD8.50M	MANUFACTURING OF ENCLOSED BUSBAR	Limited	Liu Qingmin	70168064-3

(Continue)

Name of Subsidiary	Paid-up Capital by end of period	Ending balance of other item which forms substantially a part of net investments in the subsidiaries	Share holding (%)	Voting Right (%)	Consoli-dated or not (Y/N)	Minority Interest	Minority interest used to offset profit or loss attributed to the minority shareholders	Excess of opening balance of minority interest in a subsdiary over loss attributable to minority interest of that subsidiary during the year which offset with shareholders' equity of the company	Notes
Northeast Electric (HK) Co., Ltd.	USD20M		100.00	100.00	Y				
Gaocai Technology Co., Ltd.	USD1.00		100.00	100.00	Y				
Northeast Electric (Beijing) Co., Ltd.	RMB2M		100.00	100.00	Y				
Shenyang Kaiyi Electric Co., Ltd.	RMB1M		100.00	100.00	Y				
Fuxin Enclosed Busbar Co., Ltd.	RMB8.5M		100.00	100.00	Y				

VI. Business Combination and the Consolidated Financial Statements *(Continued)*

1. Subsidiaries *(Continued)*

(2) Subsidiaries acquired through business combination under common control

Name of Subsidiary	Type	Place of Registration.	Nature of Business	Registered Capital	Business Scope	Enterprise Type	Legal Representative	Organization Code	Paid-up Capital by end of period
New Northeast Electric (Jinzhou) Power Capacitor Co., Ltd.	WHOLLY OWNED SUBSIDIARY	Jin zhou	Manufacuturing.	USD15.45M	Manufacturing of power capacitor	Limited	Liu Bing	75278947-0	USD15.45M
Jinzhou Jinrong Electric Appliance Co., Ltd.	SUBSIDIARY	Jin zhou	Manufacuturing.	RMB3M	Manufacturing of dry capacitor	Limited	Liu Bing	24203413-1	RMB2.0925M

(Continue)

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	Minority interest used to offset profit or loss attributed to the minority shareholder	Excess of opening balance of minority interest in a subsdiary over loss attributable to minority interest of that subsidiary during the year which offset with shareholders' equity of the company	Notes
New Northeast Electric (Jinzhou) Power Capacitor Co., Ltd.		100.00	100.00	Y				
Jinzhou Jinrong Electric Appliance Co., Ltd.		69.75	69.75	Y	54.05			

2. Scope of consolidation

Changes of consolidation scope are detailed in Note VI 3.

VI. Business Combination and the Consolidated Financial Statements *(Continued)*

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

Name	Net assets on the date of disposal	Net profits from the beginning of the year to the date of disposal
Shenyang Gaodongjia Desiccation Co.,Ltd.	1,571,472.45	

Shenyang Gaodongjia Desiccation Co.,Ltd. ("Gaodongjia") had been liquidated by a liquidation group formed in July 2009, dunring the year, the liquidation was completed both national and local tax registration were cancelled and the Approval Certificate of Foreign Investment was returned. The company shared the residual interest of Gaodongjia amounting to RMB 1,787,381,39 after payment for liquidation expenses. Return on investment gained by the parent company was RMB 949,414.89, while return on investment in the consolidated financial statements was RMB 687,351.18.

4. Exchange rates for major items in the financial statements of foreign operating entities

	Items of Assets and Liabilities	
Item	**December 31, 2013**	**January 1,2013**
Northeast Electric (HK) Co., Ltd.	1 HKD= 0.7862 RMB	1 HKD= 0.81085 RMB
Gaocai Technology Co., Ltd.	1 HKD= 0.7862 RMB	1 HKD= 0.81085 RMB
	Items of Revenue, Expenses and Cash Flows	
Item	**Year 2013**	**Year 2012**
Northeast Electric (HK) Co., Ltd.	1 HKD = 0.7985 RMB	1 HKD =0.8108 RMB
Gaocai Technology Co., Ltd.	1 HKD = 0.7985 RMB	1 HKD =0.8108 RMB

VII. Notes to Consolidated Financial Statements

1. Cash and deposits

	December 31, 2013			December 31, 2012		
Item	**Amount in foreign currency**	**Exchange rates**	**Amount in RMB**	**Amount in foreign currency**	**Exchange rates**	**Amount in RMB**
Cash:						
RMB			9,304.85			3,951.74
USD				1,209.00	6.2855	7,599.17
Deposits:						
RMB			102,346,636.36			68,654,524.88
HKD	466,975.47	0.7862	367,136.12	932,744.79	0.81085	756,316.11
USD	212.17	6.0969	1,299.07	213.09	6.2855	1,339.40
Others:						
RMB			5,241,184.51			11,871,697.50
Total			**107,965,560.91**			**81,295,428.80**

Remarks:

Other cash and deposit amounting to RMB 5,228,587.50 is the security deposits for performance guarantee deposited in a designated bank. All of the above security deposits mature over three months.

2. Notes receivables

(1) Classification of notes receivables

Types	December 31, 2013	December 31, 2012
Bankers' acceptance notes	40,000.00	2,694,000.00
Total	**40,000.00**	**2,694,000.00**

VII. Notes to Consolidated Financial Statements *(Continued)*

2. Notes receivables *(Continued)*

(2) Total amount of notes that are not mature but have been endorsed by the Company at the end of period are 4,701,561.00, and the top five are:

Issuing company	Issuing date	Maturity date	Amount	Derecognize or not (Y/N)	Remark
Tebian Electric Apparatus Shenyang Transformer Group Co., Ltd.	2013-10-16	2014-4-16	500,000.00	N	
Tebian Electric Apparatus Shenyang Transformer Group Co., Ltd.	2013-10-16	2014-4-16	500,000.00	N	
Tebian Electric Apparatus Shenyang Transformer Group Co., Ltd.	2013-10-16	2014-4-16	500,000.00	N	
Tebian Electric Apparatus Shenyang Transformer Group Co., Ltd.	2013-10-16	2014-4-16	500,000.00	N	
Tebian Electric Apparatus Shenyang Transformer Group Co., Ltd.	2013-10-16	2014-4-16	355,100.00	N	
Total			**2,355,100.00**		

As at the reporting date, RMB 585,021.00 of notes that are not mature but have been endorsed by the company were paid.

(3) At the end of reporting period, the company has no pledged notes receivables.

VII. Notes to Consolidated Financial Statements *(Continued)*

3. Accounts receivable

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

	December 31, 2013			
	Carrying amount		Bad-debt provision	
Type	Amount	Percentage (%)	Amount	Percentage (%)
Individually significant and subject to separate provision				
Subject to provision by groups				
Aging combination	156,050,992.73	100.00	34,760,879.38	22.28
Sub-total	156,050,992.73	100.00	34,760,879.38	22.28
Individually insignificant but subject to separate provision				
Total	**156,050,992.73**	**100.00**	**34,760,879.38**	**22.28**

(Continue)

	December 31, 2012			
	Book balance		Bad-debt provision	
Type	Amount	Percentage (%)	Amount	Percentage (%)
Individually significant and subject to separate provision				
Subject to provision by groups				
Aging combination	187,566,128.96	100.00	34,774,960.24	18.54
Sub-total	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**

Remarks:

The company regards individual account receivables over RMB 1 million is significant, based on factors such as 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.

VII. Notes to Consolidated Financial Statements *(Continued)*

3. Accounts receivable *(Continued)*

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

	December 31, 2013			December 31, 2012		
	Carrying amount			Carrying amount		
Age of Account	Amount	% of total balance	Bad-debt provision	Amount	% of total balance	Bad-debt provision
Within 1 year	89,581,017.21	57.40		98,495,193.67	52.51	
1 – 2 years	13,351,358.12	8.56		37,846,550.54	20.18	
2 – 3 years	21,054,915.17	13.49	8,421,966.07	25,321,960.45	13.50	10,128,784.18
3 – 4 years	14,311,972.29	9.17	8,587,183.37	3,140,620.60	1.67	1,884,372.36
Over 4 years	17,751,729.94	11.38	17,751,729.94	22,761,803.70	12.14	22,761,803.70
Total	**156,050,992.73**	**100.00**	**34,760,879.38**	**187,566,128.96**	**100.00**	**34,774,960.24**

(3) There are no write-off of trade receivables during the reporting period.

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

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

Name of company	Relationship	Amount	Age	Percentage to total Accounts Receivable (%)
Beijing Electric Power Company	Non-related	28,135,778.99	1-2 years	18.03
Yingkou Hong Yue Machinery Processing Co.,Ltd	Non-related	17,030,040.61	Within 1 year	10.91
Zhejiang Province Electric Power Company	Non-related	10,360,000.00	Within 1 year	6.64
Jiangsu Province Electric Power Company	Non-related	10,165,350.00	2-3 years	6.51
Shanxi Province Electric Power Company	Non-related	5,355,010.00	3-4years	3.43
Total		**71,046,179.60**		**45.52**

VII. Notes to Consolidated Financial Statements *(Continued)*

4. Prepayments

(1) Prepayments are listed by ages:

	December 31, 2013		December 31, 2012	
Age of Account	**Amount**	**Ratio (%)**	**Amount**	**Ratio (%)**
Within 1 year	1,361,136.33	94.00	6,795,272.68	95.54
1 – 2 years	18,969.50	1.31	9,399.27	0.12
2 – 3 years	1,500.27	0.10	66,592.45	0.94
Over 3 years	66,449.45	4.59	241,565.24	3.40
Total	**1,448,055.55**	**100.00**	**7,112,829.64**	**100.00**

(2) The largest five prepayments are analysed as follows:

Name of company	Relationship	Amount	Age	Reason for unsettlement
Jinzhou Sanhe Machinery Factory	Non-related	160,792.82	Within 1 year	Prepayments for materials
New Northeast Group Electric High-Voltage Equipment Co., Ltd. (Shengyang)	Non-related	138,294.00	Within 1 year	Prepayments for processing fees
Shanghai Haokong Electric Power Technology Co., Ltd.	Non-related	98,500.00	Within 1 year	Prepayments for equipments
Jinzhou Huaneng Electric Power Equipment Co., Ltd.	Non-related	95,000.00	Within 1 year	Prepayments for materials
Beijing Jinrui Copper Co., Ltd.	Non-related	73,023.08	Within 1 year	Prepayments for materials
Total		**565,609.90**		

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

VII. Notes to Consolidated Financial Statements *(Continued)*

5. Interest receivable

Item	Opening balance	Increased	Decreased	Closing balance
Li Duoduo Financial Products (13HH336)		33,066.67		33,066.67
Total		**33,066.67**		**33,066.67**

Remarks:

Fuxin Enclosed Busbar Company Limited, the wholly-owned subsidiary of the company, acquired Li Duoduo financial products issued by Shanghai Pudong Development Bank Yingkou Branch on Aug.29, 2013 for RMB 2million, which has a guaranteed income rate of 4.8% per year. The commencement date of the investment is Aug.29, 2013, and its maturity date is Feb.27, 2014. The principal and the investment return will be paid on the maturity date, interest receivable represent the interest income from the commencement date to Dec.31,2013.

6. Other receivables

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

	December 31, 2013			
	Carrying amount		Bad-debt provision	
Type	Amount	Ratio (%)	Amount	Ratio (%)
Individually significant and subject to separate provision	95,258,469.79	88.19	95,258,469.79	100.00
Subject to provision by groups				
Aging combination	12,760,999.56	11.81	2,618,157.94	20.52
Sub-total	12,760,999.56	11.81	2,618,157.94	20.52
Individually insignificant but subject to separate provision				
Total	**108,019,469.35**	**100.00**	**97,876,627.73**	**90.61**

VII. Notes to Consolidated Financial Statements *(Continued)*

6. Other receivables *(Continued)*

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

(Continue)

	December 31, 2012			
	Book balance		Bad-debt provision	
Type	Amount	Ratio (%)	Amount	Ratio (%)
Individually significant and subject to separate provision	95,259,294.20	78.20	95,259,294.20	100.00
Subject to provision by groups				
Aging combination	26,554,398.48	21.80	3,125,245.21	11.77
Sub-total	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**

Remarks:

The company regards individual other receivable over RMB1 million as significant based on factors such as 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.

VII. Notes to Consolidated Financial Statements *(Continued)*

6. Other receivables *(Continued)*

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

	December 31, 2013			December 31, 2012		
	Carrying amount			Carrying amount		
Age of Account	Amount	% of total balance	Bad-debt provision	Amount	% of total balance	Bad-debt provision
Within 1 year	8,791,869.72	68.90		7,986,623.13	30.08	
1 – 2 years	1,244,693.08	9.75		15,247,548.92	57.42	
2 – 3 years	92,398.03	0.72	36,959.21	299,679.65	1.13	119,871.86
3 – 4 years	127,100.00	1.00	76,260.00	37,933.58	0.14	22,760.15
Over 4 years	2,504,938.73	19.63	2,504,938.73	2,982,613.20	11.23	2,982,613.20
Total	**12,760,999.56**	**100.00**	**2,618,157.94**	**26,554,398.48**	**100.00**	**3,125,245.21**

(3) There are no write-off of other receivables during the reporting period.

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

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

Content of Receivable	Carrying amount	Provision for 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 VII.6.(7).1
Jinzhou Power Capacity Co., Ltd.	19,168,469.79	19,168,469.79	100.00	See Notes VII.6.(7).2
Total	**95,258,469.79**	**95,258,469.79**		

VII. Notes to Consolidated Financial Statements *(Continued)*

6. Other receivables *(Continued)*

(6) 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	70.44
Jinzhou Power Capacity Co., Ltd.	Non-related	19,168,469.79	Over 4 years	17.75
Li Duoduo Financial Products (13HH336)	Non-related	2,000,000.00	Within 1 year	1.85
Zhongdianji International Tendering Co., Ltd.	Non-related	815,200.00	Within 1 year	0.75
Fuxin Aluminum alloy factory	Non-related	534,518.86	Over 4 years	0.49
Total		**98,608,188.65**		**91.28**

(7) Characteristics or contents of other receivables of significant amount

(i) By end of the 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

VII. Notes to Consolidated Financial Statements *(Continued)*

6. Other receivables *(Continued)*

(7) Characteristics or contents of other receivables of significant amount *(Continued)*

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.

(ii) By end of period there are receivables due from Jinzhou Power Capacity Co. Ltd of RMB 19,168,469.79. The Company has made full amount of provision due to unhealthy financial position and no operation activities of Jinzhou Power Capacity Co. Ltd.

(iii) The content of Li Duoduo financial products (13HH336) amounting to RMB 2,000,000.00 are detailed in Notes VII 5 "Interest Receivable".

7. Inventories

(1) Classification of inventories

	December 31, 2013			December 31, 2012		
Item	**Book balance**	**Provision for decline in value**	**Book value**	**Book balance**	**Provision for decline in value**	**Book value**
Raw Material	15,606,125.60	63,717.14	15,542,408.46	19,606,255.83	71,485.28	19,534,770.55
Work in progress	5,473,756.22		5,473,756.22	9,668,853.47		9,668,853.47
Finished goods	14,028,422.99	2,964,655.59	11,063,767.40	14,140,577.23	2,512,027.94	11,628,549.29
Total	**35,108,304.81**	**3,028,372.73**	**32,079,932.08**	**43,415,686.53**	**2,583,513.22**	**40,832,173.31**

VII. Notes to Consolidated Financial Statements *(Continued)*

7. Inventories *(Continued)*

(2) Provisions for decline in value

		Provisions during	Decrease during the period		
Type of inventory	**December 31, 2012**	**the period**	**Reverse**	**Write off**	**December 31, 2013**
Raw Material	71,485.28			7,768.14	63,717.14
Finished goods	2,512,027.94	491,500.86		38,873.21	2,964,655.59
Total	**2,583,513.22**	**491,500.86**		**46,641.35**	**3,028,372.73**

(3) Analysis for provisions for decline in value and its reversal

Type of inventory	Basis for provisions	Reason for reversal of provision during the period	Ratio of reversed amount to total balance of inventory
Raw Material	Net realizable value lower than cost	Used for production	
Finished goods	Net realizable value lower than cost	Inventory being sold	

8. Non-current asset due within 1 year

Item	December 31, 2013	December 31, 2012	Remark
Rent fees	2,365,763.02		
Improvement expenditures for fixed assets rented	328,258.74		
Total	**2,694,021.76**		

Remarks:

Non-current asset due within 1 year represents paid rent fees and improvement expenditures for fixed assets rented such as lands, buildings and machinery for which the lease term will be ended in 2014, rented by New Northeast Electric (Jinzhou) Power Capacitor Co., Ltd., a wholly owned subsidiary.

VII. Notes to Consolidated Financial Statements *(Continued)*

9. Long-term equity investments

(1) Classification of long-term equity investments

Item	December 31, 2012	Increment	Decrement	December 31, 2013
Investment in associate	53,264,693.29		1,627,580.92	51,637,112.37
Other long term equity investment	75,052,065.74		2,003,498.91	73,048,566.83
Less: Provision for impairment on long-term equity investment	21,091,870.15		634,565.90	20,457,304.25
Total	**107,224,888.88**			**104,228,374.95**

(2) Details of Long-term equity investments

Investee	Accounting method	Investment cost	December 31, 2012	Changes	December 31, 2013
Wei Da High-Voltage Electric Co., Ltd.	Equity method	HKD48,584,913.80	39,724,888.88	-1,215,968.20	38,508,920.68
Shenyang Zhaoli High-voltage Electric Equipment Co., Ltd.	Cost method	92,317,655.00	67,500,000.00	-1,780,545.73	65,719,454.27
Total			**107,224,888.88**	**-2,996,513.93**	**104,228,374.95**

(Continue)

Investee	% of Shares held	% of Voting rights held	Note to difference between voting and holding ratio	Provision for impairment	Current provision for impairment	Cash dividends
Wei Da High-Voltage Electric Co., Ltd.	20.80	20.80		13,128,191.69		
Shenyang Zhaoli High-voltage Electric Equipment Co., Ltd.	6.89	6.89		7,329,112.56		
Total				**20,457,304.25**		

Remarks:

(1) The decrease in long-term equity investments for the period comprises exchange difference arising from translation of financial statements of RMB 2,988,190.76 and share of net loss for the period of RMB 8,323.17 from Wei Da High-Voltage Electric Co., Ltd. under equity method.

(2) All investee are non-listed companies.

VII. Notes to Consolidated Financial Statements *(Continued)*

9. Long-term equity investments *(Continued)*

(3) Investments in associates

Investee	Enterprise type	Reg. place	Legal representative	Business nature	Reg. capital	% of shares held	% of Voting rights held
Weida High-Voltage Electric Co., Ltd.	Limited	BVI	LoYuet	Investment holding	USD 12,626	20.80	20.8

(Continue)

Investee	Total Asset by end of period	Total Liabilities by end of period	Total Net Asset by end of period	Total Operating Income	Net Profit for the period	Relationship	Organization Code
Weida High-Voltage Electric Co., Ltd.	185,235,853.23	96,808.74	185,139,044.49		-40,015.22	Significant influence	

(4) Provision for impairment on long-term equity investment

Item	December 31, 2012	Increment	Decrement	December 31, 2013
Weida High-Voltage Electric Co., Ltd.	13,539,804.41		411,612.72	13,128,191.69
Shenyang Zhaoli High-voltage Electric Equipment Co., Ltd.	7,552,065.74		222,953.18	7,329,112.56
Total	**21,091,870.15**		**634,565.90**	**20,457,304.25**

Remarks:

The decrease in long-term equity investments for the period was due to exchange difference arising from translation of foreign currency financial statements.

VII. Notes to Consolidated Financial Statements *(Continued)*

10. Fixed assets

(1) Fixed assets

Item	December 31, 2012		Increment	Decrement	December 31, 2013
I. Total fixed assets – at cost	150,911,253.14		12,393,986.69	3,017,439.06	160,287,800.77
Include: Buildings and structures	48,193,147.57				48,193,147.57
Machinery and equipment	77,569,744.32		11,949,064.79	2,031,464.93	87,487,344.18
Motor Vehicles and others	25,148,361.25		444,921.90	985,974.13	24,607,309.02
		Current year addition	**Charge for the year**		
II. Accumulated depreciation	86,237,950.03		6,553,954.02	1,912,125.97	90,879,778.08
Include: Buildings and structures	33,402,309.41		791,102.28		34,193,411.69
Machinery and equipment	38,525,066.99		4,095,700.96	1,342,361.25	41,278,406.70
Motor Vehicles and others	14,310,573.63		1,667,150.78	569,764.72	15,407,959.69
III. Total net book value	64,673,303.11				69,408,022.69
Include: Buildings and structures	14,790,838.16				13,999,735.88
Machinery and equipment	39,044,677.33				46,208,937.48
Motor Vehicles and others	10,837,787.62				9,199,349.33
IV. Total provision for Impairment	1,897,629.74			70,000.00	1,827,629.74
Include: Buildings and structures	317,644.79				317,644.79
Machinery and equipment	1,509,984.95				1,509,984.95
Motor Vehicles and others	70,000.00			70,000.00	
V. Total Carrying Amount	62,775,673.37				67,580,392.95
Include: Buildings and structures	14,473,193.37				13,682,091.09
Machinery and equipment	37,534,692.38				44,698,952.53
Motor Vehicles and others	10,767,787.62				9,199,349.33

Total depreciation during the period is RMB 6,553,954.02. Decrement on original cost and accumulated depreciation was due to disposal of fixed asset and decrement of fixed assets arising from liquidation of Shenyang Gaodongjia Desiccation Co., Ltd., subsidiary of the company.

VII. Notes to Consolidated Financial Statements *(Continued)*

10. Fixed assets *(Continued)*

(2) Fixed assets with restricted ownership

As at 31 December 2013, buildings with net book value of RMB 4,668,529.54 are pledged to Bank of China, Fuxin Branch by Fuxin Enclosed Busbar Company Limited – a wholly owned subsidiary of the Company for a loan of RMB 8 million.

(3) There is no temporarily idle fixed asset during the reporting period.

(4) There is no fixed asset acquired under financial lease during the reporting period.

(5) There is no fixed asset leased out under operating lease during the reporting period.

(6) There is no fixed asset held-for-sale by the end of period.

(7) There is no fixed asset with certificate of title to be obtained.

(8) All buildings belong to the company are located in China, which land use rights are within 50 years.

11. Construction in progress

	December 31, 2013			December 31, 2012		
Item	**Book balance**	**Provision for Impairment**	**Net book value**	**Book balance**	**Provision for Impairment**	**Net book value**
Reconstruction of Mutual Inductor Plant				228,933.81		228,933.81
Total				**228,933.81**		**228,933.81**

Remarks:

Construction in progress was transferred into fixed assets upon completion of construction during the period.

VII. Notes to Consolidated Financial Statements *(Continued)*

12. Intangible assets

Item	December 31, 2012	Increment	Decrement	December 31, 2013
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	2,960,331.56	135,490.12		3,095,821.68
Utility model patent	450,000.00			450,000.00
Software	207,000.00			207,000.00
Land use rights	2,303,331.56	135,490.12		2,438,821.68
III. Total provision for impairment				
Utility model patent				
Software				
Land use rights				
IV. Total carrying amount	4,471,169.49			4,335,679.37
Utility model patent				
Software				
Land use rights	4,471,169.49			4,335,679.37

Remarks:

(1) Amortization during the period is RMB 135,490.12.

(2) As at 31 December 2013, land use right of RMB 4,335,679.37 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.

(3) All land use rights belong to the company are located in China, with useful life within 42 years.

VII. Notes to Consolidated Financial Statements *(Continued)*

13. Long-term deferred expenses

Item	December 31, 2012	Increment	Amortization	Other decrement	December 31, 2013	Reasons for other decrement
Rents for buildings	1,353,690.05		738,760.20	614,929.85		Reclassified to non-current asset due within 1 year.
Rents for machinery	3,450,000.00		1,800,000.00	1,650,000.00		Reclassified to non-current asset due within 1 year
Rents for lands	210,833.21		110,000.04	100,833.17		Reclassified to non-current asset due within 1 year
Improvement expenditures for fixed assets rented	1,015,345.34		516,857.52	328,258.74	170,229.08	Reclassified to non-current asset due within 1 year
Total	**6,029,868.60**		**3,165,617.76**	**2,694,021.76**	**170,229.08**	

14. Deferred tax assets

(1) Deferred tax assets recognized

	December 31, 2013		December 31, 2012	
Item	Deferred Tax Assets	Deductible temperory difference	Deferred Tax Assets	Deductible temperory difference
Provision for impairment for assets	10,722,736.62	42,890,946.46	9,320,208.65	37,280,834.59
Total	**10,722,736.62**	**42,890,946.46**	**9,320,208.65**	**37,280,834.59**

(2) Details of deductible temperory difference

Item	December 31, 2013	December 31, 2012
Bad debt provision	41,646,742.21	36,278,359.26
Provision for decline in value of inventory	1,244,204.25	1,002,475.33
Total	**42,890,946.46**	**37,280,834.59**

VII. Notes to Consolidated Financial Statements *(Continued)*

15. Details of provisions for assets impairment

			Decrement		
Item	**December 31, 2012**	**Increment**	**Reversal**	**Write off**	**December 31, 2013**
I. Bad debt provision	133,272,604.44	7,818,401.86	3,535,813.00	4,917,686.19	132,637,507.11
II. Provision for decline in value of inventory	2,583,513.22	491,500.86		46,641.35	3,028,372.73
III. Provision for impairment of long-term equity investment	21,091,870.15			634,565.90	20,457,304.25
IV. Provision for impairment of fixed assets	1,897,629.74			70,000.00	1,827,629.74
Total	**158,845,617.55**	**8,309,902.72**	**3,535,813.00**	**5,668,893.44**	**157,950,813.83**

Remarks:

Write-off of bad debt provision for RMB 4,917,686.19 is due to changes of consolidated scope.

Decrement of provision for impairment of long-term equity investment of RMB 634,565.90 was due to exchange difference.

Decrements of provision for decline in value of inventory of RMB 46,641.35 was arising from selling and utilizing of goods.

Write-off of provision for fixed assets of RMB 70,000.00 is due to disposal of motor vehicle.

VII. Notes to Consolidated Financial Statements *(Continued)*

16. Assets with restricted ownership or right of use

Item	December 31, 2012	Increment	Decrement	December 31, 2013
Land use rights in intangible assets	4,471,169.49		135,490.12	4,335,679.37
Buildings and structures in fixed assets	4,951,425.58		282,896.04	4,668,529.54
Other cash and deposit	9,316,497.50		4,087,910.00	5,228,587.50
Total	**18,739,092.57**		**4,506,296.16**	**14,232,796.41**

Remarks:

The details of restriction on land use rights and buildings and structures are shown in Note VII.10(2) and VII. 12(2). The details of restriction on cash and deposit are shown in Note VII.1. Decrements in the current year are arising from amortization of land use rights, accumulated depreciation of buildings and structures and maturity of security deposit.

17. Short-term borrowings

(1) Classification:

Item	December 31, 2013	December 31, 2012
Bank borrowings, Secured	8,000,000.00	8,000,000.00
Total	**8,000,000.00**	**8,000,000.00**

Remarks:

According to the terms of borrowings, borrowings can be classified as secured loans, pledged loans and guaranteed loans. Details of security under secured loan and their amounts are shown in Note VII 10 (2) and Note VII 12 (2).

The secured loan was obtained from Bank of China, Fuxin Branch by Fuxin Enclosed Busbar Company Limited – a wholly owned subsidiary of the Company amounting to RMB 8 million.This loan was drawn by installments and would be repaid at maturity date, interest rate of the loan is 25% above the one year benchmark lending rate announced by People's Bank of China (i.e. 7.5% per year), the loan period is from August 9, 2013 to Novermber 6, 2014.

(2) As at December 31, 2013, there are no matured short-term borrowings unpaid.

VII. Notes to Consolidated Financial Statements *(Continued)*

18. Accounts payable

(1) Aging analysis

Age of account	December 31, 2013	December 31, 2012
Within 1 year	40,051,697.91	44,382,540.91
1-2 years	2,744,573.33	3,492,634.80
2-3 years	1,163,917.46	1,356,229.03
Over 3 years	6,532,455.74	10,541,496.55
Total	**50,492,644.44**	**59,772,901.29**

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

(3) Accounts payables aged over 1 year mainly represents unsettled balance arising from purchase of goods.

19. Receipts in advance

(1) Aging analysis

Age of account	December 31, 2013	December 31, 2012
Within 1 year	6,851,055.97	10,954,208.79
1-2 years	1,553,000.00	2,758,130.00
2-3 years	196,340.00	17,367.50
Over 3 years	682,867.50	665,500.00
Total	**9,283,263.47**	**14,395,206.29**

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

(3) Analysis of receipt in advance with significant amount aged over 1 year:

Name	Amount	Remarks
Guizhou Xiyuan Electric Co., Ltd.	1,233,000.00	Receipts in advance for goods in accordance with contract terms

Receipts in advance aged over 1 year are mainly sales proceeds received in advance in accordance with contract term for selling enclosed busbar to Guizhou Xiyuan Electricity Co., Ltd., the total contract sum is RMB 4,110,000.00.

VII. Notes to Consolidated Financial Statements *(Continued)*

20. Salaries payable

(1) Details of salaries payable

Item	December 31, 2012	Increment	Decrement	December 31, 2013
I. Salaries, bonus, subsidies and grants	106.34	17,226,471.88	17,226,157.11	421.11
II. Staff welfare	62,636.11	1,166,403.32	1,229,039.43	
III. Social insurance	143,698.65	6,223,472.66	6,266,398.01	100,773.30
Basic medical insurance	10,954.37	1,410,712.32	1,421,351.92	314.77
Basic pension insurance	110,617.26	4,105,499.93	4,128,000.15	88,117.04
Work injury insurance	8,080.34	202,691.45	204,859.36	5,912.43
Maternity insurance	2,721.47	101,720.86	102,104.35	2,337.98
Unemployment insurance	11,325.21	402,848.10	410,082.23	4,091.08
IV. Housing funds	431,500.34	2,333,629.96	2,510,374.30	254,756.00
V. Union expenses and employees education expenses	1,553,369.33	552,115.50	144,616.97	1,960,867.86
Total	**2,191,310.77**	**27,502,093.32**	**27,376,585.82**	**2,316,818.27**

Remark:

There's no long outstanding salaries payable to employees.

VII. Notes to Consolidated Financial Statements *(Continued)*

20. Salaries payable *(Continued)*

(2) Remuneration of directors, supervisors and senior management

		Total remuneration	
Name	**Position**	**Year 2013**	**Year 2012**
Su Weiguo	Chairman	292,032.04	280,169.57
Wang Shouguan	Vice Chairman	128,571.42	85,714.32
Liu Bing	Director	211,945.84	240,551.60
Liu Qingmin	Director	162,721.90	144,970.62
Liu Tongyan	Director (resigned)	42,170.42	225,861.87
Wang Yunxiao	Independent director	47,619.04	43,650.79
Liang Jie	Independent director	47,619.04	
Liu Hongguang	Independent director	47,619.04	
Wu Qicheng	Independent director (resigned)	5,952.38	43,650.79
Xiang Yongchun	Independent director (resigned)	5,952.38	43,650.79
Dong Liansheng	Chairman of the Supervisory Committee	5,952.38	
Jiao Liyuan	Supervisor	178,606.34	
Liu Xuehou	Staff Representative Supervisor	163,090.00	142,979.60
Bai Lihai	Supervisor (resigned)	17,798.87	166,316.23
Total		**1,357,651.09**	**1,417,516.18**

Mr. Liu Tongyan resigned from the position of director and vice general manager since May 2013 due to changes of job.

Wu Qicheung and Xiang Yongchun resigned from the position of independent director of the company upon expiry of contract term with the approval of the board of directors on 14 January 2013. Liang Jie and Liu Hongguang were independent directors of the company newly appointed during the period.

Bai Lihai resigned from the position of supervisor of the company upon expiry of contract term with the approval of Supervisory Committee on 14 January 2013. Jiao Liyuan was the supervisor newly appointed during the period.

(3) The details of the five individuals with high remuneration during the period were shown in Note VII 20 (2).

VII. Notes to Consolidated Financial Statements *(Continued)*

21. Tax payable

Item	December 31, 2013	December 31, 2012
Enterprise income tax	2,844,286.52	906,939.79
Value-added tax	1,762,756.90	5,672,769.22
City maintenance and construction tax	171,259.75	487,790.63
Education surcharge	126,021.99	352,115.46
Individual income tax	32,873.09	36,821.46
Tenure tax	59,149.50	59,149.50
Housing property tax	6,072.17	20,614.66
Other	60,531.48	52,467.15
Total	**5,062,951.40**	**7,588,667.87**

Remark:

(1) The profits tax rate of Northeast Electric (HK) Co., Ltd., a wholly owned subsidiary of the company registered in HKSAR of PRC is 16.5%. There is no profits tax in the current year as it is suffered from operating losses.

(2) Gaocai Technology Co., Ltd. a wholly owned subsidiary of the company was registered in the British Virgin Islands. No enterprise income tax is imposed on it.

22. Other payables

(1) Aging analysis

Age of account	December 31, 2013	December 31, 2012
Within 1 year	4,482,578.20	4,112,599.00
1-2 years	920,108.34	3,545,367.19
2-3 years	884,075.16	2,940,372.74
Over 3 years	40,294,112.86	37,878,025.57
Total	**46,580,874.56**	**48,476,364.50**

(2) Details of other payables to shareholders holding 5% or above voting shares of the company or balance with related parties are shown in Note VIII. 4. Payables to related parties.

(3) Other Payables with significant amount aged over 1 year represent current account balance not yet settled.

VII. Notes to Consolidated Financial Statements *(Continued)*

23. Estimated liabilities

Parties being guaranteed	December 31, 2012	Increment	Decrement	December 31, 2013
Jinzhou Power Capacitor Co., Ltd.	60,721,078.25			60,721,078.25
Jindu Hotel	24,000,000.00		24,000,000.00	
Total	**84,721,078.25**		**24,000,000.00**	**60,721,078.25**

Remarks:

(1) 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.

(2) 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 of RMB2,890,000.00, and asking for the company to assume repayment. The court has sentenced the company to assume joint liability for repaying RMB17,000,000.00 and relative interests of RMB2,890,000.00 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. On 5 March 2008, the Intermediate Court of Jinzhou City released an enforcement notice to the Company, requesting the Company to fulfil obligations defined by the sentence. The company therefore estimate liability of RMB19,890,000.00. Up till the reporting date, the company has not paid the above mentioned liability.

VII. Notes to Consolidated Financial Statements *(Continued)*

23. Estimated liabilities *(Continued)*

Remarks (Continued):

(3) 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. On 25 August 2010, the Intermediate Court of Jinzhou City issued (2008) Jin Zhi Yi Zi 00067 execution notice, confiscated the 10% equity interest in Shenyang Kaiyi Electric Co., Ltd. held by the company. Therefore the company has estimated liability of RMB26,366,578.25. The company has not paid the above mentioned debt by the report date.

(4) The company has provided guarantee for Jindu Hotel for loans of RMB 24,000,000.00 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, The Company has estimated liability of RMB 24,000,000.00 according to the Rulings. On Jul. 15, 2005, ICBC Yinxin Branch signed <Transfer of Creditor's Rights> with China Great Wall Asset Management Corp Shenyang Rep. Office (hereinafter referred to as 'Great Wall Asset'), transferring the relative rights. On Aug.14, 2012, Great Wall Asset made declaration of equity transfer on Liaoning Daily with Liaoning Shun Long Commercial & Trade Co., Ltd. (hereunder referred to as 'Shun Long Comm Trade'), transferring creditor's rights worth of RMB 23,910,000.00 to the latter. Shun Long Comm Trade sent a Communication Letter to the Company on Oct.9, 2013, asking for repayment of the above-mentioned debts and interest. On Nov. 4, 2013 the Company has signed Debt Restructuring Agreement with Shun Long Comm Trade, stipulating repayment of RMB 18,500,000.00 before Dec. 31, 2013 by the Company, 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 ICBC Yinxin Branch, and own right of claim to the Borrower –Jundu Hotel. By December 31, 2013, the Company has repaid RMB 18,500,000.00 which is written in the repayment agreement. Thus the guarantee liability of this estimated liability has been exempted. RMB 5,500,000.00 from gains of debt restructuring was recognized by the Company.

VII. Notes to Consolidated Financial Statements *(Continued)*

24. Share capital

	December 31, 2012		Increment/Decrement (+/-)					December 31, 2013	
Item	**Amount**	**Ratio**	**New shares issued**	**Stock dividend**	**Reserve to shares**	**Others**	**Sub total**	**Amount**	**Ratio**
I. Shares subject to trading restriction									
1. State-owned shares									
2. State-owned legal person owned shares									
3. Other domestic shares	5,999,022.00	0.69%						5,999,022.00	0.69%
Include.: Domestic non-state-owned legal shares	5,999,022.00	0.69%						5,999,022.00	0.69%
Sub-total	5,999,022.00	0.69%						5,999,022.00	0.69%
II. shares not subject to trading restriction									
1. Ordinary share in RMB	609,420,978.00	69.78%						609,420,978.00	69.78%
2. Foreign shares listed overseas	257,950,000.00	29.53%						257,950,000.00	29.53%
Sub-total	867,370,978.00	99.31%						867,370,978.00	99.31%
III. Total shares	**873,370,000.00**	**100.00%**						**873,370,000.00**	**100.00%**

There are no changes of share capital in the current year.

25. Capital reserve

Item	December 31, 2012	Increment	Decrement	December 31, 2013
Share premium	115,431,040.00			115,431,040.00
Others reserve	767,991,363.92			767,991,363.92
Total	**883,422,403.92**			**883,422,403.92**

There are no changes of capital reserve in the current year.

VII. Notes to Consolidated Financial Statements *(Continued)*

26. Surplus reserves

Item	December 31, 2012	Increment	Decrement	December 31, 2013
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**

There are no changes of surplus reserves in the current year.

27. Accumulated losses

Item	Ratio of appropriation or distribution	Year 2013	Year 2012
Accumulated losses at the end of last year		-1,558,580,151.68	-1,569,721,146.49
Adjustment for accumulated losses at the beginning of the year			
Accumulated losses at the beginning of the year after adjustment		-1,558,580,151.68	-1,569,721,146.49
Add: Net Profit attributable shareholders of the Company for the year		9,886,802.75	11,140,994.81
Less: Appropriation for statutory surplus reserve			
Appropriation for optional surplus reserve			
Ordinary shares dividends payable			
Ordinary shares dividends converted to equity			
Accumulated losses at end of period		-1,548,693,348.93	-1,558,580,151.68

VII. Notes to Consolidated Financial Statements *(Continued)*

28. Revenue and cost of sales

(1) Revenue and cost of sales

Item	Year 2013	Year 2012
Main business income	195,886,821.74	217,072,835.43
Other business income	87,304.08	148,006.38
Total income	**195,974,125.82**	**217,220,841.81**
Main business cost	138,420,271.28	156,177,240.41
Other business cost	66,972.81	80,363.64
Total cost of sales	**138,487,244.09**	**156,257,604.05**

(2) Main business (by products)

	Year 2013		Year 2012	
Products	**Business income**	**Cost of sale**	**Business income**	**Cost of sale**
Enclosed Busbar	62,427,820.64	47,982,020.65	56,034,663.79	37,990,027.35
Power Capacitor	108,143,445.45	67,024,182.24	113,964,496.29	77,793,794.25
High-voltage Switchgear	25,315,555.65	23,414,068.39	47,073,675.35	40,393,418.81
Sub total	**195,886,821.74**	**138,420,271.28**	**217,072,835.43**	**156,177,240.41**
Less: Internal offsetting				
Total	**195,886,821.74**	**138,420,271.28**	**217,072,835.43**	**156,177,240.41**

VII. Notes to Consolidated Financial Statements *(Continued)*

28. Revenue and cost of sales *(Continued)*

(3) Main business (by regions)

	Year 2013		Year 2012	
Regions	**Business income**	**Cost of sale**	**Business income**	**Cost of sale**
Northeast	108,615,997.49	71,755,880.42	66,998,073.63	44,993,074.70
Central North	35,153,050.81	29,242,904.64	62,967,325.61	51,496,271.28
Central	4,619,783.61	2,873,294.42	15,444,457.47	10,316,092.76
Central East	23,894,895.43	15,727,042.14	43,565,396.07	29,710,184.61
Central South	6,728,068.98	4,328,697.99	6,811,495.84	4,496,410.34
Southwest	13,098,256.87	12,331,875.22	17,765,865.78	12,762,253.53
Northwest	3,776,768.55	2,160,576.45	3,520,221.03	2,402,953.19
Sub total	**195,886,821.74**	**138,420,271.28**	**217,072,835.43**	**156,177,240.41**
Less: Internal offsetting				
Total	**195,886,821.74**	**138,420,271.28**	**217,072,835.43**	**156,177,240.41**

(4) Business income from top 5 customers

Period	Amount	Ratio of total business income (%)
Year 2013	118,850,386.92	60.65
Year 2012	111,396,392.44	51.28

(5) Purchase from top 5 suppliers

Period	Amount	Ratio of total purchase (%)
Year 2013	58,187,758.21	53.19
Year 2012	38,144,500.13	28.46

Remarks:

The company engages in production and sales of power transmission equipment, which mainly operates in one segment and thus no segment reporting is required.

VII. Notes to Consolidated Financial Statements *(Continued)*

29. Business tax and surcharges

Item	Year 2013	Year 2012
Business tax	8,250.00	200,750.00
City maintenance and construction tax	789,370.64	923,178.99
Education Surcharges	563,836.17	655,563.54
Total	**1,361,456.81**	**1,779,492.53**

30. Selling expenses

Item	Year 2013	Year 2012
Total	**15,781,817.05**	**17,710,724.42**
Include: Transportation fee	4,874,879.31	4,625,043.03
Consultation fee	3,536,484.78	3,886,883.50
Salaries & Benefits of employees	3,306,177.59	4,311,890.66
Travelling expense	1,721,017.75	1,386,286.79
After-Sales services Expenses	577,845.44	495,686.41
Bidding fee	514,181.65	1,289,225.11
Material Consumption	453,445.77	282,829.33
Entertainment fee	380,846.10	466,360.90

VII. Notes to Consolidated Financial Statements *(Continued)*

31. Administrative expenses

Item	Year 2013	Year 2012
Total	**29,255,459.55**	**31,231,758.49**
Include: Salaries & Benefits of employees	15,026,243.31	13,466,416.67
Office expenses	3,588,471.96	3,884,430.11
Depreciation expenses	2,871,966.33	2,777,387.61
Agency fee	1,368,771.94	1,557,446.91
Heating expenses	1,324,444.91	1,392,167.01
Taxes	1,185,214.55	1,739,016.70
Entertainment	1,324,628.94	1,673,431.82
Travelling expense	883,338.50	1,677,387.09
Intangible assets amortization	838,165.48	838,165.34
Rents & leases	622,596.60	729,787.10

32. Finance expenses

Item	Year 2013	Year 2012
Interest Expenses	609,006.67	581,983.54
Less: Interest Income	652,283.92	753,262.12
Exchange difference	5,895.91	-514.65
Bank charges	40,181.30	90,717.97
Total	**2,799.96**	**-81,075.26**

Interest expenses represents interest arising from bank loan which would be paid at maturity date, details of the bank loan are shown in Note VII 17 (1) short-term borrowings.

VII. Notes to Consolidated Financial Statements *(Continued)*

33. Return on investments

(1) Details of return on investment

Item	Year 2013	Year 2012
Return on long-term equity investment under equity method	-8,323.17	-6,151.36
Gain on disposal on long-term equity investment	687,351.18	
Total	**679,028.01**	**-6,151.36**

Remarks:

Gain on disposal on long-term equity investment was arising from the liquidation of Shenyang Gaodongjia Desiccation Co., Ltd., details are shown in Note VI. 3.

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

Investee	Year 2013	Year 2012
Wei Da High-voltage Electric Co. Ltd	-8,323.17	-6,151.36
Total	**-8,323.17**	**-6,151.36**

Remarks:

Fluctuation on long-term equity investment under equity method compared to last year are due to changes in net profit of Wei Da High-Voltage Electric Co. Ltd.

34. Assets impairment loss

Item	Year 2013	Year 2012
Bad debt expenses	4,282,588.86	1,594,159.75
Provision for decline in value on inventory	491,500.86	71,308.68
Impairment loss on long-term equity investment		2,088,298.55
Total	**4,774,089.72**	**3,753,766.98**

VII. Notes to Consolidated Financial Statements *(Continued)*

35. Non-operating income

Item	Year 2013	Year 2012	Amounts included in the current extraordinary profit & loss
Gain on disposal of non-current assets	193,378.89	98,249.96	193,378.89
Include: Gain on disposal of fixed assets	193,378.89	98,249.96	193,378.89
Gain on disposal of intangible assets			
Gain on debt reconstruction	5,511,900.00	6,993,929.00	5,511,900.00
Others	51,656.89	14,449.58	51,656.89
Total	**5,756,935.78**	**7,106,628.54**	**5,756,935.78**

Remarks:

RMB 5,500,000.00 from gains on debt restructuring in relation to guarantee granted to Jindu Hotel, details are shown in Note VII.23.(4).

36. Non-operating expenses

Item	Year 2013	Year 2012	Amounts included in the current extraordinary profit & loss
Loss on disposal of non-current assets	1,480.42	21,964.40	1,480.42
Include: loss on disposal of fixed assets	1,480.42	21,964.40	1,480.42
Loss on disposal of intangible assets			
Liquidated damages		750,000.00	
Others	2,541.68	1,326.08	2,541.68
Total	**4,022.10**	**773,290.48**	**4,022.10**

37. Income tax expenses

Item	Year 2013	Year 2012
Current income tax expense in accordance with applicable tax laws and regulations	4,484,898.44	2,105,755.70
Deferred income tax expense	-1,402,527.97	-246,091.78
Total	**3,082,370.47**	**1,859,663.92**

VII. Notes to Consolidated Financial Statements *(Continued)*

38. Basic earnings per share and diluted earnings per share

(1) Details of basic earnings per share and diluted earnings per share

	December 31, 2013		December 31, 2012	
Item	Basic earnings per share	Diluted earnings per share	Basic earnings per share	Diluted earnings per share
Net Profit attributable to Ordinary Shareholders of the Company	0.01	0.01	0.01	0.01
Extraordinary Profit & Loss attributable to Ordinary Shareholders	0.004	0.004	0.001	0.001

There are no dilutive potential ordinary shares in the reporting period, therefore, the amount of diluted earnings per share are equal to basic earnings per share.

(2) Calculations of basic earnings per share and diluted earnings per share

When calculating basic earnings per share, net profit attributable to ordinary shareholders of the company are as follows:

Item	Year 2013	Year 2012
Net Profit attributable to Ordinary Shareholders of the Company	9,886,802.75	11,140,994.81
Include: Net profit from continuing operations	9,886,802.75	11,140,994.81
Net profit from discontinuing operations		
Basic earnings per share attributable to ordinary shareholders after deduction of extraordinary profit & loss	3,229,217.03	680,708.05
Include: Net profit from continuing operations	3,229,217.03	680,708.05
Net profit from discontinuing operations		

VII. Notes to Consolidated Financial Statements *(Continued)*

38. Basic earnings per share and diluted earnings per share *(Continued)*

(2) Calculations of basic earnings per share and diluted earnings per share *(Continued)*

When calculating basic earnings per share, the denominator is the weighted average number of ordinary shares outstanding, which is calculated as follows:

Item	Year 2013	Year 2012
Number of ordinary shares outstanding of the Company at the beginning of the year	873,370,000.00	873,370,000.00
Plus: Weighted average number of ordinary shares issued in current year		
Less: Weighted average number of ordinary shares buyback in current year		
Weighted average number of ordinary shares outstanding of the Company at the end of the year	873,370,000.00	873,370,000.00

39. Other comprehensive income

Item	Year 2013	Year 2012
Exchange difference on translation of financial statements	-1,975,981.17	-22,125.60
Less: Net amount taken into Profit & Loss for disposing offshore operations		
Total	**-1,975,981.17**	**-22,125.60**

40. Notes to cash flows statement

(1) Cash received from other operating activities

Item	Year 2013	Year 2012
Current accounts	1,310,450.00	5,956,690.67
Peformance guarantee deposits	6,643,110.00	13,661,873.42
Interest income	414,292.59	753,262.12
Others	99,368.49	
Total	**8,467,221.08**	**20,371,826.21**

Remarks:

Cash are received from performance guarantee deposits upon their maturity.

VII. Notes to Consolidated Financial Statements *(Continued)*

40. Notes to cash flows statement *(Continued)*

(2) Cash paid to other operating activities

Item	Year 2013	Year 2012
Current accounts	631,380.00	8,211,321.01
Security deposits	601,895.00	12,728,897.42
Expenses paid by cash	23,123,094.19	28,881,947.79
Debt reconstruction	18,540,000.00	24,000,000.00
Total	**42,896,369.19**	**73,822,166.22**

Remarks:

Security deposits represents bidding deposits. The payment of RMB 18,500,000.00 in relation to debt reconstruction is in accordance with a debt reconstruction agreement signed on on Nov.4, 2013, details are shown in Notes VII 23.(4).

(3) Cash paid to other investment activities

Item	Year 2013	Year 2012
Net cash received from liquidation of Shenyang Gaodongjia Desiccation Co., Ltd., the former subsidiary of the Company	28.93	
Total	**28.93**	

VII. Notes to Consolidated Financial Statements *(Continued)*

41. Supplementary information to cash flows statement

(1) Reconciliation from net profit to cash flows from operating activities

Supplementary Information	Year 2013	Year 2012
I. Reconciliation from net profit to cash flows from operating activities		
Net Profit	9,660,829.86	11,036,093.38
Add: Provisions for assets impairment	4,774,089.72	3,753,766.98
Depreciation of fixed assets, depreciation of oil and gas assets, depreciation of productive bio-assets	6,553,954.02	7,503,440.51
Amortization of intangible assets	135,490.12	135,490.08
Amortization of long term deferred expenses	3,165,617.76	3,165,617.76
Loss on disposal of fixed assets, intangible assets and other non-current assets (gain is shown as "-")	-193,378.89	-76,285.56
Loss on write-off of fixed assets (gain is shown as "-")	1,480.42	
Loss on changes in fair value (gain is shown as "-")		
Finance costs (gain is shown as "-")	371,015.34	581,983.54
Loss on investments (gain is shown as "-")	-679,028.01	6,151.36
Decrease in deferred tax assets (increase is shown as "-")	-1,402,527.97	-246,091.78
Increase in deferred tax liabilities (decrease is shown as "-")		
Decrease in inventories (increase is shown as "-")	8,307,381.72	8,754,995.55
Decrease in operating receivables (increase is shown as "-")	43,970,745.73	53,326,585.94
Increase in operating payables (decrease is shown as "-")	-43,217,502.50	-91,295,443.73
Others		
Net cash flows generated from operational activities	31,448,167.32	-3,353,695.97
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 the end of period	102,736,973.41	69,423,731.30
Less: cash at the beginning of period	69,423,731.30	42,095,840.09
Add: cash equivalents at the end of period		
Less: cash equivalents at beginning of period		
Net increase in cash and cash equivalents	33,313,242.11	27,327,891.21

VII. Notes to Consolidated Financial Statements *(Continued)*

41. Supplementary information to cash flows statement *(Continued)*

(2) Composition of cash and cash equivalents

Item	Year 2013	Year 2012
I. Cash	102,736,973.41	69,423,731.30
Include: Cash on hand	9,304.85	11,550.91
Bank Deposits available on demand	102,715,071.55	69,412,180.39
Other cash assets available on demand	12,597.01	
Deposits with Central Bank available on demand		
Deposits with other banks		
Inter-bank lending		
II. Cash equivalents		
Include.: Bond investments mature within 3 months		
III. Balance of cash and cash equivalents by end of period	102,736,973.41	69,423,731.30

Remarks:

Perfomance guarantee deposits pledged to the bank amounting to RMB5,228,587.50 are not included in the balance of cash and cash equivalents at the end of period

VIII. 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

(Continue)

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

Remarks:

(1) There are no changes of percentage of shares held by New Northeast Electric Investment Co., Ltd. during the period.

(2) 170,000,000 shares of unrestricted circulted A shares held by New Northeast Electric Investment Co., Ltd. are pledged 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 14 and 2013, Novermber 7, 2013, the pledge period starts from October 14, 2013 and until New Northeast Electric Investment Co., Ltd. completed the pledge rescinding registration. By December 31, 2013, New Northeast Electric Investment Co., Ltd. holds 210,113,872 A shares of the company, representing 24.06% of the company's total equity; the accumulated pledged shares of 170,000,000 shares represents 80.91% of the total shares held New Northeast Electric Investment Co., Ltd., and 19.46% of the company's total equity.

2. Subsidiaries of the Company

Details are shown in Note VI.1 Subsidiaries.

3. Associates of the Company

Details are shown in Note VII.9.3 Long-term equity investments

VIII. Related Parties and Related Parties Transactions *(Continued)*

4. Related parties' payable

Payable to related parties of the listed company

Item	Related Party	December 31, 2013	December 31, 2012
Other payables	Weida High-voltage Electric Co., Ltd.	295,210.36	318,076.31
Total		**295,210.36**	**318,076.31**

5. Salaries and wages of key management personnel

Item	December 31, 2013	December 31, 2012
salaries and wages	1,357,892.52	1,417,516.18
Total	**1,357,892.52**	**1,417,516.18**

IX. Contingent Events

1. Up to Dec.31, 2013, there are no contingent liabilities due to litigations.

2. Up to Dec.31, 2013, the Company has provided guaranteed of RMB 52,900,000.00 for loans granted to Jinzhou Power Capacitor Co., Ltd., datails are shown in Note VII. 23 Estimated Liabilities.

3. Other contingent liabilities and relevant impacts on financial statements.

   (1) Up to Dec. 31, 2013, RMB 4,701,561.00 of bankers' acceptance notes which are not yet matured have been endorsed by the Company. Up to the reporting day, RMB 585,021.00 of the notes were paid.

   (2) Up to Dec. 31, 2013, the Company has issued Performance Guarantee of RMB 12,678,600.00 with Bank of China Fuxin Branch and China Construction Bank Jinzhou Branch.

X. Commitment

There's no material commitment during the period.

XI. Post Balance Sheet Date Events

The board of directors received the application for resignation from Mr. Liu Bing, executive director on 18 February 2014, due to personal reasons; Mr. Liu Bing applied to resign from the position of excutive director of the company. At the same time, Jian Liyuan applied to resign from the position of supervisor of the Company.

XII. Other Major events

1. Debt reconstruction

As mentioned above in Note VII.23 (4), up to 31 December 2013, the company has paid RMB 18,500,000.00 according to the debt restructuring agreement with Liaoning shun lung trade co., Ltd., resulting in a gain of - RMB 5,500,000.00.

XII. Other Major events *(Continued)*

2. Litigations settled

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.

On Dec.14, 2013, the Supreme Court of the People has maintained previous ruling by made Civil Rulings No (2013) Min Er Zhong Zi Di 66, overruled retrial appeal of Great Wall Asset. The company received the verdict on Jan. 13, 2014, the judgment is final.

3. Profit available for distribution

Up to Dec.31, 2013, there's no profit available for distribution.

XIII. Major notes to company level financial statements

1. Accounts receivables

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

	December 31, 2013			
	Carrying amount		Provision for bad debt	
Types	**Amount**	**Ratio (%)**	**Amount**	**Ratio (%)**
Individually significant and subject to separate provision				
Subject to provision by group				
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**

(Continue)

	December 31, 2012			
	Book balance		Provision for bad debt	
Types	**Amount**	**Ratio (%)**	**Amount**	**Ratio (%)**
Individually significant and subject to separate provision				
Subject to provision by group				
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 factors such as 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.

XIII. Major notes to company level financial statements *(Continued)*

1. Accounts receivables *(Continued)*

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

	December 31, 2013			December 31, 2012		
	Carrying amount		Provision for	Carrying amount		Provision for
Age of account	Amount	% of total balance	bad debt	Amount	% of total balance	bad debt
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**

(3) There are no write off of trade receivables.

(4) 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:

	December 31, 2013			
	Book balance		Provision for bad debt	
Types	Amount	Ratio (%)	Amount	Ratio (%)
Individually significant and subject to separate provision	76,090,000.00	17.67	76,090,000.00	100.00
Subject to provision by group				
Aging combination	335,137.50	0.08	273,942.23	81.74
Internal current account	354,202,157.26	82.25		
Sub-total	354,537,294.76	82.33	273,942.23	0.08
Individually insignificant but subject to separate provision				
Total	**430,627,294.76**	**100.00**	**76,363,942.23**	**17.73**

XIII. Major notes to company level financial statements *(Continued)*

2. Other receivables *(Continued)*

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

(Continue)

	December 31, 2012			
	Book balance		Provision for bad debt	
Types	Amount	Ratio (%)	Amount	Ratio (%)
Individually significant and subject to separate provision	76,090,000.00	17.23	76,090,000.00	100.00
Subject to provision by group				
Aging combination	840,801.83	0.19	815,497.67	96.99
Internal current account	364,573,703.07	82.58		
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**

Remarks:

The company regards individual other receivable over RMB1 million as significant based on the factors such as 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.

XIII. Major notes to company level financial statements *(Continued)*

2. Other receivables *(Continued)*

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

	December 31, 2013			December 31, 2012		
	Carrying amount		Provision for	Carrying amount		Provision for
Age of account	Amount	% of total balance	bad debt	Amount	% of total balance	bad debt
Within 1 year	61,195.27	18.26		25,304.16	3.01	
Over 4 years	273,942.23	81.74	273,942.23	815,497.67	96.99	815,497.67
Total	**335,137.50**	**100.00**	**273,942.23**	**840,801.83**	**100.00**	**815,497.67**

(3) There are no write off of other receivables during reporting period.

(4) There are no other receivables from shareholders holding 5% or above voting shares of the Company during the reporting period.

(5) The largest five other receivables are analysed as follows

Name of Company	Relationship	Amount	Age	Percentage over total other receivables (%)
Shenyang Kaiyi Electric Co., Ltd.	Wholly-owned subsidiary	148,448,023.14	Over 4 years	34.47
Northeast Electric (HK) Co., Ltd.	Wholly-owned subsidiary	123,166,166.77	Over 4 years	28.60
Benxi Steel (Group) Co., Ltd.	Non-related	76,090,000.00	Over 4 years	17.67
Northeast Electric (Beijing) Co., Ltd.	Wholly-owned subsidiary	48,960,591.00	1- 3 years	11.37
New Northeast Electric (Jinzhou) Power Capacitor Co., Ltd.	Wholly-owned subsidiary	33,627,376.35	Over 4 years	7.81
Total		**430,292,157.26**		**99.92**

Remarks:

Details of other receivable for Benxi Steel (Group) Co., Ltd., are shown in Note VII 6 (7).

(6) Other receivable due from related parties of RMB 354,202,157.26 are current account from the Company's subsidiaries, details are shown in Note XIII 2 (5).

XIII. Major notes to company level financial statements *(Continued)*

3. Long-term equity investments

(1) Classification

Item	December 31, 2012	Increment	Decrement	December 31, 2013
Investment to subsidiaries	157,637,418.63		837,967.00	156,799,451.63
Less: Provision for impairment of long-term equity investment	66,385,900.53			66,385,900.53
Total	**91,251,518.10**		**837,967.00**	**90,413,551.10**

(2) Details of long-term equity investments

Investee	Accounting method	Cost of Investment	December 31, 2012	Increment	Decrement	December 31, 2013
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			**91,251,518.10**			**90,413,551.10**

(Continue)

Investee	Percentage of shares held (%)	Percentage of voting rights held (%)	Reason for difference between percentages of shares held and voting rights held	Provision for impairment	Provision during the period	Cash dividends
Northeast Electric (HK) Co., Ltd.	100.00	100.00		66,285,900.53		
Shenyang Gaodongjia Desiccation Co., Ltd.						
Shenyang Kaiyi Electric Co., Ltd.	10.00	10.00		100,000.00		
Total				**66,385,900.53**		

Remarks:

(1) Details of liquidation of Shenyang Gaodongjia Desiccation Co., Ltd., details are shown in Notes VI 3.

(2) Intermediate Court of Liaoning Province Jinzhou City sealed up 10% equity of Shenyang Kaiyi Electric Co., Ltd., which was owned by the Company, details are shown in Note VII 23 (3).

XIII. Major notes to company level financial statements *(Continued)*

3. Long-term equity investments *(Continued)*

(3) Provision for impairment of long-term equity investment

Item	December 31, 2012	Increment	Decrement	December 31, 2013
Northeast Electric (HK) Co., Ltd.	66,285,900.53			66,285,900.53
Shenyang Kaiyi Electric Co., Ltd.	100,000.00			100,000.00
Total	**66,385,900.53**			**66,385,900.53**

4. Revenue and cost of sales

(1) Revenue and cost of sales

Item	Year 2013	Year 2012
Main business income		3,850,000.00
Other business income		
Total Operating Income		**3,850,000.00**
Cost of sales		
Cost of other operations		
Total Cost of Sales		

Remarks:

The recognized income of year 2012 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.

5. Return on investments

Item	Year 2013	Year 2012
Gain on disposal of long-term equity investment	949,414.89	
Total	**949,414.89**	

Details of gain on disposal on long-term equity investment are shown in Notes VI 3.

XIII. Major notes to company level financial statements *(Continued)*

6. Supplementary information to cash flows statement

Supplementary Information	Year 2013	Year 2012
I. Reconciliation from net profit to cash flows from operating activities		
Net Profit	4,804,434.13	7,801,856.01
Add: Provisions for assets impairment	-541,555.44	-27,000.00
Depreciation of fixed assets, depreciation of oil and gas assets, depreciation of production bio-assets	82,123.08	142,631.09
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 "-")	-949,414.89	
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 "-")	12,707,983.45	24,348,423.60
Increase in operating payables (decrease is shown as "-")	-16,115,026.58	-32,262,055.01
Others		
Net cash flows generated from operational activities	-11,456.25	3,855.69
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 the end of period	19,189.62	30,575.58
Less: cash at the beginning of period	30,575.58	31,891.38
Add: cash equivalents at the end of period		
Less: cash equivalents at the beginning of period		
Net increase in cash and cash equivalents	-11,385.96	-1,315.80

XIV. Supplementary information

1. Details of extraordinary profit& loss

Item	Year 2013	Year 2012
Profit & loss on disposal of non-current asset	191,898.47	76,285.56
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)		
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	5,511,900.00	6,993,929.00
Expenses on reorganization of enterprise		
Profit & loss over difference between fair value and inappropriate transaction price		
Net Profit & Loss arising from business combination 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	237,991.33	
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	61,015.21	-736,876.50
Other items complied with definitions of extraordinary profit & loss	687,351.18	
Sub total	6,690,156.19	11,583,360.53
Amount of impact on Income Tax	32,570.47	1,123,073.77
Impact on Minority Interests (after tax)		
Total	**6,657,585.72**	**10,460,286.76**

XIV. Supplementary information *(Continued)*

1. Details of extraordinary profit& loss *(Continued)*

Extraordinary profit and loss items of the Company are recognized in accordance with "Explanatory Announcement No.1 on Information Disclosure for Companies Offering Their Securities to the Public- Extraordinary profit and loss" (CSRC Announcement [2008] No.43)

2. Return on net assets and earnings per share

(1) Return on net assets

		Earnings per share (RMB/share)	
Profit for the period	**Weighted average return on net assets**	**Basic earnings per share**	**Diluted earnings per share**
Net profit attributable to ordinary shareholders	3.598%	0.01	0.01
Net profit attributable to ordinary shareholders after deduction of extraordinary profit and loss.	1.175%	0.004	0.004

Calculations of basic earnings per share and diluted earnings per share are detailed in Notes VII 38.

XIV. Supplementary information *(Continued)*

3. Explanation of fluctuation and reasons in the consolidated financial statements

(1) Balance Sheet Items

Items	Variation between beginning and end of period	Variation percentage between beginning and end of period	Notes
Cash and deposits	26,670,132.11	32.81	Increased due to more cash was collected from settlement of trade receivables
Notes Receivable	-2,654,000.00	-98.52	Decreased due to maturity of bankers' acceptance notes
Prepayments	-5,664,774.09	-79.64	Decreased due to the transfer of prepayment to inventory.
Interest receivable	33,066.67		Interest receivable from financial products
Other receivables	-13,286,311.65	-56.71	Decreased due to settlement of other receivables arising from transfer of shares in prior years.
Non-current asset due within 1 year	2,694,021.76		Reclassify rent fees from long-term deferred expenses to non-current asset due within 1 year
Construction in progress	-228,933.81	-100.00	Transferred into fixed assets upon completion of construction
Long-term deferred expenses	-5,859,639.52	-97.18	Reclassify rent fees from long-term deferred expenses to non-current asset due within 1 year
Advance receipt	-5,111,942.82	-35.51	Transferred into revenue
Tax payable	-2,525,716.47	-33.28	Decreased due to decrement of value-added tax payable
Estimated liabilities	-24,000,000.00	-28.33	Decreased due to debt restructuring
Minority interests	-697,414.63	-56.36	Decreased due to purchase of shares of Shenyang Gaodongjia Desiccation Co., Ltd.

XIV. Supplementary information *(Continued)*

3. Explanation of fluctuation and reasons in the consolidated financial statements *(Continued)*

(2) Income Statement and Cash Flow Statement Items

Items	Variation between beginning and end of period	Variation percentage between beginning and end of period	Notes
Business tax and surcharges	-418,035.72	-23.49	Decreased as there are no business tax provided for internal consultancy fee in current year.
Finance expenses	83,875.22		Increased due to decrement of interest income
Return on investments	685,179.37		Arose from the liquidation of Shenyang Gaodongjia Desiccation Co., Ltd.
Non-operating expenses	-769,268.38	-99.48	Decrease due to decrement of liquidated damages.
Income tax expenses	1,222,706.55	65.75	Increased due to the increase of taxable income of Xin Jinrong, subsidiary of the Company.
Profit or loss attributable to minority interests	-121,071.46	115.41	Decreased due to the increase of Jinzhou Jinrong Electric Co., Ltd., the subsidiary of the Company.
Other Comprehensive Income	-1,953,855.57	8830.75	Arising from exchange differences from translation of foreign currency financial statements
Tax refunds received	181,727.09		Arising from business income taxes overpaid in previous years returned to the subsidiary, Fuxin Enclosed Busbar Co., Ltd.
Cash received relating to other operating acitivities	-11,904,605.13	-58.44	Decreased due to refund of security deposits for letter of guarantee and decreased settlement of current accounts
Payments of taxes and surcharges	10,469,109.41	97.63	Increased due to increment of value-added tax paid
Cash payments relating to other operating acitivities	-30,925,797.03	-41.89	Decreased due to debt restructuring and decreased settlement of current accounts
Cash received from return of investments	-10,000,000.00	-28.57	Decreased due to receipt of balance arising from share transfer in prior years and the maturity of guaranteed income financial products
Cash received from earnings on investments	204,924.66		Arising from interest received from income financial products.
Cash paid in purchase/construction of fixed assets, intangible assets	7,429,397.05	198.72	Arising from renovation of fixed assets of the company's subsidiary, Jinzhou Jinrong Electric Co., Ltd.
Cash paid for investment	12,000,000.00		Arising from payment for acquisition of financial products

Northeast Electric Development Co., Ltd.

March 3, 2014

Legal Representative: Su Weiguo   Chief Financial Officer: Wang Shouguan   Chief Accounting Officer: Bai Lihai

Date: March 3, 2014   Date: March 3, 2014   Date: March 3, 2014

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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