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ANNUAL REPORT 2017 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, Liu Daoqi, Chief Financial Officer, Xiao Xun and Head of Financial Section, Qian Kouming represent: guaranteeing the truthfulness and integrity of the financial report of the Annual Report.**

(III) **This report is considered and approved by the 20th meeting of the eighth session of the board held on 29 March 2018.**

(IV) **The forward-looking description involved in the report such as the future plan and development strategy does not constitute any substantial commitment of the Company to investors. Wide investors need to be aware of risks attached to investment.**

(V) **The risks that may be faced and countermeasures to be adopted by the Company are described in "PROSPECT OF THE COMPANY'S FUTURE DEVELOPMENT" of 4 REPORT OF THE DIRECTORS in this report and can be referenced by wide investors.**

(VI) **The Company proposes not to distribute cash dividend, issue bonus share, or capitalise from capital reserves.**

(VII) **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.**

(VIII) **This report is published in both Chinese and English. If there are any inconsistencies in content, the Chinese version shall prevail in all aspects.**

(IX) **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 Jianghua
3.	Directors	:	Liu Daoqi, Bai Haibo, Li Rui, Song Xiang, Bao Zongbao
4.	Independent non-executive directors	:	Zhang Luyang, Jin Wenhong, Qian Fengsheng
5.	Supervisors	:	Wang Jun, Li Dong, 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	:	17/F, Winsan Tower, 98 Thomson Road, Wanchai, Hong Kong
7.	Registered and office address	:	Floor 23, Building 4, No.9 East Taihu Road, Xinbei District, Changzhou City, Jiangsu Province, the PRC
	Correspondence address	:	Floor 23, Building E, No.9 East Taihu Road, Xinbei District, Changzhou City, Jiangsu Province, the PRC
	Postal Code	:	213022
	Tel	:	0519-69818116
	Fax	:	0519-69818115
	Website	:	www.nee.com.cn
	E-mail address	:	nee@nee.com.cn nemm585@sina.com
8.	PRC newspapers for information disclosure	:	"Securities Times"
	Website containing the annual report	:	www.cninfo.com.cn www.hkexnews.hk www.nee.com.cn
	Place for inspection of annual report	:	Office of the Board of Directors

9. Place of listing, stock names and codes

H Share:	A Share:
Hong Kong Stock Exchange	Shenzhen Stock Exchange
Stock Name: Northeast Electric	Stock Name: *ST Northeast Electric
Stock code: 00042	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	:	5 July 2016
	Place of registration	:	Floor 23, Building 4, No.9 East Taihu Road, Xinbei District, Changzhou City, Jiangsu Province, the PRC
	Unified social credit code	:	91210000243437397T
11.	Auditing institutions	:	Ruihua CPAs (special general partner)
	Office address	:	5-11/F, West Tower of China Overseas Property Plaza, Building 7, NO.8, Yongdingmen Xibinhe Road, Dongcheng 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

Item	2017	2016	Increase/decrease of the year over last year (%)	2015
Operating revenues (RMB)	32,985,857.66	63,514,424.29	-48.07%	151,740,484.82
Net profit attributable to shareholders of listed company (RMB)	-397,057,643.19	-99,493,754.11	-299.08%	4,933,337.50
Net profit attributable to shareholders of listed company after extraordinary items (RMB)	-96,660,890.16	-99,613,423.79	2.96%	-775,922.03
Net cash flow arising from operating activities (RMB)	45,961,817.45	-29,891,482.85	253.76%	-18,237,185.20
Basic earnings per share (RMB/Share)	-0.45	-0.11	-309.09%	0.0056
Diluted earnings per share (RMB/Share)	-0.45	-0.11	-309.09%	0.0056
Weighted average return on net assets (%)	Not applicable	-39.40%	Not applicable	1.68%
	As at the end of 2017	**As at the end of 2016**	**Increase/decrease at the end of 2017 over the end of 2016 (%)**	**As at the end of 2015**
Total assets (RMB)	306,236,911.04	401,830,329.21	-23.79%	483,445,718.25
Net assets attributable to shareholders of listed company (RMB)	-198,631,842.02	202,789,879.48	-197.95%	296,987,112.46

2. Differences in figures by domestic and foreign accounting standards

(1) Differences in net profits and net assets prepared under international accounting standards and PRC GAAP

□ Applicable √ Not applicable

There are no differences in net profits and net assets prepared under international accounting standards and PRC GAAP in the reporting period of the Company.

(2) Difference in net profits and net assets prepared under foreign accounting standards and PRC GAAP

None

3. Major financial indexes by quarter

Unit: RMB

Item	The first quarter	The second quarter	The third quarter	The fourth quarter
Operating revenues	5,699,227.63	11,913,249.03	4,816,273.21	10,557,107.79
Net profit attributable to shareholders of listed company	-15,563,758.44	-4,366,041.56	-7,950,918.72	-369,176,924.50
Net profit attributable to shareholders of listed company after extraordinary items	-15,424,679.15	-4,986,518.42	-16,579,026.63	-59,670,665.96
Net cash flow arising from operating activities	35,078,254.69	-7,357,401.38	450,559.35	17,790,404.79

Great differences exist between the above financial indexes or their sums and the related financial indexes in the quarter reports and semi-annual reports disclosed by the Company

□ Yes √ No

4. Extraordinary items and the related amount

Unit: RMB

Item	2017	2016	2015	Remarks
Profit and loss on disposal of non-current assets (including the part of provision for assets impairment being written off)	-177,333.23	-291,209.88	15,994.18	Losses on destruction and retirement of fixed assets
Government subsidy included in the current profits and losses (closely related to business of the enterprise, excluding the government subsidy enjoyed fully or quantitatively according to uniform standards of the country)	50,000.00		106,670.00	Government subsidies
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		367,369.30	867,706.84	
Reversal of account receivable provision by single devaluation test	9,590,990.45		6,310,527.55	Reversal of provisions for accounts receivable
Other non-operating income and expense other than the above items	-309,696,590.44	43,510.26	21,347.38	Compensation provision for major litigation cases and anticipated debt
Less: Effect of income tax	163,819.81		1,612,986.42	
Total	**-300,396,753.03**	**119,669.68**	**5,709,259.53**	

(I) MANAGEMENT DISCUSSION AND ANALYSIS

The Company has been dedicated to R&D, design, production and sales businesses of products related to power transmission and transformation equipment in recent years. Main products offered by the Company include power capacitors, enclosed busbars, etc. Products of the Company apply to the power system field and are used to improve voltage quality of the power system, enhance transmission capacity of the power transmission line and support transmission of the high power electric energy. These devices play an important role in the power system.

During the reporting period, the power transmission and distribution equipment industry (in which the Company operates) was affected by macro-economic structural adjustments, leading to excessive industrial capacity and intense market competition. The Company faces increasing operational pressure. In the face of such a complex and difficult situation, all personnel of the Company adhered to the overall work plan, worked diligently to fulfill their duties, and strived to achieve breakthroughs. Under the leadership of the Board, the Company properly dealt with various challenges, fully implemented the resolutions passed by the shareholders' general meeting and board of directors, optimized its industrial distribution, enhanced operation management, and steadily advanced various work activities. The trend of fast operation decline has been preliminarily reined in.

In the reporting period, the operating incomes of Company amounted to RMB32.99 million, with a decrease of RMB30.53 million compared with the same period last year (down by 51.94% year on year); the net profits were RMB-398.16 million, with a year-on-year decrease of RMB298.57 million.

Main work in the reporting period:

1. Share transfer of the largest shareholder and change to the de facto controller

On 23 January 2017, Suzhou Tsing Chuang Trading Group Co., Ltd. (which has been renamed to "Changzhou Tsing Chuang Industrial Investment Group Limited", hereinafter referred to as "Tsing Chuang Group"), and Beijing Haihongyuan Investment Management Co., Ltd. (hereinafter referred to as "Beijing Haihongyuan") signed the Share Transfer Agreement, and Tsing Chuang Group planned to transfer its held 81,494,850 non-restricted negotiable A-shares (accounting for 9.331% of the total equity of the Company) of the Company to Beijing Haihongyuan through agreement. This share transfer was registered and confirmed through Shenzhen Branch of China Securities Depository and Clearing Corporation Limited on 13 February 2017, and the largest shareholder of the Company changed to Beijing Haihongyuan, and the de facto controller changed to Hainan Province Cihang Foundation.

2. New issue of H shares

In order to raise funds, expand the shareholder base, and enhance the corporate capital strength, on 5 April 2017, HNA Hospitality Group (Hong Kong) (the person acting in concert with Beijing Haihongyuan) signed a subscription agreement with the listed company, agreeing to purchase 155,830,000 new H shares that Northeast Electric planned to allocate and issue, at the price of HKD 2.40 per share. Beijing Haihongyuan and its person acting in concert, HNA Hospitality Group (Hong Kong), are both subsidiaries of HNA Group Co., Ltd.

During the reporting period, the Company launched two private placements of H shares, which were eventually approved by the 2nd Extraordinary General Meeting of 2017, class meeting of A Shareholders, and Class Meeting of H Shareholders and were submitted to domestic and foreign regulators for approval according to procedures. Now the matter is under review by the International Business Division of the CSRC. If approved, the subscription will supplement the Company's capital, improve its net assets, and boost corporate business development.

3. Significant assets reorganization

To optimize the corporate asset structure, reduce asset impairment losses, and protect investors' interests, on 17 September 2017, the board of directors decided to dispose of New Northeast Electric (Jinzhou) Power Capacitors Co., Ltd. which had suffered severe losses. This disposal has been approved by Shenzhen Stock Exchange and Hong Kong Stock Exchange, and the board of directors of the Company has proposed to convene an extraordinary general meeting on 25 May 2018 for final consideration and approval of the disposal. This disposal will bring over cash revenue of near RMB100 million to the Company and will effectively ease the pressure of working capital demand.

4. **Production and operation situation of the Company**

1. Completion of operating income, product gross margin, period expense, and net profit

(1) Due to intense competition in the industrial market, the number of fulfilled contracts of high-voltage electric equipment significantly declined, and for some busbar product contracts, the customers decided to postpone goods delivery. Consequently, the operating revenue decreased by RMB30.53 million year on year, down by 48.06%, and profits were down by RMB4.6 million.

(2) Thanks to the improved quality of parallel capacitor and complete devices and busbar products, the overall gross margin of products increased by 6.21 percentage points year on year, reflected in profit increase of RMB2.05 million.

(3) In the reporting period, the three major expenses increased by RMB6 million in total, mainly because the decline in operating revenue caused sales expenses to drop by RMB4.21 million year on year, and management expenses to increase by RMB9.68million, of which the agency fee for asset reorganization increased by RMB5.36million and NNE Jinzhou PC's some workshop shutdown losses translated into an increase of RMB3.46 million in management fees.

(4) In the reporting period, loss on provisions for bad debts, loss on inventory depreciation, loss on available-for-sale financial assets impairment, loss on long term equity investment impairment, and loss on fixed assets impairment decreased by RMB13.33 million year on year.

(5) In the reporting period, there was no purchase of banking products, as a result of which the investment income decreased by RMB430,000 year on year; in the reporting period, there was no income or loss from disposal of assets, leading to a year-on-year increase of RMB360,000. Other incomes increased by RMB50,000 year on year. Due to the increase of land use taxes and house property taxes, the business tax and surcharges increased by RMB200,000 year-on-year. All these added up to a decrease of RMB220,000 in profits.

(6) The non-operating income increased by RMB1.17 million year on year, mainly because of suppliers' exemption of account payables. The non-operating expense increased by RMB311.09 million, mainly because of the compensation in a resolved litigation case (the case about China Development Bank) and estimated liabilities regarding staff settlement expenses in an unresolved litigation case (in which Tiexi District branch (Shenyang City) of SASAC demanded payment of staff settlement fees).

(7) The income tax expense decreased by RMB6.79 million, compared with the same period last year, due to the fact that there was no reversal of deferred income tax assets recognized in the previous year.

Based on the above factors, the net profits of the current year amounted to RMB-398.16 million, including the net profits of RMB-397.06 million attributable to shareholders of the parent company, indicating a year-on-year loss increase of RMB298.57 million in the net profits.

2. Accelerating implementation of the technical transformation project

In 2016, the Company launched the new plant construction project of Fuxin Enclosed Busbars Co., Ltd., a wholly owned subsidiary, based on offsite relocation and investment. So far, the overall construction of the new plant has been completed, and relocation is underway in an orderly manner. After this new plant is put into use, it will significantly enhance the technological level of our busbar manufacturing, improve our market competitiveness, and radically reverse the trend of shrinking orders due to outdated equipment and declining technologies.

3. Intensifying R&D efforts of new products

In the reporting period, the Company's subsidiary New Northeast Electric (Jinzhou) Power Capacitors Co., Ltd. engaged in the development of high-field-intensity, high-voltage power capacitors and the preparation for designing reactive power compensation devices for wind farms, as well as in the trial-production of high-field-intensity, high-voltage power capacitor prototypes. Due to the impact of the sale, the future development of New Northeast Electric (Jinzhou) Power Capacitors Co., Ltd. is uncertain, and due to the severe shortage of capital, the aforementioned projects, already rendered unable to continue, have been suspended.

In the reporting period, the Company carried out the R&D of micro-positive pressure devices for three-phase shunt control of smart touch screens for busbar products and also carried out the trial-production of a prototype. The prototype has been successfully applied to the isolated-phase enclosed busbars of Shaowu Power Station. The successful R&D of this project enabled the intelligent control of micro-positive pressure devices on busbar products and enhanced product competitiveness.

4. Further strengthening prevention of financial risks

In the reporting period, the Company strengthened internal financial management and monitoring, focused on the follow-up work of key products, and worked out reasonable goals and specific measures pertinently, actively preventing financial risks and improving business performance.

(II) Operation of the Company during the reporting period

1. Scope of principal operations and its operation

(1) The Company has been dedicated to R&D, design, production and sales businesses of products related to power transmission and transformation equipment in recent years. Main products offered by the Company include power capacitors, enclosed busbars, etc. Products of the Company apply to the power system field and are used to improve voltage quality of the power system, enhance transmission capacity of the power transmission line and support transmission of the high power electric energy. These devices play an important role in the power system.

(2) Operational results for the year

The Company recorded operating revenue of RMB32,985,857.66, total profit of RMB-397,992,151.30 and the net profit of RMB-398,155,971.11.

2. Analysis of major controlling company and investee company

Unit: RMB

Name	Type of company	Main business	Registered capital	Total assets	Net assets	Operating revenues	Operating profit	Net profit
Northeast Electric Development (Hong Kong) Limited	Subsidiary	Trading	USD20,000,000	67,960,993.74	53,757,001.09	0.00	22,186,498.43	22,186,498.43
Great Talent Technology Limited	Subsidiary	Investments	USD1	77,784,774.49	2,679,471.94	0.00	-18,896.43	-18,896.43
Shenyang Kaiyi Electric Co., Ltd.	Subsidiary	Manufacturing electronic equipment	RMB1,000,000	152,194,806.06	-8,681,183.25	0.00	-5,740,953.44	2,286,173.50
Fuxin Enclosed Busbars Co., Ltd.	Subsidiary	Manufacturing enclosed busbars	USD8,500,000	149,738,070.94	148,825.46	30,082,850.85	-52,720,975.26	-53,440,562.68
New Northeast Electric (Jinzhou) Power Capacitors Co., Ltd.	Subsidiary	Manufacturing power capacitors	USD15,450,000	127,547,997.84	88,405,009.30	3,093,483.00	-44,447,469.22	-43,367,742.49
Jinzhou Jinrong Electric Co., Ltd.	Subsidiary	Dry-type Capacitor banks	RMB3,000,000	1,694,810.64	370,280.74	0.00	-484,007.06	-484,007.06
Shanghai Kaixin Internet Technology Development Co., Ltd	Subsidiary	Internet technology & investment	RMB10,000,000	36,096,695.71	-102,122.92	0.00	-100,155.60	-100,155.60
Northeast Electric (Chengdu) Power Engineering Design Co., Ltd	Subsidiary	New-energy engineering design and construction	RMB10,000,000	14,785,775.65	7,915,947.76	0.00	-1,942,685.27	-1,942,685.27

3. Acquisition and disposal of subsidiaries during the reporting period

□ Applicable √ Not applicable

(III) Analysis of principal businesses

1. Summary

The Company has been dedicated to R&D, design, production and sales businesses of products related to power transmission and transformation equipment in recent years. Main products offered by the Company include power capacitors, enclosed busbars, etc. Products of the Company apply to the power system field and are used to improve voltage quality of the power system, enhance transmission capacity of the power transmission line and support transmission of the high power electric energy. These devices play an important role in the power system.

There were no material changes in the principal business of the Company in the reporting period.

2. Incomes and Costs

(1) Composition of operating incomes

Unit: RMB

	2017		2016		
Item	**Amount**	**As a percentage of operating costs**	**Amount**	**As a percentage of operating costs**	**Year-on-year increase/ decrease**
Total operating revenue	32,985,857.66	100%	63,514,424.29	100%	-48.07%
By industry					
Electrical machinery and equipment manufacturing	32,382,320.55	98.17%	63,327,513.55	99.71%	-48.87%
Other	603,537.11	1.83%	186,910.74	0.29%	222.90%
By product					
Enclosed busbars	30,072,679.91	91.17%	34,193,870.44	54.00%	-12.05%
Power capacitors	2,309,640.64	7.00%	28,730,053.36	45.37%	-91.96%
High-voltage switches			403,589.75	0.64%	
Other	603,537.11	1.83%	186,910.74	0.29%	222.90%
By regions					
Northeast China	1,319,451.60	4.00%	33,137,372.06	52.47%	-96.02%
North China	5,135,379.25	15.57%	8,180,683.59	12.88%	-37.23%
Central China	9,815,797.89	29.76%	8,434,885.87	13.28%	16.37%
East China	701,838.03	2.13%	12,196,554.38	19.20%	-94.25%
South China	1,186,290.66	3.60%	980,599.66	1.54%	20.98%
Southwest China	9,106,143.07	27.61%	301,241.03	0.47%	2,922.88%
Northwest China	5,117,420.05	15.51%	96,176.96	0.15%	5,220.84%
Other	603,537.11	1.83%	186,910.74	0.29%	222.90%

(2) Industries, products, or regions accounting for over 10% of the Company's operating revenue or profits

Unit: RMB

Item	Operating revenue	Operating cost	Gross margin	Year-on-year increase/decrease of operating revenue	Year-on-year increase/ decrease of operating cost	Year-on-year increase/ decrease of gross margin
By industry						
Electrical machinery and equipment manufacturing	32,382,320.55	25,570,761.13	21.03%	-48.87%	-52.54%	6.12%
Other	603,537.11	398,738.56	33.93%	222.90%	471.69%	-28.75%
By product						
Enclosed busbars	30,072,679.91	24,009,050.65	20.16%	-12.05%	-17.85%	5.63%
Power capacitors	2,309,640.64	1,561,710.48	32.38%	-91.96%	-93.57%	16.96%
High-voltage switches						
Other	603,537.11	398,738.56	33.93%	222.90%	471.69%	-28.75%
By region						
Northeast China	1,319,451.60	724,763.81	45.07%	-96.02%	-97.29%	25.85%
North China	5,135,379.25	5,136,764.88	-0.03%	-37.23%	-25.37%	-15.88%
Central China	9,815,797.89	6,637,085.92	32.38%	16.37%	-6.50%	16.54%
East China	701,838.03	479,657.27	31.66%	-94.25%	-95.73%	23.77%
South China	1,186,290.66	360,938.08	69.57%	20.98%	-74.76%	115.43%
Southwest China	9,106,143.07	7,891,359.72	13.34%	2,922.88%	2,477.54%	14.97%
Northwest China	5,117,420.05	4,340,191.45	15.19%	5,220.84%	2,628.33%	80.59%
Other	603,537.11	398,738.56	33.93%	222.90%	471.69%	-28.75%

Main business data adjusted for the statistical caliber as of the end of the previous year, with the statistical caliber adjusted during the reporting period

□Applicable √Not applicable

(3) Whether the goods sales income of the Company is more than its labor service income

√ Yes □ No

By industry	Item	Unit	2017	2016	Year-on-year increase/ decrease
	Sales	meter	4,045	5,671	-0.29%
	Production	meter	4,319	5,731	-0.25%
Enclosed busbar	Stock	meter	524	60	773.33%
	Sales	kilovar	107,955	1,435,796.59	-92.48%
	Production	kilovar	135,800	1,132,400	-88.01%
Power capacitor – high-voltage capacitor	Stock	kilovar	336,085.5	303,381.5	10.78%
	Sales	kilovar	83,442.4	604,193.5	-86.19%
	Production	kilovar	76,400	597,200	-87.21%
Power capacitor – low-voltage capacitor	Stock	kilovar	254,948.88	258,137.22	-1.24%

Reasons for the change of the relevant data for more than 30% on year-on-year basis

√Applicable □ Not applicable

① Enclosed busbars

The increase of stock was mainly due to the delayed delivery for two supply contracts according to the requirement of the customer.

② Power capacitor

The key products are high-voltage oil filled power capacitor and low-voltage thin film capacitor. In recent years, due to the structural adjustment of the national macroeconomic policy and the overcapacity of the power industry, the market demand and product price of power capacitors were reduced. In addition, to reduce the cost and funding requirement, the Company actively adjusted the order structure, in order to mitigate the operation pressure. As a result, the contracts were reduced, and the sales and production had a significant decline.

(4) Fulfillment status of the Company's signed significant sales contracts as at the end of the reporting period

□Applicable √Not applicable

(5) Cost of sales

Unit: RMB

		2017		2016		
By product	**Item**	**Amount**	**As a percentage of operating costs**	**Amount**	**As a percentage of operating costs**	**Year-on-year increase/ decrease**
Enclosed busbars	Direct materials	20,700,134.43	86.22%	25,776,052.82	88.20%	-19.69%
Enclosed busbars	Direct labor	1,631,803.16	6.80%	1,902,518.18	6.51%	-14.23%
Enclosed busbars	Manufacture expense	1,677,113.06	6.98%	1,545,978.68	5.29%	8.48%
Power capacitor	Direct materials	1,241,247.49	79.48%	19,949,827.75	82.10%	-93.78%
Power capacitor	Direct labor	100,261.81	6.42%	855,339.75	3.52%	-88.28%
Power capacitor	Manufacture expense	220,201.18	14.10%	3,494,257.28	14.38%	-93.70%
High-voltage switches	Direct materials	0.00	0.00%	292,612.82	82.10%	-100.00%
High-voltage switches	Direct labor	0.00	0.00%	12,545.64	3.52%	-100.00%
High-voltage switches	Manufacture expense	0.00	0.00%	51,251.79	14.38%	-100.00%

Remarks:

1. Sales of power capacitors dropped sharply, resulting in a sharp decline in direct materials, direct labor and manufacture expenses;

2. There was no sale of high-voltage switches, therefore no corresponding costs was incurred.

(6) Change to the consolidation scope in the reporting period

□ Yes √ No

(7) Information related to significant changes or adjustment of businesses, products or services of the Company in the reporting period

√Applicable □ Not applicable

Due to structural adjustments in power, chemical, and metallurgical industries, the Company's revenue from power capacitor products decreased from RMB28.73 million in 2016 to RMB2.31 million in 2017, a 92% year-on-year decrease.

(8) Major customers and major suppliers

Major customers

Total sales of the top five customers (RMB)	22,120,940.23
Proportion of total sales of the top five customers over total sales for the year	67.06%
Proportion of sales of connected parties in the top five customers over total sales for the year	0.00%

The top five customers

No.	**Name**	**Sales (RMB)**	**Percentage over the annual total amount of sales**
1	China Power (Pu'an) Power Generation Co., Ltd.	7,945,726.54	24.09%
2	Huaneng Luoyuan Power Generation Co., Ltd.	4,670,085.47	14.16%
3	Huaneng Group Ningxia Daba Power Generation Co., Ltd. (Phase IV)	3,756,410.27	11.39%
4	Shenzhen Energy Baoding Power Co., Ltd.	3,239,316.26	9.82%
5	Harbin Electric Machinery Co., Ltd.	2,509,401.69	7.61%
Total		**22,120,940.23**	**67.06%**

Major suppliers

Total purchases attributable to the top five suppliers (RMB)	10,724,560.22
Proportion of total purchases attributable to the top five suppliers over total purchases for the year	55.66%
Proportion of purchases of connected parties in the top five suppliers over total purchases for the year	0.00%

The top five suppliers

No.	Name	Purchase (RMB)	Percentage over the Annual total purchase
1	Shenyang Taihua Copper Co., Ltd.	3,478,767.21	18.06%
2	Shenyang Xinhuahao Aluminum Co. Ltd.	3,343,495.33	17.35%
3	Shenyang Haqingdong Aluminum Co., Ltd.	2,271,200.40	11.79%
4	Fuxin Xiandao Electric Wire Factory	1,054,992.48	5.48%
5	Fuxin Hongsheng Steel Sales Co., Ltd.	576,104.79	2.99%
Total		**10,724,560.22**	**55.66%**

3. Expenses

Unit: RMB

Item	2017	2016	Year-on-year increase/ decrease	Reasons for major changes
Sales expenses	5,791,491.04	10,002,737.76	-42.10%	Reduced due to the decrease of income
Administrative expenses	45,174,713.73	35,493,767.80	27.28%	The sum of the loss due to downtime of some production plants of subsidiaries, the wages of the staff, the agency fee for the planned sale of NNE Jinzhou PC and due diligence
Financial expenses	1,061,942.38	534,886.47	98.54%	The loan interests increased

4. **R&D expenditure**

In the reporting period, the Company's subsidiary New Northeast Electric (Jinzhou) Power Capacitors Co., Ltd. engaged in the development of high-field-intensity, high-voltage power capacitors and the preparation for designing reactive power compensation devices for wind farms as well as in the trial-production of high-field-intensity, high-voltage power capacitor prototypes. Due to the impact of the sale, the future development of New Northeast Electric (Jinzhou) Power Capacitors Co., Ltd. is uncertain, and due to the severe shortage of capital, the aforementioned projects, already rendered unable to continue, have been suspended.

In the reporting period, the Company carried out the R&D of micro-positive pressure devices for three-phase shunt control of smart touch screens for busbar products and also carried out the trial-production of a prototype. The prototype has been successfully applied to the isolated phase enclosed busbars of Shaowu Power Station. The successful R&D of this project enabled the intelligent control of micro-positive pressure devices on busbar products and enhanced the product competitiveness.

The R&D expenditure for the year was RMB230,900.00, representing 0.70% of the audited income of the last period.

Reasons for the significant changes in the proportion of total R&D investment to operating income compared with the previous year

√Applicable □ Not applicable

The significant decline in operating income during the reporting period resulted in limited R&D funding.

5. **Cash flows**

Unit: RMB

Item	**2017**	**2016**	**Year-on-year increase/decrease**
Subtotal of cash inflows from operating activities	145,843,824.75	90,893,827.23	60.46%
Subtotal of cash outflows from operating activities	99,882,007.30	120,785,310.08	-17.31%
Net cash flows from operating activities	45,961,817.45	-29,891,482.85	253.76%
Subtotal of cash inflows from investment activities		91,999,287.39	-100.00%
Subtotal of cash outflows from investment activities	48,749,848.24	160,444,587.51	-69.62%
Net cash flows from investment activities	-48,749,848.24	-68,445,300.12	-28.78%
Subtotal of cash inflows from financing activities	27,355,984.89	29,000,000.00	-5.67%
Subtotal of cash outflows from financing activities	38,622,195.25	9,803,581.43	293.96%
Net cash flows from financing activities	-11,266,210.36	19,196,418.57	-158.69%
Net increase in cash and cash equivalents	-14,080,468.44	-79,114,095.48	-82.20%

Reasons for a year-on-year change for the relevant amounts:

√Applicable □ Not applicable

(1) Accounts receivable of the previous year were collected, resulting in the increase of cash outflows from operating activities; meanwhile, as sales revenue dropped, purchase expenditure decreased, resulting in the decrease of cash outflows from operating activities;

(2) During the reporting period, there was no major investment expenditure other than the investment in the construction of a new plant;

(3) Bank loans of RMB 29 million were repaid during the year.

Reasons for significant differences between the net cash flows generated from operating activities of the Company in the reporting period and the net profits of current year

√Applicable □ Not applicable

(1) China Development Bank's compensation of RMB 272 million was recorded into non-operating expenses, but not paid yet;

(2) Shenyang High Voltage Switchgear Co., Ltd.'s compensation of RMB 37.74 million for staff was recorded into non-operating expenses, but not paid yet.

(IV) Analysis of non-principal business

□ Applicable √ Not applicable

(V) Analysis of Assets and Liability

1. Significant changes in assets

Unit: RMB

	End of 2017		End of 2016			
Item	Amount	As a percentage of total assets	Amount	As a percentage of total assets	Increase/ decrease	Explanation for significant change
Monetary assets	45,175,761.77	14.75%	27,600,371.44	6.87%	7.88%	Collection of account receivables payment increased cash
Account receivables	76,253,768.68	24.90%	136,074,792.34	33.86%	-8.96%	The subsidiary NNE Jinzhou PC's collection of accounts receivable increased
Inventories	11,533,044.52	3.77%	14,991,583.86	3.73%	0.04%	
Long-term equity investments	19,463,641.61	6.36%	25,000,000.00	6.22%	0.14%	
Fixed assets	35,705,865.32	11.66%	41,844,623.66	10.41%	1.25%	
Construction in progress	42,553,751.05	13.90%	6,415,346.77	1.60%	12.30%	Fuxin Busbars' new plant: RMB 36.14 million
Short-term borrowings	0.00	0.00%	29,000,000.00	7.22%	-7.22%	Repayment of bank loans

2. Assets and liabilities accounted by fair value

□ Applicable √ Not applicable

3. Asses right limitation status as at the end of the reporting period

Unit: RMB

Item	Opening balance	Increase in current year	Decrease in current year	Closing balance
Intangible assets – Land use right	3,929,209.13	-	3,929,209.13	-
Fixed assets – Houses and buildings	9,721,809.92	-	9,721,809.92	-
Monetary fund – Other monetary funds	2,807,150.00	6,971,212.93	3,211,062.93	6,567,300.00
Monetary fund – Bank deposits	2,304,291.23	200,000.00	2,304,291.23	200,000.00
Notes receivable	1,900,000.00		1,900,000.00	-
Fixed assets – Means of transport	427,637.18	-	427,637.18	-
Total	**21,090,097.46**	**7,171,212.93**	**21,494,010.39**	**6,767,300.00**

Notes:

(1) At the year end, among other monetary funds, the amount of margin deposit for performance guarantee deposited at designated banks was RMB6,527,300.00, and the amount of banker's acceptance bills deposited at designated banks was RMB40,000.00;

(2) Among the bank deposits of the subsidiary NNE Jinzhou PC, RMB200,000.00 was frozen by the court at the end of the year because the due debt was not repaid in due course.

(VI) Investment

1. Overview

Investment amount in the reporting period (RMB)	Investment amount in the same period of the previous year (RMB)	Increase/decrease
10,000,000	55,100,000	-82%

2. Significant equity investment obtained in the reporting period

□ Applicable √ Not applicable

3. Significant non-equity investment carried out in the reporting period

√ Applicable □ Not applicable

Unit: RMB

Project	Investment model	Investment in fixed assets	Industry involved in the investment project	Investment amount during the reporting period	Accumulative investment amount as of the end of the reporting period	Capital source	Progress	Expected earnings	Accumulative earnings as of the end of the reporting period	Reasons for failing to achieve the planned progress and anticipated earnings	Disclosure date (if any)	Disclosure index (if any)
Wholly owned subsidiary Fuxin Enclosed Busbars Co., Ltd.' offsite relocation of its north plant and construction of a new plant	Self-built	Yes	Enclosed busbar	10,000,000	60,000,000	(1) Expropriation compensation for the north plant (No. 77 Dongfeng Road); (2) Enterprise development fund of the People's government of Xihe District, Fuxin City (to make up for the shortfall in capital)	Completed	Not applicable	Not applicable	Not applicable	26 January 2016	A share announcement number: 2016-015, see the information disclosure media designated by the Company.
Total				**10,000,000**	**60,000,000**							

4. Financial asset investment

(1) Securities investment

□ Applicable √ Not applicable

The Company had no securities investment during the reporting period.

(2) Derivative investment

□ Applicable √ Not applicable

The Company had no derivative investment during the reporting period.

5. Use of proceeds

□ Applicable √ Not applicable

There was no use of proceeds during the reporting period.

(VII) Significant Asset and Equity Sales

1. Sale of significant assets

The Company held the 16th meeting of the eighth board of directors on 17 September 2017 and approved the substantial asset disposal scheme of the Company, based on which the two wholly-owned subsidiaries of the Company, Gaocai Technology Co. Ltd. and Shenyang Kaiyi Electric Co., Ltd. intended to dispose of 100.00% equity in New Northeast Electric (Jinzhou) Power Capacitor Co., Ltd. ("NNE Jinzhou PC") they held to Jiangsu Ankao Solar Thermal Power Generation System Technology Co., Ltd. This substantial asset disposal is subject to consideration and approval at the general meeting (for details, please refer to the announcement made by the Company on 17 September 2017). To plan for the substantial asset reorganization, the Company submitted an application to Shenzhen Stock Exchange to suspend the trading in the shares of the Company since the morning session of 29 August 2017. The suspension lasted till 15 January 2018 when the Company made the announcement of the Substantial Asset Disposal Report (Revised), and the trading was resumed in the morning session of 16 January 2018. This substantial asset disposal is still under progress.

2. Sale of significant equity

□ Applicable √ Not applicable

(VIII) 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.

Based on the principle of prudence, the Company made a provision for diminution in asset value of RMB41,811,094.89 and the estimated liabilities of RMB37,745,190, totaling RMB79,556,284.89. For details, see the notes in the financial report.

(IX) 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.

(X) PROSPECT OF THE COMPANY'S FUTURE DEVELOPMENT

1. Industry development trend and competition pattern

Due to impact by the macroeconomic situation, China's economic growth is expected to slow down, and China will continue to deepen structural reforms on the supply side. The focus of power grid construction will shift towards the construction of UHV power transmission cables and smart grids; the proportion of clean energy power generation will go up; thermal power generation units will develop towards large-capacity, high-parameter, and environment-friend units. In 2018, the macro-economy of China is expected to maintain steady growth, and economic structural adjustments and continued supply-side reforms will have a negative impact on some sectors of the national economy. It is anticipated that domestic economic adjustments will probably have an adverse impact on the power industry, especially the thermal power industry, which will lead to insufficient demand and decreased benefits in the power industry and its downstream industries, thereby further affecting the Company's future performance.

2. Corporate development strategy

2018 will be a crucial year in the Company's fulfillment of transformative development. The Company will take the initiative to adjust to the new normal of economic development of the country, the new landscape of energy development, and the new trend of innovation development; meanwhile, the Company will focus on branding as a priority strategy and utilize its resource integration capability to achieve optimized resource configuration and high-efficient usage. The Company will center on improvement of quality and profits, led by industrial structural optimization and driven by market exploration, to advance industrial inventory improvement and incremental cultivation, cultivate new development momentum and foster new growth drivers, establish a new synergic development pattern, and rebuild the Company's industrial structure.

3. **Plan for the new year**

The Company will focus on optimizing its industrial distribution and comprehensively deepening reforms as the priorities in an effort to achieve reform, innovation, improved quality, and enhanced efficiency. Additionally, the Company will improve its internal control system and strengthen internal management to enhance its operation efficiency and core competitiveness. These measures are aimed at achieving breakthroughs in operation and reversing the trend of performance declines. We will make great efforts to seize the opportunity, make full use of the capital market platform, adjust and change the main business and business strategy, enhance the sustainable profitability and comprehensive competition strength of listed company, promote development of listed company, and protect the interests of all shareholders, especially minority shareholders, to the maximum extent.

In 2018, the Company will put an emphasis on work in the following aspects:

(1) Improve the corporate governance structure further, drive the management team to shift in thinking, make exploration and innovation, broaden sources of income and reduce expenditure actively, stimulate vitality, energy and creativity of the management team, and promote and boost the development and innovation capabilities of the Company by exploring new markets and new customers.

(2) Under support of the new substantial shareholder, the Company will change the business development idea positively, create conditions to adjust the industrial structure gradually, promote industrial upgrade, improve the Company's sustained operation capacity, profitability and asset quality, and strengthen the Company's risk resistance ability and core competitiveness.

(3) The Company will constantly improve the working standards and perfect the internal control system according to the standard operation requirements of listed companies, establish a sound enterprise operation organization mechanism, perfect all the internal control systems constantly, reinforce risk control measures, and reduce business risks of the Company. Moreover, the Company will make its internal control systems operable, put an end to situations damaging the interests of listed company and shareholders, and ensure fulfillment of the Company's business objectives.

(4) The Company will follow the guidance of China's 13th Five-Year Development Plan to invest in the construction of new plants (in combination with the relocation of Fuxin Enclosed Busbars Co., Ltd.), adjust its product mix in a timely manner, increase its R&D efforts of new products, and expand the production and sales of busbar products. By strengthening quality management and upgrading product technologies, the Company will improve product quality dramatically. Meanwhile, the Company will introduce performance assessment incentives to encourage breakthroughs in new areas, improve the profitability, market share, and influence of main products, and improve its corporate image.

(5) At present, the costs of upstream components of solar photovoltaic power stations continue dropping, and the country upholds a series of favorable policies that support clean energies and support poverty alleviation through photovoltaic power generation in rural areas. Meanwhile, the photovoltaic power stations operated by the Company have steady cash flow returns, and the market prospect is rosy. By utilizing the 30MW photovoltaic power station construction capability (productivity: RMB 150 million) and product technologies of Northeast Electric (Chengdu) Power Engineering Design Co. (a subsidiary controlled by the Company), the Company will choose proper timing for launching photovoltaic power construction EPC projects based on the future demand of the photovoltaic power generation market to foster new economic growth drivers.

(6) To obtain new space for development, the Company, reliant on its wholly-owned subsidiary Shanghai KaiXin Internet Technology Development Co., will research and explore new business sectors, and utilize the existing resources and talent advantages of its substantial shareholders in modern service industries to launch new business and develop new industries, thereby expanding the business scope of the Company, improving its asset portfolio, and bringing fresh energy into its sustained operation. The revenue and profits generated from such new business will help the Company expand from the traditional manufacturing sector to modern service industries.

(7) The Company will actively advance the approval process of new privately-issued H shares at securities supervision authorities, adopt equity financing to further optimize its main business, and proactively explore new business sectors to enhance its core competitiveness and sustainable development capability.

(8) Based on operation needs, the Company will divest low-efficiency assets, transfer some nonoperating business, and transfer shares and non-operating assets of major loss-making subsidiaries in due time, thereby increasing the cash flow and effectively improving the operation condition.

The Company's above outlook for future development does not constitute any substantial commitment of the Company to investors. Wide investors need to be aware of risks attached to investment.

4. Financial status

In 2018, the Company will actively expand financing channels to ensure smooth sources of funding, and further improve the financing structure to reduce the financial cost.

5. Risks in front of the Company and countermeasures

(1) Market risks coming along with macroeconomic environment

The Company falls into the electric transmission and transformation equipment manufacturing industry and is closely related to the demand of power equipment industry, and the prosperity degree of product industry is also directly related to the national economy and affects the corporate performance greatly. The Company will continue to pay attention to the impact on the industry by the national macro economy and global economy.

(2) Market competition risks

The power capacitors and enclosed busbar products produced by the Company are the main sources of the Company's primary businesses, but the average profit level of the industry is affected adversely due to the growing market competition. As a result, the Company's product gross margin level and profitability were reduced. The Company will continually enhance the technical level, strengthen the innovation capacity, expand the productivity scale, and improve the business management efficiency to stop the aforementioned declines in revenue, gross margins of products, and product profitability.

(3) Risk of strategic transformation

To ensure sustainable development of the Company in the medium and long terms, the Company is seeking strategic transformation, and deploying industries showing good prospects for development. If the Company fails to implement countermeasures due to various reasons, the Company may be confronted with the risk of slowdown in the strategic transformation process or even failure. The Company will energetically promote the related work, look for related businesses, and adopt reliable means to realize strategic transformation gradually.

(4) Special treatment (ST) risk admonition

Whereas the Company's audited net profits were consecutively negative in the 2016 and 2017 accounting periods and the Company's net assets were also negative at the end of 2017, pursuant to Article 13.2.1 of the Rules Governing the Listing of Shares on the Shenzhen Stock Exchange, Shenzhen Stock Exchange has the right to issue an ST risk admonition to the A share of the Company, and the A share of the Company will be implemented special treatment for ST risk admonition after the publication of the 2017 annual report. In order to enhance its capabilities of sustainable development and profitability, improve its asset quality, and boost its long-term healthy development, the Company will take comprehensive measures to improve its sustainable operation capability and work hard for the withdrawal of that ST risk admonition.

(XI) Social responsibilities:

1. Performance of the social responsibility for targeted poverty alleviation

□ Applicable √ Not applicable

2. Performance of other 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' general 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' General Meeting, and adopts a legitimate and effective manner to enable more shareholders to attend the shareholders' general 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 Information Management Rules, 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.

3. Information relating to environmental protection

The listed company and its subsidiaries are not among a list of major entities discharging pollutants released by environmental protection departments.

The Company and its subsidiaries strictly implemented environmental protection-related laws and regulations such as "Environmental Protection Law of the People's Republic of China," "Water Pollution Prevention and Control Law of the People's Republic of China," "Atmospheric Pollution Prevention and Control Law of the People's Republic of China," "Law of the People's Republic of China on the Prevention and Control of Environmental Noise Pollution," and "Law of the People's Republic of China on the Prevention and Control of Environmental Pollution by Solid Wastes". No penalties were imposed due to violations of laws and regulations during the reporting period.

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

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 RMB45,175,761.77.

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 2017, the Company had bank loans amounting to RMB0, representing 0% of the total assets. These bank loans bear floating interest rate.

The debt equity ratio of the Company was 0% (debt equity ratio= total bank loan/total share capital reserve * 100%).

At the end of the year 2017, the Company had fixed asset and land with net book value of RMB 0 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 the status of continued operations.

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 effect of exchange rate risk on the Group were insignificant 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:

(1) it raised the prices of export products;

(2) 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;

(3) it made full efforts to sign forward settlement agreement with financial institutions so as to focus the exchange rate and avoid the risk.

(XIII) 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.

(XIV) 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.

(XV) Financial summaries

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

There is no material difference between PRC GAAP and Hong Kong Financial Reporting Standards.

(XVI) Reserve

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

(XVII) Bank loans and other loans

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

(XVIII) Fixed assets

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

(XIX) Retirement welfare

During the year, the Company adopted PRC GAAP No. 9 "employee's salary", 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. 9 did not impose significant impact on the Company's financial status.

(XX) Share capital

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

(XXI) 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.

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

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

(XXIII) Income tax

During the reporting period, the applicable income tax rate of the Company is 25%, and there is no assessable profit in Hong Kong. Please refer to the Notes of "Taxation" to the Financial Statements for details.

(XXIV) 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

(XXV) 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 2017 as follows:

During the reporting period, the Company recorded net profit distributable to shareholders of the listed company of RMB-397,057,643.19; and the accrued profit distributable to shareholders at the end of the year was RMB-2,034,142,303.59.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 (%)	Cash dividends in other forms	Ratio of cash dividends in other forms
2017	0.00	-397,057,643.19	0.00%	0.00	0.00%
2016	0.00	-99,493,754.11	0.00%	0.00	0.00%
2015	0.00	4,933,337.50	0.00%	0.00	0.00%

(XXVI) 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.

(XXVII) Independent directors' special representation and independent opinion

As current independent directors of the Eighth Session of the Board of Northeast Electric Development Co., Ltd. (the "Company"), Zhang Luyang, Jin Wenhong and Qian Fengsheng 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" (Zheng Jian Fa [2003]No. 56), "Notice on Regulation of External Guarantee Acts of Listed Companies" (Zheng 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 27.26% of the audited net assets of the Company for 2017 (all of the guarantees were provided before 2004, i.e., the Company did not provide any new guarantee for any external party during the year). 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. Audit opinion on non-business capital occupied by controlling shareholders and their connected parties

(1) As of the end of the reporting period, the controlling shareholder and its affiliates did not occupy any non-business capital of the listed company.

(2) As of the end of 2017, the non-business capital flow of RMB14.49 million should be payable from Dison Silink New Energy Investment Co., Ltd. ("Dison Silink"), an affiliate.

It was certified that when the capital transaction was made, it was a business transaction and became a non-business capital transaction upon the termination of the project. However, when the affiliation was established on 27 November 2017, it became a non-business capital transaction among other affiliates passively. The management of the Company has developed a comprehensive plan and is taking active measures to recover the amount.

The Board of Directors urges the management to recover the fund as soon as possible to eliminate its impact on the Company, and the Board will continue to pay attention to the capital transactions between the Company and various affiliates. The Board also urges the Company to further prevent and control risks, strengthen internal control management on affiliates, in particular, during substantial shareholder changes and subsidiary equity changes, check capital transactions with other affiliates in a timely manner, and take measures to resolve problems to protect shareholders' interests.

The management should continuously improve its internal control execution capability, and functional departments should improve their business management and ensure that their deals and capital transactions with substantial shareholders and other affiliates are compliant with regulations, thus preventing any damage to the listed company and shareholders' interests.

Independent directors will continue to follow the Company's capital transactions with substantial shareholders and other affiliates and urge the Company to further prevent and control risks to protect shareholders' interests.

4. **Independent opinion on connected transactions**

In accordance with the Rules Governing the Listing of Stocks on the Shenzhen Stock Exchange and The Stock Exchange of Hong Kong Limited's regulations on internal audit review of risk management and internal control system in clause C.2.5 of the new code provisions in Appendix 14 of the Main Board Listing Rules, the personnel at the Internal Audit Department of the Company needs to audit the connected transaction and related internal control procedures, submit the results to the independent directors, and help them to carry out annual audit.

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.

5. **Independent opinion on asset acquisition and disposal**

For the external investment, equity acquisition, and asset acquisition and sale matters of the Company in the reporting period, the independent directors should consider such a transaction based on the following principles:

(a) Whether the related transaction is carried out according to the general commercial terms or better terms, whether it complies with the agreement for regulating such transactions, and whether the terms are fair and reasonable and accord with the interests of the issuer; and

(b) Whether the internal control procedures set by the issuer are sufficient and effective.

In the opinion of the independent directors, all the transactions have been prepared based on the general commercial terms and according to the normal way, and the pricing terms are fair and reasonable; the independent directors agree with the resolution of the Board of Directors; all the transactions are fair and reasonable to all the shareholders and do not damage the legitimate interests of minority shareholders.

6. 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 RMB-397,057,643.19, and the accrued profit distributable to shareholders at the end of the year was RMB-2,034,142,303.59. 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 2017 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 as at 2017 for consideration.

7. Independent directors' independent opinions on this provision for impairment of assets

According to the related provisions of the Guidance Opinions on the Establishment of Independent Director System by Listed Companies, Company Law, Articles of Association, and Several Provisions on Strengthening Protection of Rights and Interests of Social Public Stock Shareholders issued by the CSRC, the independent directors published the following independent opinions on the Company's provision for impairment of assets:

(1) Based on the principle of prudence, the Company made a provision for diminution in asset value of RMB41,811,094.89 and the estimated liabilities of RMB37,745,190, totaling RMB79,556,284.89. In our opinion, the matter complies with the related provisions of the Accounting Standards for Business Enterprises, Accounting Standards for Business Enterprises and Notice to Listed Companies on Making Suitable Provisions for Assets Impairment (關於上市公司做好各項資產減值准備等有關事項的通知) (ZJGSZ No.[1999]138) and the Company's accounting policies and accounting estimates, the provision basis and reason are reasonable and sufficient and comply with the actual situation of the Company, and the amount reserved for the provision for impairment fully takes into account the market factors, reflects the Company's assets fairly, accords with the interests of the Company and all shareholders, and does not damage the legitimate interests of the Company and minority shareholders.

(2) The decision-making process of this provision for impairment of assets complies with the provisions of the related laws and regulations such as the Company Law, Securities Law and the Rules of Shenzhen Stock Exchange for the Listing of Stocks, as well as the Articles of Association.

(3) When the Board of Directors considered this provision for impairment of assets, the Audit Committee issued the special opinions on this provision for impairment of assets; when the Board of Directors voted on this provision for impairment of assets, the voting procedure complied with the provisions of the relevant laws and regulations.

We agree with the Company's provision for impairment of assets this time.

8. The Independent Opinions of Independent Directors on Changes in Accounting Policies

The Company, in accordance with relevant rules and requirements of the Ministry of Finance, changed its accounting policies. The changes are in compliance with the regulations of the Ministry of Finance, China Securities Regulatory Commission, stock exchanges, and other regulators, can reflect the Company's financial status and operation results in an objective and fair manner, and are in the interests of the Company and all shareholders. The decision-making procedure for adopting these changes in accounting policies complied with relevant laws, regulations, and the Articles of Association of the Company. Therefore, the independent directors agree to the changes in accounting policies.

9. The Audit Opinions of Independent Directors on Detailed Explanation Given by the Board of Directors on Matters Relating to the Audit Opinion

Independent directors believe that, the Company engages Ruihua Certified Public Accountants (Special General Partnership) as the auditor of the Company for the year of 2017. The audit report issued by Ruihua Certified Public Accountants (Special General Partnership) truthfully, accurately and fairly reflects in all material aspects the financial conditions and operation results of the Company in the year of 2017, and indicates the major uncertainties regarding the Company as an on-going concern, however without any effect the published audit opinions. The independent directors agree to the Detailed Explanation Given by the Board of Directors on Matters Relating to the Audit Opinion, and the independent directors will continue to pay attention to and procure the Board of Directors and the management to take effective actions to promote the capabilities of the Company as an on-going concern and protect the Company and all investors.

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

By order of the Board
Liu Daoqi
Chairman
29 March 2018

(I) Material litigation and arbitration

(1) The litigation where the Tiexi District branch (Shenyang City) of the State-owned Assets Supervision and Administration Commission ("SASAC") sued the Company, Shenyang High-voltage Switchgear Co., Ltd. and New Northeast Electric (Shenyang) High-voltage Switchgear Co., Ltd. for the payment of allowance for staff.

According to the announcement made on 7 July 2017, the Tiexi District branch (Shenyang City) of State-owned Assets Supervision and Administration Commission ("SASAC") brought litigation at Shenyang intermediate people's court against Northeast Electric Development Co., Ltd., Shenyang High-voltage Switchgear Co., Ltd. and New Northeast Electric (Shenyang) High-voltage Switchgear Co., Ltd. for the payment of allowance for staff, asking the court to order the defendant to pay the plaintiff the debt of RMB28.53 million plus the interest of RMB7,788,690 and the liquidated damages of RMB1,426,500, totally RMB37,745,190. This case is still under hearing, and the court has not reached judgment.

According to the lawyer for the case, although there exist disputes in terms of the nature, time limit and agreement validity of the case, because the case involves people's livelihood (allowance for staff), it is probable that the court would order the Company to assume all the liabilities for paying the remaining allowance for the employees of Shenyang High Voltage Switchgear Co., Ltd. and the relevant expenses. According to the legal opinion issued by the lawyer, and based on the principle of prudence, the Company recorded a liability of RMB37,745,190.00 for the amount involved in the case.

(2) Progress in the enforcement of litigation brought by China Development Bank

According to the announcement made by the Company on 19 October 2017, the Supreme People's Court issued an enforcement order ((2017) SPC Enforcement Reply No.27) in August 2017 to reject the reconsideration request made by Northeast Electric and affirm the enforcement order of NHC (2015) Gao Zhi Yi Zi No.52. The enforcement order was final. According to the civil judgment that has taken effect, China Development Bank, the execution applicant, asked the court to order the relevant parties subject to enforcement, including Northeast Electric, to perform the obligations specified in the effective civil judgment. In the opinion of the lawyer, the Company should assume the compensation liability of RMB272,627,700 according to the final ruling of the Supreme People's Court. Based on the principle of prudence, the Company has charged the compensation liability payable according to the final ruling into the profit and loss for the current period.

Except for the above cases, to the best of the directors' knowledge, the Company did not have any pending or threatened material litigation or claim.

(II) Acquisition and disposal of assets

(1) Acquisition of assets in the reporting period: Nil

(2) Disposal of assets in the reporting period

The Company held the 16th meeting of the eighth board of directors on 17 September 2017 and approved the substantial asset disposal scheme of the Company, based on which the two wholly-owned subsidiaries of the Company, Gaocai Technology Co. Ltd. and Shenyang Kaiyi Electric Co., Ltd. intended to dispose of 100.00% equity in New Northeast Electric (Jinzhou) Power Capacitor Co., Ltd. ("NNE Jinzhou PC") they held to Jiangsu Ankao Solar Thermal Power Generation System Technology Co., Ltd. This substantial asset disposal is subject to consideration and approval at the general meeting (for details, please refer to the announcement made by the Company on 17 September 2017). To plan for the substantial asset reorganization, the Company submitted an application to Shenzhen Stock Exchange to suspend the trading in the shares of the Company since the morning session of 29 August 2017. The suspension lasted till 15 January 2018 when the Company made the announcement of the Substantial Asset Disposal Report (Revised), and the trading was resumed in the morning session of 16 January 2018. This substantial asset disposal is still under progress.

(III) During the reporting period, the Company had 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 non-business capital occupied by controlling shareholders and their connected parties

(1) As of the end of the reporting period, the controlling shareholder and its affiliates did not occupy any non-business capital of the listed company, nor were they found to use any fund of the listed company.

(2) As of the end of 2017, the non-business capital flow of RMB14.49 million should be payable from Dison Silink New Energy Investment Co., Ltd. ("Dison Silink"), an affiliate.

Details: Dison Silink signed a Cooperation Framework Agreement with Northeast Electric (Chengdu) Electric Engineering Design Co,, Ltd., ("NEE Chengdu") subsidiary of the Company, on 30 December 2016 to jointly undertake the contracting construction of the 20MW PV power generation project in Shannan Longzi County, Tibet. They paid a total construction cost of RMB14.60 million from December 2016 to January 2017. As the project was won by the third party, the two parties did not participate in the project construction later, and they were not affiliated in the process.

The affiliation between Dison Silink and the Company was formed on 27 November 2017. ZeaLink Electric Technology Co., Ltd. ("ZeaLink") held 39% equity in NEE Chengdu through equity transfer on 27 November 2017. Dison Silink and ZeaLink were controlled by the same controller. As a result, Dison Silink and ZeaLink became the affiliates of the Company according to the Accounting Standards for Business Enterprises – Disclosure of Affiliates and Transactions issued by the Ministry of Finance. This capital transaction constituted the non-business capital transaction among other affiliates.

To sum up, in December 2016 when the capital transaction was made, it was a business transaction and became a non-business capital transaction upon the termination of the project. However, when the affiliation was established on 27 November 2017, it became a non-business capital transaction among other affiliates passively. The management of the Company has developed a comprehensive plan and is taking active measures to recover the amount.

(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.

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 totaled RMB53,050,000, and so the real amount that the Company should assume responsibility for guarantee was RMB53,050,000, accounting for 27.26% of the audited net assets of the Company for 2017.

(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 27.18% of the audited net assets of the Company for 2017, which was translated into liabilities in total in 2007.

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

(VIII) Implementation of commitments of the Company, substantial shareholders and de facto controllers

Beijing Haihongyuan made the following commitments in the acquisition report or equity change report: avoid horizontal competition with the listed company; reduce and normalize the connected transactions with the listed company; maintain independence of the listed company after the acquisition; strictly abide by the CSRC's related regulations on reduction of shares held by substantial shareholders of listed companies.

During the reporting period, Beijing Haihongyuan 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) 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.

(XIII) Amendment to the Articles of Association

To comply with the Guidelines for the Articles of Association of Listed Companies of CSRC and to meet the need for improving the corporate governance structure and standardizing corporate operations, on 29 March 2018, the Company held the 20th meeting the 8th Board of Directors to pass the Proposed Amendment to the Articles of Association. The proposed amendment will take effect after being passed by the shareholders' general meeting.

(XIV) Detailed Explanation Given by the Board of Directors on Matters Relating to the Audit Opinion

The Company engaged Ruihua Certified Public Accountants (Special General Partnership) as the auditor of the Company for the year of 2017. Ruihua Certified Public Accountants (Special General Partnership) issued an unqualified audit report for the Company's financial report for the year 2017, indicating major uncertainties regarding the Company as an ongoing concern.

1. Matters concerned in Audit Opinions

The readers of this financial report are advised to note that as mentioned in Notes (II) (2), Northeast Electric's net loss in 2017 was RMB398,155,971.11, and as of 31 December 2017, Northeast Electric's total liabilities exceeded its total assets by RMB194,641,017.71, its current liabilities exceeded its current assets by RMB237,012,818.13, and the equity attributable to shareholders of the Parent was RMB-198,631,842.02. Meanwhile, the Company faces compensation of RMB272 million for resolved litigation cases. As mentioned in Notes (II) (2), these matters indicate there are major uncertainties regarding the Company as a going concern, however, without any effect the published audit opinions.

2. Board of Directors' Opinion

The Board of Directors holds that the audit report issued by Ruihua Certified Public Accountants (Special General Partnership) objectively and truthfully reflects the financial conditions of the Company and its risks as an ongoing concern. In order to enhance the ability of the Company as a going concern and its profitability, improve the quality of corporate assets, and promote the long-term and healthy development of the Company, the Company proposes to take the following actions to enhance the ability of the Company as a going concern, and exert its best endeavors to remove the delisting risk warnings:

(1) The parent company of the Company, Beijing Haihongyuan Investment Management Co., Ltd. has issued a letter of undertaking on financial funding, under which it undertakes, during one year after the issuance of such letter, to provide unconditional financial support for the Company, including in the forms of provision of funds, security and otherwise to provide operation funds for the Company.

(2) Accelerate the process of private placement of H shares, improve the capital structure, based on which to accelerate the transformation to modern service provider, and enhance the operation capabilities, profitability and risk resistance capacity.

(3) In line with the operation strategies, divest law-efficiency capital and equity investments and other non-operational assets with less frequent transactions, increase the cash flow, and improve the shareholding structure of the Company, and for the present the Company is now advancing the sales of shares of New Northeast Electric (Jinzhou) power capacitor Co., Ltd.

(4) Based on the evaluation of the construction capabilities of 30MW Photovoltaic power stations (with the production capacity of RMB150 million) and products technical level of the controlled subsidiary, Northeast Electric (Chengdu) Electric Power Engineering Design Co. Ltd. and the future market demand level of the photovoltaic power generating market, the Company will commence the construction of photovoltaic power station, when appropriate, to foster a new business growth driver.

(5) Consistent with the market changes and demands, proactively adjust the product structure and industrial upgrading, and accelerate the transformation to a modern service provider, and optimize the overall industrial distribution; develop new client bases, improve and strengthen sales system, and enhance the profitability of main business.

(6) Expand business operation and operate in a cost-effective manner, exert the strict control over various expenditures and expenses, lower the operation costs, enhance the profitability of main business to the maximum extent possible. Based on the evaluation of the above measures, the management of the Company believes that the preparation of these financial statements based on the ongoing concern basis is reasonable, and the Board of Directors has conducted sufficient and detailed evaluation of the capability of the Company as a going concern, including the review of the operation fund forecast for the Company for the future twelve months prepared by the management of the Company, and believes that the Company can have access to sufficient financing sources to meet the needs for operation funds and capital expenditures, and approve the preparation of these financial statements by the management on the going concern basis. The Board of Directors will continue to pay attention to and will procure the management of the Company to take effective actions to promote the capabilities of the Company as a going concern and protect the Company and all investors.

(XV) Significant events involving subsidiaries of the Company

1. Progress of relocation compensation of Fuxin Enclosed Busbars Co., Ltd. ("FEB"), a wholly owned subsidiary of the Company

On 12 January 2016, FEB, a wholly-owned subsidiary of the Company, signed an Investment Promotion Agreement with Xihe District Government, based on which the two parties reached an agreement for the investment in the construction of the new plant with an annual output of 20 million KW enclosed busbar and the relocation of the old plant. According to the agreement, FEB will exchange the land of 15,174 sq.m., property of 4,500 sq.m. and the attached real estate facilities in the north plant area (No.77, Dongfeng Road) for the land of 40,000 sq.m., property of 17,831 sq.m. and the attached real estate facilities in Sihe town industry base in Xihe District, Fuxin City, in order to make investment in the construction of the new plant with annual output of 20 million KW enclosed busbar ("new plant project"). The estimated investment in the construction of the new plant project was RMB50 million, including RMB12 million for land, and RMB38 million for the production and office building, the attached real estate facilities and other facilities. The fund for the new plant was derived from the expropriation compensation of the north plant area at No.77 Dongfeng Road, with the rest covered by Xihe District Government using the enterprise development fund. The final construction cost will be settled according to the final price and equipment purchase price.

As of 31 December 2017, FEB had received the relocation compensation of RMB30,965,400, and the construction of the new plant was nearly completed.

(2) As of the end of 2017, the non-business capital flow of RMB14.49 million should be payable from Dison Silink New Energy Investment Co., Ltd. ("Dison Silink"), an affiliate, to Northeast Electric (Chengdu) Electric Engineering Design Co., Ltd.

Details: Dison Silink signed a Cooperation Framework Agreement with Northeast Electric (Chengdu) Electric Engineering Design Co., Ltd. ("NEE Chengdu"), a subsidiary of the Company, on 30 December 2016 to jointly undertake the contracting construction of the 20MW PV power generation project in Shannan Longzi County, Tibet. They paid a total construction cost of RMB14.6 million from December 2016 to January 2017. As the project was won by the third party, the two parties did not participate into the project construction later, and they were not affiliated in the process. The affiliation between Dison Silink and the Company was formed on 27 November 2017. ZeaLink Electric Technology Co., Ltd. ("ZeaLink") held 39% equity in NEE Chengdu through equity transfer. Dison Silink and ZeaLink were controlled by the same controller. As a result, Dison Silink and ZeaLink became the affiliate of the Company according to the Accounting Standards for Business Enterprises No. 36 – Related Party Disclosures issued by the Ministry of Finance. This capital transaction constituted the non-business capital transaction among other affiliates in a negative manner.

To sum up, in December 2016 when the capital transaction was made, it was a business transaction and became a non-business capital transaction upon the termination of the project. However, when the affiliation was established on 27 November 2017, it became a non-business capital transaction among other affiliates. The management of the Company has developed a comprehensive plan and is taking active measures to recover the amount.

(XVI) Subsequent events:

1. New Northeast Electric (Jinzhou) Power Capacitor Co., Ltd. ("NNE Jinzhou PC") obtained financing for factoring business.

To liquidize the book assets, recover the liquidities in a timely manner, enhance the turnover of capital, and improve the cash flow, the Proposal of Wholly-owned Subsidiary's Application for Factoring Business was considered and approved by the Company in the 19th meeting of the 8th Board of Directors convened on 9 March 2018. The Company agreed and delegated power to the management of the Company to handle the related issues of the application. NNE Jinzhou PC and Tianjin Huayi Fuyin Commercial Factoring Co., Ltd. signed the Domestic Commercial Factoring Agreement (without recourse) on 20 March 2018. The net book value of the receivable accounts to be transferred by NNE Jinzhou PC amounts to RMB 50,418,052.08 (the creditor's right on receivables amounts to RMB68,409,135.13, with the impairment provision of RMB17,991,083.05). The proceeds raised from factoring financing were RMB48,000,000.

(I) Table of changes in share capital

Unit: share

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

(II) Table of shareholdings of the top ten shareholders

Total number of shareholders at the end of the reporting period was 73,256.

Shareholdings of the top ten shareholders

Unit: share

Name of shareholders	Nature of shareholder	Shareholding percentage	Number of shares	Changes in the reporting period	Number of shares subject to trading moratorium	Number of shares not subject to trading moratorium	Shares pledged or frozen: Status of shares	Shares pledged or frozen: Number
HKSCC Nominees Limited	Foreign legal person	29.43%	257,055,899					
Beijing Haihongyuan Investment Management Co., Ltd.	Domestic non-state-owned legal person	9.33%	81,494,850				pledged	81,494,850
Yang Qinxiu	Domestic natural person	3.20%	27,955,752					
Taida Hongli Funds-CMBC-TEDA Manulife Strategy Rating No. 31 Assets Management Plan	Domestic non-state-owned legal person	2.55%	22,314,561					
Li Zhen	Domestic natural person	0.55%	4,824,334					
Nanjing Fang Kai Enterprise Management Co., Ltd	Domestic non-state-owned legal person	0.48%	4,214,500					
Shi Yubo	Domestic natural person	0.43%	3,754,300					
Shenzhen Zhongda Software Development Ltd	Domestic non-state-owned legal person	0.41%	3,550,000		3,550,000			
Wu Guolin	Domestic natural person	0.35%	3,041,467					
Hu Lan	Domestic natural person	0.32%	2,834,990					

Connections and concerted actions between the above shareholders:	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 Administrative Measures for the Takeover of Listed Companies (上市公司收購管理辦法). Based on the final practicable date before the Third Quarterly Report and the publicly available information of the Company, the Company confirms that the number of public shares is sufficient.

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 Administrative Measures for the Takeover 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) *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.*

4) *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.

5) *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.

6) *Convertibles, options, warrants or other similar rights*

   As of 31 December 2017, the Company did not issue any convertible securities, options, warrants or any other similar right.

(III) Information on the substantial shareholder and the de facto controller

Name of the controlling shareholder	:	Beijing Haihongyuan Investment Management Co., Ltd.
Legal representative	:	Song Xiang
Incorporation date	:	11 July 2012
Registered capital	:	RMB30,000,000,000
Scope of business	:	Investment management; asset management; project investment; hotel management; tourism information consultation; technical advisory and services; sales of daily necessities; building materials (excluding physical store operations); household appliances; electronic products; communication equipments. (The enterprise should select business items and carry out operating activities independently according to law; for the above items subject to administrative approval according to law, an approval must be obtained from the related authorities prior to operating activities; the enterprise cannot deal with the operating activities of items prohibited or restricted by the industrial policy of the city.)
Equity structure	:	HNA Tourism Group Co., Ltd. contributed RMB30,000,000,000, representing 100% of the registered capital.

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

(1) Change to the largest shareholder and de facto controller in the reporting period of the Company:

On 23 January 2017, Tsing Chuang Group, the first substantial shareholder of the Company, and Beijing Haihongyuan Investment Management Co., Ltd. (hereinafter referred to as "Beijing Haihongyuan") signed the Share Transfer Agreement, and Tsing Chuang Group planned to transfer its held 81,494,850 non-restricted negotiable A-shares (accounting for 9.33% of the total equity of the Company) of the Company to Beijing Haihongyuan through agreement. The two parties completed the share transfer registration formalities on 13 February 2017. The first substantial shareholder of the Company changed to Beijing Haihongyuan, and the de facto controller changed to Hainan Province Cihang Foundation. Framework of asset rights and controlling relationship between the Company and the de facto controller:

Hainan Province Cihang Foundation

↓ 65%

Shengtang Development (Yangpu) Co. Ltd.

↓ 50%

Hainan Traffic Administration Holding Co., Ltd.

↓ 70%

HNA Group Co., Ltd.

↓ 69.96%

HNA Tourism Group Co.,Ltd.

↓ 100%

Beijing Haihongyuan Investment Management Co., Ltd.

↓ 9.33%

Northeast Electric Development Co., Ltd.

(V) Introduction to other corporate shareholders holding over 5% of the Company's shares:

During the reporting period, there have been no corporate shareholders holding over 5% of the Company's shares.

(I) Profile of directors, supervisors, senior management

1. Basic information

Name	Position	Service Status	Sex	Age	Start date of the term of office	End date of the term of office	Number of shares held at the beginning of the year	Increase of Shareholding during current period	Decrease of Shareholding during current period	Other Changes	Number of shares held at the end of the year	Remuneration (RMB0'000)
Liu Daoqi	Director, Chairman	Incumbent	M	40	11/05/2017	10/03/2019	0	0	0	0	0	0
Bai Haibo	Director, Vice Chairman	Incumbent	M	42	11/05/2017	10/03/2019	0	0	0	0	0	0
Li Rui	Director, General Manager	Incumbent	M	41	11/05/2017	10/03/2019	0	0	0	0	0	0
Song Xiang	Director	Incumbent	M	39	11/05/2017	10/03/2019	0	0	0	0	0	0
Bao Zongbao	Director	Incumbent	M	35	05/06/2017	10/03/2019	0	0	0	0	0	0
Zhang Xiangsheng	Director	Incumbent	M	35	05/06/2017	02/03/2018	0	0	0	0	0	0
Su Jianghua	Former Chairman	Resigned	M	44	11/03/2016	12/05/2017	0	0	0	0	0	10
Su Weiguo	Deputygeneral manager, Board Secretary	Incumbent	M	56	11/03/2016	10/03/2019	0	0	0	0	0	101.6
Wang Zheng	Director	Resigned	M	44	11/03/2016	21/04/2017	0	236,900	236,900	0	0	10
Liu Jun	Director, General Manager	Resigned	M	34	11/03/2016	21/04/2017	0	0	0	0	0	10
Li Min	Director	Resigned	M	48	11/03/2016	21/04/2017	0	0	0	0	0	10.7
Feng Xiaoyu	Director	Resigned	M	45	11/03/2016	12/05/2017	0	0	0	0	0	91.1
Zhang Luyang	Independent Director	Incumbent	M	61	11/03/2016	10/03/2019	0	0	0	0	0	13.7
Jin Wenhong	Independent Director	Incumbent	M	68	11/03/2016	10/03/2019	0	0	0	0	0	13.7
Qian Fengsheeng	Independent Director	Incumbent	M	54	11/03/2016	10/03/2019	0	0	0	0	0	13.7
Wu Junyun	Chairman of the Supervisory Board	Resigned	F	40	11/03/2016	12/05/2017	0	0	0	0	0	6
Li Dong	Supervisor	Incumbent	M	56	11/03/2016	10/03/2019	0	0	0	0	0	10
Qiu Yongjian	Supervisor representing staff	Incumbent	M	54	11/03/2016	10/03/2019	0	0	0	0	0	8.89
Wang Jun	Supervisor	Incumbent	M	39	05/06/2017	10/03/2019	0	0	0	0	0	0
Total	--	--	--	--	--	--	0	236,900	236,900	0	0	299.39

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 RMB2,338,000.*

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 2017.*

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 2017, 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 2017, 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. Information about the directors and supervisors serving the shareholders' company

Name of person in office	Name of shareholders' company	Position at the shareholders' company	Start date of the term of office	End date of the term of office	Receive compensation and allowance from the shareholders' company
Liu Daoqi	Beijing Haihongyuan Investment Management Co., Ltd.	Director	-	-	No
Song Xiang	Beijing Haihongyuan Investment Management Co., Ltd.	Manager	-	-	No
Bao Zongbao	Beijing Haihongyuan Investment Management Co., Ltd.	Supervisor	-	-	No
Directors and supervisors serving the shareholders' company		The above persons serve as the Directors of the Company, and serve as the Director/Supervisor/Senior Management of the largest shareholder of the Company as well.			

Administrative penalty incurred by the incumbent Directors, Supervisors or Senior Management or those resigned in the reporting period from China Securities Regulatory Commission in recent three years.

□ Applicable √ Not applicable

3. Main work experience of the directors, supervisors and senior management in recent five years in the reporting period

Executive Directors

Mr. Liu Daoqi, born in 1978, with Chinese nationality but without the right of permanent residence abroad, graduated from Nanjing University of Aeronautics and Astronautics. He joined HNA Group in 2000 and has served as the vice president of investment of Hainan Airlines Group Co., Ltd. and the investment president and director of HNA Tourism Group Co., Ltd. Incumbent Chairman of the Company, Director of Beijing Haihongyuan Investment Management Co., Ltd.

Mr. Bai Haibo, born in 1976, with Chinese nationality but without the right of permanent residence abroad, received the Master's Degree in Hotel Management of Hong Kong Polytech University. He has worked as a director of Beijing Administrative Center of HNA Group Office, Incumbent Vice Chairman of the Company.

Mr. Li Rui, born in 1977, with Chinese nationality but without the right of permanent residence abroad, graduated from School of Management, Huazhong University of Science. He joined HNA Group in 1999 and has successively held the posts of deputy general manager and standing vice manager of Securities Business Department of HNA Group and the standing vice manager of Investment Management Department of HNA Group and the vice president and board secretary of Hainan Airlines Group Co., Ltd. He serves as a director and the general manager of the Company.

Mr. Song Xiang, born in 1979, with Chinese nationality but without the right of permanent residence abroad, graduated from Hong Kong Polytech University. He joined HNA Group in 2006 and has successively held the posts of vice president of HNA Tourism Holding (Group) Co., Ltd., the chairman of HNA Tourism Development Co., Ltd. and the venture capital investment president of HNA Hospitality Investment Group, Incumbent Director of the Company, Manager of Beijing Haihongyuan Investment Management Co., Ltd.

Mr. Bao Zongbao, born in 1983, Chinese nationality, has no right of permanent residence overseas and graduated from Civil Aviation University of China. Mr. Bao Zongbao, former investment director of HNA Investment Holding Co., Ltd. and the chief financial officer of HNA Tourism Investment Group. Incumbent Director of the Company, Supervisor of Beijing Haihongyuan Investment Management Co., Ltd.

Independent non-executive directors

Mr. Zhang Luyang, born in 1957, is a professor with Chinese nationality but without the right of permanent residence abroad, studied Materials Science and Engineering and Management Science and Engineering at Harbin Institute of Technology successively, and received the bachelor's degree, double-master's degree, and Ph.D. He was the League Secretary of the Students' Union in Harbin Institute of Technology, an engineer of Nanjing Chenguang Machinery Plant, a postdoctoral fellow of the Finance Department of Nanjing University, and a postdoctoral fellow of the International Finance Department of Fudan University. At present, he is a professor in the International Finance Department of Fudan University and a specialist member of the governance committee of Shanghai Stock Exchange, a distinguished consultant of Chengdu municipal people's government, a distinguished instructor of Shanghai Entrepreneurship Center, and a special part-time doctoral tutor in the University of Tokyo.

Mr. Jin Wenhong, born in 1950, with Chinese nationality but without the right of permanent residence abroad, studied Life Science and Aquatic Ecology in Dalian Ocean University and Management Science in Fudan University, and received Bachelor and Master's degree. He was a deputy office director in Shanghai Municipal Bureau of Aquatic Products, the deputy division director of Overseas Economic Cooperation Division in Finance and Trade Office, the general manager of International Department in China Pacific Life Insurance Company, the deputy managing director of China Pacific Life Insurance Company, general manager and chairman of China Pacific Life Insurance Company Limited, vice president of the Insurance Association of China, and senior consultant of Pacific Assets Management Company. He is now retired. At present, he is the chairman of CITIC-Prudential Life Insurance Company Ltd. and the independent director of Shanghai Lonyer Fuels Co., Ltd.

Mr. Qian Fengsheng, born in 1964, with Chinese nationality but without the right of permanent residence abroad, was graduated from Accounting major in Shanghai University of Finance and Economics and received Ph.D. in Management (Accounting). At present, he is an associate professor of the School of Accounting in Shanghai University of Finance and Economics, a consultant expert of accounting standard in the Ministry of Finance, and member of the Accounting Basic Theory Special Committee in the Ministry of Finance. He was the director of the MPACC Center in Shanghai University of Finance and Economics.

Shareholder representative supervisors

Mr. Li Dong, born in 1961, with Chinese nationality but without the right of permanent residence abroad, is a Doctor of Management majored in Business Management of Renmin University of China and is a professor. He studied power engineering in Harbin Engineering University, Industrial Economics and Business Management in Renmin University of China, and received Bachelor's degree, Master's degree, and Ph.D. in Management. He was an assistant engineer of the Bureau of Geophysical Exploration in Ministry of Petroleum Industry, and engineer of Jinling Petrochemical Company. He is currently a professor and doctoral supervisor of the School of Economics and Management in Southeast University.

Mr. Wang Jun, born in 1979, Chinese nationality, has no right of permanent residence overseas and graduated from Southwest University of Finance and Economics. Mr. Wang, former head of capital operations at the planning & financing department of HNA Hotel Group Holdings Co., Ltd. and the general manager of the planning & financing department of HNA International Hotels & Resorts Management Co., Ltd. He serves as Supervisor of the Company.

Employee representative supervisor

Mr. Qiu Yongjian, born in 1964, with Chinese nationality but without the right of permanent residence abroad, 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 supervisor of the Company.

Senior Management

Mr. Li Rui, born in 1977, with Chinese nationality but without the right of permanent residence abroad, graduated from School of Management, Huazhong University of Science. He joined HNA Group in 1999 and has successively held the posts of deputy general manager and standing vice manager of Securities Business Department of HNA Group and the standing vice manager of Investment Management Department of HNA Group and the vice president and board secretary of Hainan Airlines Group Co., Ltd. He serves as an executive director and the general manager of the Company.

Mr. Su Weiguo, born in 1962, a senior economist, graduated from Harbin University of Science and Technology in Heat Treatment and later from Dalian Marine University in International Economics with a bachelor degree in Engineering and a master degree in Law. He was the section chief of the Business Management Department, deputy general manager, secretary of the Board of Directors, general manager and chairman of Northeast Electric Development Co., Ltd., and the section chief of Business Management Department, assistant president and deputy general manager of Northeast Electric Power Transmission and Transformation Equipment Group, and the general manager of Tieling Copper Industry Co., Ltd., and the chairman of Shenyang Furukawa Cable Co., Ltd., which is a Sino-Japanese joint venture. He is currently the vice chairman, vice general manager, board secretary of the Company..

Mr. Xiao Xun, born in 1987, Chinese nationality with no overseas permanent residence. He is a CIA (Certified Internal Auditor), member of Institute of Public Accountants (IPA), and graduated from University of Macau with a bachelor degree majoring in accountancy. He once assumed the position of General Manager of the Financial Management Department of HNA Tourism Group and the General Manager of Planning and Finance Department of HNA Tourism Investment Holding Co., Ltd., Incumbent Chief Financial Officer of the Company (Vice General Manager).

Mr.Zhao Guogang, born in 1983, Chinese nationality with no overseas permanent residence, holds a master degree. He graduated from The Central Institute for Correctional Police with a bachelor degree in law and later from China University of Political Science and Law with a master degree in international law. He once assumed the position of General Manager of Risk Control Department of HNA Tourism Holding (Group) Co., Ltd and the Chief Risks Officer of tourism investment platform of HNA Tourism Group, Incumbent Chief Risks Officer of the Company (Vice General Manager).

Representative for securities affairs

Mr. Zhu Xinguang, born in 1970, with Chinese nationality but without the right of permanent residence abroad, a 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 of the Company.

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, the total average remuneration of all directors was not over RMB6,000,000 (after tax); that of supervisors was not over RMB800,000 (after tax);

(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

Name	Position	Type	Date	Reason
Su Weiguo	Director, Vice Chairman	Resigned	21/04/2017	Job change
Wang Zheng	Director	Resigned	21/04/2017	Job change
Liu Jun	Director, General Manager	Resigned	21/04/2017	Job change
Li Min	Director	Resigned	21/04/2017	Job change
Su Jianghua	Director, Chairman	Resigned	12/05/2017	Job change
Feng Xiaoyu	Director	Resigned	12/05/2017	Job change
Feng Xiaoyu	Vice General Manager, Chief Accountant	Resigned	02/03/2018	Job change
Zhang Xiangsheng	Director	Resigned	02/03/2018	Job change
Xiao Xun	Chief Financial Officer	Incumbent	09/03/2018	Operational needs
Zhao Guogang	Chief Risks Officer	Incumbent	09/03/2018	Operational needs

6. Interest of directors, supervisors and senior management

As at 31 December 2017, 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

1. Staff number, departments composition and education background

Number (person) of employees on the payroll of the parent company	18
Number (person) of employees on the payroll of the main subsidiaries	541
Total number (person) of employees on the payroll	559
Total number (person) of employees receiving remuneration in the current period	559
Number (person) of retired employees for whom the parent company and main subsidiaries need to pay expenses	0
Occupational structure	
Occupational structure category	Number of persons of occupational structure
Production staff	270
Salesman	39
Technical staff	29
Financial staff	13
Administrative staff	208
Total	**559**
Education level	
Education level category	Number (person)
Bachelor degree and above	86
College	102
Senior high school and below	371
Total	**559**

As at the end of the reporting period, the number of employees on the payroll of the Company was 559. 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 substantial shareholders and the listed company

The Company's substantial shareholders have strictly complied with the Company Law of the People's Republic of China, Articles of Association and Code of Conduct of the Substantial 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 9 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 Work System 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 Information Management Rules, the Company has strengthened its management of investor relations and 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 Information Management, Rules the Company has strengthened the confidential work and insiders management work of internal information, prevented insiders misusing the right of information, revealing inside information and executing insider dealings. The Company can fully respect and safeguard the legal rights and interests of the stakeholders, and realized the coordination and balance of interests among shareholders, staff and society so as to jointly push the Company's stable and sound growth.

7. **Performance assessments and incentive and disciplinary systems**

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

8. Establishment and execution of internal audit system

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

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.

(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 and general meetings attendance of independent directors

Board meetings and general meetings attendance of independent directors

Name of independent director	Number of attendance required in the reporting period	Number of attendance in person	Number of attendance by communication	Number of attendance by proxy	Number of absence	Two consecutive absences in person	Number of attending the General Meeting
Zhang Luyang	9	2	6	1	0	No	0
Jin Wenhong	9	3	6	0	0	No	2
Qian Fengsheng	9	3	6	0	0	No	1

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

√ Yes □ No

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) Independence of business, personnel, assets, organizational structure, and finance among the company and its substantial shareholders

The Company operated independently from its substantial 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 substantial 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.

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 substantial shareholder, de facto 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 substantial shareholders. The Board of Directors, Supervisory Committee and general manager have operated independently, having no affiliation with the function department of any substantial 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 and two EGM of shareholders:

(1) Annual general meeting for 2016

The Company issued the notice on 27 March 2017 and convened the 2016 annual general meeting of shareholders on 11 May 2017 (please refer to the Announcements dated 27 March 2017 and 11 May 2017 for details).

(2) Two Extraordinary General Meeting

The first EGM for 2017

The Company issued the notice on 19 January 2017 and convened the first extraordinary general meeting for 2017 of shareholders on 6 March 2017 (please refer to the Announcements dated 19 January 2017 and 6 March 2017 for details).

The second EGM for 2017

The Company issued the notice on 21 April 2017 and convened the second extraordinary general meeting for 2017 of shareholders on 5 June 2017 (please refer to the Announcements dated 21 April 2017 and 5 June 2017 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 "Information Management Rules" was formulated for standard operation.

As at 31 December 2017, market value of Company H shares was HK$1,380,000,000. For details about categories of shareholders and their shareholdings, please refer to section 6 (2) 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.

According to the requirement of Rule C. 1.3 of Corporate Governance Code, all of the directors have their responsibility for preparing the accounts.

The Company observes the Listing Rules strictly and uses all the principles listed in the rules as its policies on corporate governance. In terms of corporate governance, the Board of Directors shall assume the following responsibilities:

(1) Develop and review the Company's policies and practices on corporate governance and make recommendations to the Board;

(2) Review and monitor the training and continuous professional development of directors and senior management;

(3) Review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;

(4) Develop, review and monitor the code of conduct and compliance code applicable to employees and directors;

(5) Review the Company's compliance with the code.

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. Zhang Luyang, Mr. Jin Wenhong and Mr. Qian Fengsheng 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 insiders (including the Company's directors, supervisors, senior management and controlling shareholders, de facto controllers as well as connected parties, as defined in the Listing Rules) stating that purchase and sales of shares of the Company shall comply with relevant regulations and forbidding the insider to purchase or sell the shares with inside information: no transactions of the company securities shall be carried out during the price-sensitive time within two months prior to results report. All directors have confirmed that they and the connected person did not carry out transactions of company securities during the 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. Diversification policy of the Board of Directors

The Board of Directors adopted the diversification policy of its members in the reporting period and aimed to list it as the policy adopted to achieve member diversification of the Board of Directors. The Company acknowledges and believes the benefits brought by member diversification of the Board of Directors and is devoted to ensuring that the directors should possess the appropriate skills, experience and diversification perspective required by the business of the Company. All appointments of directors should follow the principle of designating persons with both ability and political integrity and fully consider the benefits brought by member diversification of the Board of Directors. The screening of personnel will adopt a series of diversified categories as criteria, including, but not limited to: business experience, professional skills and other experience, race, international background, gender and age, compliance with supervision regulations; interest conflicts that may be involved, and contributions that can be made to the Board of Directors.

5. Board of Directors

As of the announcement of this Annual Report, the 8th session of the Board of Directors comprises 8 directors, including 5 directors, namely Mr. Liu Daoqi, Mr. Bai Haibo, Mr. Li Rui, Mr. Song Xiang and Mr. Bao Zongbao and 3 independent directors namely Mr. Zhang Luyang, Mr. Jin Wenhong and Mr. Qian Fengsheng. The term of the Board of Directors will expire on 10 March 2019.

The Company has set up Audit Committee, Strategic Development Committee, Remuneration Committee, Nomination Committee and Investment Management Committee pursuant to 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 and General Manager

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. The Chairman shall convene meetings of the Board of Directors, make sure that the behavior of Board of Directors is in line with the best interests of the Company, and ensure effective operation and responsibility fulfillment of the Board of Directors. Meanwhile, the Chairman shall consider all the matters presented by the other directors so as to list them in the meeting agenda of the Board of Directors.

The General Manager is responsible for routine business management and business performance of the Company.

Mr. Liu Daoqi is the Chairman of the Company; Mr. Li Rui is the General Manager of the Company.

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 2017 totaled RMB 2,745,000.00 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).

6. Meeting of the Board of Directors

During the reporting period, a total of 9 regular board meetings were held, with full attendance by all directors or their proxies on their behalf:

(1) The 10th meeting of the 8th Board of Directors was held on 2 January 2017 for consideration and approval of Proposal of Additional issuance of H-shares by Northeast Electric Development Company Limited, Proposal of Convening the First Extraordinary General Meeting and the Class Meeting of the Shareholders in 2017.

(2) The 11th meeting of the 8th Board of Directors was held on 27 March 2017 for consideration and approval of 2016 Annual Report, Proposal of 2016 Profit Distribution, Work Report of the Board of Directors For the Year 2016 (Including Report of the Independent Directors), 2016 Work Report of General Manager, Internal Control Self-assessment Report, Proposal of Making Provisions for the Impairment of Assets, Proposal of Amending the Rules of Procedures of Shareholders'General Meeting, Proposal of Convening 2016 General Meeting of Shareholders.

(3) The 12th meeting of the 8th Board of Directors was held on 5 April 2017 for consideration and approval of Proposal of Additional issuance of H-shares by Northeast, Proposal of Convening the Second Extraordinary General Meeting and the Class Meeting of the Shareholders in 2017.

(4) The 13th meeting of the 8th Board of Directors was held on 27 April 2017 for consideration and approval of First Quarter Results Report of 2017 (unaudited), Proposal of Adding Directors.

(5) The 14th meeting of the 8th Board of Directors was held on 18 May 2017 for consideration and approval of Proposal of Electing the Chairman, Proposal of Electing the Chairman, Proposal of Adding Candidates for Directors, Proposal of Adding Candidates for Shareholder Representative Supervisors.

(6) The 15th meeting of the 8th Board of Directors was held on 25 August 2017 for consideration and approval of Interim Report for 2017 and Its Summary, Profit Distribution Plan for the Half Year Ended 30 June 2017

(7) The 16th meeting of the 8th Board of Directors was held on 17 September 2017 for consideration and approval of such proposals as Proposal on the Company's Significant Asset Sale, Proposal on Report of the Company's Significant Asset Sale (Draft) and its Summary, Proposal on Signing Equity Transfer Agreement and Other Agreements with the Counterparties of the Transaction, Proposal on Conducting Audit or Assessment on Reports Relating to the Company's Significant Asset Sale, Proposal on the Property Acquisition and Authorization of the Signing of Office Building Sale and Purchase Contract.

(8) The 17th meeting of the 8th Board of Directors was held on 30 October 2017 for consideration and approval of Text of 2017 Third Quarterly Report, Proposal on the Renewal of Engagement of Huarui Certified Public Accountants (Special General Partnership) as the Auditor for the Year.

(9) The 18th meeting of the 8th Board of Directors was held on 20 December 2017 for consideration and approval of Proposal of Electing Vice Chairman, Proposal on Signing Financial Service Agreement with HNA Group Finance Limited and the Connected Transaction.

7. 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. Liu Daoqi, while other members include Mr. Li Rui, Mr. Bai Haibo, and Mr. Jin Wenhong. In 2017, the committee convened one committee meeting, which was attended by all members of the committee.

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, to review regularly the framework, membership and work of the board of directors. As of the date of this report, the chief member of the Committee is Mr. Liu Daoqi, while other members include Mr. Zhang Luyang and Mr. Qian Fengsheng. During the year, the committee convened two committee meetings, and all of its members attended.

9. 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. As of the date of this report, the committee convened one committee meetings all of which were attended by all members. Chief member of the Committee is Mr. Jin Wenhong, while other members include, Mr. Bai Haibo, Mr. Zhang Luyang and Mr. Qian Fengsheng.

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 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 2017 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 2017 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.

10. 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. As of the date of this report, Chief member of the Committee is Mr.Zhang Luyang, while other members include Mr. Jin Wenhong, Mr. Qian Fengsheng and Mr. Bao Zongbao.

The committee convenes four meetings a year at least. Together with the management, it shall review the accounting principles, internal control systems and other financial affairs to ensure the integrity, justice and accuracy of the Financial statements and other related materials. In 2017, 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. Especially in the annual report audit period, the Audit Committee deeply communicated with the audit institution, including discussion about key audit matters, continuous operation problem, and other important events or transactions that occurred in the period.

The audit committee, in accordance with the relevant provisions of listing rules and 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 2017 and establishing audit procedure of the 2017 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 2017 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.

In addition, the Audit Committee reviewed and approved the audited financial accounts and results announcement of 2017 in the board meeting of the Company on 29 March 2018.

11. 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. Liu Daoqi, while other members include Mr. Bai Haibo, Mr. Li Rui, Mr. Song Xiang, and Mr. Qian Fengsheng. In 2017, the committee convened three committee meetings, which were attended by all members of the committee.

12. Remunerations of Auditors

Considered and approved through the first extraordinary general meeting of 2018 convened on 20 March, 2018, the Company renewed the appointment of Ruihua CPAs (special general partner) as the auditor of the Company for the year 2017, with total remuneration of RMB900,000. The Company also appointed Ruihua CPAs (special general partner) as the internal control auditing firm with the service fee of RMB200 thousand (which has been included into the remuneration for domestic CPAs).

This year, due to the substantial asset reorganization, the Company employed Haitong Securities Co., Ltd as the independent financial advisor with the service fee of RMB1.6 million. As the substantial asset reorganization has not been completed, the financial advisor service fee was not paid in the reporting period.

13. 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 Information Management Rules, 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.

During the year, the Supervisory Committee reviewed the Company's financial status and corporate operation pursuant to law and senior management's discharge of duties. According to the principle of honesty, the committee members carried out their work proactively. During the reporting period, the supervisory committee has convened five meetings with full attendance, details of which are as follows:

1. The 5th meeting of the 8th Supervisory Committee was held on 27 March 2017 for consideration and approval of Proposal of Making Provisions for the Impairment of Assets, Work Report of the Board of Supervisors for 2016, Annual Performance Report of 2016, Internal Control Self-assessment Report, The Company's External Guarantee, Description of Fund Occupation of Connected Parties of the Company.

2. The 6th meeting of the 8th Supervisory Committee was held on 27 April 2017 for consideration and approval of Report on the Performance in the First Quarter of 2017 (unaudited).

3. The 7th meeting of the 8th Supervisory Committee was held on 25 August 2017 for consideration and approval of Interim Report of 2017 and Its Summary

4. The 8th meeting of the 8th Supervisory Committee was held on 17 September 2017 consideration and approval of Proposal on the Company's Significant Asset Sale, Proposal on Report of the Company's Significant Asset Sale (Draft) and its Summary, Proposal on Signing Equity Transfer Agreement and Other Agreements with the Counterparties of the Transaction, Proposal on Conducting Audit or Assessment on Reports Relating to the Company's Significant Asset Sale.

5. The 9th meeting of the 8th Supervisory Committee was held on 30 October 2017 for consideration and approval of Text of 2017 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 and the consideration of 2017 Financial Report

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 2017 financial report truly reflected 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 reflected the Company's financial status and operating results in 2017.

3. Asset acquisitions and disposals

The external investment, equity acquisition, and asset acquisition and sale matters of the Company in the reporting period were all prepared based on the general commercial terms and according to the normal way, and the pricing terms are fair and reasonable; the supervisory committee agrees with the resolution of the Board of Directors; all the transactions are fair and reasonable to all the shareholders and do not damage the legitimate interests of minority shareholders.

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

According to related regulations of the Internal Control Guidance for Listed Companies, the Board of Supervisors of the Company published the following opinions on internal control of the Company:

(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.

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

6. **The insider management rules established by the Company**

During the reporting period, in strict accordance with the Information Management 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 (all of the guarantees were provided before 2004, i.e., the Company did not provide any new guarantee for any external party during the year), representing 27.26% of the audited net assets of the Company for 2017. 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. **Audit opinion on non-business capital occupied by controlling shareholders and their connected parties**

(1) As of the end of the reporting period, the controlling shareholder and its affiliates did not occupy any non-business capital of the listed company.

(2) As of the end of 2017, the non-business capital flow of RMB14.49 million should be payable from Dison Silink New Energy Investment Co., Ltd. ("Dison Silink"), an affiliate. When the capital transaction was made, it was a business transaction and became a non-business capital transaction upon the termination of the project. However, when the affiliation was established on 27 November 2017, it became a non-business capital transaction among other affiliates passively. The management of the Company has developed a comprehensive plan and is taking active measures to recover the amount.

Supervisory Committee will continue to follow the Company's capital transactions with substantial shareholders and other affiliates and urge the Company to further prevent and control risks to protect shareholders' interests.

9. Opinions on the Provisions for Asset Impairment and Estimated Liabilities from the Supervisory Committee

According to the related provisions of the Company Law, Articles of Association, and the Guidelines of the Shenzhen Stock Exchange for Standardized Operation of Companies Listed on the Main Board issued by Shenzhen Stock Exchange, the Supervisory Committee published the following independent opinions on the Company's provision for impairment of assets and contingent liability:

Based on the principle of prudence, the Company reserved RMB41,162,162.30 for provision for asset impairment, contingent liability RMB37,745,190, totaling RMB78,907,352.30. In our opinion, the matter complies with the related provisions of the Accounting Standards for Business Enterprises and the Company's accounting policies and accounting estimates, the provision basis and reason are reasonable and sufficient and comply with the actual situation of the Company, and the amount reserved for the provision for impairment of assets and contingent liability fully takes into account the market factors, the possible indemnity arising from pending litigation, and reflects the Company's assets, liability and financial status fairly.

In conclusion, the Supervisory Committee approved the accounting treatment on the Company's provision for impairment of assets and contingent liability.

10. Supervisory Committee's opinions on the Changes in accounting policy

The Company would like to approve changes in accounting policies according to related rules and requirements of Ministry of Finance, as well as the relate regulations of Ministry of Finance, CSRC and securities exchanges, and is able to present the financial position and operating results of the Company in a more objective and fair manner, and satisfy the interests of the Company and all shareholders; the resolution procedures on the changes in accounting policies are in accordance with related rules and regulations and those of the Articles of Association.

11. The Audit Opinions of the Supervisory Committee on Detailed Explanation Given by the Board of Directors on Matters Relating to the Audit Opinion

The Supervisory Committee of the Company believes that: the Company engages Ruihua Certified Public Accountants (Special General Partnership) as the auditor of the Company for the year of 2017. The audit report issued by Ruihua Certified Public Accountants (Special General Partnership) truthfully, accurately and fairly reflects in all material aspects the financial conditions and operation results of the Company in the year of 2017, and indicates the major uncertainties regarding the Company as an on-going concern, however without any effect the published audit opinions. The Supervisory Committee agrees to the Detailed Explanation Given by the Board of Directors on Matters Relating to the Audit Opinion, and the Supervisory Committee will continue to pay attention to and procure the Board of Directors and the management to take effective actions to promote the capabilities of the Company as an on-going concern and protect the Company and all investors.

By order of the Supervisory Committee
Wang Jun
Supervisor
29 March 2018

(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 the actual operating situation. Report of Corporate Internal control for 2017 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 as of 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: No

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: 29 March 2018

3. Disclosure index of the full self-assessment report on internal control: For details, please refer to the 2017 Self-assessment Report of Internal Control disclosed on 29 March 2018.

(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 Information 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 Jiangsu Bureau and Shenzhen Stock Exchange for fling, 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.

瑞华会计师事务所
Ruihua
Certified Public Accountants

Ruihua Certified Public Accountants

Postal Address: 5-11/F, West Tower of China Overseas Property Plaza, Building 7, NO.8, Yongdingmen Xibinhe Road, Dongcheng District, Beijing

Post Code: 100077

Tel: +86(10)88095588 Fax: +86(10)88091199

Independent Auditors' Report

Ruihua Shen Zi [2018] No. 48190014

To the Shareholders of Northeast Electric Company Limited

I. Opinion

We have audited the accompanying Financial Statements of Northeast Electric Development Company Limited ("the Company"), which comprise the consolidated and Company Balance Sheet as of 31 December 2017, the Consolidated and Company Income Statement, the Consolidated and Company Cash Flows Statement and the Consolidated and Company Statements of Changes in Equity for the year then ended, and Notes to the Financial Statements.

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 2017 and the consolidated and company results of operations and cash flows for the year ended 31 December 2017.

II. Basis of Forming the Opinion

We conducted our audit in accordance with the Chinese Certified Public Accountant Auditing Standards. The section "Auditors' Responsibility for the Financial Statements" in the audit report further describes our responsibilities in accordance with these standards. According to the Code of Ethics for Chinese Certified Public Accountants, we are independent of the Company and fulfilled other responsibilities of code of ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

III. Material uncertainties relating to business continuous operating

We would like to emphasize to the Report readers that the Company has net loss of RMB398,155,971.11 in year 2017, as stated in Note II.2, and total liabilities were RMB194,641,017.71 more than total assets, current liabilities were RMB237,012,818.13 more than current assets, total equity attributable to parent company amounted to RMB-198,631,842.02. In the meantime, pending aggregate compensation by rulings has amounted to RMB272 million. These issues/items might cause material uncertainties as to the continuous operating of the Company. Such issues do not affect the Opinion.

IV. Key Auditing Items

Key audit items are the items which we believe, based on our professional judgment, to be significant in the audit of financial statements for the current period. Audit response to these items has been designed and implemented in the context of auditing the financial statements as a whole for the purpose of expressing an audit opinion on the financial statements; and we do not express an opinion on each of these items individually. We believe that the following items are the key audit items which warrant disclosure in the audit report.

1. Recognition and measurements of equity investments impairment loss

1.1 Description

As disclosed in Note X.1 in Notes to the Financial Statements, the first controlling shareholder of the Company has changed – part of the shares were to be sold. The management has conducted tests on relative equity investments with signs of impairment. Provisions have been accrued by the Company on differences between retrievable investments and carrying amounts, which retrievable investments were calculated as the net amounts from Fair value of investments minus disposing expenses. During this reporting period, recognized saleable impairment losses of financial assets were RMB23,313,895.54, as stated in Note VI.8; while recognized impairment losses of long term equity investments amounted to RMB1,034,434.39, as stated in VI.9.

1.2 Audit Response

Auditing procedures on the Company's impairment losses of equity investment include but not limited:

1.2.1 We obtained and reviewed information on which the Management of the Company formed their conclusions of impairment losses, and considered relevance and completeness of such conclusions.

1.2.2 Obtained and reviewed accuracy of information on which the Management predicted retrievable investments by the Management.

1.2.3 Assessed financial situations, technologies and market shares of the invested part(ies) on saleable financial instruments measured by costs.

1.2.4 Also we have assessed objectivity and professional competences of external evaluating institutions, and discussed methods of evaluation with experts of evaluation.

1.2.5 Regarding basis and conclusions of provisions for impairment losses, we have discussed with the Management and Operating management team.

1.2.6 We examined relevant disposure and reporting on the Financial Statements.

2. Lawsuits

2.1 Description

As stated in Notes VI.26(4) and Note XIV.1(1), the Company's aggregate compensation pending ruling amounted to RMB37,745,200, and aggregate compensation by rulings reached RMB272,627,700.

Lawsuits pending ruling include State-owned Assets Supervisory Committee of Shenyang City Tiexi District vs. Northeast Electric, Shenyang High-voltage Switches Co. Ltd. ("Shenyang High-Volt" hereafter), and New Northeast (Shenyang) High Voltage Switches Co. Ltd on disputes of employees settlement in the Intermediate Court of Shenyang City, claiming the plaintiffs for compensation of settlements, relevant interests and penalties totaling RMB37,745,200. The Case is still pending trial.

Lawsuits with ruling is: China Development Bank ("CDB") vs. Shenyang High-Voltage Switches Co. Ltd., Northeast Electric Development Co. Ltd. on disputes of Loan Agreements, rights of revocation. Shenyang High Voltage borrowed from China Development Bank a total of RMB163 million in August 1998 and May 2003 separately, outstanding balance was RMB150 million up to May 2004. There have been a series of transfers of Creditors' rights and swaps of equities between Northeast Electric and Shenyang High Voltage in 2004. CDB has filed a lawsuit against "Shenyang High-voltage" to Beijing Higher People's Court (hereinafter referred as "Beijing High Court") in May 2004, demanding the plaintiff to repay overdue loan principal of RMB150 million and the interest entailed, and at the same time for the Company and other relating parties to undertake joint liability to the aforesaid debts. The case was trial in Higher Court of Beijing City and Supreme Court consequently. Supreme Court has reached ultimate ruling (Ruling No.(2008)Min Er Zhong Zi 23) in September 2008 for the Company to return all equities by the aforesaid share transfers and swaps, or compensate Shenyang High Voltage's loss if unable to return. The Company has carried out the Ruling accordingly. CDB filed for execution of this Ruling to Higher Court of Beijing City, consequently the Court froze 10% of Shenyang High-Voltage's shares held by the Company, which the Company. The Company appealed such execution, and therefore the case went through re-trials until in August 2017, by Ruling No. (2017) Zui Gao Fa Zhi Fu 27, appeal for retrial by the Company was dismissed, Execution Ruling by the Higher Court of Beijing of (2015) Gao Zhi Yi Zi 52 was sustained. As a result the Company entailed liability of compensation amounting to RMB272,627,700.

This case is listed as Key Auditing Item due to its significant amount, and judgements and evaluations needed from the Management.

2.2 Audit Response

Auditing procedures regarding the above-mentioned Lawsuit items include:

2.2.1 We obtained relevant Indictments, Civil Judgements and Rulings, looked up disposure of relevant information.

2.2.2 Inquired operating status of part(ies) involved in the cases.

2.2.3 Discussed details with the Management; issued letters to the Legal Consultant of the Company and obtaining relevant legal opinions, made sure that such opinions include all necessary descriptions of the cases, and professional judgements on the possible outcome and potential risks.

2.2.4 Examined reporting and disposure of the aforesaid significant information.

3. Impairments of Accounts Receivable

3.1 Description

The Company reported balance of Accounts Receivable as of 31 December 2017 to be RMB124,257,717.54, with provisions for bad debts of RMB48,003,948.86 in Note VI.3. Provisions for bad debts require significant judgement and evaluation by the Management, therefore impairment of Accounts Receivable has been listed as Key Auditing Item.

3.2 Audit Response

Main auditing procedures regarding impairments of Accounts Receivable include:

3.2.1 We tested Internal control of management of AR accounts and evaluation of retrievability by end of the period.

3.2.2 We mail-verificated balances of AR of significant amounts, and checked the relevant results with book values of such accounts.

3.2.3 Examined ages of AR accounts for those provisioned on risk characteristics, checked accuracy of all relevant provisioned amounts.

3.2.4 Checked whether reasonable that the Management made evaluation of future cash flows, by inquiring via public information of debtors' status of operating, examining records of amounts collected and relevant proofs.

3.2.5 Examined whether reasonable the Management's decisions on provisions with amounts collected.

V. Other Information

The management of the Company is responsible for other information, which includes the information contained in the Company's 2017 annual report except for the financial statements and our auditor report.

Our audit opinion on the financial statements does not cover other information, and we do not express assurance opinion in any form on the other information.

In parallel to our audit of the financial statements, our responsibilities include reading other information and to assess if the information included in other information is significantly inconsistent with the financial statements or information obtained during the audit, and if there is possible material misstatement in other information.

Where we identify material misstatement in other information on the basis of our work, we shall report such fact. Based on our work, we have no such matter to be reported.

VI. Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management of the Company is responsible for preparing and presenting the financial statements in accordance with Enterprise Accounting Standards of China and for the purpose of fair presentation and designing, implementing and maintaining internal control necessary to the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

During the preparation of the financial statements, the management is responsible for assessing the Company's going-concern capability; disclosing, where applicable, matters in relation to the going-concern status; and applying the going-concern assumption for preparation of the financial statements, unless the management plans to liquidate the Company, terminates operation of the Company or has no other practical alternative choice.

Those charged with governance are responsible for monitoring the Company's financial reporting process.

VII. Auditors' Responsibility for the Financial Statements

Our objective is to obtain reasonable assurance as to whether the financial statements are free from material misstatement, whether due to frauds or errors, and issue an audit report with audit opinion. Reasonable assurance is a high level assurance, but there is no guarantee that a material misstatement will always be found in the audit performed in accordance with the auditing standards. Misstatements may be caused by fraud or error. Misstatements are considered to be material if they, individually or in aggregate, could reasonably be expected to influence the economic decisions of users based on the financial statements.

During the performance of our audit in accordance with the auditing standards, we use professional judgment and maintain professional skepticism. We also perform the following procedures:

A. Identify and assess the risks of material misstatement of the financial statements due to fraud and error, design and implement audit procedures to address these risks, and obtain sufficient and appropriate audit evidence as a basis for forming the audit opinion. As fraud may involve collusion, forgery, willful omission, misrepresentation or override of internal control, the risk of not discovering a material misstatement due to fraud is higher than the risk of failing to detect a material misstatement resulting from a mistake.

B. Understand the internal controls related to auditing in order to design appropriate audit procedures.

C. Evaluate the appropriateness of accounting policies adopted by the management and the reasonableness of accounting estimates and relevant disclosures made by management.

D. Conclude on the appropriateness of management’s application of the going concern assumption. Meanwhile, based on the audit evidence obtained, conclude whether there is material uncertainty about the Company’s ability to continue as a going-concern. If we conclude that there is material uncertainty, the auditing standards require us to draw attention of the users of the financial statements to the relevant disclosures in the financial statements. If the disclosure is inadequate, we shall express a qualified opinion. Our conclusion is based on information available as of the date of the audit report. However, future events or circumstances may cause the Company not being able to continue as a going-concern.

E. Evaluate the overall presentation, structure and content of financial statements (including disclosure), and evaluate whether the financial statements present fairly the relevant transactions and events.

F. Obtain sufficient and appropriate audit evidence regarding to the Company’s financial information of the entities or business activities in order to express opinion on the financial statements. We are responsible for the guidance, supervision and execution of the group audit. We take full responsibility for the audit opinion.

We communicate with those charged with governance on the scope and time schedule of the audit, and significant audit findings, etc., including deficiency of internal control that we identified during the audit which warrants attention.

We also provide a statement to those charged with governance regarding the fact that we comply with the requirements of professional ethics relating to independence, and also communicate with them about all relationships and other matters that may be reasonably deemed to affect our independence, as well as, where applicable, the relevant precautions.

Through the matters we communicate with those charged with governance, we identify matters that are significant in the audit of the financial statements for the current period, which therefore become the key audit items. We disclose these items in the audit report, unless public disclosure of such items is prohibited by laws and regulations; in exceptional circumstances, where the benefit arising from public disclosure of certain matters is outweighed by the negative consequence brought by such disclosure in consideration of public interest, we do not disclosure such items in the audit report.

Ruihua Certified Public Accountants	Certified Public Accountants Renzhi, Liu
Beijing. China	Certified Public Accountants Zihua, Xin

29 March 2018

31 December 2017

Prepared by: Northeast Electric Development Co., Ltd.

Unit: RMB

Item	**Note VI**	**31 December 2017**	**31 December 2016**
Current assets:			
Monetary funds	1	45,175,761.77	27,600,371.44
Financial assets measured by fair value with changes in fair value recognised in profit or loss			
Derivative financial assets			
Notes receivable	2	15,878,744.00	2,618,650.00
Accounts receivable	3	76,253,768.68	136,074,792.34
Advances to suppliers	4	1,878,311.93	543,352.21
Interests receivable			
Dividends receivable			
Other receivables	5	3,123,072.43	71,024,930.24
Inventories	6	11,533,044.52	14,991,583.86
Held-for-sale assets			
Non-current assets due within one year			
Other current assets	7	3,696,251.15	2,410,131.45
Total current assets		**157,538,954.48**	**255,263,811.54**

31 December 2017

Prepared by: Northeast Electric Development Co., Ltd.

Unit: RMB

Item	Note VI	31 December 2017	31 December 2016
Non-current assets:			
Available-for-sale financial assets	8	31,760,858.70	55,074,754.24
Held-to-maturity investments			
Long-term receivables			
Long-term equity investments	9	19,463,641.61	25,000,000.00
Investment properties			
Fixed assets	10	35,705,865.32	41,844,623.66
Construction in progress	11	42,553,751.05	6,415,346.77
Materials held for construction			
Disposal of fixed assets	12	629,668.46	629,668.46
Biological assets held for production			
Oil and gas assets			
Intangible assets	13	16,664,015.40	17,063,511.60
Development expenditure			
Goodwill	14	72,097.15	72,097.15
Deferred charges	15	1,545,177.16	466,515.79
Deferred tax assets	16		
Other non-current assets	17	302,881.71	
Total non-current assets		**148,697,956.56**	**146,566,517.67**
Total asset		**306,236,911.04**	**401,830,329.21**

31 December 2017

Prepared by: Northeast Electric Development Co., Ltd.

Unit: RMB

Item	**Note VI**	**31 December 2017**	**31 December 2016**
Current liabilities:			
Short-term borrowings	18		29,000,000.00
Financial liabilities measured by fair value with changes in fair value recognised in profit or loss			
Derivative financial liabilities			
Notes payable	19	40,000.00	1,845,000.00
Accounts payable	20	21,501,715.83	34,672,564.45
Advances from customers	21	4,185,139.12	7,654,564.12
Employment benefits payable	22	3,022,542.03	3,199,858.76
Taxes and fees payable	23	341,620.35	794,793.64
Interests payable			42,777.77
Dividends payable		40,017.86	40,017.86
Other payables	24	365,420,737.42	45,371,142.65
Held-for-sale liabilities			
Non-current liabilities due within one year			
Other current liabilities			
Total current liabilities		**394,551,772.61**	**122,620,719.25**
Non-current liabilities:			
Long-term borrowings			
Debt instruments payable			
Including: Preferred shares			
Sustainable debts			
Long-term payables			
Long-term employee benefits payable			
Designated payables	25	30,965,484.89	10,609,500.00
Provisions	26	75,360,671.25	60,721,078.25

31 December 2017

Prepared by: Northeast Electric Development Co., Ltd.

Unit: RMB

Item	Note VI	31 December 2017	31 December 2016
Deferred income			
Deferred tax liabilities			
Other non-current liabilities			
Total non-current liabilities		**106,326,156.14**	**71,330,578.25**
Total liabilities		**500,877,928.75**	**193,951,297.50**
Shareholders' equity			
Share capital	28	873,370,000.00	873,370,000.00
Other equity instruments			
Including: Preferred shares			
Sustainable debts			
Capital reserves	29	883,422,403.92	883,422,403.92
Less: Treasury shares			
Other comprehensive income	30	-29,869,066.75	-25,504,988.44
Designated reserves			
Surplus reserves	31	108,587,124.40	108,587,124.40
Provision for General risks			
Retained earnings	32	-2,034,142,303.59	-1,637,084,660.40
Equity attributable to shareholders of the Parent		**-198,631,842.02**	**202,789,879.48**
Minority interests		**3,990,824.31**	**5,089,152.23**
Total shareholders' equity		**-194,641,017.71**	**207,879,031.71**
Total liabilities and shareholders' equity		**306,236,911.04**	**401,830,329.21**

Legal Representative: Su Jianghua Chief Financial Officer: Xiao Xun
Chief Accounting Officer: Qian Kouming

Year 2017

Prepared by: Northeast Electric Development Co., Ltd.

Unit: RMB

Item	Note VI	2017	2016
Total revenue		**32,985,857.66**	**63,514,424.29**
Including: Revenue from operation	33	32,985,857.66	63,514,424.29
Total operating costs		**121,144,688.70**	**156,257,563.75**
Including: Cost for operation	33	25,969,499.69	53,950,131.49
Taxes and surcharges	34	1,335,946.97	1,132,929.81
Selling expenses	35	5,791,491.04	10,002,737.76
Administrative expenses	36	45,174,713.73	35,493,767.80
Financial costs	37	1,061,942.38	534,886.47
Loss on asset impairment	38	41,811,094.89	55,143,110.42
Add: Gain from changes in fair value (loss presented with "-" prefix)			
Investment income (loss presented with "-" prefix)	39	-9,396.59	427,114.97
Including: Investment income from associates and joint ventures		-9,396.59	-8,186.51
Gain on disposal of non-current assets (loss presented by "-" prefix)	40		-356,126.50
Other income and gain	41	50,000.00	
Profit from operation (loss presented with "-" prefex)		**-88,118,227.63**	**-92,672,150.99**
Add: Non-operating income	42	1,218,806.22	44,931.23
Including: Gain on scrapping of non-current assets			
Less: Non-operating expenses	43	311,092,729.89	4,436.53
Including: Loss on scrapping of non-current assets		177,333.23	3,015.56

Year 2017

Prepared by: Northeast Electric Development Co., Ltd.

Unit: RMB

Item	Note VI	2017	2016
Profit before taxation (loss presented with "-" prefix)		**-397,992,151.30**	**-92,631,656.29**
Less: Income tax expenses	44	163,819.81	6,956,896.84
Net profit (loss presented with "-" prefix)		**-398,155,971.11**	**-99,588,553.13**
A. Classified by business continuity			
1. Net profit from continued operations (loss presented with "-" prefix)		-398,155,971.11	-99,588,553.13
2. Net profit from discontinued operations (loss presented with "-" prefix)			
B. Classified by ownership			
1. Net profit attributable to minority interests (loss presented with "-" prefix)		-1,098,327.92	-94,799.02
2. Net profit attributable to shareholders of the Parent (loss presented with "-" prefix)		-397,057,643.19	-99,493,754.11
After-tax other comprehensive income		**-4,364,078.31**	**5,296,521.13**
After-tax other comprehensive income attributable to shareholders of the parent		-4,364,078.31	5,296,521.13
A. Other comprehensive income not reclassifiable to profit or loss in subsequent periods			
1. Remeasurement of net assets or net liabilities of defined benefit plans			
2. Share of other comprehensive income of investees measured by the equity method not reclassifiable to profit or loss			
B. Other comprehensive income reclassifiable to profit or loss in subsequent periods		-4,364,078.31	5,296,521.13
1. Share of other comprehensive income of investees measured by the equity method reclassifiable to profit or loss			
2. Gain or loss on changes in fair value of financial assets available for sale			
3. Gain or loss on reclassification of held-to-maturity investments to financial assets available for sale			

Year 2017

Prepared by: Northeast Electric Development Co., Ltd.

Unit: RMB

Item	Note VI	2017	2016
4. Effective elements of gain or loss of cash flow hedges			
5. Exchange difference on translation of foreign financial statements		-4,364,078.31	5,296,521.13
6. Others			
After-tax other comprehensive income attributable to minority interests			
Total comprehensive income		**-402,520,049.42**	**-94,292,032.00**
Total comprehensive income attributable to shareholders of the Parent		-401,421,721.50	-94,197,232.98
Total comprehensive income attributable to minority interests		-1,098,327.92	-94,799.02
Earning per share:			
A. Basic earning per share		-0.45	-0.11
B. Diluted earning per share		-0.45	-0.11

Legal Representative: Su Jianghua Chief Financial Officer: Xiao Xun
Chief Accounting Officer: Qian Kouming

for the Year ended 31 December 2017

Prepared by: Northeast Electric Development Co., Ltd.

Unit: RMB

Item	**Note VI**	**2017**	**2016**
Cash flows from operating activities			
Cash received for sales of goods and rendering of services		67,838,754.27	59,920,025.54
Tax refund received			
Other cash receipts relating to operating activities	45(1)	78,005,070.48	30,973,801.69
Cash inflows from operating activities		**145,843,824.75**	**90,893,827.23**
Cash payments for purchase of goods and services		34,077,326.85	41,045,693.61
Cash paid to or on behalf of employees		25,376,336.83	27,359,908.32
Taxes and fees paid		2,496,257.11	8,132,380.21
Other cash payments relating to operating activities	45(2)	37,932,086.51	44,247,327.94
Cash outflows for operating activities		**99,882,007.30**	**120,785,310.08**
Net cash flows from operating activities		**45,961,817.45**	**-29,891,482.85**
Cash flows from investing activities			
Cash received from investment withdrawal		–	90,800,000.00
Cash investment income received		–	367,369.30
Net cash received from disposal of fixed assets, intangible assets or other non-current assets		–	831,918.09
Net cash received from disposal of subsidiaries or other invested entities		–	
Other cash receipts relating to investing activities			
Cash inflows from investing activities		**–**	**91,999,287.39**
Cash paid for purchase or construction of fixed assets, intangibles assets or other non-current assets		17,344,848.24	13,472,160.24
Cash paid for investment			90,800,000.00
Net cash paid for acquisition of subsidiaries and other invested entities			2,450,917.47
Other cash payments relating to investing activities	45(3)	31,405,000.00	53,721,509.80
Cash outflows for investing activities		**48,749,848.24**	**160,444,587.51**

for the Year ended 31 December 2017

Prepared by: Northeast Electric Development Co., Ltd.

Unit: RMB

Item	**Note VI**	**2017**	**2016**
Net cash flows from investing activities		-48,749,848.24	-68,445,300.12
Cash flows from financing activities			
Cash received from investors			
Including: Cash received from minority shareholders of subsidiaries			
Cash received from loans raised		7,000,000.00	29,000,000.00
Cash received from debt instruments issued			
Other cash receipts relating to financing activities	45(4)	20,355,984.89	
Cash inflows from financing activities		**27,355,984.89**	**29,000,000.00**
Cash paid for debt repayment		36,000,000.00	9,000,000.00
Cash paid for dividends, profit distribution and interests		849,695.25	803,581.43
Including: Cash dividends and profit distribution paid to minority shareholers of subsidiaries			
Other cash payments relating to financing activities	45(5)	1,772,500.00	
Cash outflows for financing activities		**38,622,195.25**	**9,803,581.43**
Net cash flows from financing activities		**-11,266,210.36**	**19,196,418.57**
Impact of change of foreign exchange rates on cash and cash equivalents		**-26,227.29**	**26,268.92**
Net increase of cash and cash equivalents		**-14,080,468.44**	**-79,114,095.48**
Add: cash and cash equivalents brought forward		22,488,930.21	101,603,025.69
Cash and cash equivalents carried forward		**8,408,461.77**	**22,488,930.21**

Legal Representative: Su Jianghua Chief Financial Officer: Xiao Xun
Chief Accounting Officer: Qian Kouming

for the Year ended 31 December 2017

Prepared by: Northeast Electric Development Co., Ltd.

Unit: RMB

	2017												
	Equity attributable to shareholders of the Parent												
		Other equity instruments											
Item	Share capital	Preferred shares	Sustainable debts	Others	Capital reserves	Less: Treasury stock	Other comprehensive income	Designated reserves	Surplus reserves	Provision for general risks	Retained earnings	Minority interest	Total shareholders' equity
Balance brought forward	**873,370,000.00**	–	–	–	**883,422,403.92**	–	**-25,504,988.44**	–	**108,587,124.40**	–	**-1,637,084,660.40**	**5,089,152.23**	**207,879,031.71**
Add: Changes of accounting policies													
Correction of prior period errors													
Business combination under common control													
Others													
Balance as at 1 January	**873,370,000.00**				**883,422,403.92**		**-25,504,988.44**		**108,587,124.40**		**-1,637,084,660.40**	**5,089,152.23**	**207,879,031.71**
Changes for the period (decrease presented by "-" prefix)							**-4,364,078.31**				**-397,057,643.19**	**-1,098,327.92**	**-402,520,049.42**
1. Total comprehensive income							-4,364,078.31				-397,057,643.19	-1,098,327.92	-402,520,049.42
2. Changes in shareholders' contribution													
a. Capital contributed													
b. Contribution by holders of other equity instruments													
c. Share-based payments directly recognised in equity													
d. Others													

for the Year ended 31 December 2017

Prepared by: Northeast Electric Development Co., Ltd.

Unit: RMB

	2017												
	Equity attributable to shareholders of the Parent												
		Other equity instruments											
Item	Share capital	Preferred shares	Sustainable debts	Others	Capital reserves	Less: Treasury stock	Other comprehensive income	Designated reserves	Surplus reserves	Provision for general risks	Retained earnings	Minority interest	Total shareholders' equity
3. Profit distribution													
a. Recognition of surplus reserves													
b. Recognition of provision for general risks													
c. Distribution to shareholders													
d. Others													
4. Movements within equity													
a. Capital reserves transferred to share capital													
b. Surplus reserves transferred to share capital													
c. Loss set-off by surplus reserves													
d. Others													
5. Designated reserves													
a. Recognition during the current period													
b. Withdrawal during the current period													
6. Others													
Balance carried forward	**873,370,000.00**				**883,422,403.92**		**-29,869,066.75**		**108,587,124.40**		**-2,034,142,303.59**	**3,990,824.31**	**-194,641,017.71**

Legal Representative: Su Jianghua Chief Financial Officer: Xiao Xun Chief Accounting Officer: Qian Kouming

for the Year ended 31 December 2017

Prepared by: Northeast Electric Development Co., Ltd.

Unit: RMB

	2016												
	Equity attributable to shareholders of the Parent												
		Other equity instruments											
Item	Share capital	Preferred shares	Sustainable debts	Others	Capital reserves	Less: Treasury stock	Other comprehensive income	Designated reserves	Surplus reserves	Provision for general risks	Retained earnings	Minority interest	Total shareholders' equity
Balance brought forward	**873,370,000.00**				**883,422,403.92**		**-30,801,509.57**		**108,587,124.40**		**-1,537,590,906.29**	**353,221.07**	**297,340,333.53**
Add: Changes of accounting policies													
Correction of prior period errors													
Business combination under common control													
Others													
Balance as at 1 January	**873,370,000.00**				**883,422,403.92**		**-30,801,509.57**		**108,587,124.40**		**-1,537,590,906.29**	**353,221.07**	**297,340,333.53**
Changes for the period (decrease presented by "-" prefix)							**5,296,521.13**				**-99,493,754.11**	**4,735,931.16**	**-89,461,301.82**
1. Total comprehensive income							5,296,521.13				-99,493,754.11	-94,799.02	-94,292,032.00
2. Changes in shareholders' contribution												4,830,730.18	4,830,730.18
a. Capital contributed													
b. Contribution by holders of other equity instruments													
c. Share-based payments directly recognised in equity													
d. Others												4,830,730.18	4,830,730.18

for the Year ended 31 December 2017

Prepared by: Northeast Electric Development Co., Ltd.

Unit: RMB

	2016												
	Equity attributable to shareholders of the Parent												
		Other equity instruments											
Item	Share capital	Preferred shares	Sustainable debts	Others	Capital reserves	Less: Treasury stock	Other comprehensive income	Designated reserves	Surplus reserves	Provision for general risks	Retained earnings	Minority interest	Total shareholders' equity
3. Profit distribution													
a. Recognition of surplus reserves													
b. Recognition of provision for general risks													
c. Distribution to shareholders													
d. Others													
4. Movements within equity													
a. Capital reserves transferred to share capital													
b. Surplus reserves transferred to share capital													
c. Loss set-off by surplus reserves													
d. Others													
5. Designated reserves													
a. Recognition during the current period													
b. Withdrawal during the current period													
6. Others													
Balance carried forward	873,370,000.00				883,422,403.92		-25,504,988.44		108,587,124.40		-1,637,084,660.40	5,089,152.23	207,879,031.71

Legal Representative: Su Jianghua Chief Financial Officer: Xiao Xun Chief Accounting Officer: Qian Kouming

as of 31 December 2017

Prepared by: Northeast Electric Development Co., Ltd.

Unit: RMB

Item	**Note XV**	**31 December 2017**	**31 December 2016**
Current assets			
Monetary funds		20,119.58	49,760.27
Financial assets measured by fair value with changes in fair value recognised in profit or loss			
Derivative financial assets			
Notes receivable			
Accounts receivable	1	497,804.72	746,707.07
Advances to suppliers		1,668,168.36	
Interests receivable			
Dividends receivable			
Other receivables	2	270,790,205.23	307,399,040.24
Inventories			
Held-for-sale assets			
Non-current assets due within one year			
Other current assets		363,531.99	94,711.67
Total current assets		**273,339,829.88**	**308,290,219.25**

as of 31 December 2017

Prepared by: Northeast Electric Development Co., Ltd.

Unit: RMB

Item	Note XV	31 December 2017	31 December 2016
Non-current assets			
Available-for-sale financial assets			
Held-to-maturity investments			
Long-term receivables			
Long-term equity investments	3	56,436,473.03	106,919,936.99
Investment properties			
Fixed assets		46,373.60	47,828.87
Construction in progress			
Materials held for construction			
Disposal of fixed assets			
Biological assets held for production			
Oil and gas assets			
Intangible assets			
Development expenditure			
Goodwill			
Deferred charges		1,018,224.11	
Deferred tax assets			
Other non-current assets			
Total non-current assets		**57,501,070.74**	**106,967,765.86**
Total asset		**330,840,900.62**	**415,257,985.11**

Legal Representative: Su Jianghua Chief Financial Officer: Xiao Xun
Chief Accounting Officer: Qian Kouming

as of 31 December 2017

Prepared by: Northeast Electric Development Co., Ltd.

Unit: RMB

Item	Note XV	31 December 2017	31 December 2016
Current liabilities			
Short-term borrowings			20,000,000.00
Financial liabilities measured by fair value with changes in fair value recognised in profit or loss			
Derivative financial liabilities			
Notes payable			
Accounts payable			
Advances from customers		581,743.59	581,743.59
Employment benefits payable		908,719.52	161,013.22
Taxes and fees payable		27,037.06	97,119.68
Interests payable			42,777.77
Dividends payable			
Other payables		329,433,337.90	31,978,918.05
Held-for-sale liabilities			
Non-current liabilities due within one year			
Other current liabilities			
Total current liabilities		**330,950,838.07**	**52,861,572.31**
Non-current liabilities			
Long-term borrowings			
Debt instruments payable			
Including: Preferred shares			
Sustainable debts			
Long-term payables			
Long-term employee benefits payable			
Designated payables			
Provisions		75,360,671.25	60,721,078.25

as of 31 December 2017

Prepared by: Northeast Electric Development Co., Ltd.

Unit: RMB

Item	Note XV	31 December 2017	31 December 2016
Deferred income			
Deferred tax liabilities			
Other non-current liabilities			
Total non-current liabilities		**75,360,671.25**	**60,721,078.25**
Total liabilities		**406,311,509.32**	**113,582,650.56**
Shareholders' equity			
Share capital		873,370,000.00	873,370,000.00
Other equity instruments			
Including: Preferred shares			
Sustainable debts			
Capital reserves		995,721,167.46	995,721,167.46
Less: Treasury shares			
Other comprehensive income			
Designated reserves			
Surplus reserves		108,587,124.40	108,587,124.40
Provision for General risks			
Retained earnings		-2,053,148,900.56	-1,676,002,957.31
Total shareholders' equity		**-75,470,608.70**	**301,675,334.55**
Total liabilities and shareholders' equity		**330,840,900.62**	**415,257,985.11**

Legal Representative: Su Jianghua Chief Financial Officer: Xiao Xun
Chief Accounting Officer: Qian Kouming

for the Year ended 31 December 2017

Prepared by: Northeast Electric Development Co., Ltd.

Unit: RMB

Item	Note XV	2017	2016
Revenue from operation			
Less: Cost for operation			
Taxes and surcharges		1,662.30	8,538.42
Selling expenses			
Administrative expenses		15,375,551.17	8,284,388.22
Financial costs		655,240.86	319,840.71
Loss on asset impairment		50,740,598.92	515,469.93
Add: Gain from changes in fair value (loss presented with "-" prefix)			
Investment income (loss presented with "-" prefix)			
Including: Investment income from associates and joint ventures			
Gain on disposal of non-current assets (loss presented by "-" prefix)			
Other income and gain			
Profit from operation (loss presented with "-" prefex)		**-66,773,053.25**	**-9,128,237.28**
Add: Non-operating income			
Including: Gain on scrapping of non-current assets			
Less: Non-operating expenses		310,372,890.00	3,015.56
Including: Loss on scrapping of non-current assets			3,015.56

for the Year ended 31 December 2017

Prepared by: Northeast Electric Development Co., Ltd.

Unit: RMB

Item	Note XV	2017	2016
Profit before taxation (loss presented with "-" prefix)		**-377,145,943.25**	**-9,131,252.84**
Less: Income tax expenses			
Net profit (loss presented with "-" prefix)		**-377,145,943.25**	**-9,131,252.84**
A. Net profit from continued operations (loss presented with "-" prefix)		-377,145,943.25	-9,131,252.84
B. Net profit from discontinued operations (loss presented with "-" prefix)			
After-tax other comprehensive income			
A. Other comprehensive income not reclassifiable to profit or loss in subsequent periods			
1. Remeasurement of net assets or net liabilities of defined benefit plans			
2. Share of other comprehensive income of investees measured by the equity method not reclassifiable to profit or loss			
B. Other comprehensive income reclassifiable to profit or loss in subsequent periods			
1. Share of other comprehensive income of investees measured by the equity method reclassifiable to profit or loss			
2. Gain or loss on changes in fair value of financial assets available for sale			
3. Gain or loss on reclassification of held-to-maturity investments to financial assets available for sale			
4. Effective elements of gain or loss of cash flow hedges			
5. Exchange difference on translation of foreign financial statements			
6. Others			
Total comprehensive income		**-377,145,943.25**	**-9,131,252.84**

Legal Representative: Su Jianghua Chief Financial Officer: Xiao Xun
Chief Accounting Officer: Qian Kouming

for the Year ended 31 December 2017

Prepared by: Northeast Electric Development Co., Ltd.

Unit: RMB

Item	Note XV	2017	2016
Cash flows from operating activities			
Cash received for sales of goods and rendering of services			
Tax refund received			
Other cash receipts relating to operating activities		148,908,008.13	6,942,164.33
Cash inflows from operating activities		**148,908,008.13**	**6,942,164.33**
Cash payments for purchase of goods and services			
Cash paid to or on behalf of employees		4,198,407.96	4,221,651.58
Taxes and fees paid		7,350.90	17,178.97
Other cash payments relating to operating activities		119,559,906.85	17,234,381.38
Cash outflows for operating activities		**123,765,665.71**	**21,473,211.93**
Net cash flows from operating activities		**25,142,342.42**	**-14,531,047.60**
Cash flows from investing activities			
Cash received from investment withdrawal			
Cash investment income received			
Net cash received from disposal of fixed assets, intangible assets or other non-current assets			
Other cash receipts relating to investing activities			
Cash inflows from investing activities			
Cash paid for purchase or construction of fixed assets, intangibles assets or other non-current assets		1,525,872.00	48,016.94
Cash paid for investment			5,100,000.00
Other cash payments relating to investing activities		1.405,000.00	
Cash outflows for investing activities		**2,930,872.00**	**5,148,016.94**
Net cash flows from investing activities		**-2,930,872.00**	**-5,148,016.94**

for the Year ended 31 December 2017

Prepared by: Northeast Electric Development Co., Ltd.

Unit: RMB

Item	Note XV	2017	2016
Cash flows from financing activities			
Cash received from investors			
Cash received from loans raised			20,000,000.00
Cash received from debt instruments issued			
Other cash receipts relating to financing activities			
Cash inflows from financing activities			**20,000,000.00**
Cash paid for debt repayment		20,000,000.00	
Cash paid for dividends, profit distribution and interests		468,611.11	273,833.66
Other cash payments relating to financing activities		1,772,500.00	
Cash outflows for financing activities		**22,241,111.11**	**273,833.66**
Net cash flows from financing activities		**-22,241,111.11**	**19,726,166.34**
Impact of change of foreign exchange rates on cash and cash equivalents			
Net increase of cash and cash equivalents		**-29,640.69**	**47,101.80**
Add: cash and cash equivalents brought forward		49,760.27	2,658.47
Cash and cash equivalents carried forward		**20,119.58**	**49,760.27**

Legal Representative: Su Jianghua Chief Financial Officer: Xiao Xun
Chief Accounting Officer: Qian Kouming

for the Year ended 31 December 2017

Prepared by: Northeast Electric Development Co., Ltd.

Unit: RMB

Item	2017											
		Other equity instruments										
	Share capital	Preferred shares	Sustainable debts	Others	Capital reserves	Less: Treasury stock	Other comprehensive income	Designated reserves	Surplus reserves	Provision for general risks	Retained earnings	Total shareholders' equity
Balance brought forward	**873,370,000.00**				**995,721,167.46**				**108,587,124.40**		**-1,676,002,957.31**	**301,675,334.55**
Add: Changes of accounting policies												
Correction of prior period errors												
Others												
Balance as at 1 January	**873,370,000.00**				**995,721,167.46**				**108,587,124.40**		**-1,676,002,957.31**	**301,675,334.55**
Changes for the period (decrease presented by "-" prefix)											**-377,145,943.25**	**-377,145,943.25**
1. Total comprehensive income											-377,145,943.25	-377,145,943.25
2. Changes in shareholders' contribution												
a. Capital contributed												
b. Contribution by holders of other equity instruments												
c. Share-based payments directly recognised in equity												
d. Others												

for the Year ended 31 December 2017

Prepared by: Northeast Electric Development Co., Ltd.

Unit: RMB

Item	2017											
		Other equity instruments										
	Share capital	Preferred shares	Sustainable debts	Others	Capital reserves	Less: Treasury stock	Other comprehensive income	Designated reserves	Surplus reserves	Provision for general risks	Retained earnings	Total shareholders' equity
3. Profit distribution												
a. Recognition of surplus reserves												
b. Recognition of provision for general risks												
c. Distribution to shareholders												
d. Others												
4. Movements within equity												
a. Capital reserves transferred to share capital												
b. Surplus reserves transferred to share capital												
c. Loss set-off by surplus reserves												
d. Others												
5. Designated reserves												
a. Recognition during the current period												
b. Withdrawal during the current period												
6. Others												
Balance carried forward	**873,370,000.00**				**995,721,167.46**				**108,587,124.40**		**-2,053,148,900.56**	**-75,470,608.70**

Legal Representative: Su Jianghua Chief Financial Officer: Xiao Xun Chief Accounting Officer: Qian Kouming

for the Year ended 31 December 2017

Prepared by: Northeast Electric Development Co., Ltd.

Unit: RMB

	2016											
		Other equity instruments					Other					
						Less:	comprehensive			Provision		Total shareholders'
Item	Share capital	Preferred shares	Sustainable debts	Others	Capital reserves	Treasury stock	income	Designated reserves	Surplus reserves	for general risks	Retained earnings	equity
Balance brought forward	873,370,000.00				979,214,788.45				108,587,124.40		-1,666,871,704.47	294,300,208.38
Add: Changes of accounting policies												
Correction of prior period errors												
Others												
Balance as at 1 January	873,370,000.00				979,214,788.45				108,587,124.40		-1,666,871,704.47	294,300,208.38
Changes for the period (decrease presented by "-" prefix)					16,506,379.01						-9,131,252.84	7,375,126.17
1. Total comprehensive income											-9,131,252.84	-9,131,252.84
2. Changes in shareholders' contribution												
a. Capital contributed												
b. Contribution by holders of other equity instruments												
c. Share-based payments directly recognised in equity												
d. Others												

for the Year ended 31 December 2017

Prepared by: Northeast Electric Development Co., Ltd.

Unit: RMB

	2016											
		Other equity instruments										
Item	Share capital	Preferred shares	Sustainable debts	Others	Capital reserves	Less: Treasury stock	Other comprehensive income	Designated reserves	Surplus reserves	Provision for general risks	Retained earnings	Total shareholders' equity
3. Profit distribution												
a. Recognition of surplus reserves												
b. Recognition of provision for general risks												
c. Distribution to shareholders												
d. Others												
4. Movements within equity												
a. Capital reserves transferred to share capital												
b. Surplus reserves transferred to share capital												
c. Loss set-off by surplus reserves												
d. Others												
5. Designated reserves												
a. Recognition during the current period												
b. Withdrawal during the current period												
6. Others					16,506,379.01							16,506,379.01
Balance carried forward	873,370,000.00				995,721,167.46				108,587,124.40		-1,676,002,957.31	301,675,334.55

Legal Representative: Su Jianghua Chief Financial Officer: Xiao Xun Chief Accounting Officer: Qian Kouming

Northeast Electric Development Co., Ltd.
For the year ended 31 December 2017
(All amounts expressed in RMB unless otherwise specified)

Note 1: Company Profile

1.1 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 Commission 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.Unified Social Credit Code of the Company is: 91210000243437397T; Registered capital: RMB 873,370,000.00, Legal representative: Su Jiang Hua; Business address: 23/F., Block 4, 9 Taihu East Road, Xinbei District, Changzhou, Jiangsu Province.

1.2 Principal Industry

Electrical machinery and equipment manufacturing industry.

1.3 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.

1.4 Main products

Main products of the company are power capacitor, enclosed busbar and other system protection and transmission equipment.

Note 1: Company Profile *(Continued)*

1.5 First controlling shareholder of the Company

The first controlling shareholder of the Company is Beijing Haihong Investment Co., Ltd., while the ultimate shareholder is Cihang Charity Foundation of Hainan Province.

1.6 The financial statements are approved on March 29 in the 20th meeting of the 8th board of directors.

1.7 The results of 8 subsidiaries of the Company have been consolidated in the Financial Statements of Year 2017. Details please see Note 8 "Disclosures of equity in other entities". Changes of consolidation please see Note 7 "Change of Consolidation".

Note 2: Basics of preparation of financial statements

2.1 Basis of preparation of financial statements

The financial statements of the company have been prepared based on the actual transactions and events on a going concern basis 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 revision) " 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.

Note 2: Basics of preparation of financial statements ***(Continued)***

2.2 Major concern as to the Company's ability to operate continuously

Up to Dec. 31, 2017, the Company recorded total loss of RMB2,034,142,303.59, and total liabilities were RMB194,641,017.71 more than total assets, current liabilities were RMB237,012,818.13 more than current assets, total equity attributable to parent company amounted to –RMB198,631,842.02. In the meantime, pending aggregate compensation by rulings has amounted to RMB272 million. These are major items or uncertainties that might probably cause concerns in regards with the continuous operation ability of the Company, even cause the Company unable to liquidate its assets and repay debts. This report is prepared on the assumption that the Parent Company – Beijing Hongyuan Investments Management Co., Ltd agreed to provide all necessary financial support to the Company in the foreseeable future.

We have taken into consideration of future liquidity and funding sources of the Company while evaluating whether there are enough financial resources for its continuous operations.

We are taking the following steps to ensure continuous operations according to status quo of the Company:

2.3 Beijing Haihong Investment Co., Ltd – Parent Company of the Company has issued Letter of Commitment, undertaking to provide financial support including funds and guarantees to help with the Company's operating financial needs for 1 year since issuance date of the Letter.

2.4 To expedite the issuance of targeted additional H shares, improve structure of the capital, and its operating ability.

2.5 Shenzhen Stock Exchange and The Stock Exchange of HK Ltd. ("HKSE) have reviewed and approved of the sale of New Northeast Electric (Jinzhou) Power Capacitor Co. Ltd. – subsidiary of the Company, now being in the process of Circulating to the Approving shareholders of HKSE. We expect the sale the this subsidiary in 2018 could help with decreasing loss and increasing cash inflows.

2.6 To increase cash inflows and improve the Company's capital structure by spinning off low-efficient assets and equity investments with inactive operations, along with other non-operating assets.

2.7 To improve the profitability of the Company by joining in the construction of PV Power Station (EPC) by contract, mainly in the name of subsidiary – Northeast Electric (Chengdu) Power Engineering Design Co., Ltd. which has capacity of 30MW.

Note 2: Basics of preparation of financial statements *(Continued)*

2.8 To improve current non-diversified business mode, we plan to develop business combo of Smart-Communication Service for hotels + Hotel trips marketing on the platform of Shanghai Kaixin Internet Technology Development Co., Ltd. – subsidiary of the Company.

2.9 The Company keep on increasing standards for work, perfecting internal controls to be more operable and perfecting the operating framework, enhancing risk control measures to lower operating risks, ensuring realization of the Company's operating goals.

With the aforesaid measures, the Management of the Company deem it reasonable to prepare the financial statements on the assumption of continuous operations. The Board of Directors has conducted thorough evaluation of the Company's continuous operation ability by reviewing working capital forecasts in the following 12 months, and has reached the conclusion that the Company will be able to acquire enough funding resources to ensure working capital and expensing needs, therefore agreed with preparation of the financial statements on the basis of continuous operations.

Note 3: 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 revision) " issued by China Securities Regulatory Commission in relation to the disclosure requirements on financial statements and its accompanying notes.

Note 4: Significant accounting policies and accounting estimates

The Company and its subsidiaries have set up specific Accounting Policies and Accounting Estimates on accounting items such as Accounts Receivables, Inventories, Fixed Assets, Income according to actual characteristics of manufacturing and operations. Notes to this fact please refer to Note 6.31.

Note 4: Significant accounting policies and accounting estimates ***(Continued)***

4.1 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.

4.2 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.

4.3 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.

4.4 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.

Note 4: Significant accounting policies and accounting estimates *(Continued)*

4.4 Accounting treatment for business Combinations *(Continued)*

4.4.1 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.

4.4.2 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.

Note 4: Significant accounting policies and accounting estimates *(Continued)*

4.4 Accounting treatment for business Combinations *(Continued)*

4.4.2 Business combination not under common control

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 acquire 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.

Note 4: Significant accounting policies and accounting estimates *(Continued)*

4.4 Accounting treatment for business Combinations *(Continued)*

4.4.2 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) .

Note 4: Significant accounting policies and accounting estimates ***(Continued)***

4.5 Preparation method of consolidated financial statements

4.5.1 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.

4.5.2 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.

Note 4: Significant accounting policies and accounting estimates *(Continued)*

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

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

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.

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 6.8 "Financial instruments".

Note 4: Significant accounting policies and accounting estimates ***(Continued)***

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

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

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:

4.5.2.1 The transactions are entered into after considered the mutual consequences of each individual transaction;

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

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

4.5.2.4 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.

4.6 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.

Note 4: Significant accounting policies and accounting estimates *(Continued)*

4.7 Foreign currency translation

4.7.1 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.

4.7.2 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.

Note 4: Significant accounting policies and accounting estimates *(Continued)*

4.7 Foreign currency translation

4.7.3 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.

Note 4: Significant accounting policies and accounting estimates *(Continued)*

4.8 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.

4.8.1 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.

4.8.2 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.

4.8.2.1 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.

Note 4: Significant accounting policies and accounting estimates ***(Continued)***

4.8 Financial Instruments ***(Continued)***

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

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

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

The purpose of obtaining the financial asset is for selling such asset in the short term;

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;

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:

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

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.

Note 4: Significant accounting policies and accounting estimates *(Continued)*

4.8 Financial Instruments *(Continued)*

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

4.8.2.2 Held-to-maturity investments

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

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

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

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

4.8.2.3 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.

Note 4: Significant accounting policies and accounting estimates ***(Continued)***

4.8 Financial Instruments ***(Continued)***

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

4.8.2.4 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.

Note 4: Significant accounting policies and accounting estimates *(Continued)*

4.8 Financial Instruments *(Continued)*

4.8.3 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.

4.8.3.1 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.

Note 4: Significant accounting policies and accounting estimates *(Continued)*

4.8 Financial Instruments *(Continued)*

4.8.3 Impairment of financial assets

4.8.3.2 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.

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.

Note 4: Significant accounting policies and accounting estimates *(Continued)*

4.8 Financial Instruments *(Continued)*

4.8.4 Recognition and measurement on transfer of financial assets

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

4.8.4.1 The contractual right for receiving cash flows from the financial asset is terminated;

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

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

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

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

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

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

Note 4: Significant accounting policies and accounting estimates ***(Continued)***

4.8 Financial Instruments ***(Continued)***

4.8.5 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.

4.8.5.1 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.

4.8.5.2 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.

4.8.5.3 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>.

Note 4: Significant accounting policies and accounting estimates *(Continued)*

4.8 Financial Instruments *(Continued)*

4.8.6 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.

4.8.7 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.

4.8.8 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.

Note 4: Significant accounting policies and accounting estimates ***(Continued)***

4.8 Financial Instruments *(Continued)*

4.8.9 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.

4.9 Receivables

Receivables comprise accounts receivable and other receivables, etc.

4.9.1 Recognition standard of bad debt provision

Bad debt provision is accrued when evidence shows impairment on receivables during the Company's checkup of book values of receivables on balance sheet date:

4.9.1.1 Debtor (s) in serious financial situation;

4.9.1.2 Debtor (s) default (ie. Default on repayment of interest or principal or overdue) ;

4.9.1.3 Debtor (s) very likely go bankrupt or undergo reconstruction financially;

4.9.1.4 Other proof evidencing impairment on receivables.

Note 4: Significant accounting policies and accounting estimates *(Continued)*

4.9 Receivables

4.9.2 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.

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

A. 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)

B. 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

Note 4: Significant accounting policies and accounting estimates *(Continued)*

4.9 Receivables *(Continued)*

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

B. Methods of determining provision for bad debts by grouping are as follows: (Continued)

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 (inclusive, same as below)	–	–
1-2 years	–	–
2-3 years	40%	40%
3-4 years	60%	60%
Over 4 years	100%	100%

4.9.4 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.

Note 4: Significant accounting policies and accounting estimates *(Continued)*

4.9 Receivables *(Continued)*

4.9.5 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.

4.10 Inventories

4.10.1 Classifications of inventories

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

4.10.2 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.

4.10.3 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.

Note 4: Significant accounting policies and accounting estimates ***(Continued)***

4.10 Inventories ***(Continued)***

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

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.

4.10.4 The Company adopts the perpetual inventory system.

4.11 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.

Note 4: Significant accounting policies and accounting estimates ***(Continued)***

4.11 Long-term equity investments ***(Continued)***

4.11.1 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 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.

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

Note 4: Significant accounting policies and accounting estimates *(Continued)*

4.11 Long-term equity investments *(Continued)*

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

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>.

4.11.2 Methods for subsequent measurement and profit and loss recognition

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)

4.11.2.1 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.

Note 4: Significant accounting policies and accounting estimates *(Continued)*

4.11 Long-term equity investments *(Continued)*

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

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

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 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>.

Note 4: Significant accounting policies and accounting estimates ***(Continued)***

4.11 Long-term equity investments *(Continued)*

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

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

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.

4.11.2.3 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.

4.11.2.4 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.

Note 4: Significant accounting policies and accounting estimates *(Continued)*

4.11 Long-term equity investments *(Continued)*

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

4.11.2.4 Disposal of long-term equity investment (Continued)

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 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.

Note 4: Significant accounting policies and accounting estimates *(Continued)*

4.11 Long-term equity investments *(Continued)*

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

4.11.2.4 Disposal of long-term equity investment (Continued)

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.

4.12 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.

Note 4: Significant accounting policies and accounting estimates *(Continued)*

4.12 Joint venture arrangement classification and relative accounting methods

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

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.

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)

4.13 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".

Note 4: Significant accounting policies and accounting estimates *(Continued)*

4.13 Investment properties

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

4.14 Fixed assets

4.13.1 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:

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

4.13.1.2 the cost can be measured reliably

4.13.2 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:

Note 4: Significant accounting policies and accounting estimates *(Continued)*

4.14 Fixed assets *(Continued)*

4.13.2 Depreciation for different categories of fixed assets *(Continued)*

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

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.

4.13.3 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”.

4.13.4 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.

Note 4: Significant accounting policies and accounting estimates *(Continued)*

4.14 Fixed assets *(Continued)*

4.14.5 Other explanations

Subsequent expenditure relating to any fixed asset is taken as cost of such asset if there are probable economic interest inflow from it and its cost may be measured. Meanwhile the recognition of the replaced portion's book value is terminated. Other subsequent expenditure is taken into Profit & Loss of the period.

Fixed asset is ceased to be recognized when it's in the process of disposing, or no longer yields economic interest. Income resulting from disposal, such as sale, transfer, discard or damage, is taken into Profit & Loss of the period by deducting such income with its book value and relating taxes and expenses.

The Company reviews life, estimated scrap value and method of depreciation of Fixed Asset at least once by end of the year, any change in these issues are considered Changes to Accounting Estimates.

4.15 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".

4.16 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.

Note 4: Significant accounting policies and accounting estimates *(Continued)*

4.16 Borrowing costs *(Continued)*

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.

4.17 Intangible assets

4.17.1 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.

Note 4: Significant accounting policies and accounting estimates ***(Continued)***

4.17 Intangible assets *(Continued)*

4.17.1 Intangible assets *(Continued)*

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 an 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.

4.17.2 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:

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

4.17.2.2 management intends to complete the intangible asset, and to use or sell it;

Note 4: Significant accounting policies and accounting estimates *(Continued)*

4.17 Intangible assets *(Continued)*

4.17.2 Research and development *(Continued)*

4.17.2.3 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;

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

4.17.2.5 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.

4.17.3 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”.

4.18 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:

4.18.1 Prepaid rental for operating lease, amortized over the lease term

Note 4: Significant accounting policies and accounting estimates *(Continued)*

4.18 Long-term deferred expenses

4.18.2 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.

4.18.3 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.

4.19 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.

Note 4: Significant accounting policies and accounting estimates *(Continued)*

4.19 Impairment on non-current assets *(Continued)*

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

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

4.20 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.

Note 4: Significant accounting policies and accounting estimates *(Continued)*

4.21 Revenue

4.21.1 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.

4.21.2 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:

4.21.2.1 The amount of revenue can be measured reliably;

4.21.2.2 It is probable that the economic benefit associated with the transaction will flow to the Company

4.21.2.3 The percentage of completion of service can be measured reliably

4.21.2.4 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.

Note 4: Significant accounting policies and accounting estimates *(Continued)*

4.21 Revenue *(Continued)*

4.21.3 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:

4.21.3.1 The amount of total contract sum can be measured reliably;

4.21.3.2 It is probable that the economic benefit associated with the contract will flow to the Company

4.21.3.3 The actual contract cost incurred can be clearly distinguished and measured reliably

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

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

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

4.21.4 Revenue from transfer of asset use rights

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

Note 4: Significant accounting policies and accounting estimates *(Continued)*

4.21 Revenue *(Continued)*

4.21.5 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.

4.22 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. The Company considers any Government Grant that funds purchase or construction of fixed assets, or in other means resulting in fixed assets as Asset-related Government Grant; other Government Grants are considered revenue-related. If beneficiary of grant is not specified, then the following steps are taken to decide whether it's asset-related or revenue-related: (1) For those that specific project is specified, it is judged according to proportion of expenditure to form assets and expenditure that charged into expense, such ratio is reviewed at least once on each balance sheet date, and should change if necessary; (2) For those of general purpose without any specific project specified, it is considered revenue-related Grant.

If a government grant is in the form of a transfer of a monetary asset, it is measured at the amount received or receivable. If a government grant is in the form of a non-monetary asset, it is measured at fair value. If the fair value cannot be reliably determined, it is measured at a nominal amount. A government grant measured at a nominal amount is recognised immediately in profit or loss for the period.

When received the government grants actually, recognised and measured them by the actual amount received. However, there is strong evidence that the end of fiscal support policies able to meet the conditions specified in the relevant funds are expected to be able to receive financial support, measured at the amount receivable. Government grants are measured according to the amount receivable shall also comply with the following conditions: (1) grants receivable of government departments issued a document entitled have been confirmed, or could reasonably are estimated in accordance with the relevant provisions of its own official release of financial resources management approach, and the expected amount of a material uncertainty which does not exist; (2) it is based on the local financial sector to be officially released and financial support for the project and its financial fund management approach voluntarily disclosed in accordance with the provisions of "Regulations on Disclosure Government Information", and the management approach should be (inclusive of any compliance business conditions may apply), and not specifically formulated for specific businesses; (3) related grants approval has been clearly committed the deadline, and is financed by the proceeds of a corresponding budget as a guarantee, so that will be received within the prescribed period with the a reasonable assurance; (4) according to the specific circumstances of the Company and the subsidy matter, should satisfy the other conditions (if any) .

Note 4: Significant accounting policies and accounting estimates ***(Continued)***

4.22 Government Grant ***(Continued)***

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.

Any Government grant that relate both asset and revenue at the same time should be treated separately. If it is difficult to separate then such government grant as a whole will be classified as revenue-related.

The government grants related to the daily activities of the Company are included in other income or offset the related costs according to the essence of the economic business. The government grants unrelated to the daily activities are included in the non-operating income and expenses.

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.

The compensation amount received from the government by the Company for relocation due to the public interest in overall urban planning, reservoir construction, shantytowns reconstruction and settlement of subsidence areas, is recognised as designated payables. Among them, the compensation for the loss of fixed assets and intangible assets, related expenses, stoppage losses and new assets rebuilding after relocation occurred during relocation and reconstruction of the Company, shall be transferred from designated payables to deferred income, and treated as government grants related to assets or the government grants related to income according to the nature. The excess of relocation compensation amount over the amount transferred to deferred income is recognised as capital reserve.

Note 4: Significant accounting policies and accounting estimates *(Continued)*

4.23 Deferred tax assets/deferred tax liabilities

4.23.1 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.

4.23.2 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.

Note 4: Significant accounting policies and accounting estimates *(Continued)*

4.23 Deferred tax assets/deferred tax liabilities *(Continued)*

4.23.2 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.

4.23.3 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.

4.24 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.

4.24.1 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.

Note 4: Significant accounting policies and accounting estimates *(Continued)*

4.24 Leases *(Continued)*

4.24.2 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.

4.24.3 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.

4.24.4 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.

Note 4: Significant accounting policies and accounting estimates *(Continued)*

4.25 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.

For assets that are taken as held-to-be-sold non-current assets and disposing group at initial measurement or reclassified at balance sheet date, net value of its book value minus expenses of sale is taken into Profit &Loss of the period, with the Minus item taken as impairment loss of asset, if such asset's book value is more than net value of its book value minus expenses of sales. For assets in the Disposing group, impairment loss recognized is to be deducted by book value of Good Will in the group, then deducted by book values of any assets in the group that fit in the <Enterprise Accounting Rule No.42 – Held-to-be-sold non-current assets, disposing group and termination of operation>. Should there be any increase in the net values of fair value of disposing group held-to-be-sold minus expenses of sales in the subsequent balance sheet dates, their related minus amount should be recovered, and be reversed within the recognized impairment loss according to this Rule, such reversed amount is to be taken into Profit & Loss of the period, and its book value is to be increased by the proportion its book value takes up in the Non-current assets except for Good Will; while Good Will that's been deducted, and impairment loss recognized as held-to-be-sold non-current asset before the Rule comes into effect are not to be reversed.

Depreciation or amortization is not to be accrued for held-to-be-sold non-current assets or non-current assets in the disposing group, while interests and other expenses to the liabilities in the group are to be recognized.

When any non-current asset or asset in the disposing group no longer satisfied conditions of classification of to-be-sold, the Company ceases classification of such assets or removes it from the disposing group, and measures it by whichever lower the following: (1) its book value before classified as to-be-sold asset adjusted with amount of depreciation or amortization if not classified as to-be-sold, or impairment; (2) retrievable amount.

Note 4: Significant accounting policies and accounting estimates *(Continued)*

4.26 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.

Note 4: Significant accounting policies and accounting estimates ***(Continued)***

4.27 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.

4.28 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:

a. the nature of each product and service;

b. the nature of production process;

c. the type or class of customers for their products and services;

d. the methods used to distribute their products or provide their services;

e. The influence brought by law, administrative regulations on production and provision of services.

Note 4: Significant accounting policies and accounting estimates *(Continued)*

4.29 Changes in significant accounting policy and accounting estimates

4.29.1 Changes in accounting policy

4.29.1.1 Changes in accounting policy by the new Enterprise Accounting Rules

Apr. 28, 2107, the Ministry of Finance issued <Enterprise Accounting Rule No.42 – Held-to-be-sold non-current assets, disposing group and termination of operation> by Notice No. Cai Hui [2017] 13, which took effect from May 28, 2017. Then <Enterprise Accounting Rules No. 16 – Government Grants (2017 revision) > was issued on Notice No. Cai Hui [2017] 15, which came into effect from Jun. 12, 2017. The Company followed these rules from their effective dates.

<Enterprise Accounting Rule No.42 – Held-to-be-sold non-current assets, disposing group and termination of operation> stipulates classification, measurement, reporting and list reporting of operation terminated of non-current held-to-be-sold asset or disposing group.

The Company took Government Grants as non-operating income before implementing <Enterprise Accounting Rules No. 16 – Government Grants (2017 revision) >; asset-related Grants were taken as deferred income and its amortization within its life were to be taken into Profit & Loss of the period. In carrying out the new rule, daily activity related Grants after Jan. 1, 2017 are to be taken as other income; while non-daily activity related Grants are to be taken as non-operating income or expense.

Prospective application is adopted for these changes in Accounting Policy.

Note 4: Significant accounting policies and accounting estimates *(Continued)*

4.29 Changes in significant accounting policy and accounting estimates *(Continued)*

4.29.1 Changes in accounting policy *(Continued)*

4.29.1.2 Other changes in Accounting Policy

The Company carried out stipulations in <Notice – Revision to Financial Statement forms for General Business> (No. Cai Hui (2017) 30) since Jan. 1, 2017, takes gains resulting from non-current assets as "Gains from asset disposal" instead of "Non-operating income/expense" as before. Retrospective application is adopted for such change of Accounting Policy.

Currency unit: Yuan

	Content, reason for changes in Accounting Policy	**Proceeding of appoval**	**Reporting item and amount affected**
	Retrospective application		
1	<Notice – Revision to Financial Statement forms for General Business> (No. Cai Hui (2017) 30)	–	Non-operating expense for 2016 decrease by 754,702.66, Non-operating income decrease by 398,576.16, gains on asset disposal reclassified is -356,126.50
	Prospective application		
1	<Enterprise Accounting Rule No.42 – Held-to-be-sold non-current assets, disposing group and termination of operation> (No. Cai Hui [2017] 13)	Board of Directors	–
2	<Enterprise Accounting Rules No. 16 – Government Grants (2017 Revision) >	Board of Directors	–

4.29.2 Changes in accounting estimates

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

Note 4: Significant accounting policies and accounting estimates *(Continued)*

4.30 Prior period's adjustments

The company has no prior period's adjustments for the year.

4.31 Major Accounting Judgement and Estimate

The Company need to make judgments, estimates and assumptions about the carrying amounts of items in the financial statements that cannot be measured accurately, due to the internal uncertainties of operation activities. These judgments, estimates and assumptions are based on historical experiences of the Company's management as well as other factors that are considered to be relevant. These judgments, estimates and assumptions may affect value of the financial statements in revenue, expenses, assets and liabilities and the disclosure of contingency at the balance sheet date. However, the result derived from those uncertainties in estimates may lead significant adjustments to the carrying amounts of the assets or liabilities affected in the future.

The Company has reviews the judgments, estimates and assumptions regularly on the basis of going concern. Where the changes in accounting estimates only affect the period when changes occurred, and they are recognised within the same period. Where the changes in accounting estimates affect both current period and future period, the changes are recognised within the period of change and future period.

At balance sheet date, the followings are the significant areas where the Company needs to make judgment, estimates and assumptions over the value of items in the financial statements:

4.31.1 Allowance for bad debts

According to the relevant accounting policies of the Company in receivables, allowance method is used for bad debt's calculation. The impairment of receivables is calculated based on the assessment of recoverable of receivables. Assurance of receivable impairment needs judgments and estimations from the management. The difference between actual results and original estimates shall have impact on the carrying amount of receivables and receivable bad debt provisions or the reverse during the change of estimation.

Note 4: Significant accounting policies and accounting estimates *(Continued)*

4.31 Major Accounting Judgement and Estimate

4.31.2 Impairment of inventories

The Company measures inventories by the lower of cost and realizable net value according to the accounting policies in regard of inventories and provisions for decline in value of inventories is made if the cost is higher than their net realizable value, and obsolete and slow-movement inventories. Inventories decline in value to net realizable value is the estimated selling price in the ordinary course of business. Net realizable value is determined on the basis of clear evidence obtained, and takes into consideration the purposes of holding inventories and effect of post balance sheet events. The difference between the actual result and the original estimates shall have impact on reverse of the carrying amount of the inventories and their decline in value or provisions during the period of change.

4.31.3 impairment loss of saleable financial instruments

The Company mainly relies on the Management's judgements and assumption for whether there is impairment loss of saleable financial assets, and whether it is necessary to recognize the loss in Profit & Loss. In the process of judgement and assumption, the Company needs to evaluate to what degree fair value of such investment is less than its cost and for how long, along with financial status of the invested party and its short-term operating prospects, including status of industry, technology reformation, credit rating, default rate and risk of competitor.

4.31.4 Impairment of long-term assets

The Company assesses whether there are any indicators of impairment for all non-current assets other than financial assets at the balance sheet date. For an intangible asset that has indefinite useful life, impairment test is made in addition to the annual impairment test if there is any indication of impairment. For non-current assets other than financial assets, impairment test is made when there is any indication that its account balance cannot be recovered.

Impairment exists when the recoverable amount of an asset is the higher of its fair value less cost of disposal and present value of the future cash flows expected to be derived from the asset.

Net value between the difference of fair value and disposal cost is determined by reference of the price of similar product in a sale agreement in an arm's length transaction or an observable market price less the additional cost directly attributable to the disposal of the asset.

Note 4: Significant accounting policies and accounting estimates *(Continued)*

4.31 Major Accounting Judgement and Estimate *(Continued)*

4.31.4 Impairment of long-term assets

When estimating the present value of future cash flow, significant judgments are made over the asset's production, selling price and relevant operating expenses, and discount rate used to calculate present value. All available materials that are considered to be relevant shall be used in the estimation of recoverable value. These materials include estimations of production, selling price and operating expenses based on reasonable and supportable assumptions.

The Company makes an impairment test for goodwill at least at each year end. This requires an estimation of present value of future cash flow of the assets or assets group where goodwill has been allocated. The Company shall makes estimation on the future cash flow derived from assets or assets group and determine an appropriate discount rate for the present value of future cash flow when the estimation of present value of future cash flow is made.

4.31.5 Depreciation and amortization

Investment property, fixed assets and intangible assets are depreciated and amortized using the straight-line method over their useful lives after taking into account residual value. The useful lives are regularly reviewed to determine the depreciation and amortization costs charged in each reporting period. The useful lives are determined based on historical experience of similar assets and the estimated technical changes. If there is an indication that there has been a change in the factor used to determine the depreciation or amortization, the rate of depreciation or amortization is revised.

4.31.6 Deferred tax assets

The group shall recognise all unused tax losses as deferred tax assets to the extent that it is probable that future taxable profit will be available against which the unused tax losses and unused tax credits can be utilized. This requires the management of the Company make a lot of judgments over the estimation of time period, value and tax planning strategies when future taxable profit incurs so that the value of deferred tax assets can be determined.

Note 4: Significant accounting policies and accounting estimates *(Continued)*

4.31 Major Accounting Judgement and Estimate *(Continued)*

4.31.7 Income tax

There are some transactions where ultimate tax treatments and calculations have uncertainties in the Company's everyday operation. Whether there are possible for some items to make expenditure before tax needs approval from competent tax authorities. If there is any difference between finalized determination value and their initial estimations value, the difference shall have the impact on the income tax and deferred income tax of the current period during the final determination.

Note 5: Tax

5.1 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
City maintenance and construction tax	7% on amount of turnover tax paid
Education surcharge	5% on amount of turnover tax paid
Enterprise income tax	25% on taxable income

5.2 Tax concessions

5.2.1 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%.

5.2.2 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.

5.2.3 Shenyang Kaiyi Electric Co., Ltd. – subsidiary of the Company is levied upon deemed income.

Note 6: Notes to Consolidated Financial Statements

Unless otherwise specified, 'beginning of period' refers to January 1, 2017, 'end of period' refers to December 31, 2017, 'last year' refers to Year 2016, 'this year' refers to Year 2017 in the following notes (including Notes to the Company's Financial Reports) .

6.1 Cash and deposits

Item	December 31, 2017	December 31, 2016
Cash on hand	7,317.67	2,884.63
Bank deposits	38,601,144.10	24,790,336.81
Other cash equivalents	6,567,300.00	2,807,150.00
total	**45,175,761.77**	**27,600,371.44**
Incl: total overseas deposits.	375,463.09	398,194.42

(1) By the end of year RMB200,000.00 in New Jinrong's bank account was frozen by the Court for unpaid due payment.

(2) Other cash and deposit amounting to RMB 6,527,300.00 is the security deposits for performance guarantee deposited in a designated bank, and RMB 40,000.00 deposits for Bank Acceptance Notes.

(3) By end of period, time deposit is RMB30,000,000.00 in the item of Bank Deposits, with deposit period from Dec. 28, 2017 till Dec. 27, 2018.

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

6.2 Notes receivables

6.2.1 Classification of notes receivables

Types	December 31, 2017	December 31, 2016
Bankers' acceptance notes	1,589,050.00	2,200,000.00
Commercial acceptance notes	14,289,694.00	418,650.00
Total	**15,878,744.00**	**2,618,650.00**

Note 6: Notes to Consolidated Financial Statements *(Continued)*

6.2 Notes receivables *(Continued)*

6.2.2 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	1,999,495.00	–
Commercial acceptance notes	–	–
Total	**1,999,495.00**	**–**

6.3 Accounts receivable

6.3.1 Accounts receivable by categories are analyzed as follows:

	Balance at end of Year				
	Carrying amount		Bad-debt provision		
Type	Amount	Percentage (%)	Amount	Percentage (%)	Book value
Individually significant and subject to separate provision	68,409,135.13	55.05	21,972,915.66	32.12	46,436,219.47
Subject to provision by groups with risk characteristics	–	–	–	–	–
Aging combination	55,848,582.41	44.95	26,031,033.20	46.61	29,817,549.21
Sub-total	**55,848,582.41**	**44.95**	**26,031,033.20**	**46.61**	**29,817,549.21**
Individually significant and subject to separate provision	–	–	–	–	–
Total	**124,257,717.54**	**100.00**	**48,003,948.86**	**38.63**	**76,253,768.68**

(Cont'd)

	Balance at beginning of Year				
	Carrying amount		Bad-debt provision		
Type	Amount	Percentage (%)	Amount	Percentage (%)	Book value
Individually significant and subject to separate provision	–	–	–	–	–
Subject to provision by groups with risk characteristics	–	–	–	–	–
Aging combination	160,920,677.73	100.00	24,845,885.39	15.44	136,074,792.34
Sub-total	**160,920,677.73**	**100.00**	**24,845,885.39**	**15.44**	**136,074,792.34**
Individually significant and subject to separate provision	–	–	–	–	–
Total	**160,920,677.73**	**100.00**	**24,845,885.39**	**15.44**	**136,074,792.34**

Note 6: Notes to Consolidated Financial Statements *(Continued)*

6.3 Accounts receivable *(Continued)*

6.3.2 Accounts Receivable with single significant amount and provision for bad debts be calculated individually

Name	Balance at year-end			
	Accounts Receivable	Bad debt provision	Ratio (%)	Reason for provision
Shenyang Kaidi Insulation Technology Co. Ltd.	28,831,431.00	9,260,614.11	32.12	Retrievable
Yingkou Hongyue Machinery Co. Ltd.	25,572,119.90	8,213,728.08	32.12	Retrievable
Yingkou Chongzheng Electric Equipment Co. Ltd.	14,005,584.23	4,498,573.47	32.12	Retrievable
Total	**68,409,135.13**	**21,972,915.66**	**32.12**	

Note: New Northeast Electric (Jinzhou) Power Capacitor Co., Ltd. – the Company's subsidiary – signed <Domestic commercial factoring agreement> and <Factoring without recourse agreement> with Tianjin Hua Yi Fu Yin Commercial Factoring Co., Ltd. on Mar. 20, 2018, transferring Accounts Receivable from the 3 companies in the above chart which totals RMB68,409,135.13 to this Factoring company, at the price of RMB48,000,000.00. Hence New Jinrong has provisioned for bad debts of RMB21,972,915.66 by its future cash flow estimates.

6.3.3 Accounts receivables provisioned for bad debts using the Aging Analysis Method are analyzed as follows:

Age of Account	Balance at end of Year		
	Accounts Receivable	Bad-debt provision	Percentage (%)
Within 1 year	16,616,105.40	–	–
1 – 2 years	9,173,596.34	–	–
2 – 3 years	4,009,027.43	1,603,610.98	40.00
3 – 4 years	4,056,077.53	2,433,646.51	60.00
Over 4 years	21,993,775.71	21,993,775.71	100.000
Total	**55,848,582.41**	**26,031,033.20**	**46.61**

6.3.4 Details of annual allotment, retrieval and reversal of provision

In this reporting period, total of RMB22,780,432.88 bad debt provision has been accrued, no retrieval or reversal of provision.

Note 6: Notes to Consolidated Financial Statements *(Continued)*

6.3 Accounts receivable *(Continued)*

6.3.5 There are write-off of Account Receivables totaling RMB271,302.00 during the reporting period, which bad debt provisions are written off at the same time.

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

6.3.7 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	29,233,391.79	1-4 year	23.53	9,501,790.58
Yingkou Hongyue Machinery Co. Ltd.	Non-related	25,572,119.90	1 – 3 year	20.58	8,213,728.08
Yingkou Chongzheng Electric Equipment Co. Ltd.	Non-related	14,848,135.23	1-4 year	11.95	5,004,104.07
Sino Power (Pu An) Generating Co. Ltd.	Non-related	3,938,500.00	Within 1 year	3.17	–
Shenneng Baoding Power Generating Co., Ltd.	Non-related	3,411,000.00	Within 1 year	2.75	–
Total		**77,003,146.92**		**61.98**	**22,719,622.73**

Note 6: Notes to Consolidated Financial Statements *(Continued)*

6.4 Prepayments

6.4.1 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	1,868,550.24	99.48	533,590.52	98.20
1 – 2 years	–	–	9,174.01	1.69
2 – 3 years	9,174.01	0.49	587.68	0.11
Over 3 years	587.68	0.03		
Total	**1,878,311.93**	**100.00**	**543,352.21**	**100.00**

6.4.2 Companies with outstanding significant balance in Prepayment as of Dec. 31, 2017

Name of company	Relations	Amount	Age	Reason for unsettlement
Haitong Int'l Security Co. Ltd.	Non-related	933,870.00	Within 1 year	Expenses of issuance of additional H shares
Grandall (Shanghai) Law Firm	Non-related	471,698.11	Within 1 year	Same as above
Anthony Siu & Co.	Non-related	219,195.25	Within 1 year	Same as above
Liaoning Power Corp. Fuxin Power Plant	Non-related	127,542.13	Within 1 year	Prepayment of electricity fees
Total		**1,752,305.49**		

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

Note 6: Notes to Consolidated Financial Statements *(Continued)*

6.5 Other receivables

6.5.1 Other receivables by categories are analyzed as follows:

	Balance at end of Year				
	Carrying Amount		Bad-debt provision		
Type	Amount	Percentage (%)	Amount	Percentage of provision (%)	Book value
Individually significant and subject to separate provision	78,130,236.27	92.68	78,130,236.27	100.00	–
Subject to provision by risk groups	–	–	–	–	–
Aging combination	5,570,664.40	6.61	2,447,591.97	43.94	3,123,072.43
Sub-total	**5,570,664.40**	**6.61**	**2,447,591.97**	**43.94**	**3,123,072.43**
Individually insignificant but subject to separate provision	600,000.00	0.71	600,000.00	100.00	–
Total	**84,300,900.67**	**100.00**	**81,177,828.24**	**96.30**	**3,123,072.43**

(Cont'd)

	Balance at beginning of Year				
	Carrying Amount		Bad-debt provision		
Type	Amount	Percentage (%)	Amount	Percentage of provision (%)	Book value
Individually significant and subject to separate provision	142,627,757.72	88.26	87,721,226.72	61.50	54,906,531.00
Subject to provision by risk groups	–	–	–	–	–
Aging combination	18,963,496.37	11.74	2,845,097.13	15.00	16,118,399.24
Sub-total	**18,963,496.37**	**11.74**	**2,845,097.13**	**15.00**	**16,118,399.24**
Individually insignificant but subject to separate provision	–	–	–	–	–
Total	**161,591,254.09**	**100.00**	**90,566,323.85**	**56.05**	**71,024,930.24**

Note 6: Notes to Consolidated Financial Statements *(Continued)*

6.5 Other receivables *(Continued)*

6.5.2 Other accounts receivable with significant balance at end of year that bad debt provision individually prepared

	Balance at end of year			
Other accounts receivable	**Other receivables**	**Bad debt provision**	**Rate of p rovision**	**Reason**
Benxi Steel Group Corp.	76,090,000.00	76,090,000.00	100%	See Note 6.5.8a
Jinzhou Power Capacitor Co Ltd.	2,040,236.27	2,040,236.27	100%	See Note 6.5.8b
Total	**78,130,236.27**	**78,130,236.27**		

Note: Receivables listed above has been fully provisioned for bad debt in previous period.

6.5.3 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	1,999,218.48	–	–
1 -2 years	1,064,588.74	–	–
2 – 3 years	70,000.00	28,000.00	40.00
3 – 4 years	43,163.03	25,897.82	60.00
Over 4 years	2,393,694.15	2,393,694.15	100.00
Total	**5,570,664.40**	**2,447,591.97**	**43.94**

Note 6: Notes to Consolidated Financial Statements *(Continued)*

6.5 Other receivables *(Continued)*

6.5.4 Details of annual allotment, retrieval and reversal of provision

Total of RMB231,559.79 has been accured for this period, with RMB9,590,990.45 retrieved or reversed. Including the following:

Name	Amount of retrieval or reversal	Method of retrieving
Jinzhou Power Capacitor Co. Ltd.	9,590,990.45	Cash
Total	**9,590,990.45**	

6.5.5 Total write-off in this period is RMB29,064.95, for which bad debt provisions have been accured.

6.5.6 Other receivables categorized by nature are as follows:

Nature	Amount at end of period	Amount at beginning of period
Lawsuits (See Note 6.5.8a)	76,090,000.00	76,690,000.00
Receivables from sale of subsidiary	–	54,906,531.00
Current Account	4,917,329.91	23,792,648.39
Deposits for Bidding	2,557,783.42	5,814,178.42
Other	735,787.34	387,896.28
Total	**84,300,900.67**	**161,591,254.09**

6.5.7 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	90.26	76,090,000.00
Jinzhou Power Capacitor Co. Ltd.	Previous subsidiary	2,040,236.27	Over 4 years	2.42	2,040,236.27
Xintai (Liaoning) Precision Machinery Co Ltd	Non-related	600,000.00	3 – 4 years	0.71	600,000.00
Fuxin Aluminum Alloy Branch	Non-related	534,518.86	Over 4 years	0.63	534,518.86
State Grid Ltd.	Non-related	440,000.00	Within 1 year	0.52	–
Total		**79,704,755.13**		**94.54**	**79,264,755.13**

Note 6: Notes to Consolidated Financial Statements ***(Continued)***

6.5 Other receivables ***(Continued)***

6.5.8 Nature or contents of other receivables of significant amount:

A. By end of the year, principal owed from Benxi Steel (Group) Co., Ltd. (referred as Ben Steel) of RMB76,090,000.00 is included in other receivables, which receivables occurred in May and September 2005, by Liaoning Trust & Investment Co. (hereinafter referred to as Liao Trust) repaying principals of RMB74,424,671.45 deposited with them by the company with their receivables from Ben Steel of RMB76,090,000.00 by the approval related governments in Liaoning Province. The company has taken receivables from Ben Steel into other receivables, surplus to the original deposit has been taken into bad debt provision. On Dec. 16, 2005, High Court of Liaoning Province has made ultimate ruling (No. (2005) Liao Min Er Zhong Zi Di 220), that Ben Steel had owed the company RMB15,900,000.00 and related interest. The company had applied for Enforcement. As a result Intermediate Court of Shenyang has established the case and delivered Enforcement Notice to Ben Steel on Mar. 10, 2006. On Mar. 30, 2006, The Intermediate Court of Shenyang has made first ruling concerning the remaining principals by Rulings Nos. of (2005) Shen Zhong Min Si He Chu Zi Di 21, 22 and 23, that Ben Steel should repay the company principal of RMB60,190,000.00 and related interest. On Apr. 30, 2006, Ben Steel has appealed to High Court of Liaoning Province. On May 14, 2008, High Court of Law of Liaoning Province has ordered retry of the case to Shenyang City Medium Court of Law by Rulings of 214th, 215th, 216th of (2006) Liao Min Er Zhong Zi, revocating Rulings of 21rd, 23rd, 22nd of Shen Zhong Min Si He Chu Zi by the latter Court of Law. On Jun. 9, 2009 the City Medium Court of Law has refuted the Company's case by rulings of (2008) Shen Zhong Min Si Chu Zi No.143, 144 and 145, and the Company has appealed to the Provincial High Court. On Oct. 26 and 29, 2009, the Provincial High Court has made final rulings of (2009) Liao Min Er Zhong 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.

B. By end of period there are receivables due from Jinzhou Power Capacity Co. Ltd of RMB 2,040,236.27. The Company has made full amount of provision due to unhealthy financial position and no operation activities of Jinzhou Power Capacity Co. Ltd.

Note 6: Notes to Consolidated Financial Statements *(Continued)*

6.6 Inventories

6.6.1 Classification of inventories

	Balance at end of Year		
Item	**Book balance**	**Provision for decline in value**	**Book value**
Raw material	11,032,491.06	4,052,269.12	6,980,221.94
Work in progress	10,738,971.21	7,739,916.06	2,999,055.15
Finished goods	4,471,073.53	2,917,306.10	1,553,767.43
Total	**26,242,535.80**	**14,709,491.28**	**11,533,044.52**

(Cont'd)

	Balance at beginning of Year		
Item	**Book balance**		**Book balance**
Raw material	13,376,704.88	4,588,327.26	8,788,377.62
Work in progress	9,434,775.30	7,632,457.86	1,802,317.44
Finished goods	6,654,640.50	2,253,751.70	4,400,888.80
Total	**29,466,120.68**	**14,474,536.82**	**14,991,583.86**

6.6.2 Provisions for decline in value

		Increase of provision during the period		Decrease of provision during the period		
Item	**Balance at beginning of Year**	**Provision**	**Other**	**Reverse/ Write off**	**Other**	**Balance at beginning of Year**
Raw material	4,588,327.26	94,698.74	–	630,756.88	–	4,052,269.12
Finished goods	7,632,457.86	197,539.86	–	90,081.66	–	7,739,916.06
Work in Progress	2,253,751.70	671,673.24	–	8,118.84	–	2,917,306.10
Total	**14,474,536.82**	**963,911.84**	**–**	**728,957.38**	**–**	**14,709,491.28**

Note 6: Notes to Consolidated Financial Statements ***(Continued)***

6.6 Inventories *(Continued)*

6.6.3 Analysis for provisions for decline in value and its reversal

Item	Basis for provisions	Reason for reversal of provision during the period	Reason for write-off of provision during the period
Raw material	Net realizable value lower than cost	–	Discard or sale of material
Finished goods	Net realizable value lower than cost	–	Moved out from provision with sale of products
Work in Progress	Net realizable value lower than cost		Used for manufacturing

6.7 Other Current Assets

Item	Balance at end of year	Balance at beginning of year	Notes
Rental expenses	1,670,704.05	995,992.85	–
Income tax of the accrued trade in allowance	1,982,155.63	1,414,138.60	–
Income tax	43,391.47	–	–
Total	**3,696,251.15**	**2,410,131.45**	

Balances of Rental expenses are prepaid 2018 leases for land, buildings and equipment.

Note 6: Notes to Consolidated Financial Statements *(Continued)*

6.8 Available-for-sale financial assets

6.8.1 Details of available-for-sale financial assets

	December 31, 2017			December 31, 2016		
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	81,850,957.56	50,090,098.86	31,760,858.70	81,850,957.56	26,776,203.32	55,074,754.24
Incl.: measured by fair value	–	–	–	–	–	–
Measured by cost	81,850,957.56	50,090,098.86	31,760,858.70	81,850,957.56	26,776,203.32	55,074,754.24
Other	–	–	–	–	–	–
Total	**81,850,957.56**	**50,090,098.86**	**31,760,858.70**	**81,850,957.56**	**26,776,203.32**	**55,074,754.24**

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

6.8.3 Available-for-sale financial assets measured by cost

	Balance on book				Provision					
Company invested	**Balance at beginning of year**	**Increase in the year**	**Decrease in the year**	**Balance at end of year**	**Balance at beginning of year**	**Increase in the year**	**Decrease in the year**	**Balance at end of year**	**Share percentage held (%)**	**Cash dividend for the year**
Shenyang Zhaoli High Voltage Electric Equipment Co Ltd	81,850,957.56	–	–	81,850,957.56	26,776,203.32	23,313,895.54	–	50,090,098.86	6.90	–
Total	**81,850,957.56**	–	–	**81,850,957.56**	**26,776,203.32**	**23,313,895.54**	–	**50,090,098.86**		–

6.8.4 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	26,776,203.32	–	26,776,203.32
Increment	23,313,895.54	–	23,313,895.54
Inclu: transfer from other comprehensive income	–	–	–
Decrement	–	–	–
Incl: reversal due to rise in fair value after date	–	–	–
Balance of provision allocated at end of year	50,090,098.86	–	50,090,098.86

Note 6: Notes to Consolidated Financial Statements *(Continued)*

6.8 Available-for-sale financial assets

6.8.5 Notes to available-for-sale financial assets

6.8.5.1 RMB23,313,895.54 of decline in value provisions were taken for saleable financial assets in the period.

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

6.9 Long-term equity investments

6.9.1 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.	25,000,000.00	–	–	-9,396.59	-4,492,527.41	–
Total	**25,000,000.00**	**–**	**–**	**-9,396.59**	**-4,492,527.41**	**–**

(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.	–	1,034,434.39	–	19,463,641.61	32,549,383.94
Total	**–**	**1,034,434.39**	**–**	**19,463,641.61**	**32,549,383.94**

① Decrease in Long term equity investment in this period is a result of currencies translation difference of RMB4,492,527.41 due to foreign exchange changes, investment loss of RMB9,396.59 recognized by Method of Equity, and impairment provision of RMB1,034,434.39 in this year.

② The invested entities are non-listed companies established in British Virgin Islands.

Note 6: Notes to Consolidated Financial Statements *(Continued)*

6.9 Long-term equity investments

6.9.2 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	219,506,121.17	23,741,296.33	195,764,824.84	0.00	-45,175.91	Significant	–

6.9.3 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	33,724,276.08	-1,174,892.14	–	32,549,383.94
Total	**33,724,276.08**	**-1,174,892.14**	**–**	**32,549,383.94**

Increase in Provision for impairment of long-term equity investment for the year include provision of RMB1,034,434.39, and the rest of RMB-2,209,326.53 is due to difference resulted by foreign exchange rates variation.

Note 6: Notes to Consolidated Financial Statements *(Continued)*

6.10 Fixed Assets

6.10.1 Fixed assets

Item	Buildings	Machinery & equipment	Motor vehicles & others	Total
I. Carrying amount				
1. Balance at beginning of Year	48,193,147.57	69,175,385.80	14,935,209.89	132,303,743.26
2. Increment for the Year	–	620,525.31	868,106.74	1,488,632.05
(1) Purchase	–	246,204.15	868,106.74	1,114,310.89
(2) Transferred from Construction in progress	–	374,321.16	–	374,321.16
3.Decrement for the Year	–	2,059,774.08	173,118.78	2,232,892.86
(1) Disposal or write-off	–	2,059,774.08	173,118.78	2,232,892.86
(2) Transferred to Construction in progress	–	–	–	–
4. Balance at end of Year	48,193,147.57	67,736,137.03	15,630,197.85	131,559,482.45
II. Accumulated depreciation				
1. Balance at beginning of Year	36,519,135.34	40,761,901.83	9,758,400.27	87,039,437.44
2. Increment	768,969.35	3,466,497.56	944,737.89	5,180,204.80
(1) Provision	768,969.35	3,466,497.56	944,737.89	5,180,204.80
3. Decrement	–	1,758,415.10	109,007.01	1,867,422.11
(1) Disposal or write-off	–	1,758,415.10	109,007.01	1,867,422.11
(2) Transferred to Construction in Progress	–	–	–	–
4. Balance at end of Year	37,288,104.69	42,469,984.29	10,594,131.15	90,352,220.13
III. Provision for Impairment				
1. Balance at beginning of Year	–	3,055,895.37	363,786.79	3,419,682.16
2. Increment	–	2,050,123.59	178,488.72	2,228,612.31
(1) Provision	–	2,050,123.59	178,488.72	2,228,612.31
3. Decrement	–	126,751.82	20,145.65	146,897.47
(1) Disposal or write-off	–	126,751.82	20,145.65	146,897.47
4. Balance at end of Year	–	4,979,267.14	522,129.86	5,501,397.00
IV. Book balance				
1.Book balance at end of Year	10,905,042.88	20,286,885.60	4,513,936.84	35,705,865.32
2.Book balance at beginning of Year	11,674,012.23	25,357,588.60	4,813,022.83	41,844,623.66

Note 6: Notes to Consolidated Financial Statements *(Continued)*

6.10 Fixed Assets *(Continued)*

6.10.2 By end of the year, there is no fixed assets with restricted ownership.

6.10.3 There is no fixed asset acquired under financial lease during the reporting period.

6.10.4 There is no fixed asset leased out under operating lease during the reporting period.

6.10.5 There is no fixed asset held-for-sale by the end of period.

6.10.6 There is no fixed asset with certificate of title to be obtained.

6.10.7 All buildings belong to the Company are located in China, which land use rights are within 50 years.

6.11 Construction in progress

6.11.1

	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**
Equipment to be installed	6,070,928.52	29,902.91	6,041,025.61	6,445,249.68	29,902.91	6,415,346.77
Construction of new plants	36,512,725.44	–	36,512,725.44	–	–	–
Total	**42,583,653.96**	**29,902.91**	**42,553,751.05**	**6,445,249.68**	**29,902.91**	**6,415,346.77**

Note: Balance in this item by end of year is mainly comprised of plant in construction in Xihe District, Fuxin City – by Fuxin Enclosed Busbar Co. Ltd. Details see Note 14.2.

Note 6: Notes to Consolidated Financial Statements *(Continued)*

6.11 Construction in progress

6.11.2 Major changes

Project	Budget	Balance at beginning of year	Increment	Transfer to Fixed Asset	Decrement	Balance at end of year
Construction of new plants	38,000,000.00	–	36,512,725.44	–	–	36,512,725.44
Total		**–**	**36,512,725.44**	**–**	**–**	**36,512,725.44**

(Cont'd)

Project	Total input to budget (%)	Progress	Total capitalized interest	Incl: Interest capitalized during the year	Interest capitalized ratio (%)	Funding source
Construction of new plants	96.08	96.08%	–	–	–	Gov't Grants
Total			–	–	–	

6.12 Disposal of Fixed Assets

Item	Balance at end of year	Balance at beginning of year
Equipment & Machinery	629,668.46	629,668.46
Total	**629,668.46**	**629,668.46**

Balance in this item by end of year is Equipment & Machinery to be disposed.

Note 6: Notes to Consolidated Financial Statements *(Continued)*

6.13 Intangible Assets

Item	Land use rights	Patent	Software	Total
I. Book balance				
1. Balance at beginning of Year	19,974,805.05	450,000.00	207,000.00	20,631,805.05
2. Increment	–	–	–	–
(1) Purchase	–	–	–	–
3. Decrement	–	–	–	–
(1) Disposal of assets	–	–	–	–
4. Balance at end of Year	19,974,805.05	450,000.00	207,000.00	20,631,805.05
II. Accumulated amortization				
1. Balance at beginning of Year	2,911,293.45	450,000.00	207,000.00	3,568,293.45
2. Increment	399,496.20	–	–	399,496.20
(1) Amortization	399,496.20	–	–	399,496.20
3. Decrement	–	–	–	–
(1) Disposal of assets	–	–	–	–
4. Balance at end of Year	3,310,789.65	450,000.00	207,000.00	3,967,789.65
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	16,664,015.40	–	–	16,664,015.40
2. Book balance at beginning of Year	17,063,511.60	–	–	17,063,511.60

Note 6: Notes to Consolidated Financial Statements *(Continued)*

6.14 Good Will

Company invested or Items resulted in Good Will	Balance at beginning of year	Increment	Decrement	Balance at end of year
Northeast Electric (Chengdu) Power Engineering Designing Co Ltd.	72,097.15	–	–	72,097.15
Total	**72,097.15**	**–**	**–**	**72,097.15**

6.15 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	452,300.00	1,683,445.10	596,254.25	–	1,539,490.85	–
Property Insurance premium	14,215.79		8,529.48	–	5,686.31	–
Total	**466,515.79**	**1,683,445.10**	**604,783.73**	**–**	**1,545,177.16**	

Note: The improvement expenses for lease of fixed assets include decoration fees of offices and plants leased by the Company.

6.16 Deferred tax assets

6.16.1 Deferred tax assets recognized

	December 31, 2017		December 31, 2016	
Item	**Deferred tax assets**	**Deductible temporary difference**	**Deferred tax assets**	**Deductible temporary difference**
Provision for impairment for assets	–	–	–	–
Total	**–**	**–**	**–**	**–**

Note 6: Notes to Consolidated Financial Statements *(Continued)*

6.16 Deferred tax assets

6.16.2 Details of deductible temporary difference

Item	December 31, 2017	December 31, 2016
Bad-debt provision	–	–
Provision for decline in value of inventory	–	–
Total	**–**	**–**

6.16.3 Details of Income Deferred Tax Asset not yet recognized

Item	Amount at end of year	Amount at beginning of year
Offsettable temporary difference	232,262,357.09	220,887,581.52
Offsettable loss	395,204,707.03	39,253,117.39
Total	**627,467,064.12**	**260,140,698.91**

6.16.4 Income Tax Asset not yet recognized offsettable with loss which due in next period

Year	Balance at end of year	Balance at beginning of year	Note
2017	–	420,345.54	–
2018	774,155.44	774,155.44	–
2019	366,885.87	366,885.87	–
2020	286,269.50	286,269.50	–
2021	23,091,537.86	23,091,537.86	–
2022	356,411,785.22	–	–
No specified limit	14,274,073.14	14,313,923.18	Off-settable loss by subsidiary – Northeast Electric (HK) Co Ltd
Total	**395,204,707.03**	**39,253,117.39**	

Note 6: Notes to Consolidated Financial Statements *(Continued)*

6.17 Other non-current assets

Item	Balance at end of year	Balance at beginning of year
Prepayment for Equipment	302,881.71	–
Total	**302,881.71**	**–**

6.18 Short-term borrowings

6.18.1 Classification

Item	December 31, 2017	December 31, 2016
Bank borrowings, secured	–	9,000,000.00
Bank borrowings, guaranteed	–	20,000,000.00
Total	**–**	**29,000,000.00**

6.18.2 As at December 31, 2017, there are no matured short-term borrowings unpaid.

6.19 Notes Payable

Type	Amount at end of year	Amount at beginning of year
Commercial Acceptance Notes	–	–
Bank Acceptance Notes	40,000.00	1,845,000.00
Total	**40,000.00**	**1,845,000.00**

Note: Total Notes Payable balance is RMB40,000.00, same as last year, it is unpaid due to receiver.

Note 6: Notes to Consolidated Financial Statements *(Continued)*

6.20 Accounts Payable

6.20.1 Details of Accounts payable

Age of accounts	December 31, 2017	December 31, 2016
Within 1 year	9,571,430.20	20,765,578.77
1 – 2 years	3,915,566.83	7,106,466.22
2 -3 years	2,842,563.74	3,584,758.56
Over 3 years	5,172,155.06	3,215,760.90
Total	**21,501,715.83**	**34,672,564.45**

6.20.2 Accounts payable aged over 1 year mainly represents unsettled balance of goods purchased.

6.21 Receipts in advance

6.21.1 Details

Age of accounts	December 31, 2017	December 31, 2016
Within 1 year	1,530,675.00	3,976,040.01
1 – 2 years	443,590.01	2,862,095.02
2 -3 years	1,394,445.02	8,700.00
Over 3 years	816,429.09	807,729.09
Total	**4,185,139.12**	**7,654,564.12**

6.21.2 Analysis of receipt in advance with significant amount aged over 1 year

Name	Amount	Reason for unsettlement
Shenhua Guoneng Baoqing Electrify Co Ltd.	1,393,800.00	Receipts in advance for goods as per contract

Receipts in advance aged over 1 year are mainly advanced payments for enclosed busbar as per contract, which is 40% of the total RMB3,484,500.00 contract amount.

Note 6: Notes to Consolidated Financial Statements *(Continued)*

6.22 Employee compensation

6.22.1 Details of employee compensation

Item	December 31, 2016	Increment	Decrement	December 31, 2017
I. Short-term compensation	3,081,038.66	21,672,422.34	21,823,377.13	2,930,083.87
II. Post resignation benefit – designed provision plan	118,820.10	3,526,597.76	3,552,959.70	92,458.16
Total	**3,199,858.76**	**25,199,020.10**	**25,376,336.83**	**3,022,542.03**

6.22.2 Short-term compensation are analyzed as follows:

Item	December 31, 2016	Increment	Decrement	December 31, 2017
I. Wages,bonuses,allowances,subsidies	405,331.30	18,314,429.58	17,794,282.85	925,478.03
II. Welfare expenses	–	608,846.10	608,846.10	–
III. Social insurances	22,535.48	1,440,933.92	1,407,410.39	56,059.01
Incl: 1.Medical insurance	12,305.00	1,137,316.06	1,110,774.09	38,846.97
2.Work injury insurance	7,512.83	229,962.07	223,792.66	13,682.24
3.Maternity insurance	2,717.65	73,655.79	72,843.64	3,529.80
IV. Housing accumulation fund	268,424.91	1,104,305.66	1,084,565.32	288,165.25
V. Labor union expenditure and employee education expenses	2,384,746.97	203,907.08	928,272.47	1,660,381.58
Total	**3,081,038.66**	**21,672,422.34**	**21,823,377.13**	**2,930,083.87**

Note 6: Notes to Consolidated Financial Statements *(Continued)*

6.22 Employee compensation

6.22.3 Designed provision plan listed as follows:

Item	December 31,2016	Increment	Decrement	December 31,2017
I. Basic endowment insurance	112,902.85	3,428,264.27	3,452,150.22	89,016.90
II. Unemployment insurance	5,917.25	98,333.49	100,809.48	3,441.26
Total	**118,820.10**	**3,526,597.76**	**3,552,959.70**	**92,458.16**

Note: 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.

6.23 Tax payable

Item	December 31, 2017	December 31, 2016
Enterprise Income Tax	163,782.70	-43,428.58
Value-added Tax	–	480,448.01
City maintenance and construction Tax	811.44	33,631.36
Education Surcharge	4,273.18	27,715.99
Individual Income Tax	31,795.18	115,344.91
Tenure Tax	79,097.00	118,992.00
Housing Property Tax	44,535.95	44,535.95
Other	17,324.90	17,554.00
Total	**341,620.35**	**794,793.64**

Note 6: Notes to Consolidated Financial Statements ***(Continued)***

6.24 Other payables

6.24.1 Details of other payables

Age of account	December 31, 2017	December 31, 2016
Compensation due for CDB case	272,627,700.00	–
Guarantee amount for loan from ICBC Bank Jinzhou Branch	18,329,142.29	–
Current Account	39,248,601.66	36,858,058.77
Shipment expenses	2,538,599.63	4,624,900.63
Agent fees	5,813,207.55	766,037.73
Purchase of equipment & machinery	23,189,555.76	188,851.56
Other	3,673,930.53	2,933,293.96
Total	**365,420,737.42**	**45,371,142.65**

Note1: Details of CDB case please refer to Note 14.1.1.

Note2: Details of loan from ICBC Bank Jinzhou Branch please refer to Note 6.26.3.

6.24.2 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..6 Payables to related parties.

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

Item	Amount at end of year	Reason for overdue
Shenyang Transformer Co. Ltd/	26,695,903.10	Creditor not yet collect

Note 6: Notes to Consolidated Financial Statements *(Continued)*

6.25 Special Payables

Item	Balance at beginning of year	Increment	Decrement	Balance at end of year	Reason
Demolition Compensation	10,609,500.00	20,355,984.89	–	30,965,484.89	Relocation of Fuxin Co.'s North plant
Total	**10,609,500.00**	**20,355,984.89**	**–**	**30,965,484.89**	

Note: Demolition Compensation at end of year is compensation for the land construction of the new factory from Fuxin Municipal Government to Fuxin Enclosed Busbar, see Note 14.2 for details.

6.26 Estimated liabilities

Item	Beginning Balance	Year-end Balance	Reason
Guarantee	60,721,078.25	37,615,481.25	Liability under guarantees
Lawsuits pending ruling	–	37,745,190.00	Case of Shenyang High-Volt employees' settlement
Total	**60,721,078.25**	**75,360,671.25**	

6.26.1 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.

Note 6: Notes to Consolidated Financial Statements ***(Continued)***

6.26 Estimated liabilities ***(Continued)***

6.26.2 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.

6.26.3 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.

On Oct. 30, 2017, the Company and Jinzhou Power Capacitor Co., Ltd. signed <Reduction and Exemption of Overdue Interest under Bank loans> with ICBC Bank Jinzhou Branch, agreeing to acquire reduction or exemption of overdue interest payment to such bank with either one-time repayment or repayment within 1 year of the amount agreed by all parties. Then on Dec. 21, 2017 the Company presented to ICBC Bank Jinzhou Branch in writing Application of full repayment before 31 March 2017. In the application, the Company would repay loan principal of RMB5,000,000.00 on Dec. 22 and Dec. 29, 2017. According to <Enterprise Accounting Rules No.22 – Recognition and Measurement of Financial Instruments>, the Company has moved loan principal to be repaid, lawsuits expenses along with interest incurred during overdue period to item of Other Payables since effective date of the Agreement, and in the meantime write off Other Payables for the loan principal amount already repaid. By Mar. 14, 2018 the Company has repaid the remaining loan principal, lawsuit expenses and interest incurred during overdue period.

Note 6: Notes to Consolidated Financial Statements *(Continued)*

6.26 Estimated liabilities *(Continued)*

6.26.4 Lawsuit pending ruling refer to the case of employee settlement compensation dispute – State-owned Asset Supervisory Commission of Tiexi District of Shenyang City (hereafter "Tiexi Commission") vs. Shenyang High-Voltage Switches Co., Ltd. (hereafter "Shenyang High-Volt") & New Northeast Electric (Shenyang) High-Voltage Switches Co., Ltd. (hereafter refer to as "New Northeast High-Volt")

In May 2007, the Company and Shenyang High-Volt came into agreement with Tiexi Commission with <Agreement of Shenyang High-Volt employees settlement affairs>, then in June and November of 2008, the 3 parties signed <Agreement of proper settlement of Shenyang High-Volt employees> and <Supplementary Agreement>, that New Northeast Electric (Shenyang) High-Voltage Switches Co., Ltd. has guaranteed for the relevant settlement payments. Settlement involved in these agreements totaled RMB132,390,000 million, for which Shenyang High-Volt has paid RMB103,860,000 million up to July. 2011. There's an outstanding amount to be paid of RMB28,530,000.

Consequently in May 2017, Tiexi Commission sued the Company and Shenyang High-Volt with Intermediate Court of Shenyang City, claiming RMB37,745,190 for settlement compensation, interest and penalty, and New Northeast High-Volt to take up joint and several guarantee. The Company has appealed on jurisdiction of the Court which was dismissed by the Intermediate Court. Then the Company appealed to Higher Court of Liaoning Province, the latter Court has ruled to dismiss the appeal with Ruling No. (2017) Liao Min Xia Zhong 196 on Dec. 6, 2017, sustaining the ruling by the Intermediate Court. The Higher Court of Liaoning Province serviced summon public for the Ruling of 2nd trial on Jan. 4, 2018 which would last for 60 days, due to inability of direct summon service. The Company has been subpoenaed for Court session which date is set on Jun. 12, 2018.

Although there deemed to be disputes in nature of the case, limitation of action and validity of the agreements by the Company's representing lawyers, the case would probably be ruled by the Court for the Company and Shenyang High-Volt to settle full payment as it is concerning wellbeing of employees. Also, as Shenyang High-Volt's business license has been revoked, the Company estimates liability of RMB37,745,190.00 according to lawyers' opinion.

Note 6: Notes to Consolidated Financial Statements *(Continued)*

6.27 Government Grants

6.27.1 Government Grants details

		Asset related		Revenue related				
Item	Amount	Deferred income	Asset book value set-off	Deferred income	Other income	Non-operating income	Cost set-off	Received (Y/N)
Subsidiary for famous brand products	50,000.00	–	–	–	50,000.00	–	–	Y
Total	**50,000.00**	–	–	–	**50,000.00**	–	–	

6.27.2 Government Grants taken into Profit & Loss of the period

Item	Revenue related	Taken into Other income	Taken into non-operating income	Cost set-off
Subsidiary for famous brand products	50,000.00	50,000.00	–	–
Total		**50,000.00**	**–**	**–**

Note 6: Notes to Consolidated Financial Statements *(Continued)*

6.28 Share Capital

	December 31, 2017		Increment/Decrement (+/-)					December 31, 2016	
Item	Amount	Ratio	New shares issued	Stock divi–dend	Reserve to shares	Others	Sub total	Amount	Ratio
I. Shares subject to trading restriction									
1. State-owned shares	–	–	–	–	–	–	–	–	–
2.State-owned legal person owned shares	–	–	–	–	–	–	–	–	–
3. Other domestic shares	5,999,022.00	0.69%	–	–	–	–	–	5,999,022.00	0.69%
Include.:Domestic non-state-owned legal shares	5,999,022.00	0.69%	–	–	–	–	–	5,999,022.00	0.69%
Sub-total	5,999,022.00	0.69%	–	–	–	–	–	5,999,022.00	0.69%
II. shares not subject to trading restriction									
1. Ordinary share in RMB	609,420,978.00	69.78%	–	–	–	–	–	609,420,978.00	69.78%
2. Foreign shares listed overseas	257,950,000.00	29.53%	–	–	–	–	–	257,950,000.00	29.53%
Sub-total	867,370,978.00	99.31%	–	–	–	–	–	867,370,978.00	99.31%
III. Total shares	873,370,000.00	100.00%	–	–	–	–	–	873,370,000.00	100.00%

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

6.29 Capital reserve

Item	December 31, 2016	Increment	Decrement	December 31, 2017
Share premium	115,431,040.00	–	–	115,431,040.00
Others reserve	767,991,363.92	–	–	767,991,363.92
Total	**883,422,403.92**	**–**	**–**	**883,422,403.92**

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

Note 6: Notes to Consolidated Financial Statements *(Continued)*

6.30 Other Comprehensive Income (OCI)

		Amount incurred during the period					
Item	December 31, 2017	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	December 31, 2016
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	-25,504,988.44	-4,364,078.31	–	–	-4,364,078.31	–	-29,869,066.75
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	-25,504,988.44	-4,364,078.31	–	–	-4,364,078.31	–	-29,869,066.75
Total OCI	**-25,504,988.44**	**-4,364,078.31**	**–**	**–**	**-4,364,078.31**	**–**	**-29,869,066.75**

Note 6: Notes to Consolidated Financial Statements *(Continued)*

6.31 Surplus reserves

Item	December 31, 2016	Increment	Decrement	December 31, 2017
Statutory surplus reserve	80,028,220.48	–	–	80,028,220.48
Optional surplus reserve	28,558,903.92	–	–	28,558,903.92
Total	**108,587,124.40**	**–**	**–**	**108,587,124.40**

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

6.32 Accumulated losses

Item	Year 2017	Year 2016	Ratio of appropriation or distribution
Accumulated losses at the end of last year	-1,637,084,660.40	-1,537,590,906.29	–
Adjustment for accumulated losses at the beginning of the year	–	–	–
Accumulated losses at the beginning of the year after adjustment	-1,637,084,660.40	-1,537,590,906.29	–
Add: Net Profit attributable shareholders of the Company for the year	-397,057,643.19	-99,493,754.11	–
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	-2,034,142,303.59	-1,637,084,660.40	

Note 6: Notes to Consolidated Financial Statements *(Continued)*

6.33 Revenue and cost of sales

6.33.1 Revenue and cost of sales

Item	Year 2017		Year 2016	
	Income	Cost	Income	Cost
Main business	32,382,320.55	25,570,761.13	63,327,513.55	53,880,384.72
Other business	603,537.11	398,738.56	186,910.74	69,746.77
Total	**32,985,857.66**	**25,969,499.69**	**63,514,424.29**	**53,950,131.49**

6.33.2 Main business (by products)

Products	Year 2017		Year 2016	
	Business income	Cost of sale	Business income	Cost of sale
Enclosed Busbar	30,072,679.91	24,009,050.65	34,193,870.44	29,224,549.68
Power Capacitor	2,309,640.64	1,561,710.48	28,730,053.36	24,299,424.79
High-voltage Switchgear	–	–	403,589.75	356,410.25
Total	**32,382,320.55**	**25,570,761.13**	**63,327,513.55**	**53,880,384.72**

6.33.3 Main business (by regions)

Regions	Year 2017		Year 2016	
	Business income	Cost of sale		Business income
Northeast	1,319,451.60	724,763.81	33,137,372.06	26,768,959.19
Central North	5,135,379.25	5,136,764.88	8,180,683.59	6,883,432.94
Central	9,815,797.89	6,637,085.92	8,434,885.87	7,098,446.35
Central East	701,838.03	479,657.27	12,196,554.38	11,234,032.28
South East	1,186,290.66	360,938.08	980,599.66	1,430,277.06
Southwest	9,106,143.07	7,891,359.72	301,241.03	306,158.13
Northwest	5,117,420.05	4,340,191.45	96,176.96	159,078.77
Total	**32,382,320.55**	**25,570,761.13**	**63,327,513.55**	**53,880,384.72**

Note 6: Notes to Consolidated Financial Statements *(Continued)*

6.33 Revenue and cost of sales

6.33.4 Business income from top 5 customers

Period	Amount	Ratio of total business income (%)
Year 2017	22,120,940.23	67.06
Year 2016	35,801,119.83	56.37

6.33.5 Purchase from top 5 suppliers

Period	Amount	Ratio of total purchase (%)
Year 2017	10,724,560.22	55.66
Year 2016	19,348,072.08	48.27

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

6.34 Business tax and surcharges

Item	Year 2017	Year 2016
City maintenance and construction tax	41,751.31	220,828.84
Education Surcharges	29,822.36	157,879.44
Land use tax	929,216.50	533,038.50
Property tax	270,431.40	180,287.60
Stamp duty	53,776.60	27,877.83
Tax on vehicles	10,948.80	13,017.60
Total	**1,335,946.97**	**1,132,929.81**

Note 6: Notes to Consolidated Financial Statements ***(Continued)***

6.35 Sales expenses

Item	Year 2017	Year 2016
Transportation fee	1,815,866.78	2,266,108.04
Consultation fee	–	3,039,448.11
Employee compensation	1,207,470.41	1,400,062.52
Travelling expense	1,326,057.36	1,491,077.95
Bidding fee	362,296.52	427,770.72
Material Consumption	48,568.97	317,163.94
After-Sales services Expenses	459,151.08	364,296.70
Entertainment fee	295,656.46	365,137.57
Other	276,423.46	331,672.21
Total	**5,791,491.04**	**10,002,737.76**

6.36 Administrative expenses

Item	Year 2017	Year 2016
Employee compensation	17,308,196.45	17,371,189.79
Loss of Shutdown	9,881,435.36	6,424,435.47
Office expenses	2,843,994.66	3,012,468.00
Depreciation expenses	1,780,967.78	1,601,641.29
Agent fee	8,128,559.41	2,770,247.05
Heating expenses	1,104,169.66	1,319,815.96
Taxes	–	352,049.65
Entertainment	1,034,410.31	956,027.43
Travelling expense	883,362.58	874,967.18
Intangible assets amortization	1,003,783.01	396,386.40
Rents & leases	1,043,960.57	397,635.58
Other	161,873.94	16,904.00
Total	**45,174,713.73**	**35,493,767.80**

Note: Loss of Shutdown is difference of Salaries and manufacturing expenses lower than normal level is taken into Administrative Expenses when manufacturing capacity is not in full use due to sales drop of New Jinrong – the Company's subsidiary.

Note 6: Notes to Consolidated Financial Statements *(Continued)*

6.37 Finance expenses

Item	Year 2017	Year 2016
Interest Expenses	1,056,010.25	855,032.02
Less: Interest Income	84,802.07	395,901.69
Exchange difference	2,378.01	334.25
Bank charges	88,356.19	75,421.89
Total	**1,061,942.38**	**534,886.47**

Note: Interest expenses represents interest arising from bank loan due to ICBC Bank Jinzhou Branch.

6.38 Assets impairment loss

Item	Year 2017	Year 2016
Bad debt expenses	14,270,240.81	1,602,045.05
Provision for decline in value on inventory	963,911.84	9,009,175.23
Impairment loss of saleable financial assets	23,313,895.54	17,816,275.70
Impairment loss of long-term equity investment	1,034,434.39	17,974,823.40
Impairment loss of fixed assets	2,228,612.31	8,710,888.13
Impairment loss of construction in progress	–	29,902.91
Total	**41,811,094.89**	**55,143,110.42**

6.39 Return on investments

6.39.1 Details of return on investment

Item	Year 2017	Year 2016
Return on long-term equity investment by equity method	-9,396.59	-8,186.51
Return on investment in disposing long-term equity investments	–	67,932.18
Return on available-for-sale financial assets	–	367,369.30
Total	**-9,396.59**	**427,114.97**

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

Note 6: Notes to Consolidated Financial Statements *(Continued)*

6.39 Return on investments *(Continued)*

6.39.2 Return on long-term equity investment by equity method

Investee	Year 2017	Year 2016	Reason for change
WeiDa High-voltage Electric Co. Ltd	-9,396.59	-8,186.51	Due to change in WeiDa's net profit/loss
Total	**-9,396.59**	**-8,186.51**	

6.40 Gain on Asset disposal

Item	Amount in the year	Amount last year	Amount taken into Profit & Loss
Gain on Asset disposal	–	-356,126.50	–
Total	**–**	**-356,126.50**	**–**

Note: Gain, Loss of Fixed asset disposal from previous periods are reclassified to this Accounting item by stipulations in <Notice – Revision to Financial Statement forms for General Business> (No. Cai Hui (2017) 30) .

6.41 Other Income

Item	Amount in the year	Amount last year	Amount taken into Profit & Loss
Subsidiary for famous brand products	50,000.00	–	50,000.00
Total	**50,000.00**	**–**	**50,000.00**

Note 6: Notes to Consolidated Financial Statements *(Continued)*

6.42 Non-operating income

Item	Year 2017	Year 2016	Amounts included in the current extraordinary profit & loss
Others	1,218,806.22	44,931.23	1,218,806.22
Total	**1,218,806.22**	**44,931.23**	**1,218,806.22**

Note: Balance of this item represents Payables waived by suppliers.

6.43 Non-operating expenses

Item	Year 2017	Year 2016	Amounts included in the current extraordinary profit & loss
Loss on disposal of non-current assets	177,333.23	3,015.56	177,333.23
Include: loss on disposal of fixed assets	177,333.23	3,015.56	177,333.23
Loss on disposal of intangible assets	–	–	–
Fines on late payment & Penalty	542,506.46	1,420.97	542,506.46
Settlement payments to employees	310,372,890.00		310,372,890.00
Total	**311,092,729.89**	**4,436.53**	**311,092,729.89**

Note: Non-operating revenues include payables waived by the vendors.

6.44 Income tax expense

6.44.1 Income tax expenses

Item	Year 2017	Year 2016
Current income tax expense in accordance with applicable tax laws and regulations	163,819.81	194.18
Deferred income tax expense	–	6,956,702.66
Total	**163,819.81**	**6,956,896.84**

Note 6: Notes to Consolidated Financial Statements *(Continued)*

6.44 Income tax expense

6.44.2 Proceedings of adjustments of Accounting profit and Income Tax Expenses

Item	Amount in the period
Total profit	-397,992,151.30
Income Tax Expenses by law/appropriate tax rate	-99,498,037.83
Effects of using different tax rates	1,848,919.04
Effects of adjustments to previous Income Taxes	–
Effects of non-taxable income	–
Effects of non-offsettable cost/expenses/loss	233,020.58
Effects of utilization of offsettable Deferred Income Tax Assets	–
Effects of unconfirmed offsettable temporary difference or losses of deferred income tax assets	97,579,918.02
Change due to Tax rates adjustments to Income Tax Assets/Liabilities balances	–
Income Tax Expenses	163,819.81

6.45 Notes to Statements of Cash Flows

6.45.1 Cash received from operating related activities

Item	Amount in the year	Amount in last year
Deposit on Bank Acceptance Notes	–	20,468,400.00
Government grants	50,000.00	10,109,500.00
Interest income	84,802.07	395,901.69
Current accounts	71,343,909.18	–
Release of frozen bank deposits	2,104,291.23	–
Bidding deposits	4,402,068.00	–
Deposits	20,000.00	–
Total	**78,005,070.48**	**30,973,801.69**

Note 6: Notes to Consolidated Financial Statements *(Continued)*

6.45 Notes to Statements of Cash Flows *(Continued)*

6.45.2 Cash paid for other operating related activities

Item	Amount in the year	Amount in last year
Fees for cash payments	15,345,602.41	19,878,329.47
Current accounts	12,415,381.64	18,589,469.74
Loan principal repayment to ICBC Bank Jinzhou Branch	5,000,000.00	–
Deposits Frozen	–	2,304,291.23
Deposits for Performance Guarantees	3,760,150.00	1,461,412.50
Deposits for bidding	1,253,321.00	1,899,701.00
Other	157,631.46	114,124.00
Total	**37,932,086.51**	**44,247,327.94**

6.45.3 Cash paid for Other investment related activities

Item	Amount in the year	Amount in last year
Net cash amount from disposing subsidiaries	–	53,721,509.80
Agent fees for sale of subsidiary – New Jinrong	1,405,000.00	–
Time deposits	30,000,000.00	–
Total	**31,405,000.00**	**53,721,509.80**

6.45.4 Cash received from other financial activities

Item	Amount in the year	Amount in last year
Compensation to Fuxin Enclosed's Parent Company old plant relocation	20,355,984.89	–
Total	**20,355,984.89**	**–**

Note 6: Notes to Consolidated Financial Statements *(Continued)*

6.45 Notes to Statements of Cash Flows *(Continued)*

6.45.5 Cash paid to other financial activities

Item	Amount in the year	Amount in last year
Agent fees for issuance of additional H Share	1,772,500.00	–
Total	**1,772,500.00**	**–**

6.46 Supplementary information to cash flows statement

6.46.1 Reconciliation from net profit to cash flows from operating activities

Item	Year 2017	Year 2016
① Reconciliation from net profit to cash flows from operating activities		
Net profit	-398,155,971.11	-99,588,553.13
Plus: Provisions for assets impairment	41,811,094.89	55,143,110.42
Depreciation of fixed assets, depreciation of oil and gas assets, depreciation of productive bio-assets	5,188,122.04	6,759,056.19
Amortization of intangible assets	399,496.20	201,491.61
Amortization of long term deferred expenses	604,783.73	132,129.48
Loss on disposal of fixed assets, intangible assets and other non-current assets (gain is shown as "-")	–	356,126.50
Loss on write-off of fixed assets (gain is shown as "-")	177,333.23	3,015.56
Loss on changes in fair value (gain is shown as "-")	–	–
Finance costs (gain is shown as "-")	1,056,010.25	814,756.60
Loss on investments (gain is shown as "-")	9,396.59	-427,114.97
Decrease in deferred tax assets (increase is shown as "-")	–	6,956,702.66
Increase in deferred tax liabilities (decrease is shown as "-")	–	–
Decrease in inventories (increase is shown as "-")	3,760,042.88	4,210,296.74
Decrease in operating receivables (increase is shown as "-")	96,760,575.70	17,836,958.96
Increase in operating payables (decrease is shown as "-")	294,350,933.05	-22,289,459.47
Other	–	–
Net cash flows generated from operational activities	45,961,817.45	-29,891,482.85
② Significant non-cash investment and financing activities		
Debts changed to capital	–	–
Convertible bonds mature within 1 year	–	–
Fixed assets acquired under finance lease	–	–
③ Changes in cash and cash equivalents:		
Cash at the end of period	8,408,461.77	22,488,930.21
Less: cash at the beginning of period	22,488,930.21	101,603,025.69
Plus: cash equivalents at the end of period	–	–
Less: cash equivalents at beginning of period	–	–
Net increase in cash and cash equivalents	-14,080,468.44	-79,114,095.48

Note 6: Notes to Consolidated Financial Statements *(Continued)*

6.46 Supplementary information to cash flows statement *(Continued)*

6.46.2 Composition of cash and cash equivalents

Item	December 31, 2017	December 31, 2016
① Cash	8,408,461.77	22,488,930.21
Incl: Cash on hand	7,317.67	2,884.63
Bank Deposits available on demand	8,401,144.10	22,486,045.58
Other cash assets available on demand	–	–
Deposits with Central Bank available on demand	–	–
Deposits with other banks	–	–
Inter-bank lending	–	–
② Cash equivalents	–	–
Incl: Bond investments mature within 3 months	–	–
③ Balance of Cash and equivalents at end of Year	8,408,461.77	22,488,930.21

Performance guarantee deposits pledged to the bank amounting to RMB6,527,300 and Bank Acceptance Notes deposits of RMB40,000, and time deposits of RMB30 million are not included in the balance of cash and cash equivalents at the end of period, either is RMB200,000 that's frozen by Court Order.

Note 6: Notes to Consolidated Financial Statements *(Continued)*

6.47 Assets with limited title or use

Item	Balance at beginning of year	Increment	Decrement	Balance at end of year
Intangible asset – land use right	3,929,209.13	–	3,929,209.13	–
Fixed asset – Buildings	9,721,809.92	–	9,721,809.92	–
Cash and equivalent – Other	2,807,150.00	6,971,212.93	3,211,062.93	6,567,300.00
Cash and equivalent – Bank deposits	2,304,291.23	200,000.00	2,304,291.23	200,000.00
Bill Receivable	1,900,000.00	–	1,900,000.00	–
Fixed asset – transportation	427,637.18	–	427,637.18	–
Total	**21,090,097.46**	**7,171,212.93**	**21,494,010.39**	**6,767,300.00**

Restrictions Cash & equivalents please see Note 6.1..

6.48 Foreign currency monetary items

6.48.1 Foreign currency monetary items

Item	Foreign currency balance at end of year	Exchange rate	Translated RMB balance at end of year
Currency			
US dollars	212.33	6.5240	1,385.25
Total	**212.33**	**6.5240**	**1,385.25**

Note 6: Notes to Consolidated Financial Statements *(Continued)*

6.48 Foreign currency monetary items

6.48.2 Exchange rate of offshore entities major reporting items

	Items on Balance Sheet	
Item	**December 31, 2017**	**December 31, 2016**
Northeast Electric (HK) Co. Ltd.	HKD1.00 = RMB0.8359	HKD1.00 = RMB0.8945
Gaocai technology Co. Ltd.	HKD1.00 = RMB0.8359	HKD1.00 = RMB0.8945

	Income, expenses, cash flow items	
Item	**Year 2017**	**Year 2016**
Northeast Electric (HK) Co. Ltd.	HKD1.00 = RMB0.8652	HKD1.00 = RMB0.8558
Gaocai technology Co. Ltd.	HKD1.00 = RMB0.8652	HKD1.00 = RMB0.8558

Note: 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.

Note 7: Merge and Consolidated Financial Statements

There is no change in the scope of consolidation during the period.

Note 8: Disclosure of equity in other entities

8.1 Equity in subsidiary

8.1.1 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
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	Jinzhou	Jinzhou	Manufacturing power capacitor	–	100.00	Business combination under common control
Jinzhou Jinrong Electric Appliance	Jinzhou	Jinzhou	Dry type capacitor banks, etc	–	69.75	Business combination under common control
Shanghai Kaixin Internet Technology Development Ltd.	Shanghai	Shanghai	Investment	–	100.00	Established by investment
Northeast Electric (Chengdu) Engineering Design Co Ltd	Chengdu	Chengdu	Design and construction of new energy	–	51	Set up by investment

Note 8: Disclosure of equity in other entities *(Continued)*

8.1 Equity in subsidiary *(Continued)*

8.1.2 Information on significant non-wholly-owned subsidiary

Item	Percentage of minority shares (%)	Equity attributable to Minority shareholders in the period	Dividends paid to Minority shareholders in the period	Total year-end Minority Interests
Northeast Electric (Chengdu) Power Engineering Design Co., Ltd.	49.00	-951,915.78	–	3,878,814.40
Jinzhou Jinrong Electric Appliances Co., Ltd.	30.25	-146,412.14		112,009.91
Total		**-1,098,327.92**	**–**	**3,990,824.31**

8.1.3 Financial information of significant non wholly-owned subsidiay

Name of subsidiary	Year-end balance					
	Current assets	Non-current assets	Total assets	Current liabilities	Non-current liabilities	Total liabilities
Northeast Electric (Chengdu) Power Engineering Design Co., Ltd.	14,693,490.53	92,285.12	14,785,775.65	6,869,827.89	–	6,869,827.89
Jinzhou Jinrong Electric Appliances Co., Ltd.	934,777.06	760,033.58	1,694,810.64	1,324,529.90	--	1,324,529.90

(Cont'd)

Name of subsidiary	Beginning balance					
	Current assets	Non-current assets	Total assets	Current liabilities	Non-current liabilities	Total liabilities
Northeast Electric (Chengdu) Power Engineering Design Co., Ltd.	9,971,854.03	–	9,971,854.03	113,221.00	–	113,221.00
Jinzhou Jinrong Electric Appliances Co., Ltd.	1,849,582.48	863,637.52	2,713,220.00	1,858,932.20	–	1,858,932.20

Note 8: Disclosure of equity in other entities *(Continued)*

8.1 Equity in subsidiary *(Continued)*

8.1.3 Financial information of significant non wholly-owned subsidiay

	Amount in the period				Amount last period			
Name of subsidiary	Operating income	Net profit	OCI	Cash flow from operating activities	Operating income	Net profit	OCI	Cash flow from operating activities
Northeast Electric (Chengdu) Power Engineering Design Co., Ltd.	–	-1,942,685.27	–	-2,156,825.52	–	-105,872.33	–	2,591,577.17
Jinzhou Jinrong Electric Appliances Co., Ltd.	–	-484,007.06	–	-855,758.16	–	-313,385.19	–	1,735,822.25

8.2 Equity in associates

8.2.1 Bas ic 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

Note 8: Disclosure of equity in other entities *(Continued)*

8.2 Equity in associates

8.2.2 Main information of significant associates accounting by Equity Method

Item	December 31, 2017	December 31, 2016
Current Assets	219,506,121.17	211,434,096.54
Incl: Cash and equivalents	13,659.27	571,458.48
Non-current assets		
Total assets	219,506,121.17	211,434,096.54
Current liabilities	23,741,296.33	916,499.78
Non-current liabilities		
Total liabilities	23,741,296.33	916,499.78
Net asset	195,764,824.84	210,517,596.76
Share in net asset pro rata shares held	40,719,083.57	43,787,660.12
Book value of equity investment to associate	19,463,641.61	25,000,000.00
Operating income	–	–
Net profit	-45,175.91	-39,358.24

8.3 Risk information relating to equity in associates

8.3.1 Significant restriction to fund transferrability

Nil

8.3.2 Shared portion of excessive loss in associate

Nil

Note 9: Risks related to financial instrument

Financial instruments the Company invested mainly include equity investment, borrowings, accounts receivables, and accounts payables, see Note 6 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.

9.1 Market risks

9.1.1 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, 2017, only daily expenses reported with no purchases or sales for these subsidiaries.

Note 9: Risks related to financial instrument *(Continued)*

9.1 Market risks *(Continued)*

9.1.1 foreign currency risks *(Continued)*

On December 31, 2017, 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 2017		Year 2016	
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	-10,094.69	339,326.48	-4,009.72	289,830.61
Translation from foreign currency reports	Depreciate 0.5% against RMB	10,094.69	-339,326.48	4,009.72	-289,830.61

9.1.2 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 6.18 for details), and the Company's present policy is to maintain the floating interest rates of these borrowings.

Up to Dec. 31, 2017, the Company has no bank loan outstanding.

9.2 Credit risks

By Dec. 31, 2017, 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.

Note 9: Risks related to financial instrument ***(Continued)***

9.2 Credit risks

9.2.1 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.

9.2.2 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.

9.2.3 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.

9.3 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.

Note 10: Related parties and Related parties transaction

10.1 First Controlling Shareholder of the Company

Name	Place of Reg.	Nature of Business	Registered Capital	Shares percentage held by largest shareholder	Voting percentage held by largest shareholder
Beijing Hongyuan Investment Co. Ltd.	Beijing	Investment	RMB30000 million	9.33%	9.33%

10.1.1 On Jan. 23, 2017, former first controlling shareholder of the Company – Changzhou Qingchuang Investment Group agreed to transfer 81,494,850 A shares without selling restriction of the Company to Beijing Hongyuan Investment Co., Ltd by signing <Transfer Agreement of shares of Northeast Electric Development Co., Ltd.>. These shares is 9.33% of the Company's total share capital.

On Feb. 13, 2017, registration of share transfer at China Securities Registration and Settlement Co., Ltd. Shenhen Branch of the above-mentioned transfer. Thus, Beijing Honyuan has become the first controlling shareholder of the Company, taking 81,494,850 shares of the Company which is 9.331% of total shares.

10.1.2 Beijing Honyuan increased its share capital from RMB20 million to RMB30000 million in October 2017, with RMB3520 million paid-up. Ultimate controlling party of the Company becomes Cihang Charity Foundation of Hainan Province.

10.1.3 On July. 12, 2017, Beijing Hongyuan pledged the 9.33% shares it held of the Company to Jilin Province Trust Co. Ltd.

Note 10: Related parties and Related parties transaction *(Continued)*

10.2 Subsidiary of the Company

Details are shown in Note 8.1 "Equity in subsidiary"

10.3 Associate of the Company

Details are shown in Note 8.2 "Equity in associate"

10.4 Other associates

Name of other associate	Relationship with the Company
Jiangsu Zhilin Electric Technology Co., Ltd. (hereafter "Jiangsu Zhilin")	Shareholder of subsidiary – Northeast Electric (Chengdu)
Jiangsu Disheng Silian New Energy Investment Co., Ltd. (hereafter "Jiangsu Disheng")	Under same controlling party as Jiangsu Zhilin

Note: On 27 November 2017, Jiangsu Zhilin transferred 39% of Northeast Electric (Chengdu) Power Engineering Design Co., Ltd. shares, the latter being subsidiary of the Company. Jiangsu Disheng is under the same controlling party as Jiangsu Zhilin. Therefore Jiangsu Zhilin and Jiangsu Disheng are associates since Nov. 27, 2017.

10.5 Leasing between associates

Changzhou Qingchuang Enterprise Investment Group Ltd provided office for the Company without rental expense, from Jan. 1 to Feb. 3, 2017.

10.6 Guarantee between associates

There is no guarantee between associates up to Dec. 31, 2017.

Note 10: Related parties and Related parties transaction *(Continued)*

10.7 Current accounts between associates

Item	Name	Balance at end of year	Balance at beginning of year
Notes Receivable	Jiangsu Disheng	14,490,000.00	–
Other Receivables	Jiangsu Disheng	–	5,000,000.00
Other Payables	Weida High-voltage	313,872.23	350,890.13
Other Payables	Jiangsu Zhilin	–	110,000.00

For details of relationship between the Company and Jiangsu Disheng see Note 10.4. Jiangsu Disheng and Northeast Electric (Chengdu) Power Engineering Design Co., Ltd. took part in the construction under contract of PV Power Plant of 20MW capacity in Shannan Longzi County, Tibet with <Agreement of Cooperation Framework> on Dec. 30, 2016, for which construction Jiangsu Disheng has paid RMB14.6 million in Dec. 2016 and Jan. 2017. The bid was won by a third party, hence neither party took part in the construction. Jiangsu Disheng formed relationship of associate with the Company on Nov. 27, 2017. Up to the end of 2017 Receivables due from Jiangsu Disheng is RMB14.49 million.

10.8 Key managerial personnel compensation

Item	Year 2017	Year 2016
Employee compensation	3,532,056.43	4,234,918.63

Note 11: Contingent Events

11.1 Up to Dec.31, 2017, lawsuits of the Company pending rulings please see Note 6.26.4.

11.2 By end of 2017, rulings pending action of the Company are:

Liaoning Limeng State Asset Co Ltd ("Limeng") applied for New Northeast Electric (Jinzhou) Power Capacitor Co Ltd, subsidiary of the Company, to assist to implement ruling.

Shenyang High-voltage switches Co Ltd borrowed from Everbright Bank Shenyang Heping Sub-branch RMB4 million in 2004, for which loan Jinzhou Power Capacitor Co Ltd ("Jinzhou Capacitor ") has provided guarantee. Median Court of Shenyang City ruled that Jinzhou Capacitor should take up guaranty for such loan by Ruling of (2004) ShenZhongMinSanHeChuZi No.372 Civic Ruling. From Mar. 10, 2005, the Median Court has issued Orders of Enforcement several times to New Jinrong – the Company's subsidiary, to pay rental of RMB4.2 million to Jinzhou Power, which rental New Jinrong denied. Everbright Bank has now transferred right under the original loan to Limeng, thus Court of Enforcement has ruled that New Jinrong should pay RMB4.2 million internal rental to Limeng by Ruling of (2015) ShenZhongZhiCaiZi No.3.

New Jinrong has acknowledged such liability. This event does not constitute any effect on the Company's financial situation. After consultation with the Company's lawyers, the Company believe that Jinzhou does not have any creditor's rights against New Jinrong which rights were founding evidence to the Court's ruling. Thus New Jinrong has filed objection against the ruling. By the Law the Court of Enforcement would not enforce 3rd party, and would not investigate such objection. The Company's subsidiary – New Jinrong should not take up payment duty, and should win the lawsuit.

11.3 External Guarantee

Up to Dec. 31, 2017, the Company has pledged guarantee for Jinzou Capacitor's RMB52.9 million bank loan.

Details please see Note 6.26 Estimated Liabilities.

11.4 Other contingent liabilities and relevant impacts on financial statements

Up to Dec. 31, 2017, balance of Bank Acceptance Notes are RMB6,527,300 with Bank of China Fuxin Branch..

Note 12 Commitment

There's no material commitment during the period.

Note 13 Post Balance Sheet Date Events

13.1 Changes to Accounting Policy

On 31 March and 2 May 2017, The Ministry of Finance has issued notices Nos. Cai Hui [2017] 7, 8, 9 and 14 for <Enterprise Accounting Rules No. 22 – Recognition and Measurement of financial instruments (2017 revision) >, <Enterprise Accounting Rules No.23 – Transfer of financial assets (2017 revision) >, <Enterprise Accounting Rules No.24 – Hedging (2017 revision) > and <Enterprise Accounting Rules No.37 – Listing of financial instrument (2017 revision) >, requiring companies that list both domestic and abroad at the same time, and those list abroad which carry out international financial statements reporting standards or enterprise accounting standards for statement preparation to adopt these new rules effective Jan. 1, 2018, other listed companies to adopt from Jan. 1, 2019.

On July. 5, 2017, the Ministry of Finance issued <Enterprise Accounting Rules No.14 – Income (2017 revision) > by Notice No. Cai Hui [2017] 22, requiring companies that list both domestic and abroad at the same time, and those list abroad which carry out international financial statements reporting standards or enterprise accounting standards for statement preparation to adopt these new rules effective Jan. 1, 2018, other listed companies to adopt from Jan. 1, 2020.

The Company carries out these new rules since Jan. 1, 2018, and will make changes Accounting Policy of the Company accordingly.

13.2 As stated in Note 6.26.3, the Company repaid in full the remaining outstanding balance on Mar. 14, 2018 according to <Reduction and Exemption of Overdue Interest under Bank loans> signed by the Company, Jinzhou Power Capacitor Co., Ltd. and ICBC Bank Jinzhou Branch on Oct. 30, 2017.

13.3 Transfer of Accounts Receivable see Note 6.3.2.

13.4 Lawsuits

Dalian Current Transformer Group Co., Ltd. (hereafter "Dalian Transformer") sued against New Jinrong – a subsidiary of the Company for overdue payment for goods of RMB166,642.5 to People's Court of Guta District, Jinzhou City, which Court ruled on Mar. 6, 2018 with Ruling No. (2018) Liao (0702) Min Chu 63 a civil ruling, that New Jinrong pay Dalian Transformer RMB166,642.5 and interest incurred. Dalian Transformed filed for bank deposit of RMB200,000 be frozen.

Anshan Yongfeng Galvanization Co., Ltd. sued against New Jinrong of overdue payment of processing which amounted to RMB59,014.5, for which People's Court of Guta District ruled the New Jinrong pay the overdue amount and relevant interest incurred by Ruling No. (2018) Liao (0702) Min Chu 62 on Feb. 27, 2018.

New Jinrong has provisioned deferred payment interest and Court fees according to the Ruling.

Note 13 Post Balance Sheet Date Events *(Continued)*

13.5 Changes in Management

On Mar. 2, 2018 the Board of Directors of the Company received resignation letter from Director Zhang Xiang Sheng and CFO Feng Xiao Yu. On 9 March 2018, The Board of Directors nominated Li Tie as candidate for Director of the 8th Board, and the Board hired Xiao Xun as CFO, Zhao Guo Gang as CRO with move by the Board's nomination committee.

13.6 The Company has borrowed from Beijing Hai Hong Yuan Investment Co., Ltd. RMB24.14 million by Mar. 29, 2018.

Note 14: Other major events

14.1 Lawsuits

14.1.1 China Development Bank vs. Shenyang High-Volt, the Company on loan agreement, Contract revocation right.

Shenyang High-Voltage Switches Co., Ltd. (hereafter "Shenyang High-Volt") has acquired bank loan from China Development Bank (hereafter "CDB") in 1998 by <Agreement of Bank loan>, which was guaranteed by other companies with <Agreement of Guarantee>. In 2003 and 2004, with its land use rights and assets, Shenyang High-Volt joined with other companies in setting up subsidiaries including New Northeast Electric (Shenyang) High-Voltage Switches Co., Ltd (hereafter "New Northeast High-Volt "), Shenyang Dongli Logistics Co., Ltd. (formerly Shenyang Xintai Warehouse & Logistics Co., Ltd., hereafter "Dongli Logistics") and Shenyang Beifu Machinery Manufacturing Co., Ltd. (formerly Shenyang Chengtai Energy Power Co., Ltd., hereafter "Beifu Machinery". In 2004, the Company acquired shares of Dongli Logistics, Beifu Machinery and New Northeast Insulation with transfer of creditor's rights and share swaps. In May 2004, CDB filed a lawsuit with Higher Court of Beijing City (hereafter "Beijing Higher Court"), claiming for Shenyang High-Volt to repay overdue loan principal RMB150,000,000 and interest incurred, and for the Company, New Northeast High-Volt, New Northeast Insulation, Donli Logistics and Beifu Machinery to take up joint and several guarantee for the aforesaid principal and interest; also claiming for the Court to rule the share transfer agreement between Shenyang High-Volt and the Company on purchase of shares of New Northeast Insulation, Dongli Logistics and Beifu Machinery to be void.

Note 14: Other major events *(Continued)*

14.1 Lawsuits *(Continued)*

14.1.1 China Development Bank vs. Shenyang High-Volt, the Company on loan agreement, Contract revocation right. *(Continued)*

The case went through trial by Beijing Higher Court and Supreme Court of the People. Eventually Supreme Court of the People ruled in Sep. 2008 with Ruling No. (2008) Min Er Zhong Zi 23, that 1) Cancel the agreement by which the Company swapped 95% Beifu Machinery shares and 95% Dongli Logistics shares held by Shenyang High-Volt with creditor's rights of RMB76.66million and interest incurred held by the Company. The Company should return the aforesaid shares to Shenyang High-Volt within 10 days of the Ruling, or should compensate Shenyang High-Volt within the limit of RMB247.1165 million if unable to return those shares; Shenyang High-Volt should return the creditor's rights of RMB76.66 million of Dongbei Power Transmission Equipment Group Ltd. and interest incurred to the Company within 10 days of the Ruling, or should compensate the Company within the limit of RMB76.66 million if unable to return; 2) Cancel the share swap agreement between Shenyang High-Volt and the Company for 74.4% of New Northeast Insulation shares and 98.5% of Shenyang Taisheng Industry & Trade Co. Ltd. (formerly Shenyang Tiansheng Communication Equipment Co., Ltd, hereafter "Taisheng Industry & Trade") shares. 3) Shenyang High-Volt to return 98.5% of Taisheng Industry & Trade shares to the Company within 10 days of the Ruling. The Company return 74.4% of New Northeast Insulation shares to Shenyang High-Volt within 10 days of the Ruling. The Company compensate Shenyang High-Volt within the limit of RMB130 million deducting RMB27.8788 million if shares return not possible.

The Company carried out the Ruling in 2007 and 2008. However CDB filed with Beijing Higher Court for execution in 2009 by the Ruling No. (2008) Min Er Zhong Zi 23, consequently the Court froze 10% of Shenyang Kaiyi Electric shares held by the Company. The Company appealed for such execution while the Beijing Higher Court dismissed the appeal with Ruling No. (2013) Gao Zhi Yi Zi 142. Then the Company has filed for retrial with the Supreme Court, which Court dismissed Beijing Higher Court's relevant ruling and ruled for retrial. Beijing Higher Court issued Ruling No. (2015) Gao Zhi Yi Zi 52 in Dec. 2016, ruled Northeast Electric's appeal lack evidence, not sustain the claim of shares return already carried out, that the Company should carry out compensation. The Company again appealed to Supreme Court of the People, then Supreme Court made ultimate Ruling No. (2017) Zui Gao Fa Zhi Fu 27 in August 2017, to dismiss Northeast Electric's appeal and sustain Beijing Higher Court's Ruling No. (2015) Gao Zhi Yi Zi 52.

Note 14: Other major events ***(Continued)***

14.1 Lawsuits ***(Continued)***

14.1.1 China Development Bank vs. Shenyang High-Volt, the Company on loan agreement, Contract revocation right. ***(Continued)***

The Representing lawyers advised the Company carry out compensation of RMB272.6277 million by Supreme Court's ruling. As Shenyang High-Volt's business license has been revoked, the Company has taken compensation payable to Profit & Loss in the period.

14.1.2 Disputes on bank loan of New Jinrong (subsidiary)

Jinzhou Lijing Metal Products Co., Ltd and Xi'an Jinye Electric Appliance Co., Ltd. have separately filed lawsuit in 2017 with Guta District Court of the People against New Jinrong's delay payment of goods, claiming the Company to repay payment of goods of RMB371,003.51. The Court ruled for New Jinrong to pay the aforesaid claimed amount. New Jinrong has accrued provision for interest incurred and Court fees accordingly.

14.2 Compensation for Demolition to subsidiary of the Company – Fuxin Enclosed Busbar Co. Ltd.

On January 12, 2016, Fuxin Enclosed Busbar Co. Ltd – a wholly-owned subsidiary of the Company, signed <Agreement of attracting business> with the People's Government of Xihe District, Fuxin City. Terms and conditions are agreed by both parties regarding construction of the new plant of Fuxin Enclosed and its old plant move. Main contents are as follows: Fuxin Enclosed swaps its north plant area – a total of 15,174 sq.m land, 4500 sq.m buildings and attached real estates on 77 Dongfeng Road, for a 40,000 sq.m land, 17,831 sq.m buildings and attached real estates located in the Industrial Zone in Sihe Town, Xihe District, Fuxin City. Fuxin Enclosed will invest and construct a new plant project which ultimately has the annual production capacity of 20 million KW enclosed busbar. Estimated construction investment of the new plant amounts to RMB 50 million, including RMB 12 million on land, RMB38 million on production, buildings and attached real estate. Funding sources include compensation for demolition of 77 Dongfeng Road, rest will be resolved by Enterprise Development Fund of People's Government of Xihe District, Fuxin City. Construction expenses will be calculated by prices of settlement and equipment purchase.

By end of 2017, Fuxin Enclosed has received compensation of RMB30.9654 million, and construction of the new plant is close to complete.

Note 14: Other major events *(Continued)*

14.3 Accumulated profit

There is no accumulated profit available for distribution up to December 31, 2017.

14.4 Sale of subsidiary – New Northeast Electric (Jinzhou) Power Capacitor Co., Ltd.

On Sep. 17, 2017, the Board of Directors approved the 100% of New Northeast Electric (Jinzhou) Power Capacitor Co., Ltd. share transfer to Jiangsu Ankao Optical & Thermal Power Generating System Technology Co. Ltd. in its 8th Meeting 16th session. This transfer is still pending general meeting of shareholders' approval.

14.5 Non-public issuance of H share of the Company

In the 2nd interim general meeting of shareholders, <The Move on approving the conditions and clauses of Purchase agreement of new H Share of the Company by Hainan Aviation Hotel Group (HK) Co., Ltd with the Company signed on Apr. 5, 2017., and its pending transactions> has been approved. The additional H Share totals 155,830,000, purchase price is at HKD2.4/share.

On Aug. 7, 2017 the Company received from China Securities Regulatory Commission of <CSRC Notice of admission of administrative license application> (No.171506) .

The Company has agreed with Hainan Aviation Hotel Group (HK) Co. Ltd. to extend H Share issuance date to Jun. 30, 2018, or another dated that mutually agreed upon.

14.6 Significant uncertainties in regards with continuous operation of the Company

Up to Dec. 31, 2017 the Company has net loss of RMB2,034,142,303.59, and total liabilities were RMB194,64,017.71 more than total assets, current liabilities were RMB237,012,818.13 more than current assets, total equity attributable to parent company amounted to –RMB198,631,842.02. In the meantime, pending aggregate compensation by rulings has amounted to RMB272 million. These issues/items might cause material uncertainties as to the continuous operation of the Company, and result in the Company's inability to liquidate assets and repay debts.

Note 15: Major notes to Financial Statements of the Company

15.1 Accounts receivable

15.1.1 Accounts receivables by categories are analyzed as follows:

	December 31, 2017				
	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	1,423,911.79	100.00	926,107.07	65.04	497,804.72
Sub-total	1,423,911.79	100.00	926,107.07	65.04	497,804.72
Individually insignificant but subject to separate provision	–	–	–		
Total	**1,423,911.79**	**100.00**	**926,107.07**	**65.04**	**497,804.72**

(Cont'd)

	December 31, 2016				
	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	1,423,911.79	100.00	677,204.72	47.56	746,707.07
Sub-total	1,423,911.79	100.00	677,204.72	47.56	746,707.07
Individually insignificant but subject to separate provision	–	–	–	–	–
Total	**1,423,911.79**	**100.00**	**677,204.72**	**47.56**	**746,707.07**

Note 15: Major notes to Financial Statements of the Company *(Continued)*

15.1 Accounts receivable *(Continued)*

15.1.2 Accounts receivables that the related provisions for bad debts are based on grouping

	December 31, 2017		
Age of account	**Accounts receivable**	**Bad-debt provision**	**Ratio of provision (%)**
3 – 4 years	1,244,511.79	746,707.07	60.00
Over 4 years	179,400.00	179,400.00	100.00
Total	**1,423,911.79**	**926,107.07**	**65.04**

15.1.3 Details of accural, retrieval and reversal of bad debt provision

Balance of bad debt provision in this item is RMB248,902.35; retrieval or reversal of bad debt provision is 0.

15.1.4 There are no write off of trade receivables.

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

15.1.6 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	401,960.79	3-4 years	28.23	505,530.60
Yingkou Chongzheng Electric Equipment Co Ltd	Non-related	842,551.00	3-4 years	59.17	241,176.47
Total		**1,244,511.79**		**87.40**	**746,707.07**

Note 15: Major notes to Financial Statements of the Company *(Continued)*

15.2 Other receivables

15.2.1 Other receivables by categories are analyzed as follows:

	December 31, 2017				
	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	21.92	76,090,000.00	100.00	–
Subject to provision by group with risk characteristics	–	–	–	–	–
Aging combination	366,516.44	0.11	299,840.05	81.81	66,676.39
Internal current account	270,723,528.84	77.98	–	–	270,723,528.84
Sub-total	271,090,045.28	78.08	299,840.05	0.11	270,790,205.23
Individually insignificant but subject to separate provision	–	–	–	–	–
Total	**347,180,045.28**	**100.00**	**76,389,840.05**	**22.00**	**270,790,205.23**

(Cont'd)

	December 31, 2016				
	Book balance		Bad-debt provision		
Types	Amount	Ratio (%)	Amount	Ratio of provision (%)	Book value
Individually significant and subject to separate provision	128,950,591.00	33.60	76,090,000.00	59.01	52,860,591.00
Subject to provision by group with risk characteristics	–	–	–	–	–
Aging combination	387,896.26	0.10	291,607.44	75.18	96,288.82
Internal current account	254,442,160.42	66.30	–	–	254,442,160.42
Sub-total	254,830,056.68	66.40	291,607.44	0.11	307,399,040.24
Individually insignificant but subject to separate provision	–	–	–	–	–
Total	**383,780,647.68**	**100.00**	**76,381,607.44**	**19.90**	**307,399,040.24**

Note 15: Major notes to Financial Statements of the Company *(Continued)*

15.2 Other receivables *(Continued)*

15.2.2 By end of year, Other Receivable with significant amount and individually taken bad debt provisions

	Balance at end of year			
Other Receivables	**Other receivables**	**Provisions**	**Percentage**	**Reasons**
Benxi Steel (Group) Ltd.	76,090,000.00	76,090,000.00	100%	See Note 6.5.8a
Total	**76,090,000.00**	**76,090,000.00**		

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

	December (Continued)31, 2017		
Age of account	**Other receivables**	**Bad-debt provision**	**Percentage of bad-debt provision (%)**
Within 1 year	49,411.18	–	–
3 – 4 years	43,163.03	25,897.82	60.00
Over 4 years	273,942.23	273,942.23	100.00
Total	**366,516.44**	**299,840.05**	**81.81**

15.2.4 Accrual, Retrieval and Reversal of bad debt provision in the period

Bad debt provision for this item is RMB8,232.61, retrieval or reversal of this item is 0.

15.2.5 There are no write off of other receivables during reporting period.

Note 15: Major notes to Financial Statements of the Company *(Continued)*

15.2 Other receivables *(Continued)*

15.2.6 The largest five other receivables are analyzed by nature as follows:

Nature of Accounts	Balance at end of period	Balance at beginning of year
Lawsuit (see Note 6.5.9)	76,090,000.00	76,090,000.00
Current Account with subsidiaries	270,723,528.84	254,442,160.40
Payables from former subsidiary – Northeast Electric (Beijing)	–	52,860,591.00
Other	366,516.44	387,896.28
Total	**347,180,045.28**	**383,780,647.68**

15.2.7 Top five Other Receivables customers by end of period:

Name of company	Relationship	Amount	Age	Percentage in total Other Receivables (%)	Balance of bad debt provision
Shenyang Kaiyi Electric Ltd.	Wholly owned subsidiary	156,798,902.44	Within 4 years	45.16	–
Gaocai Technology Co. Ltd	Wholly owned subsidiary	79,298,247.36	Within 1 year	22.84	–
Benxi Steel (Group) Ltd.	Not related	76,090,000.00	Over 4 years	21.92	76,090,000.00
New Northeast Electric (Jinzhou) Power Capacitor Co., Ltd.	Wholly owned subsidiary	23,833,570.41	Within 2 years	6.86	
Northeast Electric (Chengdu) Power Engineering Design Co. Ltd.	Wholly owned subsidiary	6,600,000.00	Within 1 year	1.90	–
Total		**342,620,720.21**		**98.68**	**76,090,000.00**

15.2.8 Other receivable due from related parties of RMB270,723,528.84 are current account from the Company's subsidiaries.

Note 15: Major notes to Financial Statements of the Company *(Continued)*

15.3 Long-term equity investments

15.3.1 Classification

Item	December 31, 2017			December 31, 2016		
	Book balance	Provision for decline in value	Book value	Book balance	Provision for decline in value	Book value
Investment to subsidiary	173,305,837.52	116,869,364.49	56,436,473.03	173,305,837.52	66,385,900.53	106,919,936.99
Total	**173,305,837.52**	**116,869,364.49**	**56,436,473.03**	**173,305,837.52**	**66,385,900.53**	**106,919,936.99**

15.3.2 Investment to subsidiary

Investee	Accounting method	Cost of Investment	December 31, 2016	Increment/ Decrement	December 31, 2017
Northeast Electric (HK) Co	Cost Method	156,699,451.63	156,699,451.63	–	156,699,451.63
Shenyang Kaiyi Electric Co Ltd	Cost Method	100,000.00	100,000.00	–	100,000.00
Gaocai Technology Co Ltd	Cost Method	16,506,385.89	16,506,385.89	–	16,506,385.89
Total		**173,305,837.52**	**173,305,837.52**	**–**	**173,305,837.52**

(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	–	102,942,450.54	36,656,550.01	–
Shenyang Kaiyi Electric Co Ltd	10.00	10.00	–	100,000.00	–	–
Gaocai Technology Co Ltd	100.00	100.00	–	13,826,913.95	13,826,913.95	–
Total				**116,869,364.49**	**50,483,463.96**	**–**

Note: 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 6.26.3.

Note 15: Major notes to Financial Statements of the Company *(Continued)*

15.3 Long-term equity investments

15.3.3 Provision for impairment of long-term equity investment

Item	December 31, 2016	Increment	Decrement	December 31, 2017
Northeast Electric (HK) Co Ltd	66,285,900.53	36,656,550.01	–	102,942,450.54
Shenyang Kaiyi Electric Co Ltd	100,000.00	–	–	100,000.00
Gaocai Technology Co., Ltd.	–	13,826,913.95	–	13,826,913.95
Total	**66,385,900.53**	**50,483,463.96**	**–**	**116,869,364.49**

15.4 Supplementary information to cash flows statement

Supplementary Information	Year 2017	Year 2016
(1) Reconciliation from net profit to cash flows from operating activities		
Net Profit	-377,145,943.25	-9,131,252.84
Add: Provisions for assets impairment	50,740,598.92	515,469.93
Depreciation of fixed assets, depreciation of oil and gas assets, depreciation of production bio-assets	15,493.65	16,799.15
Amortization of intangible assets	–	–
Amortization of long term deferred expenses	448,018.61	–
Loss on disposal of fixed assets, intangible assets and other non-current assets (gain is shown as “-”)	–	–
Loss on write-off of fixed assets (gain is shown as “-”)	–	3,015.56
Loss on changes in fair value (gain is shown as “-”)	–	–
Finance costs (gain is shown as “-”)	649,378.63	273,833.66
Loss on investments (gain is shown as “-”)	–	–
Decrease in deferred tax assets (increase is shown as “-”)	–	–
Increase in deferred tax liabilities (decrease is shown as “-”)	–	–
Decrease in inventories (increase is shown as “-”)	–	–
Decrease in operating receivables (increase is shown as “-”)	36,050,040.12	39,787,285.57
Increase in operating payables (decrease is shown as “-”)	314,384,755.74	-45,996,198.63

Note 15: Major notes to Financial Statements of the Company *(Continued)*

15.4 Supplementary information to cash flows statement *(Continued)*

Supplementary Information	Year 2017	Year 2016
Others	–	–
Net cash flows generated from operational activities	25,142,342.42	-14,531,047.60
(2) Significant non-cash investment and financing activities		
Debts changed to capital	–	–
Convertible bonds mature within 1 year	–	–
Fixed assets acquired under finance lease	–	–
(3) Changes in cash and cash equivalents:		
Cash at the end of period	20,119.58	49,760.27
Less: cash at the beginning of period	49,760.27	2,658.47
Add: cash equivalents at the end of period	–	–
Less: cash equivalents at the beginning of period	–	–
Net increase in cash and cash equivalents	-29,640.69	47,101.80

Note 16 Supplementary information

16.1 Details of extraordinary profit& loss

Item	Year 2017	Year 2016
Profit & loss on disposal of non-current asset	-177,333.23	-291,209.88
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)	50,000.00	–
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	–	–
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	–	–

Note 16 Supplementary information *(Continued)*

16.1 Details of extraordinary profit& loss *(Continued)*

Item	Year 2017	Year 2016
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	–	367,369.30
Reverse of account receivable provision under separate impairment test	9,590,990.45	–
Profit & loss on entrusted loans	–	–
Profit & loss on subsequent measurement at fair value for investment properties	–	–
Impact on profit & loss by non-recurring adjustment according to Law of tax, of accounting, and legal regulations	–	–
Trustee fee by entrusted operations	–	–
Other Incomes and Expenses except for the above-mentioned	-309,696,590.44	43,510.26
Other items complied with definitions of extraordinary profit & loss	–	–
Sub total	-300,232,933.22	119,669.68
Amount of impact on Income Tax	-163,819.81	–
Impact on Minority Interests (after tax)	–	–
Total	**-300,396,753.03**	**119,669.68**

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)

Note 16 Supplementary information

16.2 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	–	-0.45	-0.45
Net profit attributable to ordinary shareholders after deduction of extraordinary profit and loss.	–	-0.11	-0.11

Note: There's no weighted average rate of return on asset in this period as net profit and net asset are both in red.

Northeast Electric Development Co., Ltd.

Mar. 29, 2017

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

(I) Accounting Statements bearing signatures and seals of the Legal Representative, 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.

Signatures of Directors:		
	Liu Daoqi	Li Rui

NEE

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

地址：中國江蘇省常州市新北區太湖東路9號E座23層
網址：www.nee.com.cn
電郵：nee@nee.com.cn
電話：(86) 0519-69818116
傳真：(86) 0519-69818115
郵編：213022

Address : Floor 23, Building E, No.9 East Taihu Road, Xinbei District, Changzhou City, Jiangsu Province, the PRC
Website : www.nee.com.cn
E-mail : nee@nee.com.cn
Tel : (86) 0519-69818116
Fax : (86) 0519-69818115
Zip : 213022