NEE

ANNUAL REPORT 2014 年報

输送光明和动力的桥梁

東北電氣發展股份有限公司

NORTHEAST ELECTRIC DEVELOPMENT CO., LTD.

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 ninth meeting of the seventh session of the board held on 16 March 2015.**

(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, Jiao Liyuan
4.	Independent non-executive directors	:	Wang Yunxiao, Liang Jie, Liu Hongguang
5.	Supervisors	:	Dong Liansheng, Liu Xuehou, Qiu Yongjian
6.	Secretary to the Board	:	Su Weiguo
	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, Bayuquan District, Yingkou City, Liaoning Province, the PRC
	Correspondence address	:	No. 1, Xintai Road, Bayuquan District, Yingkou City, Liaoning Province, the PRC
	Postal Code	:	115009
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8.	PRC newspapers for information disclosure	:	“Securities Times”
	Website containing the annual report	:	www.cninfo.com.cn www.hkexnews.hk www.nee.com.cn
	Place for inspection of annual report	:	Office of the Board of Directors

9. Place of listing, stock names and codes

H Share:			A Share:		
Hong Kong Stock Exchange			Shenzhen Stock Exchange		
Stock Name	:	Northeast Electric	Stock Name	:	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

	2014	2013	Increase/decrease of the year over last year (%)	2012	2011	2010
Operating revenues (RMB)	197,513,503.68	195,974,125.82	0.79	217,220,841.81	248,679,812.93	348,449,492.28
Net profit attributable to shareholders of listed company (RMB)	6,169,105.14	9,886,802.75	-37.60	11,140,994.81	-32,197,171.37	-8,559,879.24
Net profit attributable to shareholders of listed company after extraordinary items (RMB)	4,390,358.73	3,229,217.03	35.96	680,708.05	-42,042,803.20	-8,435,362.90
Net cash flow arising from operating activities (RMB)	26,805,591.07	31,448,167.32	-14.76	-3,353,695.97	-33,808,267.97	27,303.40
Basic earnings per share (RMB/Share)	0.01	0.01	0	0.01	-0.04	-0.01
Diluted earnings per share (RMB/Share)	0.01	0.01	0	0.01	-0.04	-0.01
Earnings/net assets ratio (%)	2.16%	3.53%	-1.37	4.10%	-12.35%	2.81%

	As at the end of 2014	As at the end of 2013	Increase/decrease at the end of 2014 over the end of 2013 (%)	As at the end of 2012	As at the end of 2011	As at the end of 2010
Total assets (RMB)	482,595,791.02	462,731,004.91	4.29	498,205,496.54	557,054,235.74	844,337,174.25
Net assets attributable to shareholders of listed company (Shareholders' fund attributable to shareholders of listed company) (RMB)	286,188,311.72	279,693,302.29	2.32	271,782,480.71	260,663,611.50	304,735,739.20

2. Extraordinary items and the related amount

Unit: RMB

Item	2014	2013	2012	Remarks
Profit and loss on disposal of non-current assets (including the part of provision for assets impairment being written off)	139,391.69	191,898.47	76,285.56	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)				
Profit and loss from debt restructuring		5,511,900.00	6,993,929.00	
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	574,069.12	237,991.33		Banking interest income
Reversal of account receivable provision by single devaluation test	1,226,648.28		5,250,022.47	The recovery of bad debt
Other non-operating income and expense other than the above items	-106,416.11	61,015.21	-736,876.50	
Other profit and loss items falling within the definition of extraordinary profit and loss		687,351.18		
Effect of income tax	54,946.57	32,570.47	1,123,073.77	
Effect of minority interests (after tax)				
Total	1,778,746.41	6,657,585.72	10,460,286.76	--

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

(I) MANAGEMENT DISCUSSION AND ANALYSIS

During the reporting period, the growth in electricity demand in China slowed down, and the electrical transmission and transformation equipment manufacturing industry experienced stress from both structural excess capacity and decreased product price. In face of an adverse situation of fierce market competition, rising manufacturing cost and declining gross profit, the board of directors of the Company has proactively adopted reasonable countermeasures to ensure stable and orderly business operations.

During the reporting period, the Company achieved operating income of RMB 197,510,000, nearly the same as the year-ago period; operating profit of RMB 9,260,000, representing an increase of RMB 2,270,000 as compared to the same period last year; and the net profit of RMB 6,060,000, representing a decrease of RMB 3,600,000 as compared to the same period of last year. The major reason is that, there was extraordinary profit & loss due to gain on restructuring of debt in the previous period, but there was none in the current period.

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

(1) The Company upgraded the equipment by implementing technical transformation.

During the reporting period, the Company strengthened the efforts to transform and update the manufacturing equipment to cope with fierce market competition.

After completion of the phase I technological transformation of power capacitor manufacturing equipment in 2013, the Company commenced the phase II transformation in this period. Under the phase II transformation project, air-conditioning units of the electrical branch, epoxy self-leveling floor of the clean room, and air shower were upgraded and transformed to improve the electrical performance and quality of power capacitors.

Meanwhile, the upgrading and transformation of the existing enclosed busbars also started to eliminate potential safety hazards to equipment, improve product quality, reputation and productivity, enhance the comprehensive competitiveness of the product, and promote sustainable and stable development of the Company.

(2) The Company built up an effective internal control system by further improving the internal control regulation.

In accordance with the requirements issued by five ministries including China Securities Regulatory Commission and Ministry of Finance, and with the consideration of actual operation and development conditions, the Company keeps modifying and improving the management system to promote the construction of the internal risk prevention system. As at 31 December 2014, all rules and regulations covering all business activities of the Company were modified and well implemented.

(3) The Company improved the financial structure by tightening up the settlement of account receivables.

During the reporting period, the Company strengthened the management and monitoring of internal financial management by following up key projects and tailoring reasonable targets and specific measures for specific projects, thus solving the receivables collection issues, preventing financial risk and improving the operation performance.

(4) The Company increased the asset use efficiency by strengthening the management of fixed assets.

During the reporting period, to further standardize and strengthen asset management and increase the asset use efficiency and management level, and to prevent the loss of assets, the Company enhanced the management of the entire process that covers fixed asset acquisition, custody, use, disposal and scrapping to ensure appropriate management and efficient operation of fixed assets, so as to maintain and increase the value of assets.

(5) The Company strengthened the post-evaluation management of investment project.

During the reporting period, the Company completed the phase I and phase II technological transformation of power capacitor manufacturing equipment. To be specific, the Company strengthened the budget management and extended its control over fixed assets and upgrading and transformation projects during project implementation, and correctly evaluated the reasonability and scientific nature of investment projects through post-evaluation management. After serious summarization and in-depth analysis, relevant correction measures were formulated and then implemented to resolve problems.

(6) The Company assured safe development by enhancing safe production management.

During the reporting period, the Company strengthened organizational leadership, cautiously implemented safe production responsibility, enhanced onsite safety management, strictly monitored violations, and proactively inspected hidden dangers and resolved problems with relevant measures taken. In general, the Company witnessed a favorable condition of safe production. No safety incident ever occurred.

(7) The Company promoted the human resource management level.

The Company diversified its sources of recruitment, improved a mechanism of instructing new employees by experienced ones and exchanging roles, and devised a clear career development path and promotion system for the employees to further enhance their initiatives.

(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 RMB197,513,503.68, total profit of RMB9,294,393.47 and the net profit of RMB6,058,122.16.

2 Analysis of major controlling company and investee company

√ Applicable □ Not applicable

(1) Operation 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	178,638,586.18	82,961,099.19	630.08	-551,179.13	-553,148.13
Great Talent Technology Limited	Investments	Investments	US$1	100	82,834,188.13	-72,189.73	0.00	-5,664.96	-5,664.96
Northeast Electric (Beijing) Limited	Sales	High-voltage switches	RMB2,000,000	100	72,057,189.52	-2,164,124.28	23,068,376.02	4,246,445.00	4,214,253.22
Shenyang Kaiyi Electric Co., Ltd.	Manufacture and sales	Electronic equipment	RMB1,000,000	100	161,157,326.08	-6,443,052.65	0.00	-1,302,647.11	-1,028,291.47
Fuxin Enclosed Busbars Co., Ltd.	Manufacture	Enclosed busbars	US$8,500,000	100	109,238,727.84	64,504,069.88	58,201,686.71	528,177.01	526,525.81
New Northeast Electric (Jinzhou) Power Capacitors Co., Ltd.	Manufacture	Power capacitor	US$15,450,000	100	203,528,813.26	156,888,350.05	114,048,056.20	6,637,565.60	4,802,280.42
Jinzhou Jinrong Electric Co., Ltd.	Manufacture	Dry-type capacitor	RMB3,000,000	69.75	1,774,930.51	1,418,417.85	0.00	-366,885.87	-366,885.87
Great Power Technology Limited	Investment and trading	Investment and trading	US$12,626	20.8	185,853,271.97	185,740,054.57	0.00	-34,799.17	-34,799.17
Shenyang Zhaoli High-voltage Electric Equipment Co., Ltd.	Manufacture	Manufacture of switches controlling equipment	US$168,000,000	6.89	2,844,365,903.11	914,030,944.17	1,919,320,317.61	37,940,848.41	36,977,987.85

3. Acquiring and disposing subsidiaries are nothappened during the reporting period

Nil.

(III) Analysis of principal businesses

1. Summary

Unit: RMB

	2014	2013	Changes	Reason for changes
Operating incomes	197,513,503.68	195,974,125.82	0.79%	Performed more sales contracts
Operating costs	149,168,407.74	138,487,244.09	7.71%	The increase of sales
Operating expenses	16,326,228.43	15,781,817.05	3.45%	The increase of sales
Administrative expenses	27,725,953.49	29,255,459.55	-5.23%	Management control enhancement
Finance costs	195,284.85	2,799.96	6874.56%	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

The main changes in the business model

□ Applicable √ Not applicable

2. Incomes

During the reporting period, No significant changes in revenue this year compared with the same period

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

√ Yes □ No

Unit: RMB

By industry	Item	2014	2013	Year-on-year increase/decrease (%)
	Sales volume	113,828,241.04	108,143,445.45	5.26
	Production volume	84,443,111.43	66,067,880.75	27.81
Power capacitor	Stock volume	9,090,573.97	9,521,488.78	-4.53
	Sales volume	58,182,658.51	62,427,820.64	-6.80
	Production volume	42,682,363.72	49,098,602.85	-13.07
Enclosed busbars	Stock volume	720,711.26	2,985,696.07	-75.86
	Sales volume	23,068,376.02	25,315,555.65	-8.88
	Production volume	21,716,512.82	23,414,068.39	-7.25
High-voltage switches	Stock volume	512,820.51	0	

for change related data up more than 30% compared to the period

□ Applicable √ Not applicable

The company 's major orders in hand

□ Applicable √ Not applicable

during the report period, significant changes or adjustments related to the case about Products or services

□ Applicable √ Not applicable

Major customers

Total sales of the top five customers (RMB)	126,690,034.61
Proportion of total sales of the top five customers over total sales for the year (%)	64.14%

The top five customers

√ Applicable □ Not applicable

No.	Name	Sales (RMB)	Percentage over the annual total amount of sales (%)
1	Shenyang Kaidi Insulation Technology Co. Ltd..	53,210,361.78	26.94
2	Yinkou Hongyue Machining Co. Ltd..	24,305,834.98	12.31
3	Beijing electric power Co.	23,068,376.02	11.68
4	Yingkou Chongzheng Electric Equipment Co., Ltd.	17,643,923.34	8.93
5	Shenhua Guoneng Energy group Co., Ltd. Beijing Materials Company	8,461,538.49	4.28
Total	——	126,690,034.61	64.14

The note of other major customers

□ Applicable √ Not applicable

3. **Costs**

By industry

Unit: RMB

		2014		2013		
By industry	**Item**	**Amount**	**As a percentage of operating costs (%)**	**Amount**	**As a percentage of operating costs (%)**	**Year-on-year increase/ decrease (%)**
Manufacture of transformation equipments	Operating	149,130,956.13	100	138,420,271.28	100	7.74

By product

Unit: RMB

		2014		2013		
By product	**Item**	**Amount**	**As a percentage of operating costs (%)**	**Amount**	**As a percentage of operating costs (%)**	**Year-on-year increase/ decrease (%)**
Enclosed busbars	Operating	42,683,342.05	28.62	47,982,020.65	34.66	-11.04
Power capacitor	Operating	84,731,101.26	56.82	67,024,182.24	48.42	26.42
High-voltage switches	Operating	21,716,512.82	14.56	23,414,068.39	16.92	-7.25
Total		149,130,956.13	100.00	138,420,271.28	100.00	8.13

Note

By product	2014 Direct material	2014 Direct labor	2014 Manufacture expenses	2013 Direct material	2013 Direct labor	2013 Manufacture expenses
Enclosed busbars	92.48%	3.14%	4.38%	83.84%	5.14%	4.88%
Power capacitor	79.32%	2.70%	17.98%	76.97%	3.42%	19.61%

Major suppliers

Total purchases attributable to the top five suppliers (RMB)	55,377,697.93
Proportion of total purchases attributable to the top five suppliers over total purchases for the year (%)	42.09%

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)	21,025,641.03	15.98
2	Dandong Changxing Electric Appliance Co., Ltd.	12,210,982.91	9.28
3	Shenyang Taihua Copper Co., Ltd.	10,293,481.74	7.82
4	Sichuan Dongfang Insulation Materials Co., Ltd.	5,978,268.93	4.54
5	Tianjin Taihua Copper Co., Ltd.	5,869,323.32	4.46
Total	——	55,377,697.93	42.09

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.

The other notes of Other major suppliers.

□ Applicable √ Not applicable

4. Expenses

	2014	2013	Changes	Reasons for changes
Operating expenses	16,326,228.43	15,781,817.05	3.45%	The increase of sales
Administrative expenses	27,725,953.49	29,255,459.55	-5.23%	Strict control on costs
Financial expenses	195,284.85	2,799.96	6874.56%	Decrease in interest incomes
Income tax expenses	3,236,271.31	3,082,370.47	4.99%	Increase of subsidiaries' current taxable income

5. R&D expenditure

The R&D expenditure of this year is RMB 172,703.61. The research project is the nonsegregated phase bus duct of nuclear power and aims to make a breakthrough in the nuclear power bus. It accounts for 0.06% of the audited net assets of the last period and 0.09% of the audited income of the last period.

6. Cash flows

Unit: RMB

Item	2014	2013	Year-on-year increase/decrease (%)
Subtotal of cash inflows from operating activities	224,406,284.59	245,028,153.18	-8.42
Subtotal of cash outflows from operating activities	197,600,693.52	213,579,985.86	-7.48
Net cash flows from operating activities	26,805,591.07	31,448,167.32	-14.76
Subtotal of cash inflows from investment activities	56,307,135.79	25,658,924.66	119.44
Subtotal of cash outflows from investment activities	63,790,467.27	23,168,124.28	175.34
Net cash flows from investment activities	-7,483,331.48	2,490,800.38	-400.44
Subtotal of cash inflows from financing activities	9,000,000.00	8,000,000.00	12.5
Subtotal of cash outflows from financing activities	8,665,058.33	8,609,006.67	0.65
Net cash flows from financing activities	334,941.67	-609,006.67	-155.00
Net increase in cash and cash equivalents	19,657,705.95	33,313,242.11	-40.99

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

√ Applicable □ Not applicable

1. Purchase of bank financial products in the current year leads to increase in the cash inflow and outflow of investment activities.

2. The cash flow variation generated from financing activities arises from the loan increase.

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

□ Applicable √ Not applicable

(IV) Analysis of Assets and Liability

1. Significant changes in assets

Unit: RMB

	End of 2014		End of 2013			
	Amount	As a percentage of total assets (%)	Amount	As a percentage of total assets (%)	Increase/ decrease (%)	Explanation for significant change
Monetary assets	124,218,516.86	25.74	107,965,560.91	23.33	2.41	Beijing company's receivables faster than its' payment.
Account receivables	123,555,550.88	25.60	121,290,113.35	26.21	-0.61	
Inventories	33,991,443.14	7.04	32,079,932.08	6.93	0.11	
Long-term equity investments	38,633,931.35	8.01	38,508,920.68	8.32	-0.31	
Fixed assets	62,214,706.66	12.89	67,580,392.95	14.60	-1.71	Increase in depreciation
Construction in progress	302,146.04	0.06	0	0	0.06	Increase in technological transformation
Notes receivable	2,300,000.00	0.48	40,000.00	0.01	0.47	Increase in electronic acceptance bills
Prepayments	8,736,075.46	1.81	1,448,055.55	0.31	1.50	Caused by prepayment of equipment transformation
Interest receivable			33,066.67	0.01	-0.01	All the current-period interest
Non-current asset due within 1 year	33,874.27	0.01	2,694,021.76	0.58	-0.57	Arising from amortization of rental fee

2. **Significant change in liabilities**

Unit: RMB

	2014		2013			
	Amount	As a percentage of total assets (%)	Amount	As a percentage of total assets (%)	Increase/ decrease (%)	Explanation for significant change
Short-term borrowings	9,000,000.00	1.86	8,000,000.00	1.73	0.13	The increase of borrowings
Taxes payable	1,943,688.03	0.40	5,062,951.40	1.09	-0.69	Due to decrease in VAT payable

(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.

(VI) INVESTMENTS DURING THE REPORTING PERIOD

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.

During the reporting period, the Company had no main projects invested by non-raised capital.

(VII) PROSPECT OF THE COMPANY'S FUTURE DEVELOPMENT

1. Industry competitive landscape and development trend

After years of rapid growth, the momentum toward the development of power sectors in China flattens out. Data from China Electricity Council indicates that investment in power engineering construction of China's major electricity enterprises in 2014 reached RMB 776,400 million, representing an increase of 0.5% as compared to the same period of last year, but was well below expectations. Of which, the investment in power supply engineering construction was RMB 364,600 million and that in power grid project was RMB 411,800 million, representing a decrease of 5.8% and an increase of 6.8% respectively as compared to the same period of last year. It is anticipated that the power investment in 2015 will enjoy a slight but stable increase.

In recent years, the overall world economy has witnessed a slow recovery. In face of increasing downward economic pressure, the growth of the demand for electrical transmission and transformation slows down. Excess capacity of the industry, intensified market competition, fluctuations in raw material prices, and rising expenses including manpower cost, have dragged the electrical transmission and transformation industry into a perfect competition landscape. Meanwhile, the industry a low-profit era during which the companies compete with each other by lowering prices due to similarity in products and need to enhance their competitiveness through brand promotion, quality service and intelligent operation.

2. Development strategies of the Company

The Company will proactively face the complicated and severe situation and continue to give priority to efficiency. Meanwhile, the Company will speed up technological innovation, product innovation and market innovation so as to elevate its core competitiveness and influence, thus promoting and leading the growth of the industry in an all-around manner.

3. Business plan for the following year

In 2015, the Company will continue to implement an annual operation strategy of prudent operation and will focus on the following aspects:

(1) Strengthening the market development and keeping broadening the sales model. Most customers of the Company are from the electrical power sector and the petrochemical industry. A relatively concentrated customer base is susceptible to external factors, including economic status and policy change. The Company is to optimize the market layout and speed up the adjustment of product mix and market structure, and to attract new customers while at the same time keeping existing ones, thus consolidating and increasing the market share.

(2) The Company will reinforce the management of technological transformation project and complete the technological transformation project that was set up in 2014, so that the project may be put into production as early as possible to increase the production level and the product competitiveness.

(3) The Company will put more investment into new product R&D and emphasize the cutting-edge technologies in the industry. New product development will be implemented as scheduled and controlled by the annual development plan to diversify our product mix.

(4) The Company will put efforts in budget management to improve product profitability by reducing the costs of management and technology and withstanding the impact caused by increased costs and reduced product prices.

(5) The Company will strengthen the financial management to further enhance the financial control and risk prevention capabilities. Through the strengthened credit management of accounts receivable, process management and aging structure management, the Company will speed up the turnover of accounts receivable and inventory, thus increasing the operational efficiency and lowering the operational risk.

(6) The Company will intensify the control over product quality to ensure continuous improvement of quality management and quality-related work, so as to improve the quality and increase the efficiency.

(VIII) Company's fund demands for existing business maintenance and completion of ongoing investment projects

In 2015, the Company's fund resource for meeting actual business requirements involves various aspects such as bank financing and its own fund. The Company will implement optimized fund use plan and adopt an austerity policy to strictly control the costs and speed up the collection of accounts receivable, so as to provide sufficient financial support for the long-term stable and healthy development of the Company.

(IX) Main risks and countermeasures

1. Macro-economic risks and industry risks

The Company's main business is relatively concentrated and its industry is an industry of adequate market competitions. Various factors, such as national macro policies, aggravated macro-economic risks, energy development strategy, industry structure and market structure adjustment, industry resource integration, and changes in market supply and demands, may impact the Company's profitability. Despite the optimistic forecasts of future market status, there is a slowdown in power demand which could have an impact on the sustainable development of the Company.

Countermeasures: The Company will strengthen the analysis on macro economy, grasp national, industry and regional related policies in a timely manner, proactively align its industry, product and market structures, and improve the capacity for independent innovation, and strengthen the ability to resist market risks to guarantee the reasonableness and effectiveness of its decisions on production, operation and strategic development.

2. Market competition risks

The Company's industry is an industry of adequate market competitions. With the rapid development of technology and equipment of domestic electrical transmission and transformation equipment enterprises, and the unstable economic recovery in the global market, a slowdown market demand further intensified the competition in the industry, increased the downward product price, and made it harder for the Company's to operate and make profit.

Countermeasures: The Company will keep up with the market trend and adopt differentiation strategy to speed up product structure adjustment and customer resource optimization. In addition, it will rationally allocate resources by raising the proportion of the manufacturing of high value-added products to increase the product gross margin. The manufacturing cost and expenses will also be strictly controlled.

3. Risks of fluctuation in raw materials

Raw materials account for quite a part of the total manufacturing cost of the Company's product. Dramatic changes in the supply of major raw materials or great price fluctuation could directly affect the Company's production cost and profitability level.

Countermeasures: The Company will strengthen its strategic cooperation with suppliers to reduce the purchasing cost, and promote technological innovation and production innovation to enhance the profitability and reduce the risk caused by price fluctuation of raw materials to the Company.

4. Technical risks

Regeneration of technology speeds up as the market competition intensifies. If the Company cannot maintain continuous innovation and grasp the development tendency of the product, technology and industry in a timely manner, the competitiveness of the Company will be undermined and the sustainable development may be impeded.

(X) Social responsibilities

The Company attaches importance to social responsibilities and constantly improves corporate governance. In practice, it pursues harmonious development between the enterprise and the employees, society and nature, pays back the community through concrete actions, and creates a harmonious corporate development environment. The most fundamental social responsibility of the Company is to guarantee the interests of shareholders, especially minority stockholders.

The Company defines the shareholders' meeting convening, holding and voting procedures in strict accordance with provisions and requirements of the Articles of Association and the Rules of Procedure of Shareholders' Meeting, and adopts a legitimate and effective manner to enable more shareholders to attend the shareholders' meeting and to ensure shareholders' information, participation and voting rights regarding major issues of the Company. The Company seriously performs the obligation of information disclosure and treats all the investors in line with the principles of fairness, justice and openness.

The Company reinforces investor relations management in accordance with the Regulations on Investor Relations Management, specifying that the board secretary of the Company is the person responsible for investor relations management and shall organize and carry out routine management of investor relations. During the reporting period, the Company strengthens communications with investors by using the interaction platform of investor relations and receiving calls, and promotes sustainable and healthy development of the Company jointly.

Do the listed company and its subsidiaries fall into the badly polluted industry defined by the environmental protection authority of the state: Nil.

Are the listed company and its subsidiaries involved in other major social security problems: Nil.

Any administrative penalty received by the Company during the reporting period: Nil.

(XI) 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 RMB124,218,516.86.

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 2014, the Company had bank loans amounting to RMB9,000,000, representing 1.86% of the total assets. These bank loans bear floating interest rate.

The debt equity ratio of the Company was 1.03% (debt equity ratio= total bank loan/total share capital reserve * 100%).

At the end of the year 2014, the Company had fixed asset and land with net book value of RMB8,590,000 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.

(XII) 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.

(XIII) 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(vii) of this Annual Report.

(XIV) 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.

(XV) Reserve

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

(XVI) Bank loans and other loans

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

(XVII) Fixed assets

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

(XVIII) 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.

(XIX) Share capital

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

(XX) 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.

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

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

(XXII) 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.

(XXIII) 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.

(XXIV) 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 RMB6,169,105.14; and the accrued profit distributable to shareholders at the end of the year was RMB-1,542,524,243.79. 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 (%)
2014	0.00	6,169,105.14	0
2013	0.00	9,886,802.75	0
2012	0.00	11,140,994.81	0

(XXV) 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.

(XXVI) 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 18.97% of the audited net assets of the Company for 2014. 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.

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 2014. According to its performance in auditing the 2014 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 2015 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 RMB6,169,105.14, and the accrued profit distributable to shareholders at the end of the year was RMB-1,542,524,243.79. 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 2014 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.

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

By order of the Board
Su Weiguo
Chairman
16 March 2015

(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 banking interest income of the entrusted asset management is 574,069.12

2. Guarantees:

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

As at the end of the reporting period, the actual bank loan of external guarantee provided by the Company totalled RMB53,050,000, and so the real amount that the Company should assume responsibility for guarantee was RMB53,050,000, accounting for 18.97% of the audited net assets of the Company for 2014.

(1) External guarantees of the Company

As at the end of the reporting period, the Company has provided guarantee of RMB 52,900,000.00 for loans granted to Jinzhou Power Capacitor Co., Ltd,RMB 150,000 for loans granted to Shenyang Kingdom Hotel.

(2) Guarantees for the holding subsidiaries of the Company Nil.

(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 18.91% of the audited net assets of the Company for 2014, which was translated into liabilities in total in 2007.

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

(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) The Company has not issued any equity incentive plans

(X) 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.

(XI) 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.

(XII) 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.

(XIII) 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.

(XIV) Subsequent events

1. Adjustment of members of special committees under the Board of Directors

In accordance with the relevant provisions as specified in “Opinions on Guiding the Establishment of Independent Director System by Listed Companies” (issued by China Securities Regulatory Commission, “Guidelines of the Shenzhen Stock Exchange for the Standardized Operation of Companies Listed on the Main Board”, and “Rule Governing the Listing of Securities on Hong Kong Exchange”, the Company’s Board of Directors makes the following adjustments for the members of Strategic Development Committee and Nomination Committee:

1. Members of Strategic Development Committee:

Presiding member: Mr. Su Weiguo

Members: Mr. Wang Shouguan and Mr. Liu Qingmin

Adjusted to:

Presiding member: Mr. Su Weiguo

Members: Mr. Wang Shouguan, Mr. Liu Qingmin and Mr. Liu Hongguang

2. Members of Nomination Committee:

Presiding member: Mr. Su Weiguo

Members: Mr. Wang Yunxiao and Mr. Liu Hongguang

Adjusted to:

Presiding member: Mr. Liu Hongguang

Members: Mr. Su Weiguo and Mr. Wang Yunxiao

(2) Re-election and resignation of supervisors

Due to retirement, Mr. Dong Liansheng requested to quit the positions of director and Chairman of the Supervisory Committee of the Company on 2 March, 2015. As the resignation of Mr. Dong Liansheng will cause the number of supervisors of the Company less than the quorum, the Company will promptly elect a new supervisor in compliance with the relevant requirements of the Company Law and the Articles of Association. Before the newly elected supervisor takes office, Mr. Dong Liansheng will continue to perform the duties of supervisor (please refer to the announcement dated 2 March, 2015 for details).

As approved by the 9th meeting of the Seventh Session of the Supervisory Committee held on 16 March, 2015, Mr. Liu Xuehou was nominated as the Chairman of the Seventh Session of the Supervisory Committee, and his term of office is the same as this session of Supervisory Committee until 10 March, 2016.

As approved by the 9th meeting of the Seventh Session of the Supervisory Committee held on 16 March, 2015, Mr. Zhu Xinguang was nominated as the candidate for the newly elected shareholder representative supervisor of the Eighth Session of the Supervisory Committee, and his term of office is the same as this session of Supervisory Committee until 10 March, 2016. Such proposal will be submitted to the shareholders' meeting of 2014 to be convened on 4 May, 2015 for consideration (please refer to the Company's announcement dated 16 March, 2015 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 80,047

Unit: share

Name of shareholders	Nature of shareholder	Shareholding percentage	Number of shares held	Number of untradeable shares	Number of shares pledged or frozen
HKSCC Nominees Limited	Foreign natural person	29.39%	256,695,998		0
New Northeast Electric Investments Co., Ltd.	Domestic non-state-owned legal person	24.06%	210,113,872	19,022	192,000,000
Zheng Tianfa	Domestic natural person	0.74%	6,488,674		0
Shenzhen Zhongda Software Development Co., Ltd	Domestic non-state-owned legal person	0.41%	3,550,000		0
Mou Xiuqing	Domestic natural person	0.31%	2,703,855		
Hu Li	Domestic natural person	0.25%	2,166,760		0
Chen Meiyan	Domestic natural person	0.24%	2,053,576		0
Li Xinhua	Domestic natural person	0.20%	1,713,539		0
Xu Yipin	Domestic natural person	0.19%	1,647,295		0
Wang Dawei	Domestic natural person	0.19%	1,620,170		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 27 November 2014, 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 23,000,000 A shares not subject to trading moratorium have been frozen since 27 November 2014. The total amount of loans is RMB50,000,000.

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.

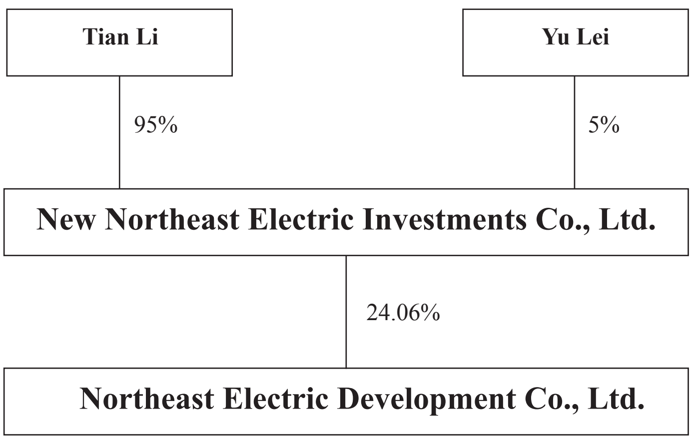
7) Convertibles, options, warrants or other similar rights

As of 31 December 2014, 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



The actual controller controls the Company through trust or other asset management approaches.

□ Applicable √ Not applicable

(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.

Introduction to new ownership plan proposed or implemented by Company shareholders and their parties acting in concert during the reporting period: During the reporting period, to the best of the knowledge of the Company, no Company shareholders or their parties acting in concert proposed or implemented new ownership plan during the reporting period.

(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	53	Chairman	2013/3/11-2016/3/10	0	0	31.6
Wang Shouguan	M	71	Vice Chairman	2013/3/11-2016/3/10	0	0	14.2
Liu Qingmin	M	52	Director	2013/3/11-2016/3/10	0	0	18.3
Jiao Liyuan	F	52	Director	2014/04/17-2016/03/10	0	0	13.3
Wang Yunxiao	M	69	Independent Director	2013/3/11-2016/3/10	0	0	4.7
Liang Jie	F	54	Independent Director	2013/3/11-2016/3/10	0	0	4.7
Liu Hongguang	M	48	Independent Director	2013/3/11-2016/3/10	0	0	4.7
Dong Liansheng	M	68	Supervisor	2013/3/11-2016/3/10	0	0	5.9
Liu Xuehou	M	59	Supervisory Committee	2013/3/11-2016/3/10	0	0	22.3
Jiao Liyuan	F	52	Resigned Supervisor	2013/3/11-2014/04/17	0	0	6.3
Qiu Yongjian	M	51	Supervisor	2014/04/17-2016/3/10	0	0	12.3
Liu Bing	M	47	Resigned Director	2013/3/11-2014/2/19	0	0	9.8

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 RMB997,000.*

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 2014.*

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 2014, 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 2014, 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. Su has not any equity interest in the Company and has not had any relationship with any controlling shareholder of the Company. He has never been punished by China Securities Regulatory Commission and other authorities concerned or disciplined by any stock exchanges. He has had corresponding qualifications and quality to exercise his functions and powers without any actions prohibited by laws and regulations such as the Company Law and the Articles of Association.

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. Wang has not any equity interest in the Company and has not had any relationship with any controlling shareholder of the Company. He has never been punished by China Securities Regulatory Commission and other authorities concerned or disciplined by any stock exchanges. He has had corresponding qualifications and quality to exercise his functions and powers without any actions prohibited by laws and regulations such as the Company Law and the Articles of Association.

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. Mr. Liu has not any equity interest in the Company and has not had any relationship with any controlling shareholder of the Company. He has never been punished by China Securities Regulatory Commission and other authorities concerned or disciplined by any stock exchanges. He has had corresponding qualifications and quality to exercise his functions and powers without any actions prohibited by laws and regulations such as the Company Law and the Articles of Association.

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. Ms. Jiao has not any equity interest in the Company and has not had any relationship with any controlling shareholder of the Company. He has never been punished by China Securities Regulatory Commission and other authorities concerned or disciplined by any stock exchanges. He has had corresponding qualifications and quality to exercise his functions and powers without any actions prohibited by laws and regulations such as the Company Law and the Articles of Association.

(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. Mr. Wang has not any equity interest in the Company and has not had any relationship with any controlling shareholder of the Company. He has never been punished by China Securities Regulatory Commission and other authorities concerned or disciplined by any stock exchanges. He has had corresponding qualifications and quality to exercise his functions and powers without any actions prohibited by laws and regulations such as the Company Law and the Articles of Association.

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. Ms. Liang has not any equity interest in the Company and has not had any relationship with any controlling shareholder of the Company. He has never been punished by China Securities Regulatory Commission and other authorities concerned or disciplined by any stock exchanges. He has had corresponding qualifications and quality to exercise his functions and powers without any actions prohibited by laws and regulations such as the Company Law and the Articles of Association.

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. Mr. Liu has not any equity interest in the Company and has not had any relationship with any controlling shareholder of the Company. He has never been punished by China Securities Regulatory Commission and other authorities concerned or disciplined by any stock exchanges. He has had corresponding qualifications and quality to exercise his functions and powers without any actions prohibited by laws and regulations such as the Company Law and the Articles of Association.

(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. Mr. Dong has not any equity interest in the Company and has not had any relationship with any controlling shareholder of the Company. He has never been punished by China Securities Regulatory Commission and other authorities concerned or disciplined by any stock exchanges. He has had corresponding qualifications and quality to exercise his functions and powers without any actions prohibited by laws and regulations such as the Company Law and the Articles of Association.

Qiu Yongjian ("Mr. Qiu"), born in 1964, senior engineer, graduated from Shenyang University of Technology in high-voltage electrical apparatus with a bachelor degree. He has successively served as a technician in the design division, the design team leader, and the chief in the technology division of Fuxin Enclosed Busbar Co., Ltd. Currently, he is the director, deputy general manager and chief engineer of Fuxin Enclosed Busbar Co., Ltd. and the shareholders representative 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. Mr. Liu has not any equity interest in the Company and has not had any relationship with any controlling shareholder of the Company. He has never been punished by China Securities Regulatory Commission and other authorities concerned or disciplined by any stock exchanges. He has had corresponding qualifications and quality to exercise his functions and powers without any actions prohibited by laws and regulations such as the Company Law and the Articles of Association.

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) 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).

6. Interest of directors, supervisors and senior management

As at 31 December 2014, 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:	66	Bachelor degree or higher:	101
Technical staff:	53	College:	133
Financial staff:	14	Technical certificate:	22
Administrative staff:	90	Others:	269
Production staff:	210		
Others:	101		
Total:	534	Total:	534

As at the end of the reporting period, the number of employees on the payroll of the Company was 534. 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 7 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.

Whether there is difference between corporate governance and the requirements of the Company Law and relevant provisions of China Securities Regulatory Commission

□ Yes √ No

There is no difference between corporate governance and the requirements of the Company Law and relevant provisions of China Securities Regulatory Commission.

The status on implementation of special activity of corporate governance and the status on formulation and implementation of insider registration and management rules

The Company has already established the Insider Management Rules. Before the lawful public disclosure of the Company's inside information, relevant insiders (including controlling shareholder) shall fill 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. Such information is also 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 two month 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 two month within the price-sensitive period before the results announcement. Also, the board office, finance department, the internal auditors, and the external auditors and other related personnel are trained and reminded, and asked to fill in the Insider Archives, to maintain fair information disclosure. After self-check by the Company, there were no insiders traded the shares of the Company before the disclosure of the significant price-sensitive internal information during the reporting period.

(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
Wang Yunxiao	Independent director	5	1	4	0	0	No
Liang Jie	Independent director	5	1	4	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.

4 Other remarks on execution of duties by independent directors

Acceptance of Company-related recommendations made by independent directors

□ Applicable √ Not applicable

Description of accepted or unaccepted Company-related recommendations made by independent directors

The Company's independent directors, strictly in accordance with provisions of Articles of Association and Work System of Independent Directors and other laws and regulations, kept an eye on the standard operation of the Company, independently implemented duties, presented their professional advice on such matters as the improvement of the Company's system and its daily operation and decision making, issued independent and fair opinions about the engagement of annual report auditor, directors and supervisors and the election of senior management during the reporting period, thus playing their due role in improving the Company's supervision mechanism and safeguarding the legal rights and interests of the Company and its shareholders.

(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) Industry competitiveness

□ Applicable √ Not applicable

(V) Assessment and incentive mechanism for senior management

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. The Company's remuneration committee, in accordance with remuneration management system and annual performance appraisal, has established remuneration standard based on positions and duties of directors, supervisors and senior management.

(VI) 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 3 March 2014 and convened the 2013 annual general meeting of shareholders on 17 April 2014 (please refer to the Announcements dated 3 March 2014 and 17 April 2014 for details).

2. 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 2014, market value of Company H shares was HK$16,160,000,000,000. For details about categories of shareholders and their shareholdings, please refer to section 6 (1) of this Annual Report.

(VII) 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 7 directors, including 4 executive directors, namely Mr. Su Weiguo, Mr. Wang Shouguan, Mr. Liu Qingmin and Ms.Jiao Liyuan 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 RMB 1,085,658.54 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 vi(21)(4) 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 5 regular board meetings were held, with full attendance by all directors or their proxies on their behalf:

(1) The 6th meeting of the Seventh Session of the Board of Directors was held on 3 March 2014 to consider and approve announcement on the 2013Annual Report, 2013 Profit Distribution, Reappointment of Auditors for the Year 2014, the Work Report on Director’s Work for the Year 2013, the Work Report of the General Manager for the Year 2013, the Self-assessment Report of the Company’s Internal Control, the Amendments to Articles of Association, nominate Ms. Jiao Liyuan as the Executive Director, Adjustment of the Internal Management Organization, The aforesaid first, second, third, fourth, seventh, eighth, together with the Work Report of the Supervisory Committee, and the proposal on nominate Mr. Qiu Yongjian as the Supervisor have been submitted to the 2013 annual general meeting of shareholders to be held on 17 April 2014 for review.

(2) The 7st meeting of the Seventh Session of the Board of Directors was held on 1 April 2014 to consider and approve the Proposal on the scope of the Company's operations, increase the provisional proposal on annual General Meeting 2013.

(3) The 8nd meeting of the Seventh Session of the Board of Directors was held on 28 April 2014 to consider and approve the First Quarterly Report of 2014.

(4) The 9rd meeting of the Seventh Session of the Board of Directors was held on 7 August 2014 to consider and approve the Interim Report for the Period of Six Months Ended 30 June 2014, the Net Profit Distribution Plan for the Period of Six Months Ended 30 June 2014 and the Proposal on the appoint Su Weiguo as secretary to the board..

(5) The 10th meeting of the Seventh Session of the Board of Directors was held on 27 October 2014 to consider and approve the Third Quarterly Report of 2014.

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. By the end of this report, 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 2014, 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 2014 and establishing audit procedure of the 2014 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 2014 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 2014.

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 2014, 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.

The Remuneration Committee, in accordance with relevant laws and regulations of China Securities Regulatory Commission and Shenzhen Stock Exchange, Company's internal control system, and relevant provisions of the Implementation Details of the Remuneration Committee of the Board made by the Company, has reviewed the remunerations disclosed by the Company's directors, supervisors and senior management and given the following review opinions:

For this year, the remuneration committee has assessed the performance of the Company's directors, supervisors and senior management on the basis of the major scope of duties of the Company's directors, supervisors and senior management, annual operating incomes of the Company in 2014 and the realization of indicators for performance appraisal, to determine the rates of remuneration for the salaried directors, supervisors and senior management for this year in the Company. The remuneration committee opines that the remuneration of directors, supervisors and senior management disclosed in the Company's Annual Report 2014 complies with the provisions of relevant national laws and regulations as well as the Company's Remuneration Management System. The Company had no breach of laws and regulations or inconsistencies with the Contract on Assessing Management Responsibilities.

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. By the end of this report, the chief member of the Committee is Mr. Liu Hongguang, while other members include Mr. Wang Yunxiao and Mr. Su Weiguo. 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. By the end of this report, the chief member of the Committee is Mr. Su Weiguo, while other members include Mr. Wang Shouguan, and Mr. Liu Hongguang. 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. By the end of this report, the chief member of the Committee is Mr. Su Weiguo, while other members include Mr. Wang Shouguan and Mr. Liu Hongguang. In 2014, the committee convened one committee meeting, which was attended by all members of the committee.

11. Remunerations of Auditors

Considered and approved through the first general meeting of shareholders of 2014 convened on 17 April, 2014 appoint Ruihua 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.

(VIII) 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 2014, 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 four meetings with full attendance, details of which are as follows:

1. The 5th meeting of the seventh Session of the Supervisory Committee was held on 3 March 2014, to consider and approve:

   the work report on supervisor board for the year 2013, announcement on the 2013 Annual Report, 2013 Profit Distribution, the Self-assessment Report of the Company's Internal Control, nominate Mr. Qiu Yongjian as the Supervisor have been submitted to the 2013 annual general meeting of shareholders..

2. The 6nd meeting of the Seventh Session of the Supervisory Committee was held on 28 April 2014 to consider and approve the 2014 First Quarterly Report.

3. The 7rd meeting of the Seventh Session of the Supervisory Committee was held on 7 August 2014 to consider and approve the Interim Report for the Period of Six Months Ended 30 June 2013, written audit opinions about Interim Report 2014 and its summary.

4. The 8th meeting of the Seventh Session of the Supervisory Committee was held on 27 October 2014 to consider and approve the 2014 Third Quarterly Report.

(VIV) 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 2014 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 2014.

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.

7. The Company's External Guarantee

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, representing 18.97% 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. It hasn't made any guarantee for its shareholders, De Facto controller as well as the parties connected. 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 guarantees provided.

8. Description of 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.

The Supervisory Committee will continuously keep an 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.

By order of the Board

Liu Xuehou

Chairman of the Supervisory Committee

16 March 2015

(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 2014 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) Self-Assessment Report of Internal Control

1. Significant deficiency in internal control found by self-assessment report of internal control during the reporting period: There is no significant deficiency in internal control of the Company during the reporting period.

2. Disclosure date of the full self-assessment report of internal control: 17 March 2015

3. Disclosure index of the full self-assessment report on internal control: For details, please refer to the 2014 Self-assessment Report of Internal Control disclosed by the Company on http://www.cninfo.com.cn on 17 March 2015.

(V) Assessment and incentive mechanism for senior management

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

(VI) 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.

(VII) 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.

(VIII) 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 2014 (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 4 May 2015 for the following purposes:

Proposal I **2014 Annual Report**

Proposal II **Proposal of 2014 Net Profit Distribution**

During the reporting period, the Company recorded net profit distributable to shareholders of the listed company of RMB6,169,105.14; and the accrued profit distributable to shareholders at the end of the year was RMB-1,542,524,243.79. 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 2015**

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 **2014 Work Report of the Board of Directors and 2014 Work Report of Independent Directors**

Proposal V **2014 Work Report of the Supervisory Committee**

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

Proposal VII **Proposal on Modifying Some of Management Systems**

Proposal VIII **Proposal on Nominating Zhu Xinguang 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 27 April 2015 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 4 April 2015 to 4 May 2015 (both days inclusive), during which period no transfer of shares will be registered. The shareholders whose names appear on the register by the close of business on 3 April 2015 are entitled to attend the meeting and vote at the meeting.*

3) *Holders of H shares who intend to attend the meeting shall deposit the transfers and relevant share certificates at the Company's H shares register, Boardroom Limited located at 31/F, 148 Electric Road, North Point, Hong Kong not later than 16:30 p.m. on 3 April 2015. Shareholders who intend to attend the meeting shall lodge the reply slips for attending the meeting to the Company before 14 April 2015.*

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) *Directors, supervisors and senior management of the Company.*

7) *Lawyers and professionals employed by the Company.*

By order of the Board
Su Weiguo
Chairman
3 March 2014

Appendix I. Amendment of the Articles of Association of the Company

1. The original "Article 115,

Directors, supervisors and senior management give explanations and instructions upon shareholders' inquiries on the general meeting of shareholders."

The aforesaid Article is to be amended as follows:

"Directors, supervisors and senior management give explanations and instructions upon shareholders' inquiries on the general meeting of shareholders. Minority shareholders shall have the right to make suggestions or inquiries about the listed company's operation and relevant proposals. Relevant directors, supervisors or senior management of the Company shall, subject to the fair information disclosure principle, truly and correctly reply the minority shareholders' inquires."

2. The original "Article 128,

Resolutions adopted on the general meeting of shareholders shall be announced in time, with information about the shareholders attended the meeting and the number of agents, share holding with voting right and its ratio, voting method, and voting result of each proposal, and details about all passed resolutions."

A clause is to be added to the aforesaid Article:

"During the consideration of a major issue related to the interests of minority investors on the general meeting of shareholders, votes of the minority investors shall be counted separately. The separate counting result shall be disclosed publicly in time."

3. The original "Article 152,

"The Company shall set up a Board of Directors to be responsible for the general meeting of shareholders and to exercise the following functions and powers: ……"

Two clauses are to be added to the aforesaid Article:

"Specific functions and powers of the Board of Directors shall be exercised by the Board collectively, and shall not be delegated to others. Moreover, such functions and powers shall not be changed or deprived by the Articles of Association or resolutions of the general meeting of shareholders.

If other functions and powers of the Board of Directors stipulated by Articles of Association relate to major businesses and issues, the decision-making and approval shall be implemented collectively and cannot be delegated to an individual or a few directors."

4. The original "Article 308,

"For the purpose of the Articles of Association, the following terms shall have the following meanings, unless the context otherwise requires: ……"

A clause is to be added to the aforesaid Article:

"Minority investors: Refer to the shareholders other than the company's director, supervisor, senior management, and those who individually or collectively hold over 5% of the Company's shares."

Appendix II. Biographical Details of Candidates for Supervisors

Zhu Xinguang ("Mr. Zhu"), born in 1970, senior engineer, graduated from Shenyang University of Technology in high-voltage electrical apparatus of electric engineering with a bachelor of engineering in 1992. He has successively served as a technician in the design division of Shenyang High Voltage Switchgear Co., Ltd and the secretary, deputy director, and director to the GM office of the Company. Currently, he is the assistant of general manager, office director of the Board and representative for securities affairs, and Director of Internal Auditing Department of the Company. Mr. Zhu has been recognized for his enterprise management skills and professional qualifications of more than 20 years.

Mr. Zhu has not any equity interest in the Company and has not had any relationship with any controlling shareholder of the Company. He has never been punished by China Securities Regulatory Commission and other authorities concerned or disciplined by any stock exchanges. He has had corresponding qualifications and quality to exercise his functions and powers without any actions prohibited by laws and regulations such as the Company Law and the Articles of Association.

During the three years prior to the date of this Announcement, Mr. Zhu did not hold any position in other listed companies. Mr. Zhu has neither taken up a post in any affiliated companies of the Company, nor had any relationship with any other director, senior management, substantial shareholder or controlling shareholder of the Company.

Mr. Zhu has not any equity interest in the Company within the meaning of Part XV of the Securities and Futures Ordinance.

There is no information to be disclosed on items from (h) to (v) in rule 13.51 (2) of the Listing Rules. No other matter needs to be brought to the attention of the shareholders in respect of the Company.

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 [2015]48030014

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 2014, 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 of the financial statements, including: (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 2014 and the consolidated and company results of operations and cash flows for the year ended 31 December 2014.

Ruihua Certified Public Accountants	Certified Accountant of P.R.C.
Beijing, P.R.C	Certified Accountant of P.R.C.
March. 15, 2015	

Date: Dec. 31, 2014

Prepared by: Northeast Electric Development Co., Ltd.

Unit: RMB

Items	Note VI	2014-12-31	2013-12-31
Current Assets:			
Cash and deposits	1	124,218,516.86	107,965,560.91
Financial asset designated to be measured by fair value and which change is recorded in current incomes		-	-
Trading financial assets		-	-
Notes Receivable	2	2,300,000.00	40,000.00
Accounts Receivable	3	123,555,550.88	121,290,113.35
Prepayment	4	8,736,075.46	1,448,055.55
Interest Receivable		-	33,066.67
Dividend		-	-
Other Receivable	5	7,977,176.93	10,142,841.62
Inventory	6	33,991,443.14	32,079,932.08
Assets held for sale		-	-
Non-current asset due within 1 year	7	33,874.27	2,694,021.76
Other current asset	8	1,044,995.24	-
Total current assets		**301,857,632.78**	**275,693,591.94**
Non-current Assets:			
Financial assets available for sale	9	65,914,483.62	65,719,454.27
Held-to-maturity investments		-	-
Long-term receivables		-	-

Date: Dec. 31, 2014

Prepared by: Northeast Electric Development Co., Ltd.

Unit: RMB

Items	**Note VI**	**2014-12-31**	**2013-12-31**
Long-term equity investments	10	38,633,931.35	38,508,920.68
Investment in real estate		-	-
Fixed Assets	11	62,214,706.66	67,580,392.95
Construction in progress	12	302,416.04	-
Material - construction		-	-
Liquidation of fixed assets		-	-
Productive biological assets		-	-
Oil and gas assets		-	-
Intangible Assets	13	4,200,189.29	4,335,679.37
Development expenditures		-	-
Goodwill		-	-
Long-term deferred expenses	14	215,200.00	170,229.08
Deferred tax assets	15	9,257,231.28	10,722,736.62
Other non-current assets		-	-
Total non-current assets		**180,738,158.24**	**187,037,412.97**
Total Assets		**482,595,791.02**	**462,731,004.91**
Current Liabilities:			
Short-term Borrowings	18	9,000,000.00	8,000,000.00
Financial Liabilities designated to be measured by fair value and which change is recorded in current incomes		-	-
Trading financial liabilities		-	-
Notes Payable		-	-

Date: Dec. 31, 2014

Prepared by: Northeast Electric Development Co., Ltd.

Unit: RMB

Items	**Note VI**	**2014-12-31**	**2013-12-31**
Accounts Payable	19	64,400,948.54	50,492,644.44
Receipts in advance	20	8,342,234.23	9,283,263.47
Employee compensation	21	2,464,590.18	2,316,818.27
Taxes Payable	22	1,943,688.03	5,062,951.40
Interest Payable		-	-
Dividends		40,017.86	40,017.86
Other Payables	23	49,065,850.82	46,580,874.56
Liabilities held for sale		-	-
Non-current liabilities due within 1 year		-	-
Other Liabilities		-	-
Total current liabilities		**135,257,329.66**	**121,776,570.00**
Non-current liabilities:			
Long-term Borrowings		-	-
Bonds Payable		-	-
Incl: Premium			
Perpetual			
Long-term Payables		-	-
Long-term Payable - Salaries&Benefits		-	-
Special Payables		-	-
Estimated Liabilities	24	60,721,078.25	60,721,078.25
Deferred Revenue		-	-
Deferred Liabilities - Income Tax		-	-

Date: Dec. 31, 2014

Prepared by: Northeast Electric Development Co., Ltd.

Unit: RMB

Items	Note VI	2014-12-31	2013-12-31
Other Non-Current Liabilities		-	-
Total Non-Current Liabilities		**60,721,078.25**	**60,721,078.25**
Total Liabilities		**195,978,407.91**	**182,497,648.25**
Shareholders' Equity:			
Share Capital	25	873,370,000.00	873,370,000.00
Other Equity Instruments		-	-
Incl: Premium		-	-
Perpetual		-	-
Capital reserve	26	883,422,403.92	883,422,403.92
Less: Treasury Stock		-	-
Other Comprehensive Income	27	-36,666,972.81	-36,992,877.10
Special Reserve		-	-
Surplus Reserve	28	108,587,124.40	108,587,124.40
Provision for general risk		-	-
Accumulated losses	29	-1,542,524,243.79	-1,548,693,348.93
Total equity attributable to the equity holders of the Company		286,188,311.72	279,693,302.29
Minority interests		429,071.39	540,054.37
Total shareholders' equity		**286,617,383.11**	**280,233,356.66**
Total liabilities and shareholders' equity		**482,595,791.02**	**462,731,004.91**

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

Date: Dec. 31, 2014

Prepared by: Northeast Electric Development Co., Ltd.

Unit: RMB

Items	Note VI	2014-12-31	2013-12-31
I. Total Operating Income		**197,513,503.68**	**195,974,125.82**
Incl.: Sales	30	197,513,503.68	195,974,125.82
II. Total Operating Cost		**188,818,916.68**	**189,662,867.18**
Incl.: Cost of Sales	30	149,168,407.74	138,487,244.09
Taxes & Surcharges	31	1,266,151.81	1,361,456.81
Expenses of Sales	32	16,326,228.43	15,781,817.05
Administrative expenses	33	27,725,953.49	29,255,459.55
Finance expenses	34	195,284.85	2,799.96
Assets Impairment loss	35	-5,863,109.64	4,774,089.72
Plus: Income of fair value variance (loss is posed as "-")		-	-
Return on investments (loss is posed as "-")	36	566,830.89	679,028.01
Including.: return on investments to associates and related parties		-7,238.23	-8,323.17
III. Operational Profit (Loss is posed as "-")		**9,261,417.89**	**6,990,286.65**
Plus: Non-operating income	37	502,456.99	5,756,935.78
Including: income of disposal of non-current assets		295,155.64	193,378.89
Less: Non-operating expenses	38	469,481.41	4,022.10
Including: loss of disposal of non-current assets		155,763.95	1,480.42
IV. Total Profit (Total loss is posed as "-")		**9,294,393.47**	**12,743,200.33**
Less: Income tax expenses	39	3,236,271.31	3,082,370.47
V. Net Profit (Net loss is posed as "-")		**6,058,122.16**	**9,660,829.86**

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Unit: RMB

Items		Note VI	2014-12-31	2013-12-31
	Net profit attributable to equity holders of the Company		6,169,105.14	9,886,802.75
	Minority interests		-110,982.98	-225,972.89
VI.	**Net Other Comprehensive Income after tax**	27	**325,904.29**	**-1,975,981.17**
	Total Comprehensive Income Attributable to the Equity Holders of the Company		325,904.29	-1,975,981.17
	(I) Other Comprehensive Income not to be re-categorized into Profit & Loss		-	-
	1. Remeasurement of Net Liabilities/Assets Variance of Defined Benefit Plans		-	-
	2. Shares of Other Comprehensive Income not to be re-categorized into Profit & Loss from invested Parties by Equity Methods		-	-
	(II) Other Comprehensive Income to be re-categorized into Profit & Loss		325,904.29	-1,975,981.17
	1. Shares of Other Comprehensive Income to be re-categorized into Profit & Loss from invested Parties by Equity Methods		-	-
	2. Profit/Loss in fair value of available-for-sale financial assets		-	-
	3. Profit/Loss of held-to-maturity investments in re-categorized available-for-sale financial assets		-	-
	4. Effective portion of Profit/Loss from Cash Flow Hedge		-	-

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Unit: RMB

Items		Note VI	2014-12-31	2013-12-31
	5. Differences of Exchange for Foreign Currency Report		325,904.29	-1,975,981.17
	Net After-tax Comprehensive Income Attributable to Minority Interests		-	-
VII.	**Total Comprehensive Income**		**6,384,026.45**	**7,684,848.69**
	Total Comprehensive Income Attributable to the Equity Holders of the Company		6,495,009.43	7,910,821.58
	Total Comprehensive Income Attributable to the Minority Interests of the Company		-110,982.98	-225,972.89
VIII.	**Earnings per share**			
	(I) Basic earnings per share	40	0.01	0.01
	(II) Diluted earnings per share	40	0.01	0.01

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Unit: RMB

Items	Note VI	2014-12-31	2013-12-31
I. Cash flow from operating activities		-	-
Cash received from sales of goods or rendering of services		218,307,065.02	236,379,205.01
Tax refunds received		-	181,727.09
Cash received from other operating activities	42(1)	6,099,219.57	8,467,221.08
Sub-total of cash inflows from operating activities		**224,406,284.59**	**245,028,153.18**
Cash paid to goods purchased and labor service received		128,478,150.48	122,361,114.15
Cash paid to and for employees		28,868,446.35	27,130,504.33
Payments of taxes and surcharges		17,905,812.74	21,191,998.19
Cash payments to other operating activities	42(2)	22,348,283.95	42,896,369.19
Sub-total of cash outflows for operating activities		**197,600,693.52**	**213,579,985.86**
Net Cash Flow from operating activities		**26,805,591.07**	**31,448,167.32**
II. Cash flow from investing activities			
Cash from disinvestments		55,000,000.00	25,000,000.00
Cash received from return of investments		607,135.79	204,924.66
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		700,000.00	454,000.00
Net cash received in disposing subsidiaries and other operating units		-	-
Cash received relating to other investing activities		-	-
Sub-total of cash inflows from investing activities		**56,307,135.79**	**25,658,924.66**
Cash paid in purchase/construction of fixed assets, intangible assets and other long-term assets		10,790,467.27	11,168,095.35
Cash paid for investment		53,000,000.00	12,000,000.00

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Unit: RMB

Items	Note VI	2014-12-31	2013-12-31
Net cash paid for subsidiaries and other operating units		-	-
Cash paid relating to other investing activities		-	28.93
Sub-total of cash outflows		**63,790,467.27**	**23,168,124.28**
Net Cash Flow from investing activities		**-7,483,331.48**	**2,490,800.38**
III. Cash flow from financing activities			
Cash received by absorbing investment		-	-
Incl: cash received by subsidiaries from minority shareholders		-	-
Cash received from borrowings		9,000,000.00	8,000,000.00
Cash received from bond issued		-	-
Cash received relating to other financing activities		-	-
Sub-total of cash inflows		**9,000,000.00**	**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		665,058.33	609,006.67
Incl: cash paid by subsidiaries to minority shareholders		-	-
Cash paid relating to other financing activities		-	-
Sub-total of cash outflows		**8,665,058.33**	**8,609,006.67**
Net Cash Flow from financing activities		**334,941.67**	**-609,006.67**
IV. Effect of change of foreign currency rates on cash and cash equivalents		**504.69**	**-16,718.92**
V. Net increase of cash and equivalent		**19,657,705.95**	**33,313,242.11**
Plus: Balance of cash and equivalent at beginning of period		102,736,973.41	69,423,731.30
VI. Balance of Cash and equivalent by end of period		**122,394,679.36**	**102,736,973.41**

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Unit: RMB

Item	Year 2014													
	Shareholders' Equity attributable to shareholders of Parent Company												Minority Interests	Total Shareholder' Equity
	Share Capital	Other Equity Instruments			Capital Reserve	Less: Treasury Stock	Other Comprehensive Income	Special Reserve	Surplus Reserve	Provision for general risk	Accumulated Losses	Others		
		Premium	Perpetual	Others										
I. Balance from last year	**873,370,000.00**	-	-	-	**883,422,403.92**	-	**-36,992,877.10**	-	**108,587,124.40**	-	**-1,548,693,348.93**	-	**540,054.37**	**280,233,356.66**
Plus: Changes in accounting policies	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Corrections to previous errors	-	-	-	-	-	-	-	-	-	-	-	-	-	-
business combinations under the same control	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Others	-	-	-	-	-	-	-	-	-	-	-	-	-	-
II. Balance at beginning of year	**873,370,000.00**	-	-	-	**883,422,403.92**	-	**-36,992,877.10**	-	**108,587,124.40**	-	**-1,548,693,348.93**	-	**540,054.37**	**280,233,356.66**
III. Changes in the year (loss is "-")	-	-	-	-	-	-	**325,904.29**	-	-	-	**6,169,105.14**	-	**-110,982.98**	**6,384,026.45**
(I) Total Comprehensive Income	-	-	-	-	-	-	**325,904.29**	-	-	-	**6,169,105.14**	-	**-110,982.98**	**6,384,026.45**
(II) Increase/Decrease of Capital from Shareholders	-	-	-	-	-	-	-	-	-	-	-	-	-	-
1. Common Shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2. Other Equity Instrument	-	-	-	-	-	-	-	-	-	-	-	-	-	-
3. Shares paid taken into Shareholder's Equity	-	-	-	-	-	-	-	-	-	-	-	-	-	-
4. Others	-	-	-	-	-	-	-	-	-	-	-	-	-	-

Date: Dec. 31, 2014

Prepared by: Northeast Electric Development Co., Ltd.

Unit: RMB

Item	Year 2014													
	Shareholders' Equity attributable to shareholders of Parent Company												Minority Interests	Total Shareholder' Equity
	Share Capital	Other Equity Instruments			Capital Reserve	Less: Treasury Stock	Other Comprehensive Income	Special Reserve	Surplus Reserve	Provision for general risk	Accumulated Losses	Others		
		Premium	Perpetual	Others										
(III) Distribution of profit	-	-	-	-	-	-	-	-	-	-	-	-	-	-
1. Extraction of surplus reserves	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2. Extraction provision for general risk	-	-	-	-	-	-	-	-	-	-	-	-	-	-
3 .Distribution to shareholders	-	-	-	-	-	-	-	-	-	-	-	-	-	-
4. Others	-	-	-	-	-	-	-	-	-	-	-	-	-	-
(IV) Transfer within equity	-	-	-	-	-	-	-	-	-	-	-	-	-	-
1. Transfer-in from capital reserves	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2. Transfer-in from surplus reserves	-	-	-	-	-	-	-	-	-	-	-	-	-	-
3.Loss covered by surplus reserves	-	-	-	-	-	-	-	-	-	-	-	-	-	-
4.Other	-	-	-	-	-	-	-	-	-	-	-	-	-	-
(V) Special reserves	-	-	-	-	-	-	-	-	-	-	-	-	-	-
1. Extraction of the special reserves	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2. Usage of the special reserves	-	-	-	-	-	-	-	-	-	-	-	-	-	-
(VI) Others	-	-	-	-	-	-	-	-	-	-	-	-	-	-
IV. Balance at end of Period	**873,370,000.00**	-	-	-	**883,422,403.92**	-	**-36,666,972.81**	-	**108,587,124.40**	-	**-1,542,524,243.79**	-	**429,071.39**	**286,617,383.11**

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Unit: RMB

Item	Year 2013													
	Shareholders' Equity attributable to shareholders of Parent Company												Minority Interests	Total Shareholder' Equity
	Share Capital	Other Equity Instruments			Capital Reserve	Less: Treasury Stock	Other Comprehensive Income	Special Reserve	Surplus Reserve	Provision for general risk	Accumulated Losses	Others		
		Premium	Perpetual	Others										
I. Balance from last year	**873,370,000.00**	**-**	**-**	**-**	**883,422,403.92**	**-**	**-35,016,895.93**	**-**	**108,587,124.40**	**-**	**-1,558,580,151.68**	**-**	**1,237,469.00**	**273,019,949.71**
Plus: Changes in accounting policies	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Corrections to previous errors	-	-	-	-	-	-	-	-	-	-	-	-	-	-
business combinations under the same control	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Others	-	-	-	-	-	-	-	-	-	-	-	-	-	-
II. Balance at beginning of year	**873,370,000.00**	**-**	**-**	**-**	**883,422,403.92**	**-**	**-35,016,895.93**	**-**	**108,587,124.40**	**-**	**-1,558,580,151.68**	**-**	**1,237,469.00**	**273,019,949.71**
III. Changes in the year (loss is "-")	**-**	**-**	**-**	**-**	**-**	**-**	**-1,975,981.17**	**-**	**-**	**-**	**9,886,802.75**	**-**	**-697,414.63**	**7,213,406.95**
(I) Total Comprehensive Income	**-**	**-**	**-**	**-**	**-**	**-**	**-1,975,981.17**	**-**	**-**	**-**	**9,886,802.75**	**-**	**-225,972.89**	**7,684,848.69**
(II) Increase/Decrease of Capital from Shareholders	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-471,441.74**	**-471,441.74**
1. Common Shares	-	-	-	-	-	-	-	-	-	-	-	-	-471,441.74	-471,441.74
2. Other Equity Instrument	-	-	-	-	-	-	-	-	-	-	-	-	-	-
3. Shares paid taken into Shareholder's Equity	-	-	-	-	-	-	-	-	-	-	-	-	-	-
4. Others	-	-	-	-	-	-	-	-	-	-	-	-	-	-
(III) Distribution of profit	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**

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Prepared by: Northeast Electric Development Co., Ltd.

Unit: RMB

Item	Year 2013													
	Shareholders' Equity attributable to shareholders of Parent Company												Minority Interests	Total Shareholder' Equity
	Share Capital	Other Equity Instruments			Capital Reserve	Less: Treasury Stock	Other Comprehensive Income	Special Reserve	Surplus Reserve	Provision for general risk	Accumulated Losses	Others		
		Premium	Perpetual	Others										
1. Extraction of surplus reserves	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2. Extraction provision for general risk	-	-	-	-	-	-	-	-	-	-	-	-	-	-
3 .Distribution to shareholders	-	-	-	-	-	-	-	-	-	-	-	-	-	-
4. Others	-	-	-	-	-	-	-	-	-	-	-	-	-	-
(IV) Transfer within equity	-	-	-	-	-	-	-	-	-	-	-	-	-	-
1. Transfer-in from capital reserves	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2. Transfer-in from surplus reserves	-	-	-	-	-	-	-	-	-	-	-	-	-	-
3.Loss covered by surplus reserves	-	-	-	-	-	-	-	-	-	-	-	-	-	-
4.Other	-	-	-	-	-	-	-	-	-	-	-	-	-	-
(V) Special reserves	-	-	-	-	-	-	-	-	-	-	-	-	-	-
1. Extraction of the special reserves	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2. Usage of the special reserves	-	-	-	-	-	-	-	-	-	-	-	-	-	-
(VI) Others	-	-	-	-	-	-	-	-	-	-	-	-	-	-
IV. Balance at end of Period	**873,370,000.00**	-	-	-	**883,422,403.92**	-	**-36,992,877.10**	-	**108,587,124.40**	-	**-1,548,693,348.93**	-	**540,054.37**	**280,233,356.66**

Date: Dec. 31, 2014

Prepared by: Northeast Electric Development Co., Ltd.

Unit: RMB

Items	Note XV	2014-12-31	2013-12-31
Current Assets:		-	-
Cash and deposits		21,532.17	19,189.62
Financial asset designated to be measured by fair value and which change is recorded in current incomes		-	-
Trading financial assets		-	-
Notes Receivable		-	-
Accounts Receivable	1	10,443,950.96	-
Prepayment		-	-
Interest Receivable		-	-
Dividend		-	-
Other Receivable	2	353,177,765.95	354,263,352.53
Inventory		-	-
Assets held for sale		-	-
Non-current asset due within 1 year		-	-
Other current asset		-	-
Total current assets		**363,643,249.08**	**354,282,542.15**
Non-current Assets:			
Financial assets available for sale		-	-
Held-to-maturity investments		-	-
Long-term receivables		-	-
Long-term equity investments	3	90,413,551.10	90,413,551.10
Investment in real estate		-	-

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Prepared by: Northeast Electric Development Co., Ltd.

Unit: RMB

Items	Note XV	2014-12-31	2013-12-31
Fixed Assets		81,148.52	242,267.37
Construction in progress		-	-
Material - construction		-	-
Liquidation of fixed assets		-	-
Productive biological assets		-	-
Oil and gas assets		-	-
Intangible Assets		-	-
Development expenditures		-	-
Goodwill		-	-
Long-term deferred expenses		-	-
Deferred tax assets		-	-
Other non-current assets		-	-
Total non-current assets		**90,494,699.62**	**90,655,818.47**
Total Assets		**454,137,948.70**	**444,938,360.62**
Current Liabilities:			
Short-term Borrowings		-	-
Financial Liabilities designated to be measured by fair value and which change is recorded in current incomes		-	-
Trading financial liabilities			
Notes Payable		-	-
Accounts Payable		9,347,196.00	-
Receipts in advance		665,000.00	665,000.00

Date: Dec. 31, 2014

Prepared by: Northeast Electric Development Co., Ltd.

Unit: RMB

Items	**Note XV**	**2014-12-31**	**2013-12-31**
Employee Compensation		8,440.44	8,671.52
Taxes Payable		163,478.89	26,387.56
Interest Payable		-	-
Dividends		-	-
Other Payables		87,312,321.52	87,442,181.86
Liabilities held for sale		-	-
Non-current liabilities due within 1 year		-	-
Other Liabilities		-	-
Total current liabilities		**97,496,436.85**	**88,142,240.94**
Non-current liabilities:		**-**	**-**
Long-term Borrowings		-	-
Bonds Payable		-	-
Incl: Premium		-	-
Perpetual		-	-
Long-term Payables		-	-
Long-term Payable - Salaries&Benefits		-	-
Special Payables		-	-
Estimated Liabilities		60,721,078.25	60,721,078.25
Deferred Revenue		-	-
Deferred Liabilities - Income Tax		-	-

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Prepared by: Northeast Electric Development Co., Ltd.

Unit: RMB

Items	**Note XV**	**2014-12-31**	**2013-12-31**
Other Non-Current Liabilities		-	-
Total Non-Current Liabilities		**60,721,078.25**	**60,721,078.25**
Total Liabilities		**158,217,515.10**	**148,863,319.19**
Shareholders' Equity:			
Share Capital		873,370,000.00	873,370,000.00
Other Equity Instruments		-	-
Incl: Premium		-	-
Perpetual		-	-
Capital reserve		979,214,788.45	979,214,788.45
Less: Treasury Stock		-	-
Other Comprehensive Income		-	-
Special Reserve		-	-
Surplus Reserve		108,587,124.40	108,587,124.40
Provision for general risk		-	-
Accumulated losses		-1,665,251,479.25	-1,665,096,871.42
Total shareholders' equity		**295,920,433.60**	**296,075,041.43**
Total liabilities and shareholders' equity		**454,137,948.70**	**444,938,360.62**

Date: Dec. 31, 2014

Prepared by: Northeast Electric Development Co., Ltd.

Unit: RMB

Items		Note XV	2014-12-31	2013-12-31
I.	**Total Operating Income**	**4**	**22,368,163.22**	**-**
	Less: Cost of Sales	4	20,008,408.55	-
	Taxes & Surcharges		39,780.00	-
	Expenses of Sales		-	-
	Administrative expenses		2,331,459.47	2,195,193.09
	Finance expenses		2,074.16	4,760.51
	Assets Impairment loss		-	-541,555.44
	Plus: 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		-	-
II.	**Operational Profit (Loss is posed as "-")**		**-13,558.96**	**-708,983.27**
	Plus: Non-operating income		-	5,514,885.10
	Incl: income of disposal of non-current assets		-	-
	Less: Non-operating expenses		141,048.87	1,467.70
	Incl: loss of disposal of non-current assets		141,048.87	-
III.	**Total Profit (Total loss is posed as "-")**		**-154,607.83**	**4,804,434.13**
	Less: Income tax expenses		-	-
IV.	**Net Profit (Net loss is posed as "-")**		**-154,607.83**	**4,804,434.13**
V.	**Net Other Comprehensive Income after tax**		**-**	**-**
	(I) Other Comprehensive Income not to be re-categorized into Profit & Loss		-	-

Date: Dec. 31, 2014

Prepared by: Northeast Electric Development Co., Ltd.

Unit: RMB

Items		Note XV	2014-12-31	2013-12-31
	1. Remeasurement of Net Liabilities/Assets Variance of Defined Benefit Plans		-	-
	2. Shares of Other Comprehensive Income not to be re-categorized into Profit & Loss from invested Parties by Equity Methods		-	-
	(II) Other Comprehensive Income to be re-categorized into Profit & Loss		-	-
	1. Shares of Other Comprehensive Income to be re-categorized into Profit & Loss from invested Parties by Equity Methods		-	-
	2. Profit/Loss in fair value of available-for-sale financial assets		-	-
	3. Profit/Loss of held-to-maturity investments in re-categorized available-for-sale financial assets		-	-
	4. Effective portion of Profit/Loss from Cash Flow Hedge		-	-
	5. Differences of Exchange for Foreign Currency Report		-	-
VI.	Total Comprehensive Income		-154,607.83	4,804,434.13

Date: Dec. 31, 2014

Prepared by: Northeast Electric Development Co., Ltd.

Unit: RMB

Items	Note XV	2014-12-31	2013-12-31
I. Cash flow from operating activities			
Cash received from sales of goods or rendering of services		15,726,800.00	-
Tax refunds received		-	-
Cash received from other operating activities		18,910,010.27	11,057,560.80
Sub-total of cash inflows from operating activities		**34,636,810.27**	**11,057,560.80**
Cash paid in purchase/construction of fixed assets, intangible assets and other long-term assets		14,066,000.25	-
Cash paid for investment		1,036,565.45	768,444.79
Net cash paid for subsidiaries and other operating units		310,374.26	168,403.67
Cash paid relating to other investing activities		19,209,679.60	10,132,168.59
Sub-total of cash outflows		**34,622,619.56**	**11,069,017.05**
Net Cash Flow from investing activities		**14,190.71**	**-11,456.25**
II. Cash flow from investing activities			
Cash from disinvestments		-	-
Cash received from return of 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 activities		-	-
Sub-total of cash inflows from investing activities		**-**	**-**
Cash paid in purchase/construction of fixed assets, intangible assets and other long-term assets		11,902.11	-
Cash paid for investment		-	-

Date: Dec. 31, 2014

Prepared by: Northeast Electric Development Co., Ltd.

Unit: RMB

Items	Note XV	2014-12-31	2013-12-31
Net cash paid for subsidiaries and other operating units			-
Cash paid relating to other investing activities		-	-
Sub-total of cash outflows		**11,902.11**	**-**
Net Cash Flow from investing activities		**-11,902.11**	**-**
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 activities		-	-
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 activities		-	-
Sub-total of cash outflows		-	-
Net Cash Flow from financing activities		-	-
IV. Effect of change of foreign currency rates on cash and cash equivalents		**53.95**	**70.29**
V. Net increase of cash and equivalent		**2,342.55**	**-11,385.96**
Plus: Balance of cash and equivalent at beginning of period		**19,189.62**	**30,575.58**
VI. Balance of Cash and equivalent by end of period		**21,532.17**	**19,189.62**

Date: Dec. 31, 2014

Prepared by: Northeast Electric Development Co., Ltd.

Unit: RMB

Item	Year 2014											
	Capital	Other Equity Instruments			Capital Reserve	Less: Treasury Stock	Other Comprehensive Income	Special Reserve	Surplus Reserve	Provision for general risk	Accumulated Losses	Total Shareholders' Equity
		Premium	Perpetual	Others								
I. Balance carried from last year	**873,370,000.00**	-	-	-	**979,214,788.45**	-	-	-	**108,587,124.40**	-	**-1,665,096,871.42**	**296,075,041.43**
Plus: Changes in accounting policies	-	-	-	-	-	-	-	-	-	-	-	-
Corrections to previous errors	-	-	-	-	-	-	-	-	-	-	-	-
Others	-	-	-	-	-	-	-	-	-	-	-	-
II. Balance at beginning of year	**873,370,000.00**	-	-	-	**979,214,788.45**	-	-	-	**108,587,124.40**	-	**-1,665,096,871.42**	**296,075,041.43**
III. Changes in the year (loss is "-")	-	-	-	-	-	-	-	-	-	-	**-154,607.83**	**-154,607.83**
(I) Total Comprehensive Income	-	-	-	-	-	-	-	-	-	-	**-154,607.83**	**-154,607.83**
(II) Increase/Decrease of Capital from Shareholders	-	-	-	-	-	-	-	-	-	-	-	-
1. Common Shares	-	-	-	-	-	-	-	-	-	-	-	-
2. Other Equity Instrument	-	-	-	-	-	-	-	-	-	-	-	-
3. Shares paid taken into Shareholder's Equity	-	-	-	-	-	-	-	-	-	-	-	-
4. Others	-	-	-	-	-	-	-	-	-	-	-	-

Company Statement of Changes in Equity (2014) *(Continued)*

For the year ended 31 December 2014 (Prepared in accordance with P.R.C. Accounting Rules and Regulations)

Date: Dec. 31, 2014

Prepared by: Northeast Electric Development Co., Ltd.

Unit: RMB

Item	Year 2014											
	Capital	Other Equity Instruments			Capital Reserve	Less: Treasury Stock	Other Comprehensive Income	Special Reserve	Surplus Reserve	Provision for general risk	Accumulated Losses	Total Shareholders' Equity
		Premium	Perpetual	Others								
(III) Distribution of profit	-	-	-	-	-	-	-	-	-	-	-	-
1. Extraction of surplus reserves	-	-	-	-	-	-	-	-	-	-	-	-
2. Extraction provision for general risk	-	-	-	-	-	-	-	-	-	-	-	-
3 .Distribution to shareholders	-	-	-	-	-	-	-	-	-	-	-	-
4. Others	-	-	-	-	-	-	-	-	-	-	-	-
(IV) Transfer within equity	-	-	-	-	-	-	-	-	-	-	-	-
1. Transfer-in from capital reserves	-	-	-	-	-	-	-	-	-	-	-	-
2. Transfer-in from surplus reserves	-	-	-	-	-	-	-	-	-	-	-	-
3. Loss covered by surplus reserves	-	-	-	-	-	-	-	-	-	-	-	-
4.Other	-	-	-	-	-	-	-	-	-	-	-	-
(V) Special reserves	-	-	-	-	-	-	-	-	-	-	-	-
1. Extraction of the special reserves	-	-	-	-	-	-	-	-	-	-	-	-
2. Usage of the special reserves	-	-	-	-	-	-	-	-	-	-	-	-
(VI) Others	-	-	-	-	-	-	-	-	-	-	-	-
IV. Balance at end of Period	**873,370,000.00**	-	-	-	**979,214,788.45**	-	-	-	**108,587,124.40**		**-1,665,251,479.25**	**295,920,433.60**

Date: Dec. 31, 2014

Prepared by: Northeast Electric Development Co., Ltd.

Unit: RMB

Item	Year 2013											
	Capital	Other Equity Instruments			Capital Reserve	Less: Treasury Stock	Other Comprehensive Income	Special Reserve	Surplus Reserve	Provision for general risk	Accumulated Losses	Total Shareholders' Equity
		Premium	Perpetual	Others								
I. Balance carried from last year	**873,370,000.00**				**979,214,788.45**				**108,587,124.40**		**-1,669,901,305.55**	**291,270,607.30**
Plus: Changes in accounting policies	-	-	-	-	-	-	-	-	-	-	-	-
Corrections to previous errors	-	-	-	-	-	-	-	-	-	-	-	-
Others	-	-	-	-	-	-	-	-	-	-	-	-
II. Balance at beginning of year	**873,370,000.00**	**-**	**-**	**-**	**979,214,788.45**	**-**	**-**	**-**	**108,587,124.40**	**-**	**-1,669,901,305.55**	**291,270,607.30**
III. Changes in the year (loss is "-")	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**4,804,434.13**	**4,804,434.13**
(I) Total Comprehensive Income	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**4,804,434.13**	**4,804,434.13**
(II) Increase/Decrease of Capital from Shareholders	-	-	-	-	-	-	-	-	-	-	-	-
1. Common Shares	-	-	-	-	-	-	-	-	-	-	-	-
2. Other Equity Instrument	-	-	-	-	-	-	-	-	-	-	-	-
3. Shares paid taken into Shareholder's Equity	-	-	-	-	-	-	-	-	-	-	-	-
4. Others	-	-	-	-	-	-	-	-	-	-	-	-
(III) Distribution of profit	-	-	-	-	-	-	-	-	-	-	-	-
1. Extraction of surplus reserves	-	-	-	-	-	-	-	-	-	-	-	-

Date: Dec. 31, 2014

Prepared by: Northeast Electric Development Co., Ltd.

Unit: RMB

Item	Year 2013											
	Capital	Other Equity Instruments			Capital Reserve	Less: Treasury Stock	Other Comprehensive Income	Special Reserve	Surplus Reserve	Provision for general risk	Accumulated Losses	Total Shareholders' Equity
		Premium	Perpetual	Others								
2. Extraction provision for general risk	-	-	-	-	-	-	-	-	-	-	-	-
3. Distribution to shareholders	-	-	-	-	-	-	-	-	-	-	-	-
4. Others	-	-	-	-	-	-	-	-	-	-	-	-
(IV) Transfer within equity	-	-	-	-	-	-	-	-	-	-	-	-
1. Transfer-in from capital reserves	-	-	-	-	-	-	-	-	-	-	-	-
2. Transfer-in from surplus reserves	-	-	-	-	-	-	-	-	-	-	-	-
3. Loss covered by surplus reserves	-	-	-	-	-	-	-	-	-	-	-	-
4. Other	-	-	-	-	-	-	-	-	-	-	-	-
(V) Special reserves	-	-	-	-	-	-	-	-	-	-	-	-
1. Extraction of the special reserves	-	-	-	-	-	-	-	-	-	-	-	-
2. Usage of the special reserves	-	-	-	-	-	-	-	-	-	-	-	-
(VI) Others	-	-	-	-	-	-	-	-	-	-	-	-
IV. Balance at end of Period	**873,370,000.00**	-	-	-	**979,214,788.45**	-	-	-	**108,587,124.40**		**-1,665,096,871.42**	**296,075,041.43**

Northeast Electric Development Co., Ltd.

For the year ended 31 December 2014

(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, 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 equipment 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.

I. Company Overview *(Continued)*

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 2015 in the meeting of the board of directors.

7. The results of 7 subsidiaries of the Company have been consolidated in the Financial Statements of Year 2014. Details please see Note 8 "Disclosures of equity in other entities".

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" - issued by Decree No.33 of the Ministry of Finance, amended by Decree No.28 of the Ministry of Finance - and 41 Specific Accounting Standards issued by the Ministry of Finance on 15 February 2006, and application guidelines, explanations and other relevant regulations which announced subsequently (together the "Accounting 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.

The Company has prepared its financial accounting by Accrual Basis, according to the regulations of the relative Accounting Standards. Except for some financial instruments, the Financial Statements are valued at historical cost. Impairment of Assets Reserves are allocated once such impairment happens.

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

The financial statements of the company for the year ended 31 December 2014 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 2014 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 (2014 amendments)" issued by China Securities Regulatory Commission in relation to the disclosure requirements on financial statements and its accompanying notes.

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. Operating Cycle

A normal operating cycle starts from purchasing assets used to produce, and ends when cash or equivalent is realized. It's the Company's practice to set an operating cycle as 12 months, which is also the standard classification criteria for status of liquidity of both assets and liabilities.

4. 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.

(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.

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

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

(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 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.

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

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

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

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”(No. Caihui [2012] 19) and Rule 51 in “Decree 33, Accounting Standards for Business Enterprises - Consolidated Reports” (Refer to Note IV 5(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 (11) “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 are accounted on the same basis as the investee when disposing of their relative assets or liabilities (i.e. Except for the portion variated due to change of net liabilities or net assets under remeasurement of defined benefit plans, the rest are taken into the current Return on 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 are accounted on the same basis as the investee when disposing of their relative assets or liabilities (i.e. Except for the portion variated due to change of net liabilities or net assets under remeasurement of defined benefit plans, the rest are taken into the current Return on investment).

5. Preparation method 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 the Company has over the investee(s), that the Company enjoys variable return on investment by taking part in the investee’s operating activities, and is able to affect the amount of return by using such power. The scope of consolidation includes the company and all of its subsidiaries. Subsidiaries are the entities controlled by the company.

The Company will re-evaluate the definition once any relative element change due to facts or circumstances change.

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

5. Preparation method of consolidated financial statements *(Continued)*

(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)*

5. Preparation method 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 income in relation to the subsidiary are accounted on the same basis as the investee when control cease (i.e.Except for changes due to net liabilities or net assets from such investee's re-measured defined benefits plan, the rest are reclassified as investment income during the period). 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 11 "Long-term equity investments" or Note IV 8 "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 11 (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)*

6. Definitions of 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.

7. 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 in profit or loss or in other comprehensive income in the current year.

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

7. 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 other comprehensive income under the item "exchange difference arising translation of foreign operations", 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 as other comprehensive income. Such exchange difference listed under Shareholders' Equity in Balance Sheet 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.

All the translation difference due to foreign currency exchange listed under Shareholders' equity in Balance Sheet and attributable to the parent company are reclassified into the Profit & Loss for the period, when the Company cease control over its overseas operations when disposing all or part of offshore shareholders' equity, or with other reasons.

The Company takes the exchange difference from its overseas operations related foreign currency reports into Minority Interests but not in the Profit & Loss for the period, when it's percentage of shares decline but still remains control over the relative operations when disposing part of the equity investment or due to other reasons. Such exchange difference are taken into the current Profit & Loss when the share equity disposed are with the Company's associate or joint venture.

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

8. Financial Instruments

A financial asset or financial liability is recognized when the Company becomes a party in the relative financial instrument contract. The financial asset or liability is measured by fair value when it's initially recognized. Transaction expenses of such financial asset or financial liability are accounted directly into Profit & Loss, when expenses of other types of financial instrument are classified in its initial recognized amount.

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

Fair value is the amount at which the asset could be sold or an liability could be transferred between willing parties in an orderly transaction on a measurement date. 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.

(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.

(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;

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

8. Financial Instruments *(Continued)*

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

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

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.

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.

(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.

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

8. Financial Instruments *(Continued)*

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

(ii) Held-to-maturity investments *(Continued)*

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) 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 & Loss, are recognized as other comprehensive income and reclassified to Profit & Loss when the financial assets are de-recognized. However, subsequent measurement is calculated at cost for the equity instrument investment with no fair value quote or reliable measurement in the active market, and for those derivative financial assets linked with and settlable when deliver by such equity instrument.

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

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

8. Financial Instruments *(Continued)*

(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.

(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. Significant decline means the relative fair value drops over 20% accumulatively. Non-temporary decline means the period when the relative fair value drops exceeds 12 months.

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

8. Financial Instruments *(Continued)*

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

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

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.

(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.

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

8. Financial Instruments *(Continued)*

(4) Recognition and measurement on transfer of financial assets *(Continued)*

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.

(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.

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

8. Financial Instruments *(Continued)*

(5) Classification and measurement of financial liabilities *(Continued)*

(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.

(iii) Financial guarantee contract

For the financial guarantee contract not classified as financial liability measured by its fair value and taken into the current Profit & Loss, it is recognized initially by its fair value, and is measured subsequently with the higher value between its initial recognized amount and the amount calculated by the regulations in <Accounting Standard for Business Enterprises No. 13 - Contingencies> less accumulated amortization stipulated in <Accounting Standard for Business Enterprises No. 14 - Revenue>.

(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)*

8. 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. Change in the fair value of derivatives are accounted into the Profit & Loss for the period.

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. Change to share equity is accounted when the Company issue (including refinance), buyback, sell or cancel equity instrument. Relative change to fair value of the equity instrument is not recognized. Transaction expenses relating to such transaction is deducted from share equity.

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)*

9. 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)

(ii) 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

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

9. Receivables *(Continued)*

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

(iii) The provision ratios used under the aging 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

(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.

(4) Reversal of bad-debt provision

Should circumstances prove that value of a certain account receivable is recovered, and the recovery is due to events post loss, then the relative Loss for decline in value will be reversed and accounted into Profit & Loss, with its book value not exceeding its book balance less amortization should there be no provision for decline in value on the date of reversal.。

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

10. 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)*

11. Long-term equity investments

Long-term equity investments in this section refers to those with which the Company exercise single or joint control over the invested entity, or has significant influence on its operation. Long-term equity investments fall out of this category are classified either as available-for-sale financial asset or as financial asset measured by its fair value and is accounted into the current Profit & Loss by its changed value. For detailed accounting policy see Note IV.8 "Financial Instruments".

Joint control refers to the shared control over an invested entity by the relative arrangement, and agreement must be reached by the control sharing parties before any activity under the arrangement. Significant influence refers to the right the Company has to join in the decision making process for financial and business operation policies of the invested entity, while unable to control or sharing joint control with other parties over such decision makings.

(1) Recognition of cost of investment

For long-term equity investment resulting from merger of enterprises under the same control, the Company regards the share of the book value of the its equity of the merged enterprise as the initial cost of such investment. The difference between the initial cost of the long-term equity investment, non-cash assets transferred and the total book value of the shares issued shall offset against the capital reserve. If the capital reserve is insufficient to dilute, the retained earnings shall be adjusted. If the consideration of the merging enterprise is by issuing equity securities, on the date of merger, the Company regards the share of the book value of the controlling party's equity of the merged enterprise as the initial cost of the long-term equity investment. Total face value of the stocks issued are regarded as the capital stock, while the difference between the initial cost of the long-term equity investment and total face value of the shares issued shall offset against the capital reserve. If the capital reserve is insufficient to dilute, the retained earnings shall be adjusted. For a business combination realized by two or more transactions of exchange and ultimately under the same control, different accounting methods are adopted by the criteria of whether those transactions are classified as "a bundle of transactions" or not. If yes, all exchange transactions are deemed as one transaction getting control of the invested entity and are dealt with the relative accounting method. If no, the Company regards the share of the book value of the controlling party's equity of the merged enterprise as the initial cost of the long-term equity investment on the date of merger. Difference between the initial cost of the long-term equity investment and the sum of book value of long-term equity investment plus new consideration paid for the share in the invested entity on the date of merger shall offset capital reserve. If the capital reserve is insufficient, the retained earnings shall be adjusted. Equity investment acquired before the date of merger are not accounted for the period due to they are accounted by method of equity or are classified as available-for-sale financial assets.

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

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

(1) Recognition of cost of investment *(Continued)*

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. For a business combination realized by two or more transactions of exchange and ultimately not under the same control, different accounting methods are adopted by the criteria of whether those transactions are classified as “a bundle of transactions” or not. If yes, all exchange transactions are deemed as one transaction getting control of the invested entity and are dealt with the relative accounting method. If no, the Company regard the sum of book value of the equity investment of the invested entity plus added cost of investment as the initial cost of investment. For such book value of the equity investment, if it is accounted by method of equity, then the relative other comprehensive income is not accounted for the period; if it is classified as available-for-sale financial asset, the difference between its fair value and book value, together with the accumulated change to fair value which was originally accounted as other comprehensive income will be taken into Profit & Loss for the current period.

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

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. For long-term equity investment with significant influences, or enjoys joint control over the invested entity without constituting control by adding investment, its cost of investment is the sum of fair value of equity investment plus newly added cost of investment, according to the regulations in <Accounting Standard for Business Enterprises No. 22 - Recognition and measurement of financial instruments>.

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

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

(2) Subsequent measurement and recognition of profit and loss

The Company use equity method for accounting of the long-term equity investment which enjoys joint control or significant control over the invested entity, excepting co-undertakings. Moreover, the Company use cost method to account long-term equity investment that has control over the invested entity.

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)

(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. Such cost of investment shall be adjusted when investment are added or discontinued.

(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, return on investment and other comprehensive income are recognized separately according to the share in the invested entity's net profit/or loss and its other comprehensive income, with the book value adjusted for the long-term equity investment by the Company. Book value of the long-term equity investment will be deducted according to the announced profit to be distributed by the invested entity or the share of cash dividend. Changes to shareholders' equity other than net profit/or loss, other comprehensive and profit distribution cause book value of long-term equity investment to be adjusted, and taken into capital reserve. Net profit of the invested entity are recognized after adjustment on the basis of fair value of all recognizable assets of the invested entity on acquisition. Accounting policies and accounting period of the invested entity will be adjusted

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

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

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

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

according to the Company's relative regulations if that entity adopted different policies. Meanwhile return on investment and other comprehensive income are adjusted accordingly. For transactions between the Company and its associates and joint ventures not constituting business transactions by transferring or selling assets, relative unrealized profit/or loss on internal transactions attributable to the Company pro rata will be offset, and return on investment will be recognized on such basis. However if such realized loss on internal transactions are classified as loss on decline in value of asset, then the relative loss are not to be offset. Furthermore, if such assets transfer are classified as business transactions, fair value of the asset transferred are recognized as initial cost of investment, and the difference between initial cost of investment and book value of asset transferred are taken in full amount into the current Profit & Loss, if the investing party obtain long-term equity investment but not control over the invested entity. The difference between consideration of assets sold to associate or joint venture and book value of the asset are taken in full amount into the current Profit & Loss, if the transaction is classified as a business transaction. If the assets purchased from associate and joint venture are classified as business transactions, then full amount of profit or loss relating to the transaction are recognized, according to the regulations in <Accounting Standard for Business Enterprise No. 20 - Business Combination>.

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。

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

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

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

(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 5 (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 originally accounted into shareholders' equity will be accounted on the same basis as the invested entity while disposing relative asset or liability according to its proportion. Shareholders' equity recognized by the invested entity due to change to such item other than net profit/or loss, other comprehensive income or profit distribution, will be accounted into the current Profit & Loss.

For the remaining equity accounted with cost method after partial disposal, the same basis as the invested entity while disposing relative asset or liability will be used for the other comprehensive income recognized using equity method before the investment, or recognized by the regulations of financial instrument recognition and measurement, and such income will be transferred to the current Profit & Loss proportionately. Changes to shareholders' equity other than those caused by net profit/or loss, other comprehensive income or profit distribution will be taken into the current Profit & Loss.

For the remaining share equity after partial disposal which cause the Company to lose control over the invested entity, equity method will be used to account and adjust for the remaining share equity as if they are accounted by the same method upon acquisition, if such equity enable the Company exercise joint control or significant influences over the invested entity. If not, the difference between fair value on the date of losing control and book value will be taken into the current Profit & Loss, according to the regulations of financial instrument recognition and measurement. For the other comprehensive income recognized by equity method or by financial instruments recognition and measurement before the Company took control of the invested entity, the same basis the invested entity while disposing relative asset or liability will be adopted for accounting when the Company lose control over the investee, changes to shareholders' equity in the net asset of invested entity recognized by equity method, other than net

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

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

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

(iv) Disposal of long-term equity investment *(Continued)*

profit/or loss, other comprehensive income and profit distribution will be carried forward to the current Profit & Loss. Meanwhile, other comprehensive income and other shareholders' equity will be carried proportionately if the remaining share equity is accounted by equity method; and will be carried in full amount if the remaining share equity is accounted by financial instrument recognition and measurement.

The remaining share equity after partial disposal that cause the Company to lose joint control or significant influences over the invested entity are accounted by financial instrument recognition and measurement, difference between fair value of such equity on the date of losing control or significant influence and book value will be taken into the current Profit & Loss. Other comprehensive income recognized using equity method for the previous share equity investment will be accounted using the same basis as the invested entity while disposing the relative asset or liability, full amount of shareholders' equity recognized by other change to shareholders' equity other than net profit or loss, other comprehensive income or profit distribution will be taken into return on investment for the period when equity method stops being adopted.

When the Company lose control over the invested entity through two or more disposing transactions, if such transactions are classified as "a bundle of transactions", then they will be accounted as one transaction of control-losing asset disposal, difference between each amount of disposal and book value of relative share equity will be recognized as other comprehensive income first, and altogether will be taken into the current Profit & Loss when the control is lost.

12. Joint venture arrangement classification and relative accounting methods

Joint venture arrangement is the arrangement jointly controlled by two or more parties. The Company classifies such arrangement as joint-operation and joint venture according to the rights and obligations set out in the arrangement. Joint operation refers to the relative arrangement that the Company shares the assets as well as the liabilities of the invested entity. Joint venture refers to the arrangement that the Company shares only the net asset of the invested entity.

Equity method is adopted to accounted for investment in the joint ventures by the Company, details see Note IV.11.(2)(ii).

In Joint-operation, the Company recognize asset and liability singly held, and shared assets and liabilities pro rata shares in the invested entity by the Company. Income pro rata the Company's share in the joint operation production are recognized, as well as income from sales of products pro rata the Company's share in the joint operation. Moreover, expenses by the Company as well as shared expenses pro rata the Company's share are recognized.

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

12. Joint venture arrangement classification and relative accounting methods *(Continued)*

When the Company, as a party in the joint operation, transfers or sells assets to, or purchase assets from the joint operation, only the relative profit or loss arising from such transaction attributable to other participating parties will be recognized by the Company before the relative asset is sold to a third party. If any loss occur due to such transaction and meet the criteria of <Accounting Standard for Business Enterprise No.8 - Impairment of assets>, the Company will recognize loss in full amount if it is the Company that transfers or sell assets to joint operation, and will recognize shared loss if it is the Company that purchase the assets from joint operation. (note: The transaction mentioned in this paragraph does not constitute a business transaction)

13. 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.19 “Impairment loss on non-current 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)*

14. 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

Remark:

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 19 “Impairment on non-current assets”.

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

14. 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.

15. 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.19 "Impairment loss on non-current assets".

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

16. 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)*

17. 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.

(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:

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

17. Intangible assets *(Continued)*

(2) Research and development *(Continued)*

(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.19 “Impairment on non-current assets”.

18. Long-term deferred expenses

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

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

19. Impairment on non-current 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.

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.

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

20. Provision

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.

21. 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;

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

21. Revenue *(Continued)*

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

(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.

(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.

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

21. Revenue *(Continued)*

(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.

22. 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.

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

23. 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.

(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.

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

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

(2) Deferred tax assets and deferred tax liabilities *(Continued)*

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.

(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.

24. 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.

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

24. Leases *(Continued)*

(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.

(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.

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

25. Classified held-to-maturity assets

When a certain non-current asset can be sold immediately under the circumstances by the common practice, and 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 starting from the date of re-classification, 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.

Single non-current asset classified as available-for-sale asset or assets grouped in disposing group should be listed separately in Balance Sheet under Current Assets. Liabilities grouped in disposing group and those relating to transferring asset should be listed separately in Balance Sheet under Current Liabilities.

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 :

(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.

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

26. Employee compensation

Employee compensation of the Company mainly comprise short-term employee compensation, welfare post resignation, welfare post cancellation of the labor relationship, and other long-term compensation, including:

Short-term employee compensation include wage, bonus, allowances and subsidies, employee welfare expenditures, medical insurance expenditures, maternity insurance expenditures, work injury insurance expenditures, housing accumulation fund expenditures, labor union expenditures and employee education expenses, non-monetary welfare, etc. During the accounting period that an employee's providing services to the Company, The Company recognize the relative short-term employee compensation incurred as liabilities, and will account for in the current Profit & Loss or relative cost of asset. Non-monetary welfare will be measured by fair value.

Welfare post resignation mainly comprise of defined provision plan, which include basic endowment insurance, unemployment insurance. The relative payables will be accounted for in the relative cost of asset or the current Profit & Loss.

The relative employee compensation liabilities due to cancellation of labor relationship are recognized and taken into the current Profit & Loss, when the Company cancels the labor relationship with any employee prior to the expiration of the relevant labor contract, or brings forward any compensation proposal for the purpose of encouraging the employee to accept a layoff, on the earlier date between the date that Company cannot withdraw the relative compensation, or date that the Company recognize reconstruction of cost involving payment of compensation for the cancellation of the labor relationship with the employee.

Internal retirement plan adopts the same principles as the above mentioned compensation for the cancellation of the labor relationship with the employee. The Company account for the wage and social insurance payables incurred from the date the relative employee cease services to the Company to his/her date of expected retirement to the internally-retired employee into the current Profit & Loss (i.e. compensation for the cancellation of the labor relationship with the employee), when requirements for recognition of provision are met.

For the other long-term employee compensation meeting criteria of defined provision plan, relative defined plan accounting policies will be adopted; otherwise policies of defined benefit plan will be adopted.

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

27. 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.

28. Segment Reports

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.

29. Changes in significant accounting policy and accounting estimates

(1) Changes in accounting policy

(i) Accounting policies changes due to the issuance of the new Accounting Standard for Business Enterprise

At the beginning of 2014, with Decrees Caikuai[2014] No.6, 7, 8, 10, 11, 14 and 16, the Ministry of Finance of PRC (MOF) issued a new set of Accounting Standards for Business Enterprises (ASBEs), which include No.39 - measurement of fair value, No. 30 - presentation of financial statements, No. 9 - employee compensation(amended in 2014), No.33 - consolidated financial statements(amended in 2014), No.40 - joint venture arrangement, No. 2 - long-term equity investment (amended in 2014) and No.41 - disclosure of equity in other entity, which are effective for all enterprise adopting ASBEs starting from July 1, 2014. The MOF encourages all the enterprises listed overseas adopt the new set of ASBEs before that date. In the meantime, the MOF issued Accounting Standards for Business Enterprises No. 37 - presentation of financial instruments (financial instrument standard) with its Decree of Caikuai [2014] No.23, requesting all the companies listed in China must apply for the presentation of their financial instruments.

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

29. Changes in significant accounting policy and accounting estimates *(Continued)*

(1) Changes in accounting policy *(Continued)*

(i) Accounting policies changes due to the issuance of the new Accounting Standard for Business Enterprise *(Continued)*

The Company adopts all the 7 new standards other than the financial instrument standards on July 1, 2014, and adopts the financial instrument standards when preparing for the financial statements for the year, adjusting all the items according to the new sets of standards, changes are as follows:

		Amounts change on December 31, 2013 Balance Sheet	
Standards	**Change of accounting policies and relative impacts to the Company**	**Item**	**Amount Increase+/Decrease-**
Accounting Standards for Business Enterprises No.2 -Long-term equity investment (amended in 2014)	According to Decree Caikuai[2014]No.14, for "equity investment that doesn't have control, joint control or significant influences over the invested entity, and without offer, its fair value cannot be measured reliably" should apply the regulations in ABSEs No.22 - Financial assets recognition and measurement after adoption of the new standards.	Available-for-sale asset	65,719,454.27
		Long-term equity investment	-65,719,454.27
Accounting Standards for Business Enterprises No.3 - Presentation of financial statement (amended in 2014)	Adjusted according to ABSEs No.30 - Presentation of financial statements and its relative application guides.	Other comprehensive income	-36,992,877.10
		Difference of translation from foreign currency reports	36,992,877.10

Remark:

The affected items for the Company are all listed as above due to the relative accounting policies change. There are no changes to total assets, total liabilities and net assets of financial statements on December 31, 2012 or December 31, 2013, and net profit for the Year 2012 remains the same.

(2) Changes in accounting estimates

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

30. 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. Notes to Consolidated Financial Statements

1. Cash and deposits

Item	December 31, 2014	December 31, 2013
Cash on hand	13,589.96	9,304.85
Bank deposits	122,368,443.14	102,715,071.55
Other cash equivalents	1,836,483.76	5,241,184.51
total	124,218,516.86	107,965,560.91
Incl: total overseas deposits	325,886.25	368,082.06

Remark:

(1). Other cash and deposit amounting to RMB 1,823,837.50 is the security deposits for performance guarantee deposited in a designated bank. All of the above security deposits mature over three months.

(2). Overseas deposits represent deposits with banks in HongKong, which are not restricted.

2. Notes receivables

(1) Classification of notes receivables

Types	December 31, 2014	December 31, 2013
Bankers' acceptance notes	2,300,000.00	40,000.00
total	**2,300,000.00**	**40,000.00**

(2) Notes endorsed and not matured by report date

Item	De-recognized amount by end of year	Non-Derecognized amount by end of year
Bankers' acceptance notes	7,313,729.71	
Commercial acceptance notes		
Total	**7,313,729.71**	

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

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

3. Accounts receivable

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

	Balance at end of Year				
	Carrying amount		Bad-debt provision		Book value
Type	**Amount**	**Percentage (%)**	**Amount**	**Percentage (%)**	
Individually significant and subject to separate provision					
Subject to provision by groups with risk characteristics					
Aging combination	153,078,035.27	100.00	29,522,484.39	19.29	123,555,550.88
Sub-total	153,078,035.27	100.00	29,522,484.39	19.29	123,555,550.88
Individually significant and subject to separate provision					
Total	**153,078,035.27**	**100.00**	**29,522,484.39**	**19.29**	**123,555,550.88**

(Cont'd)

	Balance at beginning of Year				
	Carrying amount		Bad-debt provision		Book value
Type	**Amount**	**Percentage (%)**	**Amount**	**Percentage (%)**	
Individually significant and subject to separate provision					
Subject to provision by groups with risk characteristics					
Aging combination	156,050,992.73	100.00	34,760,879.38	22.28	121,290,113.35
Sub-total	156,050,992.73	100.00	34,760,879.38	22.28	121,290,113.35
Individually significant and subject to separate provision					
Total	**156,050,992.73**	**100.00**	**34,760,879.38**	**22.28**	**121,290,113.35**

VI. 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:

	Balance at end of Year		
Age of Account	**Accounts Receivable**	**Bad-debt provision**	**Percentage (%)**
Within 1 year	103,224,044.90		
1 – 2 years	14,038,190.87		
2 – 3 years	4,563,657.20	1,825,462.88	40.00
3 – 4 years	8,887,801.97	5,332,681.18	60.00
Over 4 years	22,364,340.33	22,364,340.33	100.00
Total	**153,078,035.27**	**29,522,484.39**	**19.29**

(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 listed as follows:

Name of company	**Relationship**	**Amount**	**Age**	**Percentage to total Accounts Receivable (%)**	**Balance of Bad Debt Provision**
Shenyang Kaidi Insulation Technology Co., Ltd.	Non-related	24,881,927.38	Within 1 year	16.25	
State Grid Beijing Power Co., Ltd.	Non-related	22,594,589.17	Within 1 year	14.76	
Yingkou Hongyue Machinery Co., Ltd.	Non-related	11,961,267.53	Within 1 year	7.81	
Yingkou Chongzheng Electric Equipment Co., Ltd.	Non-related	7,818,791.97	Within 1 year	5.11	
Huaneng Mianchi Thermoelectrical Co., Ltd.	Non-related	7,730,100.00	Within 1 year	5.05	
Total		**74,986,676.05**		**48.98**	

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

4. Prepayments

(1) Prepayments are listed by ages:

	Balance at end of Year		Balance at beginning of Year	
Age of Account	**Amount**	**Percentage (%)**	**Amount**	**Percentage (%)**
Within 1 year	8,641,075.46	98.91	1,361,136.33	94.00
1 – 2 years	95,000.00	1.09	18,969.50	1.31
2 – 3 years			1,500.27	0.10
Over 3 years			66,449.45	4.59
Total	**8,736,075.46**	**100.00**	**1,448,055.55**	**100.00**

(2) Companies with outstanding significant balance in Prepayment as of Dec. 31, 2014

Name of company	Relations	Amount	Age	Reason for unsettlement
Liaoning Xinming Transformer Co., Ltd.(note 1)	Non-related	7,900,000.00	Within 1 year	Prepayment for equipment
Fuxin Heating Corporation	Non-related	322,459.07	Within 1 year	Prepayment for heating
Total		**8,222,459.07**		

Remark:

The Company approved the Feasibility Report - Improvement on producing machinery submitted by Fuxin Enclosed Busbar Co., Ltd. a wholly owned subsidiary. Fuxin Enclosed prepaid RMB7.9 million for equipment prepayment accordingly.

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

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

5. Other receivables

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

	Balance at end of Year				
	Carrying Amount		Bad-debt provision		Book value
Type	**Amount**	**Percentage (%)**	**Amount**	**Percentage of provision (%)**	
Individually significant and subject to separate provision	94,031,821.51	89.84	94,031,821.51	100.00	
Subject to provision by risk groups					
Aging combination	10,635,076.49	10.16	2,657,899.56	24.99	7,977,176.93
Sub-total	10,635,076.49	10.16	2,657,899.56	24.99	7,977,176.93
Individually insignificant but subject to separate provision					
Total	**104,666,898.00**	**100.00**	**96,689,721.07**	**92.38**	**7,977,176.93**

(Cont'd)

	Balance at beginning of Year				
	Carrying Amount		Bad-debt provision		Book value
Type	**Amount**	**Percentage (%)**	**Amount**	**Percentage of provision (%)**	
Individually significant and subject to separate provision	95,258,469.79	88.19	95,258,469.79	100.00	
Subject to provision by risk groups					
Aging combination	12,760,999.56	11.81	2,618,157.94	20.52	10,142,841.62
Sub-total	12,760,999.56	11.81	2,618,157.94	20.52	10,142,841.62
Individually insignificant but subject to separate provision					
Total	**108,019,469.35**	**100.00**	**97,876,627.73**	**90.61**	**10,142,841.62**

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

5. 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:

	Balance at end of Year		
Age of receivables	**Other receivables**	**Bad-debt provision**	**Percentage of provision (%)**
Within 1 year	5,943,470.94		
1 -2 years	2,021,604.39		
2 - 3 years	16,836.00	6,734.40	40.00
3 - 4 years	5,000.00	3,000.00	60.00
Over 4 years	2,648,165.16	2,648,165.16	100.00
Total	**10,635,076.49**	**2,657,899.56**	**24.99**

(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 ananlyzed as follows:

Name of company	Carrying amount	Bad-debt provision	Percentage of provision (%)	Reason for provision
Benxi Steel (Group) Co., Ltd.	76,090,000.00	76,090,000.00	100.00	See Notes VI.5.(7).(i)
Jinzhou Power Capacity Co., Ltd.	17,941,821.51	17,941,821.51	100.00	See Notes VI.5.(7).(ii)
Total	**94,031,821.51**	**94,031,821.51**		

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

5. Other receivables *(Continued)*

(6) Top 5 of Other Receivables:

Name of company	Relations	Amount	Age	Percentage in total other receivables(%)	Balance of Bad-debt provision
Benxi Steel (Group) Co., Ltd.	Non-related	76,090,000.00	Over 4 years	72.70	76,090,000.00
Jinzhou Power Capacity Co., Ltd.	Non-related	17,941,821.51	Over 4 years	17.14	17,941,821.51
New Northeast Electric Development Co., Ltd. Beijing Branch	Non-related	800,000.00	Within 1 year	0.76	
Xintai (Liaoning) Precision Equipment Co., Ltd.	Non-related	600,000.00	Within 1 year	0.57	
Fuxin Aluminum Alloy Factory	Non-related	534,518.86	Over 4 years	0.51	534,518.86
Total		**95,966,340.37**		**91.68**	**94,566,340.37**

(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., Ltd. (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

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

5. Other receivables *(Continued)*

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

High Court. On Oct. 26 and 29, 2009, the Provincial High Court has made final rulings of (2009) Liao Min Er Zhong Zi No. 182, 183 and 184, sustaining previous rulings. The Company may appeal for retrial by providing evidence and facts if still holds objections. The Company objects the Ruling and appealed for retrial. The Supreme Court of the People made Civil Rulings No (2010)Min Shen Zi Di 1144, 1145 and 1146 on Dec. 13 2010, overruled retrial appeal of the Company. Since the other receivable is long outstanding and the chance of recovery is remote, the company has made a provision in full for this other receivable.

(ii) By end of period there are receivables due from Jinzhou Power Capacity Co., Ltd. of RMB 17,941,821.51. The Company has made full amount of provision due to unhealthy financial position and no operation activities of Jinzhou Power Capacity Co., Ltd.

(iii) Receivables from New Northeast Electric Development Co., Ltd. Beijing Branch is current account, which has been recovered on January 15, 2015.

(iv) Receivables from Xintai (Liaoning) Precision Equipment Co., Ltd. Are payment for vehicles by Kaiyi Electric - a subsidiary of the Company.

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

6. Inventories

(1) Classification of inventories

	Balance at end of Year		
Item	**Book balance**	**Provision for decline in value**	**Book value**
Raw material	15,886,791.07	296,623.04	15,590,168.03
Work in progress	9,880,918.34		9,880,918.34
Finished goods	11,814,298.47	3,293,941.70	8,520,356.77
Total	**37,582,007.88**	**3,590,564.74**	**33,991,443.14**

(Cont'd)

	Balance at beginning of Year		
Item	**Book balance**		**Book balance**
Raw material	15,606,125.60	292,304.82	15,313,820.78
Work in progress	5,473,756.22		5,473,756.22
Finished goods	14,028,422.99	2,736,067.91	11,292,355.08
Total	**35,108,304.81**	**3,028,372.73**	**32,079,932.08**

(2) Provisions for decline in value

	Balance at beginning of Year	Increase of provision during the period		Decrease of provision during the period		Balance at beginning of Year
Item		**Provision**	**Other**	**Reverse/Write off**	**Other**	
Raw material	292,304.82	4,318.22				296,623.04
Finished goods	2,736,067.91	557,873.79				3,293,941.70
Total	**3,028,372.73**	**562,192.01**				**3,590,564.74**

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

Item	Basis for provisions	Reason for reversal of provision during the period	Ratio of reversed amount to relative balance of inventory at end of Year
Raw material	Net realizable value lower than cost		
Finished goods	Net realizable value lower than cost		

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

7. Non-current asset due within 1 year

Item	Balance at end of year	Balance at beginning of year	Remark
Rental fees		2,365,763.02	
Improvement expenditures for fixed assets rented	33,874.27	328,258.74	
Total	**33,874.27**	**2,694,021.76**	

Non-current asset due within 1 year represents improvement expenditures for fixed assets rented by New Northeast Electric (Jinzhou) Power Capacitor Co., Ltd. a wholly owned subsidiary of the Company.

8. Other current assets

Item	Balance at end of year	Balance at beginning of year	Remark
Rental fees	1,016,618.08		
Premium for property insurance	28,377.16		
Total	**1,044,995.24**		

Other current assets are composed mainly of prepaid rentals of lands, buildings, and machinery by Jinzhou Power Capacity Co., Ltd. for the Year of 2015, such rentals are covered by current account.

9. Available-for-sale financial assets

(1) Details of available-for-sale financial assets

	December 31, 2014			December 31, 2013		
Item	Book balance	Provision for decline in value	Book value	Book balance	Provision for decline in value	Book value
Available-for-sale liability						
Available-for-sale equity	73,268,017.01	7,353,533.39	65,914,483.62	73,048,566.83	7,329,112.56	65,719,454.27
Incl.: measured by fair value						
Measured by cost	73,268,017.01	7,353,533.39	65,914,483.62	73,048,566.83	7,329,112.56	65,719,454.27
Other						
Total	**73,268,017.01**	**7,353,533.39**	**65,914,483.62**	**73,048,566.83**	**7,329,112.56**	**65,719,454.27**

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

9. Available-for-sale financial assets *(Continued)*

(2) There's no available-for-sale financial assets measured by fair value by end of period.

(3) Available-for-sale financial assets measured by cost

	Book balance				Provision for decline in value					
Investee	December 31, 2013	increment	Decrement	December 31, 2014	December 31, 2013	Increment	Decrement	December 31, 2014	% of share	Cash dividend for the year
Shenyang Zhaoli High-Voltage Electric Equipment Co., Ltd.	73,048,566.83	219,450.18		73,268,017.01	7,329,112.56	24,420.83		7,353,533.39	6.89	
total	**73,048,566.83**	**219,450.18**		**73,268,017.01**	**7,329,112.56**	**24,420.83**		**7,353,533.39**		

(4) Change to impairment on available-for-sale assets for the year

Classification of available-for-sale assets	available-for-sale equity	available-for-sale liabilities	Total
Balance of provision allocated at beginning of year	7,329,112.56		
Increment	24,420.83		
Inclu: transfer from other comprehensive income	24,420.83		
Decrement			
Incl: reversal due to rise in fair value after date			
Balance of provision allocated at end of year	7,353,533.39		

(5) notes to available-for-sale financial assets

(i) The Company reclassified investment to Shenyang Zhaoli High-voltage Electric Equipment Co., Ltd. as available-for-sale financial asset when preparing for financial statements of Year 2014, adopting accounting standards issued and amended in 2014, and will also restate balance at beginning of the period.

(ii) Increment of the period is due to foreign currency translation difference resulting from changes in exchange rates.

(iii) Shenyang Zhaoli High-voltage Electric Equipment Co., Ltd. is a non-listed company set up in Shenyang, P.R.C.

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

10. Long-term equity investments

(1) Classification of long-term equity investments

		Increase/decrease during the year				
Parties receiving investment	**Balance at beginning of year**	**Increase in investment**	**Decrease in investment**	**Profit/loss for investment by Method of Equity**	**Adjustment to other comprehensive income**	**Other change to equity**
I. Associates						
WeiDa High-voltage Electric Co., Ltd.	38,508,920.68			-7,238.23	132,248.90	
Total	**38,508,920.68**			**-7,238.23**	**132,248.90**	

(Cont'd)

	Increase/decrease during the year				
Parties receiving investment	**Cash dividend declared/or profit**	**Provision for decline in value**	**Other**	**Balance at beginning of year**	**Balance of Provision for decline in value at end of Year**
I. Associates					
WeiDa High-voltage Electric Co., Ltd.				38,633,931.35	13,173,277.06
Total				**38,633,931.35**	**13,173,277.06**

Remark:

(i) *Increment to long-term equity investment for the period is due to foreign currency translation difference of RMB132,248.90, and decrement to the item is due to loss on investment RMB7,238.23 recognized by equity method for investment to Weida High-voltage Electric Co., Ltd.*

(ii) *The invested entities are non-listed companies established in British Virgin Islands.*

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

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

(2) Investment to associates

Investee	Type of enterprise	Place of registration	Legal representative	Nature of business	Capital	Percentage of share held by the Company(%)	Voting percentage in Investee by the Company(%)
Weida High-Voltage Electric Co., Ltd.	Limited company	British Virgin Islands	LoYuet	Investment/ share holding	USD12,626	20.80	20.80

(Cont'd)

Investee	Total asset by end of Year	Total liability by end of Year	Total net asset by end of Year	Total operating income for the Year	Net profit for the Year	Relations	Organization Code
Weida High-Voltage Electric Co., Ltd.	185,853,271.97	113,217.41	185,740,054.57		-34,799.17	Significant influence	

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

Item	Balance at beginning of Year	Increment	Decrement	Balance at end of Year
Weida High-voltage Electric Co., Ltd.	13,128,191.69	45,085.37		13,173,277.06
Total	**20,457,304.25**	**45,085.37**		**13,173,277.06**

Remark:

Increase in Provision for impairment on long-term equity investment was due to exchange difference arising from translation of foreign currency financial statements.

11. Fixed Assets

(1) Fixed assets

Item	Buildings	Machinery & equipment	Motor vehicles & others	Total
I. Carrying amount				
1. Balance at beginning of Year	48,193,147.57	87,487,344.18	24,607,309.02	160,287,800.77
2. Increment for the Year		3,209,836.03	359,576.22	3,569,412.25
(1) Purchase		796,821.84	359,576.22	1,156,398.06

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

11. Fixed Assets *(Continued)*

(1) Fixed assets *(Continued)*

Item	Buildings	Machinery & equipment	Motor vehicles & others	Total
(2) Transferred from Construction in progress		2,413,014.19		2,413,014.19
3.Decrement for the Year		2,578,288.14	3,847,425.21	6,425,713.35
(1) Disposal or write-off			3,847,425.21	3,847,425.21
(2) Transferred to Construction in progress		2,578,288.14		2,578,288.14
4. Balance at end of Year	48,193,147.57	88,118,892.07	21,119,460.03	157,431,499.67
II. Accumulated depreciation				
1. Balance at beginning of Year	34,193,411.69	41,278,406.70	15,407,959.69	90,879,778.08
2. Increment	787,784.92	4,975,020.88	1,322,750.45	7,085,556.25
(1) Provision	787,784.92	4,975,020.88	1,322,750.45	7,085,556.25
3. Decrement		1,859,584.16	2,716,586.90	4,576,171.06
(1) Disposal or write-off			2,716,586.90	2,716,586.90
(2) Transferred to Construction in Progress		1,859,584.16		1,859,584.16
4. Balance at end of Year	34,981,196.61	44,393,843.42	14,014,123.24	93,389,163.27
III. Provision for Impairment				
1. Balance at beginning of Year		1,509,984.95	317,644.79	1,827,629.74
2. Increment				
(1) Provision				
3. Decrement				
(1) Disposal or write-off				
4. Balance at end of Year		1,509,984.95	317,644.79	1,827,629.74
IV. Book balance				
1.Book balance at end of Year	12,894,306.17	42,215,063.70	7,105,336.79	62,214,706.66
2.Book balance at beginning of Year	13,682,091.09	44,698,952.53	9,199,349.33	67,580,392.95

Remark:

Total depreciation during the period is RMB7,085,556.25. Fixed assets increased and decreased for the year include equipment remodification by New Jinrong - subsidiary of the Company.

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

11. Fixed Assets *(Continued)*

(2) Fixed assets with restricted ownership

As at 31 December 2014, buildings with net book value of RMB4,388,950.98 are pledged to Bank of China, Fuxin Branch by Fuxin Enclosed Busbar Co., Ltd. - a subsidiary of the Company - for a loan of RMB 9million.

(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.

12. Construction in progress

	Balance at end of Year			Balance at beginning of Year		
Item	**Book balance**	**Provision for impairment**	**Book value**	**Book balance**	**Provision for impairment**	**Book value**
Elevators Installation	302,416.04		302,416.04			
Total	**302,416.04**		**302,416.04**			

Remark:

As of December 31, 2014, elevator installation of New Jinrong - a subsidiary of the Company - has not been acceptance tested yet.

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

13. Intangible Assets

Item	Land use rights	Patent	Software	Total
I. Book balance				
1. Balance at beginning of Year	6,774,501.05	450,000.00	207,000.00	7,431,501.05
2. Increment				
(1) Purchase				
3. Decrement				
(1) Disposal of assets				
4. Balance at end of Year	6,774,501.05	450,000.00	207,000.00	7,431,501.05
II. Accumulated amortization				
1. Balance at beginning of Year	2,438,821.68	450,000.00	207,000.00	3,095,821.68
2. Increment	135,490.08			135,490.08
(1) Amortization	135,490.08			135,490.08
3. Decrement				
(1) Disposal of assets				
4. Balance at end of Year	2,574,311.76	450,000.00	207,000.00	3,231,311.76
III. Provision for impairment				
1. Balance at beginning of Year				
2. Increment				
(1) Provision				
3. Decrement				
(1) Disposal of assets				
4. Balance at end of Year				
IV. Book Balance				
1. Book balance at end of Year	4,200,189.29			4,200,189.29
2. Book balance at beginning of Year	4,335,679.37			4,335,679.37

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

13. Intangible Assets *(Continued)*

Remarks:

(1) Amortization of the year totalled RMB135,490.08

(2) As at 31 December 2014, land use right of RMB4,200,189.29 are pledged to Bank of China, Fuxin Branch by Fuxin Enclosed Busbar Company Limited - a wholly own subsidiary of the Company for loan of RMB 9 million.

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

14. Long-term deferred expenses

Item	Balance at beginning of Year	Increment	Amortization	Other decrement	Balance at end of Year	Reasons for other decrement
Improvement expenditures for fixed assets rented	170,229.08	192,000.00	113,154.81	33,874.27	215,200.00	Reclassified to non-current asset due within 1 year
Total	**170,229.08**	**192,000.00**	**113,154.81**	**33,874.27**	**215,200.00**	

15. Deferred tax assets

(1) Deferred tax assets recognized

	December 31, 2014		December 31, 2013	
Item	Deferred tax assets	Deductible temporary difference	Deferred tax assets	Deductible temporary difference
Provision for impairment for assets	9,257,231.28	37,028,925.10	10,722,736.62	42,890,946.46
Total	**9,257,231.28**	**37,028,925.10**	**10,722,736.62**	**42,890,946.46**

(2) Details of deductible temporary difference

Item	31 December, 2014	31 December, 2013
Bad-debt provision	35,226,847.06	41,646,742.21
Provision for decline in value of inventory	1,802,078.04	1,244,204.25
Total	**37,028,925.10**	**42,890,946.46**

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

16. Details of provisions for asset impairment

			Decrement		
Item	**December 31, 2013**	**Increment**	**Reversal**	**Other**	**December 31, 2014**
I. Bad debt provision	132,637,507.11	20,008.00	6,445,309.65		126,212,205.46
II. Provision for decline in value of inventory	3,028,372.73	562,192.01			3,590,564.74
III. Provision for decline in value of available-for-sale financial assets	7,329,112.56			-24,420.83	7,353,533.39
IV. Provision for impairment of long-term equity investment	13,128,191.69			-45,085.37	13,173,277.06
V. Provision for impairment of fixed assets	1,827,629.74				1,827,629.74
Total	**157,950,813.83**	**582,200.01**	**6,445,309.65**	**-69,506.20**	**152,157,210.39**

Remark:

Exchange-rate-caused increment of RMB45,085.37 in provision for impairment for long-term equity assets, and increment of RMB24,420.83 in provision for impairment for available-for-sale financial assets make up the change in " provisions for asset impairment -other".

17. Assets with restricted ownership or right of use

Item	**December 31, 2013**	**Increment**	**Decrement**	**December 31, 2014**
Intangible asset - Land use rights	4,335,679.37		135,490.08	4,200,189.29
Fixed asset - buildings	4,668,529.54		279,578.56	4,388,950.98
Other cash and deposit	5,228,587.50		3,404,750.00	1,823,837.50
Total	**14,232,796.41**		**3,819,818.64**	**10,412,977.77**

Remark:

Details of restriction on land use rights and buildings are shown in Note VI.13(2) and Note VI.11(2), details of restriction on cash and deposits are shown in Note VI.1. Decrements in the reporting period are arising from amortization of land use rights, accumulated depreciation of buildings and maturity of secured deposit.

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

18. Short-term borrowings

(1) Classification

Item	December 31, 2014	December 31, 2013
Bank borrowings, secured	9,000,000.00	8,000,000.00
Total	**9,000,000.00**	**8,000,000.00**

Remark:

According to the terms of borrowings, borrowings are classified as secured loans, pledged loans and guaranteed loans. Details of security under secured loan and their amounts are shown in Note VI.13(2) and Note VI.11(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 9 million. This loan was drawn in installments and would be repaid at maturity date altogether. Interest rate of the loan is 25-30% above the one-year benchmark lending rate announced by People's Bank of China (i.e. 7.5% or 7.8% pa). Lending period of the loan is from Mar. 11, 2014 to November 9, 2015.

(2) As at December 31, 2014, there are no matured short-term borrowings unpaid.

19. Accounts Payable

(1) Details of Accounts payable

Age of accounts	December 31, 2014	December 31, 2013
Within 1 year	52,402,162.23	40,051,697.91
1 - 2 years	4,371,472.50	2,744,573.33
2 -3 years	685,425.46	1,163,917.46
Over 3 years	6,941,888.35	6,532,455.74
Total	**64,400,948.54**	**50,492,644.44**

(2) There are no accounts payable to shareholders or associates holding 5% or above voting shares of the Company.

(3) Accounts payable aged over 1 year mainly represents unsettled balance of goods purchased.

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

20. Receipts in advance

(1) Details

Age of accounts	December 31, 2014	December 31, 2013
Within 1 year	4,470,458.36	6,851,055.97
1 - 2 years	2,992,568.37	1,553,000.00
2 -3 years		196,340.00
Over 3 years	879,207.50	682,867.50
Total	**8,342,234.23**	**9,283,263.47**

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

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

Name	Amount	Reason for unsettlement
China Power Investment Corporation Material & Equipment Branch	2,955,000.00	Receipts in advance for goods as per contract

Remark:

Receipts in advance aged over 1 year are mainly advanced payments for enclosed busbar as per contract, which is 30% of the total RMB9,850,000.00 contract amount.

21. Employee compensation

(1) Details of employee compensation

Item	December 31, 2013	Increment	Decrement	December 31, 2014
I. Short-term compensation	2,224,610.15	24,640,097.51	24,485,242.94	2,379,464.72
II. Post resignation benefit - designed provision plan	92,208.12	4,560,457.14	4,567,539.80	85,125.46
Total	**2,316,818.27**	**29,200,554.65**	**29,052,782.74**	**2,464,590.18**

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

21. Employee compensation *(Continued)*

(2) Short-term compensation are analyzed as follows:

Item	December 31, 2013	Increment	Decrement	December 31, 2014
I. Wages,bonuses,allowances,subsidies	421.11	19,412,728.95	19,413,150.06	
II. Welfare expenses		852,441.85	852,441.85	
III. Social insurances	8,565.18	1,680,461.32	1,681,007.17	8,019.33
Incl: 1.Medical insurance	314.77	1,455,968.18	1,456,282.95	
2.Work injury insurance	5,912.43	151,518.16	151,518.16	5,912.43
3.Maternity insurance	2,337.98	72,974.98	73,206.06	2,106.90
IV. Housing accumulation fund	254,756.00	2,404,431.00	2,406,177.89	253,009.11
V. Labor union expenditure and employee education expenses	1,960,867.86	290,034.39	132,465.97	2,118,436.28
Total	**2,224,610.15**	**24,640,097.51**	**24,485,242.94**	**2,379,464.72**

Remark:

There's no employee compensation in arrears.

(3) Designed provision plan listed as follows:

Item	December 31, 2013	Increment	Decrement	December 31, 2014
I. Basic endowment insurance	88,117.04	4,279,570.95	4,286,603.02	81,084.97
II. Unemployment insurance	4,091.08	280,886.19	280,936.78	4,040.49
III. Enterprise annuity fund				
Total	**92,208.12**	**4,560,457.14**	**4,567,539.80**	**85,125.46**

Remark:

The Company has joined Endowment insurance plan and Unemployment insurance plan that are set up by the Government, and pay for employees accordingly. The Company takes no further payment obligation than these.

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

21. Employee compensation *(Continued)*

(4) Remuneration of directors, supervisor and senior managerial personnel

		Total remuneration	
Name	**Position**	**Year 2014**	**Year**
Su Weiguo	Chairman	316,066.35	292,032.04
Wang Shouguan	Vice Chairman	142,857.12	128,571.42
Liu Bing	Director (resigned)	98,000.00	211,945.84
Liu Qingmin	Director	183,172.00	162,721.90
Liu Tongyan	Director (resigned)		42,170.42
Wang Yunxiao	Independent Director	47,619.04	47,619.04
Liang Jie	Independent Director	47,619.04	47,619.04
Liu Hongguang	Independent Director	47,619.04	47,619.04
Wu Qicheng	Director (resigned)		5,952.38
Xiang Yongchun	Director (resigned)		5,952.38
Dong Liansheng	Chairman of the Supervisory Committee	5,952.38	5,952.38
Jiao Liyuan	Director	197,023.57	178,606.34
Liu Xuehou	Staff Representative Supervisor	223,888.00	163,090.00
Bai Lihai	Supervisor (resigned)		17,798.87
Qiu Yongjian	Supervisor	123,148.00	
Total		**1,432,964.54**	**1,357,651.09**

Remark:

Jiao Liyuan is a newly-elected Director in April, 2014, and Qiu Yongjian a newly-elected Supervisor in April, 2014.

(5) Details of the five individuals with highest remuneration during the period are shown in Note VI.21(4).

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

22. Tax payable

Item	December 31, 2014	December 31, 2013
Enterprise Income Tax	67,372.08	2,844,286.52
Value-added Tax	1,431,875.07	1,762,756.90
City maintenance and construction Tax	144,769.56	171,259.75
Education Surcharge	108,894.49	126,021.99
Individual Income Tax	44,295.78	32,873.09
Tenure Tax	59,149.50	59,149.50
Housing Property Tax	20,614.66	6,072.17
Other	66,716.89	60,531.48
Total	**1,943,688.03**	**5,062,951.40**

(1) The profit 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 profit tax in the current year as it is sufferring from operating losses.

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

23. Other payables

(1) Details of other payables

Age of account	December 31, 2014	December 31, 2013
Within 1 year	7,404,564.48	4,482,578.20
1 - 2 years	1,123,235.07	920,108.34
2 - 3 years	762,738.79	884,075.16
Over 3 years	39,775,312.48	40,294,112.86
Total	**49,065,850.82**	**46,580,874.56**

(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 X.4 Payables to related parties.

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

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

24. Estimated liabilities

Parties being guaranteed	December 31, 2013	Increment	Decrement	December 31, 2014
Jinzhou Power Capacitor Co., Ltd.	60,721,078.25			60,721,078.25
Total	**60,721,078.25**			**60,721,078.25**

Remark:

(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. The company therefore estimate liability of RMB19,890,000.00. intermediary Court of Jinzhou city issued an order of Enforcement to the Company on Mar. 5 2008, requesting execution of obligations. Up till the reporting date, the company has not paid the above mentioned liability.

(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.

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

25. Share Capital

	December 31, 2013		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%**
Total shares	**873,370,000.00**	**100.00%**						**873,370,000.00**	**100.00%**

Remark:

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

26. Capital reserve

Item	December 31, 2013	Increment	Decrement	December 31, 2014
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**

Remark:

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

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

27. Other Comprehensive Income (OCI)

Item	December 31, 2013	Amount incurred during the period					December 31, 2014
		Amount before income tax	Less:previous Other Comprehensive Income converted to current Profit & Loss	Less: income tax	Attributable to parent company after tax	Attributable to minority interests after tax	
I. OCI not to be re-classified into Profit & Loss							
Incl.: Change to net liabilities/ assets due to remeasurement of defined benefit plan							
Share of OCI not to be re-classified into Profit & Loss in invested entity							
II. OCI to be reclassified into Profit & Loss	**-36,992,877.10**	**325,904.29**			**325,904.29**		**-36,666,972.81**
Incl.: Share of OCI not to be re-classified into Profit & Loss in invested entity							
Profit or loss due to change in fair value of available-for-sale financial assets							
Profit or loss on held-to-maturity financial assets reclassified as available-for-sale financial assets							
Effective portion of cash flow hedge							
Foreign currency translation difference	-36,992,877.10	325,904.29			325,904.29		-36,666,972.81
Total OCI	**-36,992,877.10**	**325,904.29**			**325,904.29**		**-36,666,972.81**

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

28. Surplus reserves

Item	December 31, 2013	Increment	Decrement	December 31, 2014
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**

Remark:

There's no change to surplus reserves for the period.

29. Accumulated losses

Item	Year 2014	Year 2013	Ratio of appropriation or distribution
Accumulated losses at the end of last year	-1,548,693,348.93	-1,558,580,151.68	
Adjustment for accumulated losses at the beginning of the year			
Accumulated losses at the beginning of the year after adjustment	-1,548,693,348.93	-1,558,580,151.68	
Add: Net Profit attributable shareholders of the Company for the year	6,169,105.14	9,886,802.75	
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	-1,542,524,243.79	-1,548,693,348.93	

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

30. Revenue and cost of sales

(1) Revenue and cost of sales

Item	Year 2014	Year 2013
Main business income	197,439,030.24	195,886,821.74
Other business income	74,473.44	87,304.08
Total	**197,513,503.68**	**195,974,125.82**
Main business cost	149,130,956.13	138,420,271.28
Other business cost	37,451.61	66,972.81
Total cost of sales	**149,168,407.74**	**138,487,244.09**

(2) Main business (by products)

	Year 2014		Year 2013	
Products	Business income	Cost of sale	Business income	Cost of sale
Enclosed Busbar	58,182,658.51	42,683,342.05	62,427,820.64	47,982,020.65
Power Capacitor	136,196,404.26	104,739,509.81	108,143,445.45	67,024,182.24
High-voltage Switchgear	23,068,376.02	21,716,512.82	25,315,555.65	23,414,068.39
Sub total	**217,447,438.79**	**169,139,364.68**	**195,886,821.74**	**138,420,271.28**
Less: Internal offsetting	20,008,408.55	20,008,408.55		
Total	**197,439,030.24**	**149,130,956.13**	**195,886,821.74**	**138,420,271.28**

Remark:

Internal offset represents purchase of power capacitor between Northeast Electric and its subsidiary - Xin Jinrong.

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

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

(3) Main business (by regions)

	Year 2014		Year 2013	
Regions	**Business income**	**Cost of sale**	**Business income**	**Cost of sale**
Northeast	131,995,280.25	100,837,843.36	108,615,997.49	71,755,880.42
Central North	28,783,324.66	25,624,291.33	35,153,050.81	29,242,904.64
Central	31,780,867.55	23,681,587.19	4,619,783.61	2,873,294.42
Central East	9,624,554.30	6,960,623.36	23,894,895.43	15,727,042.14
Central South	2,165,053.80	1,501,872.57	6,728,068.98	4,328,697.99
Southwest	8,674,730.78	7,975,043.63	13,098,256.87	12,331,875.22
Northwest	4,423,627.45	2,558,103.24	3,776,768.55	2,160,576.45
Sub total	**217,447,438.79**	**169,139,364.68**	**195,886,821.74**	**138,420,271.28**
Less: Internal offsetting	20,008,408.55	20,008,408.55		
Total	**197,439,030.24**	**149,130,956.13**	**195,886,821.74**	**138,420,271.28**

(4) Business income from top 5 customers

Period	**Amount**	**Ratio of total business income (%)**
Year 2014	126,690,034.61	64.14
Year 2013	118,850,386.92	60.65

(5) Purchase from top 5 suppliers

Period	**Amount**	**Ratio of total business income (%)**
Year 2014	55,377,697.93	42.09
Year 2013	58,187,758.21	53.19

Remark:

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

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

31. Business tax and surcharges

Item	Year 2014	Year 2013
Business tax	8,250.00	8,250.00
City maintenance and construction tax	730,461.05	789,370.64
Education Surcharges	527,440.76	563,836.17
Total	**1,266,151.81**	**1,361,456.81**

32. Sales expenses

Item	Year 2014	Year 2013
Total	**16,326,228.43**	**15,781,817.05**
Incl: Transportation fee	6,873,982.87	4,874,879.31
Consultation fee	3,649,056.62	3,536,484.78
Employee compensation	1,457,731.74	3,306,177.59
Travelling expense	2,182,414.54	1,721,017.75
After-Sales services Expenses	491,702.45	577,845.44
Bidding fee	384,026.40	514,181.65
Material Consumption	292,124.00	453,445.77
Entertainment fee	518,463.69	380,846.10

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

33. Administrative expenses

Item	Year 2014	Year 2013
Total	**27,725,953.49**	**29,255,459.55**
Incl: Employee compensation	15,130,495.62	15,026,243.31
Office expenses	3,283,770.68	3,588,471.96
Depreciation expenses	2,559,190.73	2,871,966.33
Agency fee	1,527,169.57	1,368,771.94
Heating expenses	1,173,419.02	1,324,444.91
Taxes	1,127,742.63	1,185,214.55
Entertainment	748,921.80	1,324,628.94
Travelling expense	797,583.83	883,338.50
Intangible assets amortization	808,088.71	838,165.48
Rents & leases	520,480.82	622,596.60

34. Finance expenses

Item	Year 2014	Year 2013
Interest Expenses	665,058.33	609,006.67
Less: Interest Income	507,245.40	652,283.92
Exchange difference	-53.95	5,895.91
Bank charges	37,525.87	40,181.30
Total	**195,284.85**	**2,799.96**

Remark:

Interest expenses represents interest arising from bank loan which would be paid at maturity date, details of the bank loan are shown in Note VI 18 (1) short-term borrowings

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

35. Return on investments

(1) Details of return on investment

Item	Year 2014	Year 2013
Return on long-term equity investment by equity method	-7,238.23	-8,323.17
Gain on disposal on long-term equity investment		687,351.18
Return on available-for-sale financial assets	574,069.12	
Total	**566,830.89**	**679,028.01**

Remark:

Return on available-for-sale financial assets represents gains from banks' wealth investment products purchased by the Company.

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

Investee	Year 2014	Year 2013	Reason for change
WeiDa High-voltage Electric Co., Ltd.	-7,238.23	-8,323.17	Due to change in WeiDa's net profit/loss
Total	**-7,238.23**	**-8,323.17**	

36. Assets impairment loss

Item	Year 2014	Year 2013
Bad debt expenses	-6,425,301.65	4,282,588.86
Provision for decline in value on inventory	562,192.01	491,500.86
Total	**-5,863,109.64**	**4,774,089.72**

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

37. Non-operating income

Item	Year 2014	Year 2013	Amounts included in the current extraordinary profit & loss
Gain on disposal of non-current assets	295,155.64	193,378.89	295,155.64
Include: Gain on disposal of fixed assets	295,155.64	193,378.89	295,155.64
Gain on disposal of intangible assets			
Gain on debt reconstruction		5,511,900.00	
Others	207,301.35	51,656.89	207,301.35
Total	**502,456.99**	**5,756,935.78**	**502,456.99**

38. Non-operating expenses

Item	Year 2014	Year 2013	Amounts included in the current extraordinary profit & loss
Loss on disposal of non-current assets	155,763.95	1,480.42	155,763.95
Include: loss on disposal of fixed assets	155,763.95	1,480.42	155,763.95
Loss on disposal of intangible assets			
Fines on delayed payment	245,748.46		245,748.46
Other	67,969.00	2,541.68	67,969.00
Total	**469,481.41**	**4,022.10**	**469,481.41**

39. Income tax expense

Item	Year 2014	Year 2013
Current income tax expense in accordance with applicable tax laws and regulations	1,770,765.97	4,484,898.44
Deferred income tax expense	1,465,505.34	-1,402,527.97
Total	**3,236,271.31**	**3,082,370.47**

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

40. Basic earnings per share and diluted earnings per share

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

	December 31, 2014		December 31, 2013	
Profit for the period	**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	0.005	0.005	0.004	0.004

Remark:

There are no diluted 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

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

Item	Year 2014	Year 2013
Net Profit attributable to Ordinary Shareholders of the Company	6,164,520.53	9,886,802.75
Incl: Net profit from continuing operations	6,164,520.53	9,886,802.75
Net profit from discontinuing operations		
Basic earnings per share attributable to ordinary shareholders after deduction of extraordinary profit & loss	4,385,774.12	3,229,217.03
Incl: Net profit from continuing operations	4,385,774.12	3,229,217.03
Net profit from discontinuing operations		

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

Item	Year 2014	Year 2013
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

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

41. Other comprehensive income

(1) Cash received from other operating activities

Item	Year 2014	Year 2013
Current accounts	1,187,687.81	1,310,450.00
Performance guarantee deposits	3,404,750.00	6,643,110.00
Interest Income	507,245.40	414,292.59
Bidding guarantee deposits	951,805.00	
Other	47,731.36	99,368.49
Total	**6,099,219.57**	**8,467,221.08**

Remark:

Cash are received from performance guarantee deposits upon their maturity.

(2) Cash paid to other investment activities

Item	Year 2014	Year 2013
Current accounts	1,601,375.00	631,380.00
Bidding guarantee deposits		601,895.00
Cash expenses	20,491,160.49	23,123,094.19
Debt reconstruction		18,540,000.00
Other	255,748.46	
Total	**22,348,283.95**	**42,896,369.19**

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

42. Supplementary information to cash flows statement

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

Item	Year 2014	Year 2013
I Reconciliation from net profit to cash flows from operating activities		
Net profit	6,058,122.16	9,660,829.86
Plus: Provisions for assets impairment	-5,863,109.64	4,774,089.72
Depreciation of fixed assets, depreciation of oil and gas assets, depreciation of productive bio-assets	7,085,556.25	6,553,954.02
Amortization of intangible assets	135,490.08	135,490.12
Amortization of long term deferred expenses	2,796,354.73	3,165,617.76
Loss on disposal of fixed assets, intangible assets and other non-current assets (gain is shown as "-")	-139,391.69	-193,378.89
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 "-")	665,058.33	371,015.34
Loss on investments (gain is shown as "-")	-566,830.89	-679,028.01
Decrease in deferred tax assets (increase is shown as "-")	1,465,505.34	-1,402,527.97
Increase in deferred tax liabilities (decrease is shown as "-")		
Decrease in inventories (increase is shown as "-")	-2,473,703.07	8,307,381.72
Decrease in operating receivables (increase is shown as "-")	5,637,317.62	43,970,745.73
Increase in operating payables (decrease is shown as "-")	12,005,221.85	-43,217,502.50
Other		
Net cash flows generated from operational activities	26,805,591.07	31,448,167.32
II Significant non-cash investment and financing activities		
Debts changed to capital		
Convertible bonds mature within 1 year		
Fixed assets acquired under finance lease		

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

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

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

Item	Year 2014	Year 2013
Ⅲ Changes in cash and cash equivalents:		
Cash at the end of period	122,394,679.36	102,736,973.41
Less: cash at the beginning of period	102,736,973.41	69,423,731.30
Plus: cash equivalents at the end of period		
Less: cash equivalents at beginning of period		
Net increase in cash and cash equivalents	19,657,705.95	33,313,242.11

Remark:

Amortization of long-term deferred expenses are amount amortized for lands, buildings and equipment rentals by New Jinrong - a subsidiary of the Company. Long-term deferred expenses due within 1 year has been reclassified and listed under the item of "Non-current assets due within 1 year" in Balance Sheet.

(2) Composition of cash and cash equivalents

Item	December 31, 2014	December 31, 2013
I. Cash	122,394,679.36	102,736,973.41
Incl: Cash on handd	13,589.96	9,304.85
Bank Deposits available on demand	122,368,443.14	102,715,071.55
Other cash assets available on demand	12,646.26	12,597.01
Deposits with Central Bank available on demand		
Deposits with other banks		
Inter-bank lending		
II. Cash equivalents		
Incl: Bond investments mature within 3 months		
III. Balance of cash and cash equivalents by end of period	122,394,679.36	102,736,973.41

Remark:

Performance guarantee deposits pledged to the bank amounting to RMB1,823,837.50 are not included in the balance of cash and cash equivalents at the end of period.

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

43. Foreign currency monetary items

(1) Foreign currency monetary items

Item	Foreign currency balance at end of year	Exchange rate	Translated RMB balance at end of year
Cash			
HongKong dollars	19,983.74	0.7889	15,765.17
Total	**19,983.74**	**0.7889**	**15,765.17**

(2) Exchange rate of offshore entities major reporting items

	Items on Balance Sheet	
Item	**December 31, 2014**	**December 31, 2013**
Northeast Electric (HK) Co., Ltd.	HKD1.00 = RMB0.7889	HKD1.00 = RMB0.7862
Gaocai technology Co., Ltd.	HKD1.00 = RMB0.7889	HKD1.00 = RMB0.7862
	Income, expenses, cash flow items	
Item	**Year 2014**	**Year 2013**
Northeast Electric (HK) Co., Ltd.	HKD1.00 = RMB0.7876	HKD1.00 = RMB0.7985
Gaocai technology Co., Ltd.	HKD1.00 = RMB0.7876	HKD1.00 = RMB0.7985

Remark:

Northeast Electric (HK) Co., Ltd. is a company set up in HongKong by the Company, Gaocai technology Co., Ltd. is a company set up in British Virgin Islands by the Company.

VII. Merge and Consolidated Financial Statements

There's no change in the scope of consolidation for the reporting period.

VIII. Disclosure of equity in other entities

1. Equity in subsidiary

(1) Composition of the Group

Name of Subsidiary	Operating location	Location of registration	Nature of business	Percentage of shares held by the Company: Direct	Percentage of shares held by the Company: Indirect	Means of acquisition
Northeast Electric (HK) Co., Ltd.	HK	HK	Investment/Trade	100.00		Set up by investment
Gaocai Technology Co., Ltd.	BVI	BVI	Investment		100.00	Set up by investment
Northeast Electric (Beijing) Co., Ltd.	Beijing	Beijing	Sales of machinery, etc		100.00	Set up by investment
Shenyang Kaiyi Electric Co., Ltd.	Shenyang	Shenyang	Manufacturing, sales of electrical equipment, power capacitor, etc	10.00	90.00	Set up by investment
Fuxin Enclosed Busbar Co., Ltd.	Fuxin	Fuxin	Manufacturing of enclosed busbar		100.00	Set up by investment
New Northeast Electric (Jinzhou) Power Capacitor Co., Ltd.	Jinzhou	Jinzhou	Manufacturing power capacitor		100.00	Business combination under common control
Jinzhou Jinrong Electric Appliance Co., Ltd.	Jinzhou	Jinzhou	Dry type capacitor banks, etc		69.75	Business combination under common control

(2) Information on non-wholly-owned subsidiary

Name of subsidiary	Share percentage of minority shareholder(%)	Profit/loss attributable to minority shareholders	Dividends paid to minority shareholders for the period	Accumulated minority interests by end of period
Jinzhou Jinrong Electric Appliance Co., Ltd.	30.25	-110,982.98		429,071.39

VIII. Disclosure of equity in other entities *(Continued)*

2. Equity in associates

(1) Basic information of associates

Name of company	Principle operating location	Location of registration	Share percentage held(%)	Nature of business
Weida High-voltage Electric Co., Ltd.	BVI	BVI	20.80	Investment

(2) Main information of significant associates accounting by Equity Method

Item	December 31, 2014	December 31, 2013
Current Assets	185,853,271.97	185,235,853.23
Incl: Cash and equivalents	502,009.41	500,873.87
Non-current assets		
Total assets	185,853,271.97	185,235,853.23
Current liabilities	113,217.41	96,808.74
Non-current liabilities		
Total liabilities	113,217.41	96,808.74
Net asset	185,740,054.57	185,139,044.49
Share in net asset pro rata shares held	38,633,931.35	38,508,920.68
Book value of equity investment to associate	38,633,931.35	38,508,920.68
Operating income		
Net profit	-34,799.17	-40,015.22

(3) Risk information relating to equity in associates

(i) Significant restriction to fund transferrability

Nil

(ii) Shared portion of excessive loss in associate

Nil

IX. Risks related to financial instrument

Financial instruments the Company invested mainly include equity investment, borrowings, accounts receivables, and accounts payables, see Note V. for details. The following will show the risks relating to these financial instruments and the risk management policies the Company adopted to reduce the relative risks. Management of the Company manage and supervise the exposures of these financial instruments to ensure that they are within control.

Sensitivity analysis is adopted by the Company to analyze possible impact on the current Profit & Loss or Shareholders' equity by the reasonable and possible variations of risks. Since any variation of a risk seldom happen isolatedly, relativity between variables will cause significant influences on the ultimate impacted amount of a changed variable of risk, so the following statement is based on supposition that each variable happens independently.

Goal and policies of risk management

The goal of risk management of the Company is to achieve balance between risk and income, reducing the negative impacts on the operations to the lowest level, and maximizing interests and shareholders and other equity investors. Based on this goal, the basic strategy of risk management for the Company is to ascertain and analyze all the risks that the Company confronts, establish appropriate bottom line for risk-taking, and manage the risks accordingly, in the meantime supervise all the risks in a timely and reliable manner, controlling the risks within the limited scope.

1. Market risks

(1) foreign currency risks

Foreign currency risks is the risks of loss caused by variations in exchange rates. The main foreign currency risks for the Company involve HK dollar. Subsidiaries established overseas - Northeast Electric (HK) Co., Ltd. Gaocai Technology Co., Ltd. use HK dollar as recording currency for their financial statements, while the rest of the Company's major activities are accounted in RMB. In the statements dated on December 31, 2014, only daily expenses reported with no purchases or sales for these subsidiaries.

On December 31, 2014, impacts on the current Profit & Loss and Shareholders' equity are as follows, supposing HK dollars against RMB appreciate or depreciate 0.5% while all other variables remain unchanged:

		Year 2014		Year 2013	
Item	Change in Exchange rate	Impacts on profit	Impacts on shareholder' equity	Impacts on profit	Impacts on shareholder' equity
Translation from foreign currency reports	Appreciate 0.5% against RMB	-2,794.01	414,444.55	-4,374.27	415,815.16
Translation from foreign currency reports	Depreciate 0.5% against RMB	2,794.01	-414,444.55	4,374.27	-415,815.16

IX. Risks related to financial instrument *(Continued)*

1. Market risks *(Continued)*

(2) Risks of interest rates

Risks related to changes in financial instruments' cash flow due to interest rates' variation mainly involve floating interest rates of bank borrowings (see Note V.18 for details), and the Company's present policy is to maintain the floating interest rates of these borrowings.

The following chart shows the possible before-tax impacts on the current Profit & Loss and Shareholders' Equity on the report date December 31, 2014, supposing bank borrowings' floating interest increase or decrease 50 basis points while all other variants remain unchanged:

		Year 2014		Year 2013	
Item	**Change in interest rate**	**Impacts on profit**	**Impacts on shareholder' equity**	**Impacts on profit**	**Impacts on shareholder' equity**
Short-term borrowing	Increase by 0.5%	-44,388.88	-44,388.88	-40,222.00	-40,222.00
Short-term borrowing	Decrease by 0.5%	44,388.88	44,388.88	40,222.00	40,222.00

2. Credit risks

The principle exposure of credit risks comes when the other Party of the contract doesn't carry out its obligations so as to cause loss on the financial assets investment and financial guarantee undertaken by the Company.

A special team has been set up to be in charge of setting credit amounts, approving credit limits and exercising other supervisory procedures to make sure all necessary measures are taken to retrieve overdue creditor's rights. Moreover, the Company supervisors every single receivable on every Balance Sheet date to make sure sufficient provision on bad debt will be in place for those irretrievable receivables. Therefore, the management of the Company considers the credit risks greatly reduced.

Working capital of the Company has been deposited with banks with high credit ratings, so there's low risk for those capital.

(1) Notes receivable

Notes receivable for the Company mainly comprise of Bankers' acceptance notes receivable, which the Company exercise strict management and continuous supervision to make sure there will be no significant bad debt risk for the Company.

IX. Risks related to financial instrument *(Continued)*

2. Credit risks *(Continued)*

(2) Accounts receivable

The Company only conducts transactions with a recognized third party with good credit. All the customers with credit settlements will be reviewed for their credit according to the Company's policy. Furthermore, the Company will keep continuous supervision on the relative balance of receivables so that the Company won't be confronted with significant bad debt risks.

Staff are trained to strengthen risk awareness, risk management procedures are improved continuously. Measures are used to improve internal control over customers' credit policy management, which adjustment require necessary review procedure.

Detailed transaction entries and accounting are requested by the Company. Payment records of customers are used as important reference for their credit evaluation. Dynamic management are exercised over customers' information, updated information of customers' are required for relative credit policy to the customers. Management of the Company considers credit risks facing by the Company greatly reduced because it only conducts transactions with recognized third party with good credit, and manage concentration of credit risks by customer.

(3) Other receivables

Other receivables of the Company consists mainly of petty cash, guarantee deposits, etc. The Company manage all these receivables with relative business operations to make sure no significant bad debt risk will occur.

3. Risk of liquidity

The Company maintains sufficient cash and cash equivalents with continuous supervision to satisfy operation needs and reduce impact on cash flow, which meet the requirement of management of liquidity risks. Management of the Company supervises utilization of bank borrowings to make sure relative borrowing contracts are honored.

X. Related parties and Related parties transaction

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

(Cont'd)

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

Remark:

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

(2) 192,000,000 shares of unrestricted circulated 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 and November 27, 2014, the pledge period starts from October 14, 2013 and until New Northeast Electric Investment Co., Ltd. completed the pledge rescinding registration. By December 31, 2014, 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 192,000,000 shares represents 91.38% of the total shares held New Northeast Electric Investment Co., Ltd., and 21.98% of the company's total equity.

2. Subsidiary of the Company

Details are shown in Note VIII.1 "Equity in subsidiary"

3. Associate of the Company

Details are shown in Note VIII.2 "Equity in associate"

X. Related parties and Related parties transaction *(Continued)*

4. Payables of associate

Item	Name of associate	December 31, 2014	December 31, 2013
Other payables	Weida High-voltage Electric Co., Ltd.	296,224.19	295,210.36
Total		**296,224.19**	**295,210.36**

5. Key managerial personnel compensation

Item	Year 2014	Year 2013
Employee compensation	1,432,964.54	1,357,892.52

XI. Contingent Events

1. Up to Dec.31, 2014, there are no contingent liabilities due to litigation.

2. Up to Dec.31, 2014, the Company has provided guarantee of RMB 52,900,000.00 for loans granted to Jinzhou Power Capacitor Co., Ltd. details are shown in Note VI. 24 “Estimated Liabilities”.

3. Other contingent liabilities and relevant impacts on financial statements

   (1) Up to Dec. 31, 2014, RMB 7,313,729.71 of bankers’ acceptance notes which are not yet matured have been endorsed by the Company. Up to the reporting day, RMB 5,863,729.71 of the notes were paid.

   (2) Up to Dec. 31, 2014, the Company has issued Performance Guarantee of RMB 7,050,837.50 with Bank of China Fuxin Branch and China Construction Bank Jinzhou Branch.

XII. Commitment

There’s no material commitment during the period.

XIII. Post Balance Sheet Date Events

The board of directors received the application for resignation from Mr. Dong Liansheng on 2 March 2015, due to personal reasons; Mr. Dong applied to resign from the positions of Chairman of Supervisory Committee and Supervisor.

XIV. Other major events

1. Litigation 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 RMB351.75million 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.

2. Profit available for distribution

Up to Dec.31, 2014, there's no profit available for distribution.

XV. Major notes to company level financial statements

1. Accounts receivable

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

	December 31, 2014				
	Carrying amount		Provision for bad debt		
Types	**Amount**	**Ratio(%)**	**Amount**	**Ratio(%)**	**Book value**
Individually significant and subject to separate provision					
Subject to provision by group of risk characteristics					
Aging combination	10,623,350.96	100.00	179,400.00	1.69	10,443,950.96
Sub-total	10,623,350.96	100.00	179,400.00	1.69	10,443,950.96
Individually insignificant but subject to separate provision					
Total	**10,623,350.96**	**100.00**	**179,400.00**	**1.69**	**10,443,950.96**

(Cont'd)

	December 31, 2013				
	Carrying amount		Provision for bad debt		
Types	**Amount**	**Ratio(%)**	**Amount**	**Ratio(%)**	**Book value**
Individually significant and subject to separate provision					
Subject to provision by group of risk characteristics					
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	179,400.00	100.00	179,400.00	100.00	
Total	**179,400.00**	**100.00**	**179,400.00**	**100.00**	

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

1. Accounts receivable *(Continued)*

(2) Accounts receivables that the related provisions for bad debts are based on grouping

	December 31, 2014		
Age of account	**Accounts receivable**	**Bad-debt provision**	**Ratio of provision(%)**
Within 1 year	10,443,950.96		
1 - 2 years			
2 -3 years			
3 - 4 years			
Over 4 years	179,400.00	179,400.00	100.00
Total	**10,623,350.96**	**179,400.00**	**1.69**

(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.

(5) Companies with significant balance in accounts receivable by end of period:

Name of company	relations	Amount	Age	Percentage in total accounts receivable(%)	Bad-debt provision balance
Shenyang Kaidi Insulation Technology Co., Ltd.	Non-related	6,463,560.00	Within 1 year	60.84	
Yingkou Hongyue Machinery Co., Ltd..	Non-related	3,137,839.96	Within 1 year	29.54	
Yingkou Chongzheng Electric Equipment Co., Ltd.	Non-related	842,551.00	Within 1 year	7.93	
Total		**10,443,950.96**		**98.31**	

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

2. Other receivables

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

	December 31, 2014				
	Book balance		Bad-debt provision		
Types	Amount	Ratio(%)	Amount	Ratio of provision(%)	Book value
Individually significant and subject to separate provision	76,090,000.00	17.71	76,090,000.00	100.00	
Subject to provision by group with risk characteristics					
Aging combination	340,409.42	0.08	273,942.23	80.47	66,467.19
Internal current account	353,111,298.76	82.21			353,111,298.76
Sub-total	353,451,708.18	82.29	273,942.23	0.08	353,177,765.95
Individually insignificant but subject to separate provision					
Total	**429,541,708.18**	**100.00**	**76,363,942.23**	**17.78**	**353,177,765.95**

(Cont'd)

	December 31, 2013				
	Book balance		Bad-debt provision		
Types	Amount	Ratio(%)	Amount	Ratio of provision(%)	Book value
Individually significant and subject to separate provision	76,090,000.00	17.67	76,090,000.00	100.00	
Subject to provision by group with risk characteristics					
Aging combination	335,137.50	0.08	273,942.23	81.74	61,195.27
Internal current account	354,202,157.26	82.25			354,202,157.26
Sub-total	354,537,294.76	82.33	273,942.23	0.08	354,263,352.53
Individually insignificant but subject to separate provision					
Total	**430,627,294.76**	**100.00**	**76,363,942.23**	**17.73**	**354,263,352.53**

XV. 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, 2014		
Age of account	**Other receivables**	**Bad-debt provision**	**Percentage of bad-debt provision(%)**
Within 1 year	66,467.19		
1 - 2 years			
2 -3 years			
3 - 4 years			
Over 4 years	273,942.23	273,942.23	100.00
Total	**340,409.42**	**273,942.23**	**80.47**

(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 analyzed as follows:

Name of Company	Relations	Amount	Age	Percentage over total other receivables (%)	Bad-debt provision balance
Shenyang Kaiyi Electric Co., Ltd.	Wholly-owned subsidiary	162,140,083.64	Within 4 years	37.65	
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	76,090,000.00
Northeast Electric (Beijing) Co., Ltd.	Wholly-owned subsidiary	52,860,591.00	Within 4 years	12.28	
New Northeast Electric (Jinzhou) Power Capacitor Co., Ltd.	Wholly-owned subsidiary	14,944,457.35	Within 4 years	3.47	
Total		**429,201,298.76**		**99.67**	**76,090,000.00**

Remark:

Details of other receivable for Benxi Steel (Group) Co., Ltd. are shown in Note VI 5 (7).

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

2. Other receivables *(Continued)*

(6) Other receivable due from related parties of RMB 353,111,298.76 are current account from the Company's subsidiaries, details are shown in Note XV.2 (5).

3. Long-term equity investments

(1) Classification

	December 31, 2014			December 31, 2013		
Item	**Book balance**	**Provision for decline in value**	**Book value**	**Book balance**	**Provision for decline in value**	**Book value**
Investment to subsidiary	156,799,451.63	66,385,900.53	90,413,551.10	156,799,451.63	66,385,900.53	90,413,551.10
Total	**156,799,451.63**	**66,385,900.53**	**90,413,551.10**	**156,799,451.63**	**66,385,900.53**	**90,413,551.10**

(2) Investment to subsidiary

Investee	**Accounting method**	**Cost of Investment**	**December 31, 2013**	**Increment/ Decrement**	**December 31, 2014**
Northeast Electric (HK) Co., Ltd.	Cost Method	156,699,451.63	90,413,551.10		90,413,551.10
Shenyang Kaiyi Electric Co., Ltd.	Cost Method	100,000.00			
Total			**90,413,551.10**		**90,413,551.10**

(Cont'd)

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 Kaiyi Electric Co., Ltd.	10.00	10.00		100,000.00		
Total				**66,385,900.53**		

Remark:

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 VI 24(3).

XV. 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, 2013	Increment	Decrement	December 31, 2014
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 2014	Year 2013
Main business income	22,368,163.22	
Other business income		
Total Operating Income	22,368,163.22	
Cost of sales	20,008,408.55	
Cost of other operations		
Total Cost of Sales	20,008,408.55	

(2) Main operations (by products)

	Year 2014		Year 2013	
Products	**Operating income**	**Operating cost**	**Operating income**	**Operating cost**
Power capacitor	22,368,163.22	20,008,408.55		
Total	**22,368,163.22**	**20,008,408.55**		

Remark:

Power capacitors sold by the Company are purchased from its subsidiary - New Jinrong.

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

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

(3) Main operations (by districts)

	Year 2014		Year 2013	
District	**Operating income**	**Operating cost**	**Operating income**	**Operating cost**
Northeast	22,368,163.22	20,008,408.55		
Total	**22,368,163.22**	**20,008,408.55**		

(4) Operating income from top 5 customers:

Period	Amount	Percentage in total operating income for the period
Year 2014	**22,368,163.22**	**100.00**

5. Return on investment

Item	Year 2014	Year 2013
Gain on disposal of long-term equity investment		949,414.89
Total		**949,414.89**

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

6. Supplementary information to cash flows statement

Supplementary Information		Year 2014	Year 2013
I.	**Reconciliation from net profit to cash flows from operating activities**		
	Net Profit	-154,607.83	4,804,434.13
	Add: Provisions for assets impairment		-541,555.44
	Depreciation of fixed assets, depreciation of oil and gas assets, depreciation of production bio-assets	31,972.09	82,123.08
	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 "-")	141,048.87	
	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 "-")	-9,358,364.38	12,707,983.45
	Increase in operating payables (decrease is shown as "-")	9,354,141.96	-16,115,026.58
	Others		
	Net cash flows generated from operational activities	14,190.71	-11,456.25
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	21,532.17	19,189.62
	Less: cash at the beginning of period	19,189.62	30,575.58
	Add: cash equivalents at the end of period		
	Less: cash equivalents at the beginning of period		
	Net increase in cash and cash equivalents	2,342.55	-11,385.96

XVI. Supplementary information

1. Details of extraordinary profit& loss

Item	Year 2014	Year 2013
Profit & loss on disposal of non-current asset	139,391.69	191,898.47
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
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	574,069.12	237,991.33
Reverse of account receivable provision under separate impairment test	1,226,648.28	
Profit & loss on entrusted loans		

XVI. Supplementary information *(Continued)*

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

Item	Year 2014	Year 2013
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	-106,416.11	61,015.21
Other items complied with definitions of extraordinary profit & loss		687,351.18
Sub total	1,833,692.98	6,690,156.19
Amount of impact on Income Tax	-54,946.57	-32,570.47
Impact on Minority Interests (after tax)		
Total	**1,778,746.41**	**6,657,585.72**

Remark:

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

		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	2.179%	0.01	0.01
Net profit attributable to ordinary shareholders after deduction of extraordinary profit and loss.	1.551%	0.005	0.005

Remark:

Calculations of basic earnings per share and diluted earnings per share are detailed in Notes VI .40.

XVI. 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
Notes Receivable	2,260,000.00	5650.00	Due to maturity of bankers' acceptance notes by end of period
Prepayments	7,288,019.91	503.30	Due to prepayment of improvement of machinery by subsidiary - Fuxin Enclosed
Non-current asset due within 1 year	-2,660,147.49	-98.74	Mainly due to amortization of rentals in the period
Construction in progress	302,416.04		Increase due to elevator installation by subsidiary - New Jinrong
Tax payable	-3,119,263.37	-61.61	Due to decrease of tax payable

(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
Finance expenses	192,484.89	6,874.56	Due to decrease in interest income
Loss on asset impairment	-10,637,199.36	-222.81	Due to recovery of long-term receivables in the period
Non-operating income	-5,254,478.79	-91.27	Represents gains on debt reconstruction of the previous period
Non-operating expenses	465,459.31	11,572.54	Due to loss on disposal of fixed assets and fines on delayed payments
Profit or loss attributable to minority interests	114,989.91	-50.89	Mainly due to decrease in loss for the period of Jinrong Electric - subsidiary of the Company
Other Comprehensive Income	2,301,885.46		Due to rise of HK dollar exchange rate which caused increase in translation difference
Cash received relating to other operating activities	-2,368,001.51	-38.82	Caused mainly by decrease in performance guarantee deposits matured
Cash payments relating to other operating activities	-20,548,085.24	-91.94	Mainly due to debt reconstruction in the previous period
Cash from discontinued investment	30,000,000.00	54.55	Mainly caused by increase of transaction of Banks' wealth products
Cash from return on investment	402,211.13	66.25	Ditto
Cash paid for investment	41,000,000.00	77.36	Ditto
Net cash balance from disposing fixed assets, intangible assets and other long-term asset	246,000.00	35.14	Disposal of vehicles by subsidiary - Kaiyi Electric

XVI. Supplementary information *(Continued)*

4. Supplementary information on Accounting policies change

According to the <Accounting Standard for Business Enterprise No.2 - Long-term equity(amended in 2014)> and other accounting standards, the Company has modified relative accounting policies and has made retrospective restatement to the previous period. Restated Consolidated Balance Sheet of January 1, 2013 and December 31, 2013 are as follows:

Item	2013.1.1	2013.12.31	2014.12.31
Current Asset:			
Cash and deposits	81,295,428.80	107,965,560.91	124,218,516.86
Financial assets measure by fair value with its change taken into Profit & Loss of the period			
Derivative assets			
Notes receivable	2,694,000.00	40,000.00	2,300,000.00
Accounts receivable	152,791,168.72	121,290,113.35	123,555,550.88
Prepayment	7,112,829.64	1,448,055.55	8,736,075.46
Interest receivable		33,066.67	
Dividend receivable			
Other receivable	23,429,153.27	10,142,841.62	7,977,176.93
Inventories	40,832,173.31	32,079,932.08	33,991,443.14
Asset classified as held-to-maturity			
Non-current asset due within 1 year		2,694,021.76	33,874.27
Other current asset			1,044,995.24
Total current assets	**308,154,753.74**	**275,693,591.94**	**301,857,632.78**
Non-current assets			
Available-for-sale financial assets	67,500,000.00	65,719,454.27	65,914,483.62
Held-to-maturity investment			
Long-term receivables			
Long-term equity investment	39,724,888.88	38,508,920.68	38,633,931.35
Investment - real estate			
Fixed assets	62,775,673.37	67,580,392.95	62,214,706.66

XVI. Supplementary information *(Continued)*

4. Supplementary information on Accounting policies change *(Continued)*

Item	2013.1.1	2013.12.31	2014.12.31
Construction in progress	228,933.81		302,416.04
Construction materials			
Liquidation of fixed assets			
Productive biological assets			
Oil and gas assets			
Intangible assets	4,471,169.49	4,335,679.37	4,200,189.29
Development expenditures			
Goodwill			
Long-term deferred expenses	6,029,868.60	170,229.08	215,200.00
Deferred tax assets	9,320,208.65	10,722,736.62	9,257,231.28
Other non-current assets			
Total non-current assets	**190,050,742.80**	**187,037,412.97**	**180,738,158.24**
Total assets	**498,205,496.54**	**462,731,004.91**	**482,595,791.02**

(Cont'd)

XVI. Supplementary information *(Continued)*

4. Supplementary information on Accounting policies change *(Continued)*

Item	2013.1.1	2013.12.31	2014.12.31
Current Liabilities			
Short-term borrowings	8,000,000.00	8,000,000.00	9,000,000.00
Financial assets measure by fair value with its change taken into Profit & Loss of the period			
Derivative liabilities			
Notes payable			
Accounts payable	59,772,901.29	50,492,644.44	64,400,948.54
Receipts in advance	14,395,206.29	9,283,263.47	8,342,234.23
Employee compensation	2,191,310.77	2,316,818.27	2,464,590.18
Tax payable	7,588,667.87	5,062,951.40	1,943,688.03
Interest payable			
Dividend payable	40,017.86	40,017.86	40,017.86
Other payable	48,476,364.50	46,580,874.56	49,065,850.82
Liabilities classified as held-to-maturity			
Non-current liabilities due within 1 year			
Other current liabilities			
Total current liabilities	**140,464,468.58**	**121,776,570.00**	**135,257,329.66**
Non-current liabilities			
Long-term borrowings			
Bond payable			
Incl: premium			
perpetual			
Long-term payable			
Long-term employee compensation			
Special payable			
Estimated liabilities	84,721,078.25	60,721,078.25	60,721,078.25

XVI. Supplementary information *(Continued)*

4. Supplementary information on Accounting policies change *(Continued)*

Item	2013.1.1	2013.12.31	2014.12.31
Deferred income			
Deferred tax liabilities			
Other non-current liabilities			
Total non-current liabilities	**84,721,078.25**	**60,721,078.25**	**60,721,078.25**
Total Liabilities	**225,185,546.83**	**182,497,648.25**	**195,978,407.91**
Shareholders' equity			
Share Capital	873,370,000.00	873,370,000.00	873,370,000.00
Other equity instrument			
Incl: premium			
perpetual			
Capital reserve	883,422,403.92	883,422,403.92	883,422,403.92
Less: treasury stock			
Other comprehensive income	-35,016,895.93	-36,992,877.10	-36,666,972.81
Special reserve			
Surplus reserve	108,587,124.40	108,587,124.40	108,587,124.40
Provision for general risks			
Accumulated loss	-1,558,580,151.68	-1,548,693,348.93	-1,542,524,243.79
Total equity attributable to the equity holders of the Company	271,782,480.71	279,693,302.29	286,188,311.72
Minority interests	1,237,469.00	540,054.37	429,071.39
Total shareholders' equity	**273,019,949.71**	**280,233,356.66**	**286,617,383.11**
Total Liabilities and Shareholders' equity	**498,205,496.54**	**462,731,004.91**	**482,595,791.02**

Northeast Electric Development Co., Ltd.

March 16, 2015

Legal Representative:	Su Weiguo	Chief Financial Officer:	Wang Shouguan	Chief Accounting Officer:	Bai Lihai
Date:	March 16, 2015	Date:	March 16, 2015	Date:	March 16, 2015

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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