NEE

INTERIM REPORT 2018

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

Chapter 1 IMPORTANT NOTICE

1.1 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.

1.2 Mr. Li Tie, Chairman of the Company, Xiao Xun, Chief financial officer, and Xing Liwen, Chief accounting officer, hereby state to guarantee the truthfulness and completeness of the financial report of the Announcement.

1.3 This announcement is considered and approved by the twenty-fifth meeting of the eighth Board of Directors held on 29 August 2018.

This announcement has been reviewed and confirmed by the Audit Committee of the Board of the Company.

The financial report for the half year ended 30 June 2018 of the Company and its subsidiaries (the "Group") prepared according to the China's Accounting Standards for Business Enterprises has not been audited.

1.4 Interim Dividend: The Company proposes not to distribute cash dividend, issue bonus share, or capitalize from capital reserves.

1.5 This announcement is published in both Chinese and English. If there is any inconsistency between the Chinese and English version, the Chinese version shall prevail.

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

1.7 The announcement is made pursuant to the Rule 13.49(6) and the 46th paragraph of Appendix 16 in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Ltd.

Chapter 2 CORPORATE PROFILE

2.1 Basic information

Abbreviated name of A Shares	*ST Northeast Electric	A Shares stock code	000585
Place of listing of the A Shares	Shenzhen Stock Exchange		
Abbreviated name of H Shares	Northeast Electric	H Shares stock code	0042
Place of listing of the H Shares	The Stock Exchange of Hong Kong Limited		
Legal Chinese name	東北電氣發展股份有限公司		
Chinese abbreviation	東北電氣		
Legal English name	Northeast Electric Development Company Limited		
English abbreviation	NEE		
Legal Representative	Lie Tie		

2.2 Contact person and address

	Secretary to the Board of Directors	Representative for securities affairs
Name	Su Weiguo	Zhu Xinguang, Ding Jishi
Contact address	22/F, New HNA Building, No.7, Guoxing Avenue, Meilan District, Haikou City, Hainan Province	22/F, New HNA Building, No.7, Guoxing Avenue, Meilan District, Haikou City, Hainan Province
Tel	0898-68876008	0898-68876028
Fax	0898-68876033	0898-68876033
Email	nee@nee.com.cn	nemm585@sina.com gs306411@hnair.com

2.3 Additional Information

Registered address	Room A1-1077, 5th Floor, Building A, Entrepreneurship Incubation Center of Haikou National High-tech Zone, No.266 Nanhai Avenue, Haikou City, Hainan Province
Postal Code	571152
Office address	22/F, New HNA Building, No.7, Guoxing Avenue, Meilan District, Haikou City, Hainan Province
Postal Code	570203
Website	www.nee.com.cn
E-mail address	nee@nee.com.cn
Index to the website designated to disclose the temporary announcement	www.cninfo.com.cn; www.hkexnews.hk

Chapter 3 PRINCIPAL FINANCIAL DATA AND CHANGES IN SHAREHOLDERS

3.1 Principal accounting data and financial indicators

Did the Company need to make retrospective adjustment to or restatement of the accounting data of prior years

☐ Yes √ No

	The reporting period	The same period last year	Increase/decrease in the reporting period compared with the same period of last year
Operating incomes (RMB)	14,296,160.44	17,612,476.66	-18.83%
Net profits attributable to shareholders of the listed company (RMB)	3,880,567.18	-19,929,800.00	119.47%
Net profits attributable to shareholders of the listed company after extraordinary items (RMB)	-17,513,717.49	-20,411,197.57	14.20%
Net cash flows arising from operating activities (RMB)	-5,163,724.31	27,720,853.31	-118.63%
Basic earnings per share (RMB/Share)	0.0044	-0.0228	119.30%
Diluted earnings per share (RMB/Share)	0.0044	-0.0228	119.30%
Weighted return on net assets (%)	-2.00%	-10.92%	8.92%
	As at the end of the reporting period	**As at the end of last year**	**Increase/decrease at the end of the reporting period compared with the end of last year**
Total assets (RMB)	294,604,470.82	306,236,911.04	-3.80%
Net assets attributable to shareholders of the listed company (RMB)	-194,388,839.22	-198,631,842.02	2.14%

Description of differences on figures by domestic and foreign accounting standards:

No difference between net profits and net assets prepared under PRC GAAP and HKFRS.

3.2 Extraordinary profit and loss items and amounts

Unit: RMB

Item	Amount	Remarks
Net value of other non-operating revenue and expenditure	21,394,284.67	Retrieval of guarantee compensatory payment
Total	21,394,284.67	–

3.3 Table of shareholdings of the top ten shareholders

Total number of shareholders of ordinary shares as at the end of the reporting period: 71,224								
Shareholdings of the top ten shareholders of ordinary shares								
Name of shareholders	Nature of shareholder	Shareholding percentage	Number of ordinary shares held at the end of the reporting period	Increase/ decrease in the reporting period	Number of ordinary shares subject to trading moratorium	Number of ordinary shares not subject to trading moratorium	Shares pledged or frozen	
							Status of shares	Qty
HKSCC Nominees Limited	Foreign legal person	29.43%	257,045,899	0	0	257,045,899		
Beijing Haihongyuan Investment Management Co., Ltd	Domestic non-state-owned legal person	9.33%	81,494,850	0	0	81,494,850		
Yang Xiuqin	Domestic natural person	3.20%	27,955,752	0	0	27,955,752		
Nanjing Fang Kai Enterprise Management Co., Ltd	Domestic non-state-owned legal person	0.50%	4,332,700	118,200	0	4,332,700		
Shi Yubo	Domestic natural person	0.41%	3,560,000	-194,300	0	3,560,000		
Shenzhen Zhongda Software Development Ltd	Domestic non-state-owned legal person	0.41%	3,550,000	0	3,550,000	0		
Chen Qingtao	Domestic natural person	0.28%	2,469,986		0	2,469,986		
Xu Kaidong	Domestic natural person	0.28%	2,432,059	700	0	2,432,059		
Hu Li	Domestic natural person	0.25%	2,172,360		0	2,172,360		
Central Huijin Asset Management Co., Ltd.	State-owned legal person	0.24%	2,078,800		0	2,078,800		

Notes:

(1) *So far as the Company is aware, there is no connected relationship among the top ten shareholders, and they are not parties acting in concert as provided in "Methods of Information Disclosure of Shareholding Changes of Listed Companies".*

(2) *Based on the public information as at the latest practicable date prior to the publishing of this report and within the knowledge of the Directors, the Company confirmed that there was sufficient public float of its shares.*

(3) *Save as disclosed above, the Directors were not aware that any person (not being a Director, or chief executive of the Company) had any interests or short positions in the shares or underlying shares of the Company which were required to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the Securities and Futures Ordinance or which were required to be recorded in the register required to be kept by the Company or short positions in the shares pursuant to Section 336 of the SFO.*

(4) *Purchase, sale or redemption of the Company's listed securities*
During the reporting period, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's shares.

(5) *Pre-emptive rights*
There is no provision for pre-emptive rights under the laws of the PRC and the Articles of Association of the Company.

(6) *Convertibles, options, warrants or other similar rights*
As of 30 June 2018, the Company did not issue any convertible securities, options, warrants or any other similar rights.

(7) *The pledge release procedures in respect of 81,494,850 A shares not subject to trading moratorium held by Beijing Haihongyuan Investment Management Co., Ltd have been completed with the Shenzhen Branch of China Securities Depository and Clearing Corporation Limited on 16 August 2018.*

Chapter 4 PROFILES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

4.1 Changes in Shareholdings of directors, supervisors and senior management

There was no change in shareholdings during the reporting period.

4.2 Changes in directors, supervisors and senior management

Name	Position	Type	Date	Reason
Feng Xiaoyu	Vice general manager, Financial manager	Dismissed	2 March 2018	Job change
Zhang Xiangsheng	Director	Resigned	2 March 2018	Job change
Zhang Luyang	Director	Resigned	17 April 2018	Heavy business commitment
Li Dong	Shareholder representative supervisors	Resigned	17 April 2018	Heavy business commitment
Liu Daoqi	Director, Chairman	Resigned	16 May 2018	Work adjustment
Qiu Yongjian	Employee representative supervisor	Resigned	16 May 2018	Heavy business commitment
Xiao Xun	Chief Finance Officer	Appointed	9 March 2018	Operational needs
Zhao Guogang	Chief Risks Officer	Appointed	9 March 2018	Operational needs
Li Tie	Director, Chairman	Elected	25 May 2018	Operational needs
Li Ming	Independent director	Elected	25 May 2018	Operational needs
Hao Lianjie	Shareholder representative supervisors, Chairman of the Supervisory Committee	Elected	25 May 2018	Operational needs
Deng Yongfei	Supervisor representing staff	Elected	25 May 2018	Operational needs
Qin Jianmin	Director	Elected	26 June 2018	Operational needs
Bai Haibo	Vice Chairman, Director	Resigned	16 August 2018	Work adjustment

4.3 Equity Interest of directors, supervisors and senior management

As at 30 June 2018, the Company hadn't been notified that any director, supervisor or member of senior management of the Company had any interest in their own equity or debt securities or in the equity or debt securities of their spouses and children aged more than 18 years old which were required to be disclosed 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, nor have they been granted, or exercised, any rights to subscribe for shares or bonds of the Company.

Chapter 5 MANAGEMENT DISCUSSION AND ANALYSIS

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 relatively 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 tackled various challenges, fully implemented the resolutions passed by the general meeting and the 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.

5.1 Analysis of principal operations

I. Summary

During the reporting period, the operating incomes of the Company amounted to RMB14,296,200, 81.17% of that of the same period of last year, with a year-on-year decrease of RMB3,316,300. The Company has made greater efforts to settle and collect debts and recover the compensatory guarantee, which achieved a turnaround from the loss; and the net profits were RMB3,527,400, with a year-on-year net increase of RMB23,812,800.

II. The Company's production and operations are as follows

(I). Operating incomes, product gross margin, expenses incurred and net profits

The operating incomes decreased by 18.83%, that is, RMB3,316,300 from the same period of last year. This was mainly due to the shrink of market demand for power capacitor products caused by the economic structural adjustment and the postponed delivery under some contracts due to the customer's reason.

The net profits amounted to RMB3,527,400, a year-on-year increase of RMB23,812,800.

1. The operating profits increased by RMB2.90 million. The operating profits decreased by RMB2,098,000, mainly due to the decline in the operating incomes and gross profit margin. The losses in assets impairment have been increased from the same period of last year, which led to a year-on-year decrease of net profits by RMB342,000. This was mainly because of the provision for the bad debts. The administrative expense declined by RMB3.74 million from the same period of last year due to the Company's tight control. The sales expense declined by RMB1.34 million due to factors such as the decrease in travelling expense of sales staff and goods transportation fee. The interest expense declined during the reporting period, which led to a decrease in financial expenses by RMB260,000.

2. The non-operating expenses during the reporting period have been decreased by RMB36,000 on a year-on-year basis, and the non-operating incomes increased by RMB20.88 million, causing an increase of net profits by RMB20.84 million. This was mainly because of the offset of the estimated liabilities by the guarantee paid to ICBC Bank Jinzhou Branch and the retrieval of the compensatory guarantee.

(II). The Company will focus on the following work during the reporting period:

1. During the reporting period, Fuxin Enclosed Busbars Co., Ltd., a wholly owned subsidiary of Northeast Electric, has completed new plant relocation and the plant has been officially put into use. The use of the new plant can greatly improve the technological level of busbar product manufacturing, significantly enhance the competitiveness of the product in the market, and fundamentally turn around the shrinking trend of orders due to outdated equipment and declined technological levels.

2. In order to obtain new investment opportunities and profit growth drivers, Hainan Tangyuan Technology Co., Ltd., a wholly owned subsidiary of the Company, entered into the Lease Agreements with eight companies, namely Dongguan Yujingwan, Tianjin Center, Hainan Guoshang, Danzhou Xintiandi, Hangzhou Huagang, Asia-Pacific International, Yunnan Tonghui Hotel, and Jilin Province Tourism Group to build a sharing platform of hotel public space. The Lease Agreements were considered and approved at the 24th meeting of the 8th Board of Directors of Northeast Electric. This will help invigorate its continuing operation and help the Company transform from the traditional manufacturing sector to modern service industries. Currently, the general meeting circular on this matter has been approved by the Stock Exchange and the general meeting will be held on 29 October.

3. For the purposes of further optimizing the Company's financial business processes, reducing financial costs, improving funds utilization efficiency, and maximizing benefits, the Company entered into the Financial Services Agreement with HNA Group Finance Co., Ltd. The Financial Services Agreement were considered and approved at the 24th meeting of the 8th Board of Directors of Northeast Electric. This will help the Company and its holding subsidiaries strengthen capital management and control, reduce and prevent operational risks, settlement business with associates, shorten the time for funds in transit, accelerate capital turnover, and save transaction costs and expenses. Currently, the general meeting circular on this matter has been approved by the Stock Exchange and the general meeting will be held on 29 October.

4. 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.

5. In the first half of the year, the Company focused on the enhancement of the construction of the human resources team and adjustment of the Company's personnel structure in combination with the relocation of the headquarters office and the conduction of the subsidiaries' business operations. A total of 5 senior management personnel have been appointed and nearly 20 professionals and talents have been introduced by the Company and its main subsidiaries through recruitment and competitive selection. Not only the Company's management and operation needs can be satisfied, but also the staff quality and capability have been significantly improved, and the staffing structure has become more reasonable.

5.2 Analysis of core competitiveness

Thanks to the long-term accumulation in many aspects such as product quality, brand culture, R&D capability, process technology, management service and marketing, the Company shows some advantages and industrial competitiveness, which can be seen in the close association between industry development of the Company and macroeconomic policies of the State; certain association between the market and macroeconomic development; advanced production equipment and strong manufacturing capabilities; accumulation of technological strength and high professional technological level; sound internal control system and standardized corporate governance; certain product development capabilities and investment and financing capabilities.

There were no material changes in the core competitiveness of the Company during the reporting period.

5.3 Key financial data

Unit: RMB

	The reporting period	The same period of last year	Increase/ decrease in the reporting period compared with the same period of last year	Reasons for changes
Operating incomes	14,296,160.44	17,612,476.66	-18.83%	The significant decrease in the number of contracts due to the declined market demand caused by economic structural changes
Operating costs	12,156,795.16	13,354,978.21	-8.97%	Sales decline
Sales expenses	1,897,146.53	3,235,411.25	-41.36%	Sales decline
Administrative expenses	16,549,369.69	20,287,891.80	-18.43%	The Company's strict control over administrative expenses
Finance expenses	363,263.42	626,905.77	-42.05%	No new borrowings during the reporting period
Income tax expenses	0.00	0.00		
Net cash flow from operating activities	-5,163,724.31	27,720,853.31	-118.63%	Amounts due from former subsidiaries for the previous period; the Company's operating losses due to its subsidiaries' declined sales income
Net cash flow from investing activities	163,504.28	-1,065,152.91	115.35%	Acquisition of a large amount of fixed assets for the previous period
Net cash flow from financing activities	-20,745.19	-21,741,382.17	99.90%	Repayment of principal and interest on borrowings in the previous year; no borrowings and interest expense in this year
Net increase in cash and cash equivalents	-5,017,734.77	4,902,415.72	-202.35%	Based on the above factors

5.4 Principal operations

Unit: RMB

	Operating incomes	Operating costs	Gross margin	Increase/ decrease in operating incomes compared with the same period of last year	Increase/ decrease in operating costs compared with the same period of last year	Increase/ decrease in gross margin compared with the same period of last year
By industry						
Power transmission and transformation	14,296,160.44	12,156,795.16	14.96%	-18.83%	-8.97%	-9.21%
By product						
Enclosed busbar	13,450,524.58	11,474,210.18	14.69%	-15.83%	-5.36%	-9.44%
Power capacitor	845,635.86	682,584.98	19.28%	-48.19%	-44.52%	-5.33%
High-voltage switches						
By region						
Northeast	4,312,019.98	3,238,944.06	24.89%	609.51%	536.40%	8.63%
North China	67,668.65	50,297.32	25.67%	-90.27%	-90.12%	-1.12%
Central China	156,339.53	117,960.42	24.55%	13.66%	32.80%	-10.88%
East China	2,396,365.81	1,981,020.78	17.33%	-67.19%	-57.27%	-19.19%
South China	745,461.77	320,485.74	57.01%			57.01%
Southwest	384,766.42	259,172.80	32.64%	-95.66%	-96.60%	18.48%
Northwest	6,233,538.28	6,188,914.04	0.72%			0.72%

5.5 Analysis of investment

I. Major controlling company

Unit: RMB

Name	Type of company	Major business	Registered capital	Total assets	Net assets	Operating incomes	Operating profits	Net profit
Northeast Electric Development (Hong Kong) Limited	Subsidiary	Trading	USD20,000,000	68,539,723.37	54,208,209.30		-11,775.63	-11,775.63
Great Talent Technology Limited	Subsidiary	Investments	USD1	78,479,029.87	2,719,034.10		-8,074.73	-8,074.73
Shenyang Kaiyi Electric Co., Ltd.	Subsidiary	Electronic equipment	RMB1,000,000	152,474,372.88	-9,784,749.85		-1,102,419.86	-1,103,566.60
Fuxin Enclosed Busbars Co., Ltd.	Subsidiary	Enclosed busbars	USD8,500,000	143,515,868.94	-3,943,882.84	13,450,524.58	-4,092,708.30	-4,092,708.30
New Northeast Electric (Jinzhou) Power Capacitors Co., Ltd.	Subsidiary	Power capacitor	USD15,450,000	91,181,979.22	79,460,797.55	845,635.86	-9,078,661.91	-8,944,211.75
Jinzhou Jinrong Electric Co., Ltd.	Subsidiary	Dry-type capacitor	RMB3,000,000	1,544,851.32	233,236.00		-137,044.74	-137,044.74
Hainan Tangyuan Technology Co., Ltd.	Subsidiary	Public space business	RMB10,000,000	35,735,338.01	-133,690.94		-31,568.02	-31,568.02
Northeast Electric (Chengdu) Power Engineering Design Co., Ltd.	Subsidiary	Power Engineering	RMB10,000,000	14,414,571.64	7,279,705.35		-636,242.41	-636,242.41

Note: On 1 June 2018, approved by Industrial and Commercial Administration Bureau of Haikou City, Hainan Province, the name of "Shanghai KaiXin Internet Technology Development Co., Ltd." was changed to "Hainan Tangyuan Technology Co., Ltd." and the Business License was obtained after renewal.

II. 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.

III. The investment of non-raised capital, progress and benefits of the main invested projects: None.

5.6 Prospects for the second half of the year

Centered on the annual business objectives and work tasks, the Company's management strives to achieve a breakthrough at the operating level and reverse the situation of operating performance decline by enhancing the operation efficiency and core competitiveness. In the second half of 2018, the Company will focus on the following work:

1. The Company will further improve the corporate governance structure, drive the management team to shift in thinking, make exploration and innovation actively, broaden sources of income and cut expenditure, and stimulate vitality, energy and creativity of the management team.

2. The Company will change the business development idea positively, and actively grasped the opportunity to adjust the industrial structure gradually and promote industrial upgrade, so as to improve the sustained operation capacity, profitability and asset quality and maximize the interests of shareholders.

3. The Company will improve the working standards and internal control system in strict compliance with the standard operation requirements of listed companies, establish a sound enterprise operation organization mechanism, perfect all the internal control systems constantly, and reinforce risk control measures to reduce business risks.

4. The Company will change the marketing strategies, adjust and optimize the customer base, cultivate the traditional bidding market deeply, and spare no effort to develop industry users and enterprise users, and strive to achieve breakthroughs in some new fields. Meanwhile, the Company will enhance the profitability of leading products, stabilize the market share and presence of leading products and enhance the Company's image.

5. The Company will, through equity financing and capital operations, actively promote the improvement of capital reserves, further optimize its principal business and seek new business opportunities, thus enhancing the core competitiveness and sustainable development capacity.

5.7 Analysis of the Company's financial position under Appendix 16 of Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited

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

   By the end of the reporting period, the balance of monetary fund was RMB40,527,885.96.

   There is no obvious seasonal pattern 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 substantial shareholders.

   By the end of the year, the Company had bank loans amounting to RMB0, representing 0% of the total assets. These bank loans all bear floating interest rates.

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

   By the end of the reporting period, the Company had fixed asset and land with net book value of RMB0 as security.

2. For significant investment, acquisition or disposal of assets of the Group during the reporting period, see the section and the section XI headed "Acquisition and disposal of assets of the Company in the reporting period".

3. For classification of the Group's results, see the section headed "Composition of principal operations".

4. Anticipated investment plan of the Group for the next year: None.

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

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

Chapter 6 Significant Events

6.1 Personnel changes

Please refer to "Profiles of directors, supervisors and senior management" of Chapter 4.

6.2 Staff of the Company and remuneration policy

As at 30 June 2018, the number of employees on the payroll of the company was 538, compared with 559 by the end of 2017. 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.

6.3 Corporate governance structure

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

6.4 Profit distribution plan and its implementation

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

6.5 Material litigation and arbitration

1 The litigation where the Tiexi District branch (Shenyang City) of the State-owned Assets Supervision and Administration Commission 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

The Company, received the Notice of Appearance (Liao 01 Min Chu [2017] No. 430), the bill of indictment, and other related litigation materials served by Liaoning Shenyang Municipal Intermediate People's Court on 5 July 2017. The indictment relates to the Company's alleged breach of Agreement on the Resettlement of Employees of Shenyang High Voltage Switchgear Co., Ltd., Agreement on the Proper Resettlement of Employees of Shenyang High Voltage Switchgear Co., Ltd and Supplementary Agreement on the Proper Resettlement of Employees of Shenyang High Voltage Switchgear Co., Ltd. (collectively, the "Agreements") signed by the Tiexi District branch (Shenyang City) of the State-owned Assets Supervision and Administration Commission (hereinafter referred to as the "Plaintiff") and the Company and Shenyang High-voltage Switchgear Co., Ltd. (hereinafter referred to as the "Second Defendant") on 9 May 2007, 30 June 2008 and 28 November 2008 respectively. According to the above Agreements, the Company shall pay a total of RMB132,390,000 for the Second Defendant to bear joint and several liability for the resettlement of employees, and New Northeast Electric (Shenyang) High Voltage Switchgear Co., Ltd. shall provide the Plaintiff with joint and several guarantee for the resettlement fee. The Plaintiff sought compensation from the Company for the remaining arrears of RMB28,530,000, interest of RMB7,788,690 and liquidated damages of RMB1,426,500, totaling RMB37,745,190, arising from the alleged breach of such Agreements.

On 12 June 2018, the case was heard in the Shenyang Intermediate People's Court. On July 18, the Shenyang Intermediate People's Court issued a civil written order (Liao 01 Min Chu [2017] No. 430). The Shenyang Intermediate People's Court held that when the Plaintiff reclaimed its rights to the Company on 21 July 2016, it has been more than two years of statute of limitations. The Shenyang Intermediate People's Court rejected the claim that the Plaintiff requested the Company to pay arrears of RMB28.53 million, interest and liquidated damages.

According to the legal opinion and based upon the principle of financial prudence, in 2017, the Company also has the provision for estimated liabilities according to the amount of money involved in the case of RMB37,745,190, with details referring to the 2017 Operating Results Forecast published on 31 January 2018, as well as the 2017 Annual Report published on 29 March 2018. Given the fact that this judgment is the first-instance verdict of the court, the Company cannot predict the potential impacts of the litigation's final judgment on the profit of the current period and afterwards.

The Plaintiff has submitted an appeal on the above judgment to the court during the appeal period. The Company will timely perform its announcement obligation in relation to the progress of the case according to related regulations.

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. For details, please refer to the 2017 Operating Results Forecast published on 31 January 2018, as well as the 2017 Annual Report published on 29 March 2018.

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

Liaoning Limeng State Asset Co., Ltd. filed a claim against New Northeast Electric (Jinzhou) Power Capacitor Co., Ltd., the subsidiary of the Company, to pay overdue unpaid rental of RMB4,200,000 (equivalent to approximately HKD4,620,000). On 17 November 2014, the Liaoning Shenyang Municipal Intermediate People's Court issued the enforcement order of (2014) Shen Zhong Zhi Cai Zi No. 80, which was further confirmed by the judgment of (2015) Zhong Zhi Cai Zi No. 3. Accordingly, New Northeast Electric (Jinzhou) Power Capacitor Co., Ltd. was required to pay the amount claimed. NNE Jinzhou PC refused to accept the ruling and applied for a review to the Higher People's Court of Liaoning Province and the case was not decided. For details, please refer to the 2017 Annual Report published on 29 March 2018.

In January 2015, the plaintiff Li Yingwu obtained the above-mentioned claim and filed an application with the Shenyang Intermediate People's Court to change the application executor. On 10 April 2018, Shenyang Intermediate People's Court made the civil ruling (Liao 01 Zhi Hui Zi [2017] No. 30), and accordingly issued the Notice on Assistance in Enforcement, requesting NNE Jinzhou PC to assist in freezing the rental income of RMB6,600,000 of Jinzhou Power Capacitor Co., Ltd. On 19 April 2018, Shenyang Intermediate People's Court made the Notice (Liao 01 Zhi Hui Zi [2017] No. 30), requesting NNE Jinzhou PC to fulfill Li Yingwu's debts of RMB6,600,000 due to Jinzhou Power Capacitor Co., Ltd. Since NNE Jinzhou PC had no debt due to Jinzhou Power Capacitor Co., Ltd., NNE Jinzhou PC filed an objection to such enforcement to the Shenyang Intermediate People's Court on 28 April 2018. NNE Jinzhou PC received the subpoena from the People's Court of Guta District, Jinzhou City on 8 August 2018. The plaintiff Li Yingwu filed the subrogation lawsuit and requested the people's court to rule according to laws. The case has been heard by the Guta District People's Court on 12 September 2018. The impact of the final judgment of this lawsuit on the Company's profit is pending.

Save as disclosed above, at the end of the reporting period, the Group did not have any pending or threatened material litigation or claim.

6.6 Acquisition and disposal of assets of the Company in the reporting period

Disposal 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. they held to Jiangsu Ankao Solar Thermal Power Generation System Technology Co., Ltd. This substantial asset disposal has been reviewed and approved at the second extraordinary general meeting in 2018 held on 25 May 2018. The Company is currently advancing the transfer of equities. For details, please refer to the Announcement of the Resolutions of the Second Extraordinary General Meeting in 2018 issued by the Company on 25 May 2018. (Announcement No.: 2018-039)

6.7 During the reporting period, the Company has no investment in securities.

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

6.9 Material Connected transactions

There are no material connected transactions in the Company during the reporting period.

6.10 Controlling shareholders and their connected parties' use of capital of the listed company for non-operating purpose

Controlling shareholders and their connected parties did not dispose of any capital for non-operating use during the reporting period.

6.11 Significant contracts and their execution

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

2 Guarantees:

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

As at the end of the reporting period, the actual balance of the external guarantee provided by the Company totaled RMB30,150,000, representing 0.0155% of the net assets attributable to shareholders of the listed company (absolute value) of the Company by the end of the reporting period.

External guarantees of the Company

By the end of the reporting period, the actual balance of the external guarantee provided by the Company was RMB30,150,000, including RMB30,000,000 for the Jinzhou Power Capacitors Co., Ltd; RMB150,000 for Shenyang Kingdom Hotel Co., Ltd.

There were no guarantees for the subsidiaries of the Company. There were no guarantees for a subsidiary of another subsidiary.

Guarantee of the Company for the guaranteed company with direct or indirect debt to assets ratio over 70%

As at the end of the reporting period, the balance of guarantee of the Company for Jinzhou Power Capacitors Co., Ltd. with debt to assets ratio over 70% was RMB30,000,000, accounting for 0.0154% of the net assets of the Company by the end of the reporting period (excluding minorities interests).

The Company doesn't have any other guarantees for its shareholders, De Facto controller and other connected parties.

6.12 Implementation of commitments of the Company, shareholders and De Facto controller

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 major shareholders of listed companies.

During the reporting period, Beijing Haihongyuan has strictly fulfilled the above commitments.

6.13 Employment and dismissal of certified public accountants

During the reporting period, there was no employment or dismissal of CPAs.

6.14 Explanation Given by the Board of Directors on the relevant situation of the "Non-standard Audit Report" of the previous year

NEE 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.

I Matters Relating to the Audit Opinion

The investors are advised to note that 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. These matters indicate there are major uncertainties regarding the Company as a going concern, however, without any effect on the published audit opinions.

II Explanation given by the Board of Directors on the relevant situation of the "Non-standard Audit Report" of the previous year

The Board of Directors holds that the above audit opinion objectively and truthfully reflects the financial position of the Company and its risks as a going concern. The Company issued the "Detailed Explanation Given by the Board of Directors on Matters Relating to the Audit Opinion", "The Opinions of Independent directors on Matters Relating to the Audit Opinion", "The Opinions of the Supervisory Committee on the 'Detailed Explanation Given by the Board of Directors on Matters Relating to the Audit Opinion'"after its 2017 financial report was issued.

In the face of the current market and business environment of the Company, the Board of Directors urged the Company's management to integrate the Company's resources, actively change the business development ideas, and seek industrial restructuring. During the reporting period, the Company maintained stable operations, and various tasks were being effectively implemented. The Company's asset quality was gradually improved, and its ability to continue operations is qualified.

6.15 Independent directors' special representation and independent opinion on the fund occupation by connected parties and external guarantee of the Company

Independent directors Li Ming, Jin Wenhong, and Qian Fengsheng believed that:

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. Controlling shareholders and their connected parties did not occupy any capital of the Company for non-operating use. 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.

6.16 The Supervisory Committee's audit opinion

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

6.17 Purchase, sale and redemption of shares

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

6.18 Corporate governance

I Code on Corporate Governance Practice

The Company's directors confirm that the Company has fully complied with the provisions of Code on Corporate Governance Practices for the period of six months ended 30 June 2018, and disclosed the results report in accordance with these provisions. The Code on Corporation Governance Practices includes the clauses set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules").

II Audit Committee

The Company has established the Audit Committee in accordance with the Rule 3.21 of the Listing Rules.

The Audit Committee, together with the management, has reviewed the accounting principles, accounting standards and methods adopted by the Company, and studied matters relating to auditing, internal controls and financial reporting, including reviewed the unaudited semi-annual accounts for the period of six months ended 30 June 2018.

The Audit Committee has given its consent to the financial accounting principles, standards and methods adopted by the Company for the unaudited semi-annual records for the period of six months ended 30 June 2018.

At the meeting held on 29 August 2018, the Audit Committee reviewed and approved the 2018 semi-annual financial records and results report.

III Independent non-executive directors

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

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

During the reporting period, the Company has adopted a code of behavior on terms no less exacting than the required standard set out in the "Model Code" in connection with rules governing securities transactions of directors and supervisors. It was confirmed, upon specific inquiry, 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, actual controllers as well as connected parties, as defined in the Listing Rules) stating that purchase and sales of shares of the Company shall comply with relevant regulations and forbidding the insider purchase or sales of shares with inside information: no transactions of the company securities shall be carried out during the price-sensitive time within 60 days prior to the results report (the lock-up period is from 29 June to 29 August 2018).

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.

V Directors' liability insurance

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

Additionally, in accordance with the requirement of Rule A.6.5 of the Corporate Governance Code, all of the directors are actively engaging in continuous professional 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 directors in the listed company.

VI Shareholders' rights

During the reporting period, the Company has strictly comply with the Code on Corporation Governance Practices and Section VIII "Shareholders' Rights and Obligations" of the Articles of Association.

6.19 Income tax

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

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

6.21 Reception activities of field survey, communication and interview during the reporting period

There is no reception activities of field survey, communication and interview during the reporting period.

6.22 Significant events involving subsidiaries

I New Northeast Electric (Jinzhou) Power Capacitor Co., Ltd. ("NNE Jinzhou PC"), a wholly-owned subsidiary of the Company, 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 that NNE Jinzhou PC utilized part of its receivables 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. NNE Jinzhou PC and Tianjin Huayi Fuyin Commercial Factoring Co., Ltd. signed the Domestic Commercial Factoring Agreement (without recourse) on 20 March 2018 and both parties are performing their obligations under the Agreement.

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

During the reporting period, FEB completed the relocation of the new plant and the new plant has been officially put it into use. The use of the new plant can greatly improve the technological level of busbar product manufacturing, significantly enhance the competitiveness of the product in the market, and fundamentally turn around the shrinking trend of orders due to outdated equipment and declined technological levels.

III Progress of recovering the non-business capital flow of RMB14.49 million payable from Dison Silink New Energy Investment Co., Ltd. ("Dison Silink"), an affiliate, to Northeast Electric (Chengdu) Electric Engineering Design Co., Ltd. ("NEE Chengdu")

During the reporting period, Dison Silink repaid RMB0.3 million to NEE Chengdu; and after the reporting period, Dison Silink repaid RMB2.59 million to NEE Chengdu. Up to the date of disclosure of this report, Dison Silink still owes RMB11.6 million and its interest to NEE Chengdu. The Company has instructed personnel to track and implement the work of recovering the amount.

Chapter 7 Financial Statements (prepared under the PRC GAAP)

I. Financial Statements

1. CONSOLIDATED BALANCE SHEET (30 June 2018)

Prepared by: NORTHEAST ELECTRIC DEVELOPMENT CO., LTD.

Unit: RMB

Items	Closing Balance	Opening Balance
Current assets:		
Cash and cash equivalents	40,527,885.96	45,175,761.77
Reserved deposits		
Loans to banks and other financial institutions		
Financial assets at fair value through current profit or loss		
Derivative financial assets		
Notes receivable		15,878,744.00
Accounts receivable	21,389,237.83	76,253,768.68
Prepayment	2,151,545.06	1,878,311.93
Premiums receivable		
Reinsurance accounts receivable		
Reinsurance contract reserves receivable		
Interest receivable		
Dividends receivable		
Other receivables	18,134,832.83	3,123,072.43
Financial assets purchased under agreements to resell		
Inventories	7,655,335.53	11,533,044.52
Assets held for sale	84,023,356.18	
Non-current asset due within 1 year		
Other current asset	928,410.63	3,696,251.15
Total current assets	**174,810,604.02**	**157,538,954.48**

1. CONSOLIDATED BALANCE SHEET (30 June 2018) *(Continued)*

Prepared by: NORTHEAST ELECTRIC DEVELOPMENT CO., LTD.

Unit: RMB

Items	Closing Balance	Opening Balance
Non-current assets:		
Loans and advances		
Financial assets available for sale	31,760,858.70	31,760,858.70
Held-to-maturity investments		
Long-term receivables		
Long-term equity investments	19,607,563.41	19,463,641.61
Investment in real estate		
Fixed assets	13,168,325.10	35,705,865.32
Construction in progress	37,848,975.31	42,553,751.05
Construction material		
Liquidation of fixed assets		629,668.46
Operational biological assets		
Oil and gas assets		
Intangible assets	16,464,267.30	16,664,015.40
Development expenditures		
Goodwill	72,097.15	72,097.15
Long-term deferred expenses	871,779.83	1,545,177.16
Deferred income tax assets		
Other non-current assets		302,881.71
Total non-current assets	**119,793,866.80**	**148,697,956.56**
Total assets	**294,604,470.82**	**306,236,911.04**

1. CONSOLIDATED BALANCE SHEET (30 June 2018) *(Continued)*

Prepared by: NORTHEAST ELECTRIC DEVELOPMENT CO., LTD.

Unit: RMB

Items	Closing Balance	Opening Balance
Current liabilities:		
Short-term borrowings		
Borrowings from central bank		
Deposits from customers and interbank		
Borrowings from banks and other financial institutions		
Financial assets at fair value through current profit or loss		
Derivative financial liabilities		
Notes payable		40,000.00
Accounts payable	12,304,237.01	21,501,715.83
Receipts in advance	3,799,933.59	4,185,139.12
Proceeds from sale of repurchased financial assets		
Fees and commissions payable		
Employee compensation payable	628,413.71	3,022,542.03
Taxes payable	251,692.78	341,620.35
Interest payable		
Dividends payable		40,017.86
Other payables	352,550,155.19	365,420,737.42
Reinsurance accounts payable		
Provision for insurance contracts		
Deposit for agency security transaction		
Deposit for agency security underwriting		
Liabilities held for sale	12,756,093.37	
Non-current liabilities due within 1 year		
Other current liabilities		
Total current liabilities	**382,290,525.65**	**394,551,772.61**

1. CONSOLIDATED BALANCE SHEET (30 June 2018) *(Continued)*

Prepared by: NORTHEAST ELECTRIC DEVELOPMENT CO., LTD.

Unit: RMB

Items	Closing Balance	Opening Balance
Non-current liabilities:		
Long-term borrowings		
Bonds payable		
Incl.: Preferred shares		
Perpetual bonds		
Long-term payables		
Long-term employee compensation payable		
Special payables	30,965,484.89	30,965,484.89
Estimated liabilities	72,099,690.00	75,360,671.25
Deferred revenue		
Deferred income tax liabilities		
Other non-current liabilities		
Total non-current liabilities	**103,065,174.89**	**106,326,156.14**
Total liabilities	**485,355,700.54**	**500,877,928.75**

1. CONSOLIDATED BALANCE SHEET (30 June 2018) *(Continued)*

Prepared by: NORTHEAST ELECTRIC DEVELOPMENT CO., LTD.

Unit: RMB

Items	Closing Balance	Opening Balance
Owner's equity:		
Share capital	873,370,000.00	873,370,000.00
Other equity instruments		
Incl.: Preferred shares		
Perpetual bonds		
Capital reserve	883,422,403.92	883,422,403.92
Less: Treasury stock		
Other comprehensive income	-29,506,631.13	-29,869,066.75
Special reserve		
Surplus reserve	108,587,124.40	108,587,124.40
Provision for general risk		
Retained profits	-2,030,261,736.41	-2,034,142,303.59
Total equity attributable to owners of parent company	**-194,388,839.22**	**-198,631,842.02**
Minority interests	3,637,609.50	3,990,824.31
Total owners' equity	**-190,751,229.72**	**-194,641,017.71**
Total liabilities and owners' equity	**294,604,470.82**	**306,236,911.04**

2. BALANCE SHEET OF PARENT COMPANY (30 June 2018)

Prepared by: NORTHEAST ELECTRIC DEVELOPMENT CO., LTD.

Unit: RMB

Items	Closing Balance	Opening Balance
Current assets:		
Cash and cash equivalents	12,528.98	20,119.58
Financial assets at fair value through current profit or loss		
Derivative financial assets		
Notes receivable		
Accounts receivable	497,804.72	497,804.72
Prepayment	1,668,168.36	1,668,168.36
Interest receivable		
Dividend receivable		
Other receivables	266,704,974.17	270,790,205.23
Inventories		
Assets held for sale		
Non-current asset due within 1 year		
Other current asset	429,035.26	363,531.99
Total current assets	**269,312,511.49**	**273,339,829.88**

2. BALANCE SHEET OF PARENT COMPANY (30 June 2018) *(Continued)*

Prepared by: NORTHEAST ELECTRIC DEVELOPMENT CO., LTD.

Unit: RMB

Items	Closing Balance	Opening Balance
Non-current assets:		
Financial assets available for sale		
Held-to-maturity investments		
Long-term receivables		
Long-term equity investments	56,436,473.03	56,436,473.03
Investment in real estate		
Fixed assets	39,501.92	46,373.60
Construction in progress		
Construction material		
Liquidation of fixed assets		
Operational biological assets		
Oil and gas assets		
Intangible assets		
Development expenditures		
Goodwill		
Long-term deferred expenses	871,779.83	1,018,224.11
Deferred tax assets		
Other non-current assets		
Total non-current assets	**57,347,754.78**	**57,501,070.74**
Total assets	**326,660,266.27**	**330,840,900.62**

2. BALANCE SHEET OF PARENT COMPANY (30 June 2018) *(Continued)*

Prepared by: NORTHEAST ELECTRIC DEVELOPMENT CO., LTD.

Unit: RMB

Items	Closing Balance	Opening Balance
Current liabilities:		
Short-term borrowings		
Financial assets at fair value through current profit or loss		
Derivative financial liabilities		
Notes payable		
Accounts payable		
Prepayment	581,743.59	581,743.59
Employee compensation payable	284,184.32	908,719.52
Taxes payable	117,264.13	27,037.06
Interest payable		
Dividends payable		
Other payables	310,555,448.38	329,433,337.90
Liabilities held for sale		
Non-current liabilities due within 1 year		
Other current liabilities		
Total current liabilities	**311,538,640.42**	**330,950,838.07**

2. BALANCE SHEET OF PARENT COMPANY (30 June 2018) *(Continued)*

Prepared by: NORTHEAST ELECTRIC DEVELOPMENT CO., LTD.

Unit: RMB

Items	Closing Balance	Opening Balance
Non-current liabilities:		
Long-term borrowings		
Bonds payable		
Incl.: Preferred shares		
Perpetual bonds		
Long-term payables		
Long-term employee compensation payable		
Special payables		
Estimated liabilities	72,099,690.00	75,360,671.25
Deferred revenue		
Deferred income tax liabilities		
Other non-current liabilities		
Total non-current liabilities	**72,099,690.00**	**75,360,671.25**
Total liabilities	**383,638,330.42**	**406,311,509.32**

2. BALANCE SHEET OF PARENT COMPANY (30 June 2018) *(Continued)*

Prepared by: NORTHEAST ELECTRIC DEVELOPMENT CO., LTD.

Unit: RMB

Items	Closing Balance	Opening Balance
Owners' equity:		
Share capital	873,370,000.00	873,370,000.00
Other equity instruments		
Incl.: Preferred shares		
Perpetual bonds		
Capital reserve	995,721,167.46	995,721,167.46
Less: Treasury stock		
Other comprehensive income		
Special reserve		
Surplus reserve	108,587,124.40	108,587,124.40
Retained profits	-2,034,656,356.01	-2,053,148,900.56
Total owners' equity	**-56,978,064.15**	**-75,470,608.70**
Total liabilities and owners' equity	**326,660,266.27**	**330,840,900.62**

3. CONSOLIDATED INCOME STATEMENT (30 June 2018)

Prepared by: NORTHEAST ELECTRIC DEVELOPMENT CO., LTD.

Unit: RMB

Items	Amount for the current period	Amount for the previous period
I. Total operating income	14,296,160.44	17,612,476.66
Incl.: Operating income	14,296,160.44	17,612,476.66
Interest income		
Premiums earned		
Fee and commission income		
II. Total operating cost	32,163,092.74	38,379,342.21
Incl.: Operating cost	12,156,795.16	13,354,978.21
Interest expense		
Fee and commission expense		
Surrender value		
Net payment of insurance claims		
Net provision of insurance reserve		
Premium bonus expenditures		
Reinsurance expenses		
Taxes & Surcharges	632,992.06	652,983.66
Cost of sales	1,897,146.53	3,235,411.25
General & Administrative expenses	16,549,369.69	20,287,891.80
Financial expenses	363,263.42	626,905.77
Impairment loss of assets	563,525.88	221,171.52
Add: gains on the changes in fair value ("-"represents loss)		
Investment income ("-"represents loss)		
Incl.: Investment income from associates and joint ventures		
Foreign exchange gains ("-"represents loss)		
Gains on disposal of assets ("-"represents loss)		
Other income		

3. CONSOLIDATED INCOME STATEMENT (30 June 2018) *(Continued)*

Prepared by: NORTHEAST ELECTRIC DEVELOPMENT CO., LTD.

Unit: RMB

Items	Amount for the current period	Amount for the previous period
III. Operational Profit ("-"represents loss)	-17,866,932.30	-20,766,865.55
Add: Non-operating income	21,497,158.08	620,476.86
Less: Non-operating expenses	102,873.41	139,079.29
IV. Total Profit ("-"represents total loss)	3,527,352.37	-20,285,467.98
Less: Income tax expenses		
V. Net Profit ("-"represents net loss)	3,527,352.37	-20,285,467.98
(I) Net profit from continuing operations ("-"represents net loss)	3,527,352.37	-20,285,467.98
(II) Net profit from discontinued operation ("-"represents net loss)		
Net profit attributable to owners of the parent company	3,880,567.18	-19,929,800.00
Minority interests	-353,214.81	-355,667.98
VI. Net other comprehensive income after tax	362,435.62	-357,340.04
Net other comprehensive income attributable to owners of the parent company	362,435.62	-357,340.04
(I) Other comprehensive income not to be reclassified into profit & loss		
1. Changes in remeasurement on the net liabilities/assets of defined benefit plans		
2. Share in other comprehensive income of the investee not to be reclassified into profit or loss under the equity method		
(II) Other comprehensive income to be reclassified into profit & loss	362,435.62	-357,340.04
1. Share in other comprehensive income of the investee to be reclassified into profit & loss under the equity method		
2. Profit or loss of change in fair value of available-for-sale financial assets		
3. Profit or loss arising from reclassification of held-to-maturity investments as financial assets available for sale		
4. Effective portion of profit or loss from cash flow hedging		
5. Translation differences of foreign currency financial statements	362,435.62	-357,340.04
6. Others		
Other comprehensive income attributable to the minority interests, net of tax		

3. CONSOLIDATED INCOME STATEMENT (30 June 2018) *(Continued)*

Prepared by: NORTHEAST ELECTRIC DEVELOPMENT CO., LTD.

Unit: RMB

Items	Amount for the current period	Amount for the previous period
VII. Total comprehensive income	3,889,787.99	-20,642,808.02
Total comprehensive income attributable to owners of the parent company	4,243,002.80	-20,287,140.04
Total comprehensive income attributable to the minority interests of the Company	-353,214.81	-355,667.98
VIII. Earnings per share		
(I) Basic earnings per share	0.0044	-0.0228
(II) Diluted earnings per share	0.0044	-0.0228

4. INCOME STATEMENT OF PARENT COMPANY (30 June 2018)

Prepared by: NORTHEAST ELECTRIC DEVELOPMENT CO., LTD

Unit: RMB

Items	Amount for the current period	Amount for the previous period
I. Total operating income		
Less: Operating cost		
Taxes & Surcharges	15.00	
Cost of sales		
General & Administrative expenses	2,768,391.87	6,006,048.06
Financial expenses	29.83	385,784.44
Impairment loss of assets		
Add: gains on the changes in fair value ("-" represents loss)		
Investment income ("-" represents loss)		
Incl.: Investment income from associates and joint ventures		
Gains on disposal of assets ("-"represents loss)		
Other income		
II. Operational Profit ("-"represents loss)	-2,768,436.70	-6,391,832.50
Add: Non-operating income	21,260,981.25	
Less: Non-operating expenses		
III. Total Profit ("-"represents total loss)	18,492,544.55	-6,391,832.50
Less: Income tax expenses		

4. INCOME STATEMENT OF PARENT COMPANY (30 June 2018) *(Continued)*

Prepared by: NORTHEAST ELECTRIC DEVELOPMENT CO., LTD

Unit: RMB

Items	Amount for the current period	Amount for the previous period
IV. Net Profit ("-"represents net loss)	18,492,544.55	-6,391,832.50
(I) Net profit from continuing operations ("-"represents net loss)		
(II) Net profit from discontinued operations ("-"represents net loss)		
V. Net other comprehensive income after tax		
(I) Other comprehensive income not to be reclassified into profit & loss		
1. Changes in remeasurement on the net liabilities/assets of defined benefit plans		
2. Share in other comprehensive income of the investee not to be reclassified into profit & loss under the equity method		
(II) Other comprehensive income to be reclassified into profit & loss		
1. Share in other comprehensive income of the investee to be reclassified into profit & loss under the equity method		
2. Profit or loss of change in fair value of available-for-sale financial assets		
3. Profit or loss arising from reclassification of held-to-maturity investments as financial assets available for sale		
4. Effective portion of profit or loss from cash flow hedging		
5. Translation differences of foreign currency financial statements		
6. Others		
VI. Total comprehensive income	**18,492,544.55**	**-6,391,832.50**
VII. Earnings per share:		
(I) Basic earnings per share		
(II) Diluted earnings per share		

5. CONSOLIDATED CASH FLOW STATEMENT (30 June 2018)

Prepared by: NORTHEAST ELECTRIC DEVELOPMENT CO., LTD

Unit: RMB

Items	Amount for the current period	Amount for the previous period
I. Cash flow from operating activities:		
Cash received from sales of goods or rendering of services	23,105,995.20	21,689,573.95
Net increase in deposits from customers and interbank		
Net increase in borrowings from central bank		
Net increase in borrowings from other financial institutions		
Cash received from premiums under original insurance contracts		
Cash received from reinsurance business, net		
Increase in policyholders' deposits, net		
Net increase in disposal of financial assets at fair value through profit or loss		
Cash from interests, fees and commissions		
Net increase in interbank borrowings		
Net increase in income from repurchase transactions		
Tax refunds received		
Cash received from other operating activities	59,576,955.15	63,768,726.38
Sub-total of cash inflows from operating activities	**82,682,950.35**	**85,458,300.33**

5. CONSOLIDATED CASH FLOW STATEMENT (30 June 2018) *(Continued)*

Prepared by: NORTHEAST ELECTRIC DEVELOPMENT CO., LTD

Unit: RMB

Items	Amount for the current period	Amount for the previous period
Cash paid to goods purchased and labor service received	13,914,755.03	27,796,507.44
Net increase in customers' loans and advances		
Net increase in deposits with central bank and inter-bank		
Cash paid for compensation payout under original insurance contracts		
Cash paid for interests, fees and commissions		
Cash paid for policy dividends		
Cash paid to and for employees	10,172,007.36	14,042,442.25
Payments of taxes and surcharges	999,421.36	1,062,275.51
Cash payments to other operating activities	62,960,490.91	14,836,221.82
Sub-total of cash outflows for operating activities	**88,046,674.66**	**57,737,447.02**
Net cash flow from operating activities	**-5,163,724.31**	**27,720,853.31**
II. Cash flow from investing activities:		
Cash from disinvestments		
Cash received from return of investments		
Net cash received from disposal of fixed assets, intangible assets and other long-term assets	390,000.00	
Net cash received in disposal of subsidiaries and other operating units		
Cash received relating to other investing activities		
Sub-total of cash inflows from investing activities	**390,000.00**	
Cash paid in purchase/construction of fixed assets, intangible assets and other long-term assets	226,495.72	1,065,152.91
Cash paid for investment		
Net increase of mortgaged loans		
Net cash paid for subsidiaries and other operating units		
Cash paid relating to other investing activities		
Sub-total of cash outflows	**226,495.72**	**1,065,152.91**
Net cash flow from investing activities	**163,504.28**	**-1,065,152.91**

5. CONSOLIDATED CASH FLOW STATEMENT (30 June 2018) *(Continued)*

Prepared by: NORTHEAST ELECTRIC DEVELOPMENT CO., LTD

Unit: RMB

Items	Amount for the current period	Amount for the previous period
III. Cash flow from financing activities:		
Cash received by absorbing investment		
Incl.: cash received by subsidiaries from minority shareholders		
Cash received from borrowings		6,000,000.00
Cash received from bonds issued		
Cash received relating to other financing activities		
Sub-total of cash inflows		6,000,000.00
Cash paid for repayments of debts		27,000,000.00
Cash paid for distribution of dividends, profits and interests	20,745.19	741,382.17
Incl.: dividends and profits paid by subsidiaries to minority shareholders		
Cash paid relating to other financing activities		
Sub-total of cash outflows	**20,745.19**	**27,741,382.17**
Net cash flow from financing activities	**-20,745.19**	**-21,741,382.17**
IV. Effect of changes in foreign currency rates on cash and cash equivalents	**3,230.45**	**-11,902.51**
V. Net increase in cash and cash equivalents	**-5,017,734.77**	**4,902,415.72**
Add: Balance of cash and cash equivalents at beginning of period	8,408,461.77	24,833,221.44
VI. Balance of cash and cash equivalents at end of period	**3,390,727.00**	**29,735,637.16**

6. CASH FLOW STATEMENT OF PARENT COMPANY (30 June 2018)

Prepared by: NORTHEAST ELECTRIC DEVELOPMENT CO., LTD

Unit: RMB

Items	Amount for the current period	Amount for the previous period
I. Cash flow from operating activities		
Cash received from sales of goods or rendering of services		
Tax refunds received		
Cash received from other operating activities	46,239,201.72	54,927,792.48
Sub-total of cash inflows from operating activities	**46,239,201.72**	**54,927,792.48**
Cash paid to goods purchased and labor service received		
Cash paid to and for employees	2,264,595.24	3,247,636.17
Payments of taxes and surcharges	1,677.30	
Cash payments to other operating activities	43,980,519.78	31,243,332.02
Sub-total of cash outflows for operating activities	**46,246,792.32**	**34,490,968.19**
Net cash flow from operating activities	**-7,590.60**	**20,436,824.29**
II. Cash flow from investing activities:		
Cash from disinvestments		
Cash received from return of investments		
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		
Net cash received in disposal of subsidiaries and other operating units		
Cash received relating to other investing activities		
Sub-total of cash inflows from investing activities		
Cash paid in purchase/construction of fixed assets, intangible assets and other long-term assets		14,038.38
Cash paid for investment		
Net cash paid for subsidiaries and other operating units		
Cash paid relating to other investing activities		
Sub-total of cash outflows from investing activities		**14,038.38**
Net cash flow from investing activities		**-14,038.38**

6. CASH FLOW STATEMENT OF PARENT COMPANY (30 June 2018) *(Continued)*

Prepared by: NORTHEAST ELECTRIC DEVELOPMENT CO., LTD

Unit: RMB

Items	Amount for the current period	Amount for the previous period
III. Cash flow from financing activities:		
Cash received by absorbing investment		
Cash received from borrowings		
Cash received from bonds issued		
Cash received relating to other financing activities		
Sub-total of cash inflows		
Cash paid for repayments of debts		20,000,000.00
Cash paid for distribution of dividends, profits and interests		468,611.11
Cash paid relating to other financing activities		
Sub-total of cash outflows		**20,468,611.11**
Net cash flow from financing activities		**-20,468,611.11**
IV. Effect of changes in foreign currency rates on cash and cash equivalents		
V. Net increase of cash and cash equivalents	**-7,590.60**	**-45,825.20**
Add: Balance of cash and cash equivalents at beginning of period	20,119.58	49,760.27
VI. Balance of cash and cash equivalents at end of period	**12,528.98**	**3,935.07**

7. CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (30 June 2018)

Amount for the current period

Unit: RMB

Items	Amount for the current period												
	Shareholders' equity attributable to shareholders of Parent Company												
	Share capital	Other equity instruments			Capital reserve	Less: Treasury stock	Other comprehensive income	Special reserve	Surplus reserve	Provision for general risks	Retained profits	Minority interests	Total shareholders' equity
		Preferred	Perpetual	Others									
I. Balance from last year	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
Add: Changes in accounting policies													
Corrections to previous errors													
Effect of business combination under common control													
Others													
II. Balance at beginning of year	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
III. Changes in the current period ("-" represents loss)							362,435.62				3,880,567.18	-353,214.81	3,889,787.99
(I) Total comprehensive income							362,435.62				3,880,567.18	-353,214.81	3,889,787.99
(II) Increase/Decrease of capital from shareholders													
1. Common shares													
2. Other equity instrument													
3. Shares payment taken into shareholder's equity													
4. Others													
(III) Distribution of profit													
1. Extraction of surplus reserves													
2. Extraction provision for general risk													
3. Distribution to shareholders													
4. Others													
(IV) Transfer within equity													
1. Transfer-in from capital reserves													
2. Transfer-in from surplus reserves													
3. Loss covered by surplus reserves													
4. Others													
(V) Special reserves													
1. Extraction of the special reserves													
2. Usage of the special reserves													
(VI) Others													
IV. Balance at end of Period	873,370,000.00				883,422,403.92		-29,506,631.13		108,587,124.40		-2,030,261,736.41	3,637,609.50	-190,751,229.72

7. CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (30 June 2018) *(Continued)*

Amount for the previous year

Unit: RMB

Items	Amount for the previous period												
	Shareholders' equity attributable to shareholders of Parent Company											Minority interests	Total shareholders' equity
	Share capital	Other equity instruments			Capital reserve	Less: Treasury stock	Other comprehensive income	Special reserve	Surplus reserve	Provision for general risks	Retained profits		
		Preferred	Perpetual	Others									
I. **Balance from last year**	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 in accounting policies													
Corrections to previous errors													
Effect of business combination under common control													
Others													
II. **Balance at beginning of year**	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
III. **Changes in the current period ("-" represents loss)**							-4,364,078.31				-397,057,643.19	-1,098,327.92	-402,520,049.42
(I) Total comprehensive income							-4,364,078.31				-397,057,643.19	-1,098,327.92	-402,520,049.42
(II) Increase/Decrease of capital from shareholders													
1. Common shares													
2. Other equity instrument													
3. Shares payment taken into shareholder's equity													
4. Others													
(III) Distribution of profit													
1. Extraction of surplus reserves													
2. Extraction provision for general risk													
3. Distribution to shareholders													
4. Others													
(IV) Transfer within owners' equity													
1. Transfer-in from capital reserves													
2. Transfer-in from surplus reserves													
3. Loss covered by surplus reserves													
4. Others													
(V) Special reserves													
1. Extraction of the special reserves													
2. Usage of the special reserves													
(VI) Others													
IV. **Balance at end of Period**	873,370,000.00				883,422,403.92		-29,869,066.75		108,587,124.40		-2,034,142,303.59	3,990,824.31	-194,641,017.71

8. STATEMENT OF CHANGES IN EQUITY OF PARENT COMPANY (30 June 2018)

Amount for the current period

Unit: RMB

Items	Amount for the current period										
	Capital share	Other equity instruments			Capital reserve	Less: Treasury stock	Other comprehensive income	Special reserve	Surplus reserve	Retained profits	Total shareholders' equity
		Preferred	Perpetual	Others							
I. Balance from last year	873,370,000.00				995,721,167.46				108,587,124.40	-2,053,148,900.56	-75,470,608.70
Add: Changes in accounting policies											
Corrections to previous errors											
Others											
II. Balance at beginning of year	873,370,000.00				995,721,167.46				108,587,124.40	-2,053,148,900.56	-75,470,608.70
III. Changes in the year ("-" represents loss)										18,492,544.55	18,492,544.55
(I) Total comprehensive income										18,492,544.55	18,492,544.55
(II) Increase/Decrease of capital from shareholders											
1. Common shares											
2. Other equity instrument											
3. Shares payment taken into shareholder's equity											
4. Others											
(III) Distribution of profit											
1. Extraction of surplus reserves											
2. Distribution to shareholders											
3. Others											
(IV) Transfer within equity											
1. Transfer-in from capital reserves											
2. Transfer-in from surplus reserves											
3. Loss covered by surplus reserves											
4. Others											
(V) Special reserves											
1. Extraction of the special reserves											
2. Usage of the special reserves											
(VI) Others											
IV. Balance at end of Period	873,370,000.00				995,721,167.46				108,587,124.40	-2,034,656,356.01	-56,978,064.15

8. STATEMENT OF CHANGES IN EQUITY OF PARENT COMPANY (30 June 2018) *(Continued)*

Amount for the previous year

Unit: RMB

Items	Amount for the previous period										
	Capital	Other equity instruments			Capital reserve	Less: Treasury stock	Other comprehensive income	Special reserve	Surplus reserve	Retained profits	Total shareholders' equity
		Preferred	Perpetual	Others							
I. Balance from last year	873,370,000.00				995,721,167.46				108,587,124.40	-1,676,002,957.31	301,675,334.55
Add: Changes in accounting policies											
Corrections to previous errors											
Others											
II. Balance at beginning of year	873,370,000.00				995,721,167.46				108,587,124.40	-1,676,002,957.31	301,675,334.55
III. Changes in the current period ("-" represents loss)										-377,145,943.25	-377,145,943.25
(I) Total comprehensive income										-377,145,943.25	-377,145,943.25
(II) Increase/Decrease of capital from shareholders											
1. Common shares											
2. Other equity instrument											
3. Shares payment taken into shareholder's equity											
4. Others											
(III) Distribution of profit											
1. Extraction of surplus reserves											
2. Distribution to shareholders											
3. Others											
(IV) Transfer within owners' equity											
1. Transfer-in from capital reserves											
2. Transfer-in from surplus reserves											
3. Loss covered by surplus reserves											
4. Others											
(V) Special reserves											
1. Extraction of the special reserves											
2. Usage of the special reserves											
(VI) Others											
IV. Balance at end of Period	873,370,000.00				995,721,167.46				108,587,124.40	-2,053,148,900.56	-75,470,608.70

Legal representative: Li Tie　　Chief financial officer: Xiao Xun　　Chief accounting officer: Xing Liwen

II. Description

(1). Description of changes in accounting policies, accounting estimates and accounting methods as compared to the financial report for the previous year

There was no change in accounting policies or accounting estimates or accounting methods as compared to the financial report for the previous year.

(2). Description of retrospective restatement of major accounting errors in the reporting period

There was no change in retrospective restatement of major accounting errors in the reporting period.

(3). Description of changes in coverage of the consolidated statements as compared to the financial report for the previous year

There is no change in coverage of the consolidated statements as compared to the financial report for the previous year.

(4). Others

1. Business distribution

All of the Group's incomes and profits were from the domestic market; so the Company's management considers there is no need to prepare the divisional statement.

2. Taxation

The Main Taxation Category and Tax Rate of the Company

Category	Tax Base	Tax Rate
VAT	Taxable revenue after offsetting deductible input VAT	17%
Consumption tax	VAT and business tax payable	5%, 7%
Urban construction & maintenance tax	VAT and business tax payable	5%
Corporate income tax	Taxable income	25%

Tax incentive

(1). For Northeast Electric (Hong Kong) Limited, a wholly owned subsidiary of the Company registered in HKSAR of the P. R. China, the profits tax rate is 16.5%.

(2). Great Talent Technology Limited is a company wholly owned by the Company's subsidiary–Northeast Electric (Hong Kong) Limited and was registered in the British Virgin Islands. No corporate income tax is imposed on it.

3. Net profit

	The reporting period period	The same period of last year
Net profit attributable to shareholders of parent company (RMB)	3,880,567.18	-19,929,800.00

4. Earnings per share

	The reporting period	The same period of last year
Basic earnings per share (RMB/Share)	0.0044	-0.0228
Diluted earnings per share (RMB/Share)	0.0044	-0.0228

5. Dividends

No dividends was paid or proposed for the six months ended 30 June 2018 (or for the six months ended 30 June 2017: None), and no dividend was proposed from the end of the reporting period.

6. Share capital

	The reporting period	The same period of last year
Total share capital (RMB)	873,370,000.00	873,370,000.00

7. Contingent liabilities

As at 30 June 2018, the Company did not have any material contingent liabilities.

III. Auditors' Report

This Interim Report of the Company has not been audited, but it has been reviewed and approved by the Board of Directors.

IV. Company Overview

1. History of the Company

Northeast Electric Development Co., Ltd. (formerly known as Northeast Electricity Transmitting & Transformation Machinery Manufacturing Ltd.) ("the Company" or "Company") is a company limited by shares established by directed placement initiated by the Northeast Electrical Transmission and Transformation Equipment Company Corporation Limited ("NET"), which approved by the Shenyang Corporate System Reformation Committee under approval: Shen Ti Gai Fa [1992] 81. The Company was officially founded on 18 February 1993 with 824.54 million shares which were adjusted to 585.42 million shares in 1995. In 1995, the company issued 257.95 million of H-shares in Hong Kong and was listed on the Hong Kong Stock Exchange on 6 July 1995. In the same year, the Company issued 30 million of A-shares in a public offering and was listed on the Shenzhen Stock Exchange on 13 December 1995.

Unified Social Credit Code of the Company is: 91210000243437397T; Registered capital: RMB873,370,000.00; Legal representative: Li Tie; Business address: Room A1-1077, 5th Floor, Building A, Entrepreneurship Incubation Center of Haikou National High-tech Zone, No.266 Nanhai Avenue, Haikou City, Hainan Province.

2. Principal industry

Electrical machinery and equipment manufacturing industry.

3. Business scope

The manufacture and sale of transmission and transformation equipment and accessories; development, consulting, transfer and testing services in relation to transmission and transformation technology; the wholesale business in relation to metallic materials, rubber materials and products, insulating materials, ceramic materials and products, chemical materials and products (hazardous article excepted), electronic components, instruments, electro mechanical devices and spare parts (except the commodities subject to the special management in terms of the state-run trade, import and export quota and license, export quota tendering, and import and export license.)

4. Main products

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

5. The largest shareholder of the Company

The largest shareholder of the Company is Beijing Haihongyuan Investment Management Co., Ltd. and the de facto controller of the Company is Hainan Province Cihang Foundation.

6. **The financial statements are approved on 29 August 2018 in the 25th meeting of the 8th Board of Directors of Northeast Electric.**

7. **The results of 8 subsidiaries of the Company have been consolidated in the Financial Statements of the reporting period. For details, please see Note IX "Disclosure of equity in other entities". There was no change in the scope of consolidation during the reporting period.**

V. Basis of preparation of financial statements

1. Basis of preparation

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.76 of the Ministry of Finance – and 42 Specific Accounting Standards issued and amended by the Ministry of Finance on 15 February 2006, and application guidelines, explanations and other relevant regulations which were issued and amended subsequently (together the "Accounting Standards for Business Enterprises"), and the disclosure requirements of the "Disclosure Requirement on Listed Issuers No.15- General Requirements on Financial Statements (2014 amendments)" issued by China Securities Regulatory Commission.

The Company has conducted financial accounting on Accrual Basis, according to the relevant regulations of the Accounting Standards for Business Enterprises. Except for certain financial instruments, the Financial Statements are valued at historical cost. Impairment of assets reserves is allocated once such impairment happens.

2. Going concern

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

(I) 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) Co., Ltd. (the person acting in concert with Beijing Haihongyuan Investment Management) 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 HKD2.40 per share. Beijing Haihongyuan and its person acting in concert, HNA Hospitality Group (Hong Kong) Co., Ltd., are both subsidiaries of HNA Group Co., Ltd.

This matter was approved by the 2nd Extraordinary General Meeting of 2017, class meeting of A shareholders, and class meeting of H shareholders and was submitted to domestic and foreign regulators for approval according to procedures. Now the matter is under review by the International Business Division of CSRC. If approved, the subscription will supplement the Company's capital, improve its net assets, and boost corporate business development.

(II) Significant assets disposal

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, Hong Kong Stock Exchange and the 2nd Extraordinary General Meeting of the Company of 2018, and now the settlement of sales of equity interests is proceeding. This disposal will bring over cash revenue of near RMB100 million to the Company and will effectively ease the pressure of working capital demand.

(III) Production and operation situation of the Company

1. To speed up the implementation of technical transformation program

Fuxin Enclosed Busbars Co., Ltd., a wholly owned subsidiary of Northeast Electric, has completed new plant relocation and the plant has been officially put into use. The use of the new plant can greatly improve the technological level of busbar product manufacturing, significantly enhance the competitiveness of the product in the market, and fundamentally turn around the shrinking trend of orders due to outdated equipment and declined technological levels.

2. To develop hotel public space sharing business

In order to obtain new investment opportunities and profit growth drivers, Hainan Tangyuan Technology Co., Ltd., a wholly owned subsidiary of the Company, entered into the Lease Agreements with eight companies, namely Dongguan Yujingwan, Tianjin Center, Hainan Guoshang, Danzhou Xintiandi, Hangzhou Huagang, Asia-Pacific International, Yunnan Tonghui Hotel, and Jilin Province Tourism Group to build a sharing platform of hotel public space. The Lease Agreements were considered and approved at the 24th meeting of the 8th Board of Directors of Northeast Electric. This will help invigorate its continuing operation and help the Company transform from the traditional manufacturing sector to modern service industries. Currently, the general meeting circular on this matter has been approved by the Stock Exchange and the general meeting will be held on 29 October.

3. To cooperate with the Finance Company for financial services

For the purposes of further optimizing the Company's financial business processes, reducing financial costs, improving funds utilization efficiency, and maximizing benefits, the Company entered into the Financial Services Agreement with HNA Group Finance Co., Ltd. The Financial Services Agreement were considered and approved at the 24th meeting of the 8th Board of Directors of Northeast Electric. This will help the Company and its holding subsidiaries strengthen capital management and control, reduce and prevent operational risks, settlement business with associates, shorten the time for funds in transit, accelerate capital turnover, and save transaction costs and expenses. Currently, the general meeting circular on this matter has been approved by the Stock Exchange and the general meeting will be held on 29 October.

VI. Significant accounting policies and accounting estimates

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

The Company and its subsidiaries have set up specific accounting policies and accounting estimates on transactions and accounting items such as accounts receivables, inventories, fixed assets, and income based on the actual characteristics of manufacturing and operations according to the Accounting Standards for Business Enterprises.

2. Accounting period

Accounting periods of the Company are divided into annual periods (yearly) and interim periods. An interim accounting period is a reporting period shorter than a full accounting year. Accounting year is the calendar year from 1 January to 31 December.

3. Operating cycle

A normal operating cycle starts from purchasing assets used to produce, and ends when cash or cash 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. 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 statements of the Company are represented in RMB.

5. 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.

(I) 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 obtaining the control of the other parties at the combination date is the acquiring party, and other parties involved 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) 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 offset the difference, any excess shall be adjusted against retained earnings.

Expenses that are directly attributable to business combination by the acquiring party are recorded in the current profit or loss when incurred.

(II) 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 obtaining the control of the other parties at the combination date is the acquirer, and other parties involved in the business combination are the acquirees. The combination date is the date on which the acquirer effectively obtains control of the acquirees.

For business combination not under common control, the cost of business combination is the fair value of consideration paid including assets, liabilities incurred or undertaken and equity securities issued for the controlling interest of the acquiree at the acquisition date. Intermediary costs that are directly attributable to the business combination such as audit fee, legal services fee, evaluation and consultancy fee and other administrative expenses incurred by the company as acquirer are recorded in the current profit or loss when 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 period after a review of computation.

In relation to the deductible temporary differences acquired from the acquiree which were not recognised as deferred income 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 income tax assets shall be recognised and set-off against goodwill, when the amount of goodwill is less than the deferred tax assets that shall be recognised, the difference shall be recognised in profit or loss for the current period. Except for the above circumstances, deferred income tax assets recognised in relation to business combination are recognised in profit or loss for the period.

For a business combination not involving enterprises under common control and achieved in stages, the Company would determine whether the business combination shall be regarded as "a bundle of transactions" in accordance with "Interpretation 5 on Accounting Standards for Business Enterprises" (No. Caihui [2012] 19) and Rule 51 in "Decree 33, Accounting Standards for Business Enterprises – Consolidated Reports" (Refer to Note V 6(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 the Note V "Long term equity investment"; when the business combination is not regarded as "a bundle of transactions", the accounting treatment for the individual financial statements of the Company and consolidated financial statements shall be as follows:

In the individual financial statements of the Company, 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 recognised as investment income for the current period; the amount recognised in other comprehensive income relating to the previously-held equity interest in the acquiree is 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).

6. Preparation method of consolidated financial statements

(1) Scope of consolidation

The consolidated scope of consolidated financial statements is determined based on the concept of control. Control is the power the Company has over the investee(s). 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 elements change due to facts or circumstances change.

(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 on which such control ceases. For subsidiaries being disposed of, the operating results and cash flows prior to the date of disposal are included in the consolidated income statement and the consolidated cash flow statement; for subsidiaries disposed of 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 the 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 beginning 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.

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

All significant inter-group balances, transactions and unrealised profits are eliminated in the preparation of 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 the 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 is presented separately in the consolidated income statement under 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 the control of a subsidiary ceased due to disposal of a portion of an interest in the subsidiary and other reasons, the fair value of the remaining equity interest is remeasured at the date on which the 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 recognised 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 the control ceased (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 V 14 "Long-term equity investments" or Note V 10 "Financial instruments".

The Company shall determine whether loss of control arising from disposal in a series of transactions should be regarded as a bundle of transactions. When the economic effects and terms and conditions of the disposal transactions met one or more of the following situations, the transactions shall normally be accounted for as a bundle of transactions: (i) The transactions are entered into after having considered the mutual consequences of each individual transaction; (ii) The transactions needed to be considered as a whole in order to achieve a deal with commercial sense; (iii) The occurrence of an individual transaction depends on the occurrence of one or more individual transactions in the series; (iv) The result of an individual transaction is not economical, but it would be economical after taken into account of other transactions in the series. When the transactions are not regarded as a bundle of transactions, the individual transactions shall be accounted as "disposal of a portion of an interest in a subsidiary which does not lead to loss of control" (Detailed in Note IV 11 (2) (iv)) 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 of in each individual transaction before loss of control shall be recognised as other comprehensive income, and be reclassified as profit or loss arising from the loss of control when control is lost.

7. Joint venture arrangement classification and relative accounting methods

The joint venture arrangement refers to 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 an 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 assets of the invested entity.

Equity method is adopted to account for investment in the joint ventures by the Company in accordance with the accounting policy as set out in Note IV.14 (2) (ii) "Long term equity investments accounted for under the equity method".

In joint-operation, the Company recognises 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 recognised, 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 recognised.

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

8. Definitions of cash and cash equivalents

Cash and cash equivalents of the Company comprise cash on hand, deposits that can be readily drawn on demand, and short-term (usually mature within 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.

9. Foreign currency operations and foreign currency translation

(1) Foreign currency translation

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 involved in currency exchange transactions, at which the actual exchange rates would be used.

(2) Foreign currency translation 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 period, 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 amortised cost, which is recognised 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 recognised as in profit or loss or in other comprehensive income in the current period.

(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 recognised as other comprehensive income under the item "exchange difference arising translation of foreign operations", when the foreign operation is disposed of, the exchange difference will be transferred to the current profit or loss during the period of disposal.

The financial statements denominated in foreign currency of a foreign operation are translated to RMB in compliance with the following requirements: 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 or a rate that approximates the exchange rates at the date of the transaction. 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 and presented according to the items in profit distribution after translation. The exchange difference arising from translation of assets, liabilities and equity items are recognised as other comprehensive income. Such exchange difference listed under Shareholders' Equity in Balance Sheet will be reclassified to profit or loss in current period when the foreign operation is disposed of according to the proportion of disposal.

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

The opening balances and the prior year's actual figures 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 or loss for the period, when the Company ceased control over its overseas operations when disposing of all or part of offshore shareholders' equity, or due to other reasons.

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

10. Financial Instruments

A financial asset or financial liability is recognised when the Company becomes a party in the relative financial instrument contract. The financial asset or liability is measured at fair value when it's initially recognised. Transaction expenses of the financial asset or financial liability at fair value through profit or loss for the current period are accounted directly into profit or loss, when the relevant expenses of other types of financial instrument are accounted into its initial recognised amount.

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

Fair value is the price that will be received when selling an asset or the price to be paid to transfer a liability in an orderly transaction between market participants on the measurement date. The fair value of a financial instrument that is traded on an active market is determined at the quoted price in the 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 actual transactions amount in arm's length transactions. The fair value of a financial instrument that is not traded on an active market is determined by using a valuation technique. Valuation techniques include using prices of recent market transactions between knowledgeable and willing parties, with reference to the current fair value of another financial asset that is substantially the same with this instrument, discounted cash flow analysis and option pricing models, etc.

(2) Classification, recognition and measurement of financial assets

Any regular acquisition and disposal of financial assets is recognised and derecognised at the transaction dates. At initial recognition, financial assets can be classified as financial assets at fair value through profit or loss for the current period, held-to-maturity investments, loans and receivables, and available-for-sale financial assets.

(i) Financial assets at fair value through profit or loss for the current period

Financial assets at fair value through profit or loss for the current period include financial assets held for trading and other designated financial assets at fair value through profit or loss for the current period. Financial assets at fair value through profit or loss of the Company are financial assets held for trading.

Financial assets held for trading represents financial assets that met one of the following conditions: A. The purpose of obtaining the financial asset is for selling or repurchasing such asset in the short term; B. The assets were included in the portfolio of financial instruments which has objective evidence showing that the Company manages the portfolio so as to obtain short term gains; C. The assets are 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 held for trading represents financial assets are subsequently measured at fair value. The profit or loss arising from fair value changes, dividend income and interest income arising from such financial assets are recognised in profit or loss for the current period.

(ii) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed maturity and fixed or determinable payments that management has the positive intention and ability to hold to maturity.

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

Effective interest rate method is a method of calculating the amortised cost, periodic interest income or payment of financial assets or financial liabilities (including a portfolio of financial assets or financial liabilities). Effective interest rate is the rate used for discounting the estimated future cash flows of a financial asset or financial liability to its current carrying amount through the expected life of the financial asset or financial liability or, where appropriate, a shorter period.

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

(iii) Loans and receivables

Loans and 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.

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

(iv) Available-for-sale financial assets

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

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

Available-for-sale financial assets are 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 amortised cost which are recognised in profit or loss for the current period, are recognised as other comprehensive income and reclassified to profit or loss for the current period when the financial assets are de-recognised. However, equity instrument investment that is not quoted in an active market and the fair value of which cannot be measured reliably, and derivative financial assets that are linked to and must be settled by delivery of such equity instrument are subsequently measured at cost.

Interests received during the period in which available-for-sale financial assets are held and the cash dividends declared by the investee are recognised as investment income.

(3) Impairment of financial assets

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

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

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

Impairment loss is recognised in profit or loss for the current period according to the differences between the carrying amounts based on cost or amortised 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 recognised shall be reversed. However, the reversal shall not result in a carrying amount of the financial asset exceeding the amortised cost that would have been if the impairment had not been recognised on the date when the impairment is reversed.

(ii) Impairment of available-for-sale financial assets

If there are objective evidences showing the fair value of available-for-sale equity instruments has a significant decline and this decline is not temporary, impairment loss shall be recognised. 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 recognised directly in other comprehensive income is removed from other comprehensive income and recognised in profit or loss for the current period. The cumulative loss that is removed from other comprehensive income is the difference between its acquisition cost (net of any principal repayment and amortisation) and its current fair value, less any impairment loss previously recognised in profit or loss.

If there are objective evidences showing 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 recognised shall be reversed, impairment losses recognised for equity instruments classified as available-for-sale are reversed through other comprehensive income, while impairment losses recognised for debt instruments classified as available-for-sale are reversed through current profit or loss.

The impairment losses recognised on investment in equity instruments whose fair value cannot be measured reliably and which do not have a quoted price in active market, or on derivative financial assets that have to be settled by delivery underlying equity instruments shall not be reversed.

(4) Recognition and measurement on transfer of financial assets

Financial assets shall be de-recognised when one of the following conditions is met: (i) The contractual right for receiving cash flows from the financial asset is terminated; (ii) The financial asset is transferred, and the risk and rewards of ownership of the financial asset have been substantially transferred to the transferee. (iii) The financial asset is transferred; the Company neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset, but ceases the control over the financial asset.

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

When the de-recognition criteria are 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 recognised directly in equity, is recognised in profit or loss for the current period.

When the de-recognition criteria are met and the financial asset is partially transferred, the carrying amount of the financial asset transferred 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 recognised directly in equity and the apportioned carrying amount, is recognised in profit or loss for the current period.

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

(5) Classification and measurement of financial liabilities

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

(i) Financial liabilities at fair value through profit or loss for the current period

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

Financial liabilities at fair value through profit or loss for the current period 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 recognised in profit or loss for the current period.

(ii) Other financial liabilities

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

(iii) Financial guarantee contract and loan commitments

For the financial guarantee contract not classified as financial liability measured by its fair value and taken into the current profit or loss, or for the commitments to grant loans which are not designated to be measured at fair value through profit or loss and which will enjoy an interest rate lower than that of the market, it is recognised initially by its fair value, and is measured subsequently with the higher value between its initial recognised amount and the amount calculated by the regulations in "Accounting Standard for Business Enterprises No. 13 –Contingencies" less accumulated amortisation stipulated in "Accounting Standard for Business Enterprises No. 14 – Revenue".

(6) De-recognition of financial liabilities

A financial liability shall be derecognised or partly derecognised when the current obligation is discharged or partly discharged. When the Company (debtor) and the creditor have signed a contract, which uses 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-recognised, and the new financial liability shall be recognised at the same time.

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

(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. Except for derivative instruments that are designated as hedging instruments and which are highly effective in hedging, gains or losses arising from changes in their fair value are taken to the profit or loss for the period in accordance with the hedge accounting requirement based on the nature of hedging relationships, and changes in the fair value of the remaining derivatives are accounted into the profit or loss for the period.

For combined instruments with embedded derivatives, where the combined instruments are not designated as financial assets or financial liabilities at fair value through profit or loss for the current period, and the embedded derivative and the main contract do 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 at a subsequent balance sheet date, the combined instrument shall be designated as financial assets or financial liabilities at fair value through profit or loss for the current period.

(8) Offsetting financial assets and financial liabilities

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

(9) Equity instruments

An equity instrument is a contract that proves the residual interest of the assets after deducting all liabilities in the Company. Change to share equity is accounted when the Company issue (including refinance), buyback, sell or cancel equity instrument. Relative change to fair value of the equity instrument is not recognised. Transaction expenses relating to such transaction is deducted from share equity.

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

11. Receivables

(1) Receivables with amounts that are individually significant and subject to separate assessment for provision for bad debts

Basis or criteria of determining receivables with amounts that are individually significant	The Company considers receivables with amounts over RMB1 million as individually significant.
Provision method of receivables with amounts that are individually significant and subject to separate assessment for provision for bad debts	The Company assesses individually significant receivables for impairment on individual basis, financial assets which are not impaired on individual basis will be assessed for impairment collectively with a portfolio of financial assets which share similar credit risk characteristics. For receivables that are individually impaired, the receivable will not be assessed for impairment collectively with a portfolio of financial assets which share similar credit risk characteristics.

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

Group	Methods of determining provision for bad debts
Group 1	Aging analysis method
Group 2	Other method(s)

The provision ratios used under the aging analysis method for the above groupings are:

√ applicable ☐ not applicable

Age of accounts	Provision ratio used for accounts receivable	Provision ratio used for other receivables
2-3 years	40.00%	40.00%
3-4 years	60.00%	60.00%
4-5 years	100.00%	100.00%

The provisions for bad debt are made based on balance percentage method:

☐ Applicable √ Not applicable

The provisions for bad debt are made based on other methods:

☐ Applicable √ Not applicable

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

Reason for making separate assessment	There are objective evidence indicating 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.

12. Inventories

(1) Classifications of inventories

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

(2) Costing of inventories

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

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

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

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

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

(4) The Company adopts the perpetual inventory system.

13. Assets classified as held-for-sale

The Company shall classify a non-current asset or disposal group as held for sale if its carrying amount will be recovered principally through a sale transaction (including exchange of nonmonetary assets with commercial substance, the same below) rather than through continuing use. A non-current asset or disposal group classified as held for sale must satisfy the following conditions at the same time: the asset or disposal group must be available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets; the Company has already made a resolution on a sales plan and obtained a certain purchase commitment; the sale is expected to be completed within one year. Among them, disposal group is a group of assets which are disposed of together through sale or other means as a whole in a transaction, and the liabilities transferred in the transaction which are directly associated with those assets. Where the asset group or groups to which a disposal group belongs share the goodwill acquired in the business merger in accordance with "Accounting Standards for Business Enterprise No.8 –Impairment of Assets", the disposal group shall include the goodwill allocated to it.

For assets that are taken as held-for-sale non-current assets and disposal 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 disposal group, impairment loss recognized is to be deducted by book value of goodwill in the group, then deducted by book values of any assets in the group that fit in the "Accounting Standards for Business Enterprise No.42 –Held-for-sale 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-for-sale 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 goodwill; while goodwill that's been deducted, and impairment loss recognized as held-for-sale non-current asset before the Rule comes into effect are not to be reversed.

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

14. Long-term equity investments

Long-term equity investments in this section refer to those with which the Company exercises 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 at fair value through profit or loss. 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 that the Company has to join in the decision-making process for financial and business operation policies of the invested entity, while being unable to control or sharing joint control with other parties over such decision makings.

(1) Recognition of cost of investment

For long-term equity investment resulting from merger of enterprises under the same control, the Company regards the share of the carrying amount 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 carrying amount 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 carrying amount of the controlling party's equity of the merged enterprise as the initial cost of the long-term equity investment. Total nominal 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 nominal 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 carrying amount 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 carrying amount 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 investments 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 regards 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 recognised in profit or loss as incurred.

For long-term equity investments acquired other than through a business combination, the investment shall be initially recognised at cost, the cost of investment varies between different ways of acquisition, which is recognised 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”.

(2) Subsequent measurement and recognition of profit and loss

The Company uses equity method for accounting of the long-term equity investment which enjoys joint control or significant control over the invested entity, except co-undertakings. In addition, the financial statements on company level use cost method to account for long-term investments which the Company has control over the investee.

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

Long-term equity investments accounted for using the cost method are measured at the initial inve`tment 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 recognised. Such cost of investment shall be adjusted when investment are added or discontinued.

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

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

For long-term equity investment accounted for using equity method, return on investment and other comprehensive income are recognised separately according to the share in the invested entity's net profit/or loss and its other comprehensive income, with the carrying amount adjusted for the long-term equity investment by the Company. Carrying amount 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 carrying amount of long-term equity investment to be adjusted, and taken into capital reserve. Net profit of the invested entity is recognised 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 recognised on such basis. However if such realized loss on internal transactions are classified as loss on diminution 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 recognised as initial cost of investment, and the difference between initial cost of investment and carrying amount 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 carrying amount 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 recognised, according to the regulations in "Accounting Standard for Business Enterprise No. 20 – Business Combination".

The Company recognizes its share of net losses of the investee to the extent that 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. In addition, if the Company has an obligation to assume additional losses to the investee, the estimated liabilities are recognized according to the estimated obligations and included in the current investment 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 recognised.

(iii) Acquisition of minority interest

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

(iv) Disposal of long-term equity investment

When preparing consolidated financial statements, as the parent company disposes of 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 recognised in shareholders' equity; as the parent company disposes of 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 method 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 recognised 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 of relative asset or liability according to its proportion. Shareholders' equity recognised by the invested entity due to change to such item other than net profit/or loss, other comprehensive income or profit distribution, will be accounted into the current Profit & Loss.

For the remaining equity accounted with cost method after partial disposal, the same basis as the invested entity while disposing of relative asset or liability will be used for the other comprehensive income recognised using equity method before the investment, or recognised 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 carrying amount will be taken into the current Profit & Loss, according to the regulations of financial instrument recognition and measurement. For the other comprehensive income recognised 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 of relative asset or liability will be adopted for accounting when the Company loses control over the investee, changes to shareholders' equity in the net asset of invested entity recognised 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.

The remaining share equity after partial disposal that causes 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 carrying amount will be taken into the current Profit & Loss. Other comprehensive income recognised using equity method for the previous share equity investment will be accounted using the same basis as the invested entity while disposing of the relative asset or liability, the full amount of shareholders' equity recognised 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 loses control over the invested entity through two or more disposal 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 carrying amount of relative share equity will be recognised as other comprehensive income first, and altogether will be taken into the current Profit & Loss when the control is lost.

15. 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 V.22 "Long-term assets impairment".

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.

16. Fixed assets

(1) Recognition criteria for fixed asset

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

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

(ii) the cost can be measured reliably.

A fixed asset is initially measured at cost and the effect of any expected costs of abandoning the asset at the end of its use is considered.

(2) Depreciation for different categories of fixed assets

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

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

(3) Basis for identification and the method for measurement and depreciation of fixed assets held under a finance lease

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 be 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 fixed asset held under a finance lease can be reasonably determined that its ownership will be acquired upon expiration of lease term, it is depreciated over the period of expected use; otherwise, the fixed asset is depreciated over the shorter period of the lease term and the period of expected use.

17. 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 V, 22 “Long-term assets impairment”.

18. 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 recognised in current profit or loss.

Interest 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 recognised 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.

19. Biological assets

20. Oil and gas assets

21. Intangible assets

(1) Measurement method, useful life, impairment test

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

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

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

For an intangible asset with a finite useful life, the useful life and amortization method are reviewed at the end of the period, and 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.

(2) Research and development expenditure

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 recognised 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 recognised in current profit or loss:

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

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

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

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

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

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

(3) Impairment loss assessment and provision for intangible assets

The impairment loss assessment method and provision method of intangible asset is detailed at Note V. 22 “Long-term assets impairment”.

(2) Accounting policy for internal research and development expenditure

22. Long-term assets impairment

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

(1) Prepaid rental for operating lease, amortized over the lease term.

(2) Expenditures paid for improvement of fixed assets under operating lease, amortized over the lease term or remaining useful life of the asset, whichever is shorter.

(3) Decoration that are qualified to be capitalized in relation to fixed asset acquired under finance lease, amortized over the remaining time until the next decoration, lease term or remaining useful life of the fixed asset, whichever is shorter.

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

23. Long-term deferred expenses

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 diminution in value and an impairment loss are recognised 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 recognised on the individual asset basis. If it is not possible to estimate the recoverable amount of an individual asset, the recoverable amount of a group of assets to which the asset belongs is determined. A group of assets is the smallest group of assets that is able to generate independent cash inflows.

When performing impairment test on goodwill that is separately presented in the financial statements, the carrying value of goodwill is allocated to the related asset groups or groups of asset groups which are expected to benefit from the synergies of the business combination. If the result of the test indicates that the recoverable amount of an asset group or group of asset groups, including the allocated goodwill, is lower than its carrying amount, the corresponding impairment loss is recognised. 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 recognised, it will not be reversed for the value recovered in the subsequent periods.

24. Employee compensation

(1) Accounting treatment of short-term employee compensation

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

Short-term employee compensation includes 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 recognizes 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 at fair value.

(2) Accounting treatment of welfare post resignation

Welfare post resignation mainly comprises 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 recognised 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 the date that the Company recognizes reconstruction of cost involving payment of compensation for the cancellation of the labor relationship with the employee. However, if the welfare post cancellation of labor relationship is not expected to be fully paid within 12 months after the end of the annual reporting period, it shall be treated as other long-term employee benefits.

(3) Accounting treatment of welfare post cancellation of labor relationship

Internal retirement plan adopts the same principles as the above mentioned compensation for the cancellation of the labor relationship with the employee. The Company accounts for the wage and social insurance payables incurred from the date the relative employee ceases 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.

(4) Accounting treatment of other long-term compensation

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.

25. Estimated liabilities

Estimated liabilities are 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 recognised as asset but should exceed the carrying amount of the provision.

26. Stock payment

27. Preferred stock, perpetual bond and other financial instruments

28. Revenue

(1) Revenue from sales of goods

Revenue from sales of goods are recognised when the risk and reward of ownership of goods is transferred to the buyer, the Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold, and it is probable that the economic benefit associated with the transaction will flow to the Company and the relevant revenue and costs can be measured reliably.

(2) Revenue from the rendering of services

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

The outcome of rendering of services can be measured reliably when all of the following conditions are met: (i) The amount of revenue can be measured reliably; (ii) It is probable that the economic benefit associated with the transaction will flow to the Company; (iii) The percentage of completion of service can be measured reliably; (iv) The cost incurred and to be incurred for rendering the service can be measured reliably.

When the outcome of rendering of services could not be measured reliably, when the costs incurred are expected to be recovered, revenues are recognised 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 recognised in profit or loss and no service revenue is recognised.

Where the Company has executed contract or agreement with other enterprises covering the sales of goods and rendering of service, and if the portions of sales of goods and rendering of service can be distinguished and recognised separately, then the two portions should be analyzed separately; otherwise (including the circumstance that the portions can be verified, however, cannot be recognised separately) they shall both be recognized as sales of goods.

(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 recognised according to the percentage of completion.

The outcome of construction contract can be measured reliably when all of the following conditions are met: (i) The amount of total contract sum can be measured reliably; (ii) It is probable that the economic benefit associated with the contract will flow to the Company; (iii) The actual contract cost incurred can be clearly distinguished and measured reliably; (iv) The percentage of completion of the contract and the cost expected to be incurred in order to complete the contract can be measured reliably.

When the outcome of a construction contract could not be measured reliably, but the contract cost incurred is recoverable, revenues are recognised 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 recognised in profit or loss and no contract revenue is recognised. When the factor that causes the outcome of construction contract does not exist anymore, the relevant revenue and cost of construction contract is recognised based on percentage of completion.

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

(4) Revenue from transfer of asset use rights

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

(5) Interest income

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

29. Government Grant

(1) Basis of determining and accounting of asset-related 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.

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

The government grants are usually recognized and measured at the actual amount upon receipt by the Company. However, when there is solid evidence that the Company meets the relevant conditions specified in the financial supporting policy and is expected to be able to receive the financial support funds by the end of the period, such funds will be measured at the amount receivable. Government grants are measured according to the amount receivable shall also comply with the following conditions: (1) grants receivable have been confirmed by competent government department by issuing a document, or could be reasonably estimated in accordance with the relevant provisions of the officially published Financial Fund Management Measures, and the amount is expected without material uncertainty; (2) it is based on the management measures on the financial support project and its financial fund which are officially released by the local financial sector and voluntarily disclosed in accordance with the provisions of "Regulations on Disclosure of Government Information", and the management measures should be inclusive (any qualified enterprises may apply), and not specifically formulated for specific enterprises; (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) other conditions (if any) should be satisfied according to the specific circumstances of the Company and the grant issue.

Asset-related government grant is recognized as deferred income and is included in profit or loss over the useful lives of related assets in reasonable and systematic methods. 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 included 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 included immediately in profit or loss for the current year.

Any government grant that relate both asset and income 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 income-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.

(2) Basis of determining and accounting of income-related government grant

For income-related government grant, it shall be accounted under specific circumstances and according to the following requirements: where the grant is a compensation for related expenses or losses to be incurred by the enterprise in the subsequent periods, the grant shall be recognized as deferred income, and included in the periods in which the related costs are recognized; where the grant is a compensation for related expenses or loss already incurred by the enterprise, the grant shall be recognized immediately in the profit and loss for the current year.

30. Deferred tax assets/deferred tax liabilities

(1) Current income tax

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

(2) Deferred tax assets and deferred tax liabilities

Deferred tax assets and liabilities are calculated and recognised based on the temporary difference arising between the tax bases of assets and liabilities and their carrying amounts.

No deferred tax liability is recognised for a temporary difference arising from the initial recognition of goodwill. No deferred tax liability is recognised 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 recognised 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 recognises deferred tax liabilities arising from all other taxable temporary differences.

No deferred tax asset is recognised 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 recognised 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 recognises 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 carried forward to future years, deferred tax assets are only recognised for to the extent that it is probable that taxable profit will be available in the future against which the deductible losses and tax credits can be utilized.

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

The carrying amount of a deferred tax asset is reviewed at each balance sheet date. The carrying amount of a deferred tax asset is reduced when it is no longer probable that sufficient taxable profits will be available to allow the benefit of the deferred tax asset to be utilized. When it is probable that sufficient taxable profits will be available to allow the benefit of the deferred tax asset to be utilized, the previously written down amount shall be reversed.

(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 recognised 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 recognised in current profit or loss.

31. Leases

(1) Accounting for operating lease

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

1) The Company as a lessee in operating lease

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

2) The Company as a lessor in operating lease

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

(2) Accounting for finance lease

1) 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 unrecognised 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 unrecognised finance charge are presented in the balance sheet separately as long-term liability or long-term liability which is due within one year.

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

2) The Company as a lessor in finance lease

At the inception of lease, the finance lease receivable is recognised 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 unrecognised interest income. Finance lease receivable less unrecognised interest income is presented in the balance sheet separately as long-term receivables and long-term receivables due within one year.

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

32. Other significant accounting policy and accounting estimates

33. Changes in significant accounting policy and accounting estimates

(1) Changes in significant accounting policy

☐ Applicable √ Not applicable

(2) Changes in significant accounting estimates

☐ Applicable √ Not applicable

34. Others

VII. Tax

1. Major types of tax and tax rates

Types of tax	Tax Base	Tax Rate
Value-added tax	Taxable revenue after offsetting deductable input VAT	17%
Consumption tax	VAT and business tax payable	5%,7%
City maintenance and construction tax	VAT and business tax payable	5%
Enterprise income tax	Taxable income	25%

2. Tax concessions

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

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

3. Other explanations

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

VIII. Notes to consolidated financial statements

1. Cash and cash equivalents

Unit: RMB

Item	Closing Balance	Opening Balance
Cash on hand	8,584.08	7,317.67
Bank deposits	33,193,501.88	38,601,144.10
Other cash and cash equivalents	7,325,800.00	6,567,300.00
Total	40,527,885.96	45,175,761.77
Incl.: Total overseas deposits	377,859.60	375,463.09

(1) By the end of the period, other cash and cash equivalents amounting to RMB 7,325,800.00 are the security deposits for performance guarantee deposited in a designated bank.

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

(3) Overseas deposits represent deposits with banks in Hong Kong, which are not restricted.

2. Financial assets at fair value through current profit or loss

3. Derivative financial assets

4. Notes receivable

(1) Notes receivable by categories

Unit: RMB

Item	Closing Balance	Opening Balance
Bank Acceptance Bill		1,589,050.00
Trade Acceptance Bill		14,289,694.00
Total		15,878,744.00

(2) Notes receivable pledged at the end of the period

(3) Bills receivable endorsed or discounted at the end of the period and undue at the balance sheet date

(4) As at the end of the period, bills receivable transferred to accounts receivable due to non-compliance of any bill drawer

Unit: RMB

Item	Transferred into accounts receivable at the end of the period
Trade Acceptance Bill	14,289,694.00
Total	14,289,694.00

5. Accounts receivable

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

Unit: RMB

Type	Closing Balance					Opening Balance				
	Book Balance		Bad-debt provision			Book Balance		Bad-debt provision		
	Amount	Percentage (%)	Amount	Provision percentage (%)	Book Value	Amount	Percentage (%)	Amount	Provision 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	30,117,024.90	100.00%	8,727,787.07	28.98%	21,389,237.83	56,046,684.41	44.95%	26,229,135.20	46.61%	29,817,549.21
Total	30,117,024.90	100.00%	8,727,787.07	28.98%	21,389,237.83	124,455,819.54	100.00%	48,202,050.86	38.63%	76,253,768.68

Accounts receivable individually significant and subject to separate provision at the end of the period:

□ Applicable √ Not applicable

In portfolio, accounts receivable with bad-debt provision drawn by aging analysis:

√ Applicable ☐ Not applicable

Unit: RMB

Age of Account	Closing Balance		
	Accounts receivable	Bad-debt provision	Provision percentage
Within 1 year	11,808,319.73		
1-2 years	5,737,447.18		
2-3 years	3,699,500.00	1,259,247.60	34.04%
3-4 years	2,339,506.00	1,172,317.20	50.11%
4-5 years	6,352,851.99	6,116,822.27	96.28%
More than 5 years	179,400.00	179,400.00	100.00%
Total	30,117,024.90	8,727,787.07	28.98%

In portfolio, accounts receivable with bad-debt provision drawn by percentage of balance:

☐ Applicable √ Not applicable

In portfolio, accounts receivable with bad-debt provision drawn by other methods:

☐ Applicable √ Not applicable

(2) Provision, recovery or reversal of bad debts during the reporting period

A total of RMB0 has been accrued for this period, with RMB0 retrieved or reversed.

(3) Details of receivables actually written off during the reporting period

(4) Top 5 of other receivables:

Name of company	Relationship	Amount	Age	Percentage in total (%)
Harbin Electric Machinery Co., Ltd. (Tianwan)	Non-related	2,200,000.00	1-2 years	7.30
Huaneng Group Ningxia Daba Power Generation Co., Ltd. (Phase IV)	Non-related	2,061,000.00	Within 1 year	6.84
China Power (Pu'an) Power Generation Co., Ltd.	Non-related	1,859,300.00	Within 1 year	6.17
Shanghai Electric Group Co., Ltd Shanghai Electric Power Generation Group(Yunghsin, Vietnam)	Non-related	1,707,742.07	More than 4 years	5.67
SINOSTEEL MECC (Xinjiang Guotai Xinhua Mining Co., Ltd.)	Non-related	1,657,500.00	2-3 years	5.50
Total		9,485,542.07		31.50

(5) Account receivables that were derecognised due to the transfer of financial assets

(6) Amount of assets or liabilities for which accounts receivable is transferred but involvement continues

6. Prepayments

(1) Prepayments are listed by ages:

Unit: RMB

Age of account	Closing Balance		Opening Balance	
	Amount	Percentage (%)	Amount	Percentage (%)
Within 1 year	2,144,211.06	99.66%	1,868,550.24	99.48%
2-3 years			9,174.01	0.49%
More than 3 years	7,334.00	0.34%	587.68	0.03%
Total	2,151,545.06	–	1,878,311.93	–

(2) Top 5 of other prepayments:

Name of company	Relationship	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
Baoding Tianwei Hengtong Electric Company Limited	Non-related	142,000.00	Within 1 year	Prepayment of electric fees
State Grid Fuxin Electric Power Supply Company	Non-related	130,005.27	Within 1 year	Prepayment of electricity fees
Total		1,896,768.63		

7. Interests receivable

8. Dividends receivable

9. Other receivables

(1) Other receivables by categories are analyzed as follows

Unit: RMB

Type	Closing Balance					Opening Balance				
	Book Balance		Bad-debt provision				Book Balance	Bad-debt provision		
	Amount	Percentage (%)	Amount	Provision percentage (%)	Book Value	Amount	Percentage (%)	Amount	Provision percentage (%)	Book Value
Individually significant and subject to separate provision	78,130,236.27	80.48%	78,130,236.27	100.00%		78,130,236.27	92.68%	78,130,236.27	100.00%	
Subject to provision by groups with risk characteristics	18,352,782.51	18.90%	817,949.68	1.19%	18,134,832.83	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	0.62%	600,000.00	100.00%		600,000.00	0.71%	600,000.00	100.00%	
Total	97,083,018.78	100.00%	78,948,185.95	81.32%	18,134,832.83	84,300,900.67	100.00%	81,177,828.24	96.30%	3,123,072.43

Other accounts receivable individually significant and subject to separate provision at the end of the period:

☐ Applicable √ Not applicable

In portfolio, other accounts receivable with bad-debt provision drawn by aging analysis:

√ applicable ☐ not applicable

Unit: RMB

Age of receivables	Closing Balance		
	Other receivables	Bad-debt provision	Provision percentage
Within 1 year	18,052,102.08	200,306.00	1.11%
1-2 years	26,501.54		
2-3 years	255,000.00	12,000.00	4.71%
3-4 years	600,000.00	600,000.00	100.00%
More than 4 years	19,178.89	5,643.68	29.43%
Total	18,952,782.51	817,949.68	4.32%

In portfolio, other accounts receivable with bad-debt provision drawn by percentage of balance:

☐ Applicable √ Not applicable

In portfolio, other accounts receivable with bad-debt provision drawn by other methods:

☐ Applicable √ Not applicable

(2) Provision, recovery or reversal of bad debts during the reporting period
A total of RMB0 has been accrued for this period, with RMB54,800.00 retrieved or reversed.

(3) Details of other receivables actually written off during the reporting period

(4) Other receivables categorized by nature are as follows

Unit: RMB

Nature	Book balance at end of period	Book balance at beginning of period
Deposits for bidding	2,995,771.00	2,557,783.42
Lawsuits	76,090,000.00	76,090,000.00
Current account	17,261,460.44	4,917,329.91
Others	735,787.34	735,787.34
Total	97,083,018.78	84,300,900.67

(5) Top five other receivables are listed as follows

Unit: RMB

Name of company	Nature	Closing balance	Age	Percentage in total other receivables (%)	Balance of bad-debt provision
Benxi Steel (Group) Co., Ltd.	Lawsuits	76,090,000.00	More than 4 years	78.38%	76,090,000.00
Jiangsu Dison Silink New Energy Investment Co., Ltd.	Current account	14,190,000.00	Within 1 year	14.62%	
Xintai (Liaoning) Precision Machinery Co., Ltd.	Current account	600,000.00	More than 2 years	0.62%	600,000.00
Fuxin Aluminum Alloy Branch	Current account	534,518.86	More than 4 years	0.55%	534,518.86
Fuxin Finance Bureau	Current account	192,465.00	Within 2 years	0.20%	
Total	–	91,606,983.86	–	94.16%	77,224,518.86

(6) Receivables involving government subsidy

(7) Other receivables that were derecognised due to the transfer of financial assets

(8) Amount of assets or liabilities for which other receivables is transferred but involvement continues

10. Inventories

(1) Classifications of inventories

Unit: RMB

Item	Closing Balance			Opening Balance		
	Book Balance	Provision for diminution in value	Book Value	Book Balance	Provision for diminution in value	Book Value
Raw materials	5,519,974.93	75,272.28	5,444,702.65	11,032,491.06	4,052,269.12	6,980,221.94
Work in process	38,496.77		38,496.77	10,738,971.21	7,739,916.06	2,999,055.15
Finished goods	2,373,870.83	201,734.72	2,172,136.11	4,471,073.53	2,917,306.10	1,553,767.43
Total	7,932,342.53	277,007.00	7,655,335.53	26,242,535.80	14,709,491.28	11,533,044.52

(2) Provision for diminution in value

Unit: RMB

Item	Opening Balance	Increase of provision during the period		Decrease of provision during the period		Closing Balance
		Provision	Others	Reverse/ Write-off	Others	
Raw materials	4,052,269.12				3,976,996.84	75,272.28
Work in process	7,739,916.06				7,538,181.34	
Finished goods	2,917,306.10			671,673.24	2,245,632.86	201,734.72
Total	14,709,491.28			671,673.24	13,760,811.04	277,007.00

Due to the reclassification of New Northeast Electric (Jinzhou) Power Capacitor Co., Ltd into the held-for-sale assets, its inventories are reclassified.

(3) Balance of inventories at the end of the period including capitalised borrowing costs:

(4) Balance of assets from completed but not settled projects formed by construction contracts at the end of the period:

11. Assets held for sale

Unit: RMB

Item	Book balance at end of period	Fair Value	Estimated proceeds from disposal	Estimated time for disposal
New Northeast Electric (Jinzhou) Power Capacitor Co., Ltd	84,023,356.18	84,023,356.18		By 31 December 2018
Total	84,023,356.18	84,023,356.18		–

Proposals such as Proposal on the Company's Significant Asset Disposal were considered and approved at the 16th meeting of the 8th Board of Directors held on 17 September 2017 and the 2nd extraordinary general meeting for year 2018 held on 25 May 2018. At present, the Company is proceeding with the equity transfer work on such significant asset disposal.

12. Non-current assets due within 1 year

13. Other current assets

Unit: RMB

Item	Closing Balance	Opening Balance
Rental expenses		1,670,704.05
Input taxes to be deducted	928,410.63	1,982,155.63
Enterprise Income Tax		43,391.47
Total	928,410.63	3,696,251.15

14. Available-for-sale financial assets

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

Unit: RMB

Item	Closing Balance			Opening Balance		
	Book Balance	Provision for diminution in value	Book value	Book Balance	Provision for diminution in value	Book value
Available-for-sale Equity:	81,850,957.56	50,090,098.86	31,760,858.70	81,850,957.56	50,090,098.86	31,760,858.70
Measured by cost	81,850,957.56	50,090,098.86	31,760,858.70	81,850,957.56	50,090,098.86	31,760,858.70
Total	81,850,957.56	50,090,098.86	31,760,858.70	81,850,957.56	50,090,098.86	31,760,858.70

(2) Available-for-sale financial assets measured at fair value at the end of the period

(3) Available-for-sale financial assets measured by costs at the end of the period

Unit: RMB

Investee	Book Balance				Provision for diminution in value				% of share	Cash dividend for the period
	Opening balance	Increment	Decrement	Closing balance	Opening balance	Increment	Decrement	Decrement		
Shenyang Zhaoli High Voltage Electric Equipment Co Ltd	31,760,858.70			31,760,858.70					6.90%	
Total	31,760,858.70			31,760,858.70					–	

(4) Changes in impairments of available-for-sale financial assets within the reporting period

(5) Note to serious decline or non-provisional decline of the fair value of available-for-sale equity instruments without provision for impairment provided

15. Held-to-maturity investment

16. Long-term accounts receivable

17. Long-term equity investment

Unit: RMB

Investee	Opening Balance	Increase/decrease during the period								Closing Balance	Balance of provision for diminution in value at end of period
		Increase in investment	Decrease in investment	Profit/loss for investment by Method of Equity	Adjustment to other comprehensive income	Other changes to equity	Cash dividend declared/or profit	Provision for diminution in value	Others		
I. Joint Venture											
WeiDa High-voltage Electric Co. Ltd	19,463,641.61				143,921.80					19,607,563.41	
Sub-total	19,463,641.61				143,921.80					19,607,563.41	
II. Associates											
Total	19,463,641.61				143,921.80					19,607,563.41	

18. Investment properties

(1) Investment property of the cost measurement

☐ Applicable √ Not applicable

(2) Investment property of the fair value measurement

☐ Applicable √ Not applicable

(3) Investment property with pending certificates of ownership

19. Fixed assets

(1) Fixed assets

Unit: RMB

Item	Buildings	Machinery and equipment	Motor vehicles and others	Total
I. Carrying amount				
1. Opening Balance	48,193,147.57	67,736,137.03	15,630,197.85	131,559,482.45
2. Increment for the period		5,580,751.11	70,024.30	5,650,775.41
(1) Purchase				
(2) Transferred from construction in progress		5,580,751.11	70,024.30	5,650,775.41
(3) Increment from business combination				
3. Decrement for the period	12,041,376.41	52,529,401.93	8,770,166.41	73,340,944.75
(1) Disposal or write-off				
(2) Transferred into construction in progress	449,463.00	313,812.72	8,770,166.41	73,340,944.75
(3) Available-for-sale asset reclassified	11,591,913.41	52,215,589.21		63,807,502.62
4. Closing Balance	36,151,771.16	20,787,486.21	6,930,055.74	63,869,313.11
II. Accumulated depreciation				
1. Opening Balance	37,288,104.69	42,469,984.29	10,594,131.15	90,352,220.13
2. Increment for the period	384,484.69	1,532,157.38	417,025.71	2,333,667.78
(1) Provision	384,484.69	1,532,157.38	417,025.71	2,333,667.78
3. Decrement for the period	6,513,209.11	30,297,712.79	7,189,871.86	44,000,793.76
(1) Disposal or write-off				
(2) Transferred into construction in progress	168,236.45	313,414.47	452,709.01	934,359.93
(3) Available-for-sale asset reclassified	6,344,972.66	29,984,298.32	6,737,162.85	43,066,433.83
4. Closing Balance	31,159,380.27	13,704,428.88	3,821,285.00	48,685,094.15

Item	Buildings	Machinery and equipment	Motor vehicles and others	Total
III. Provision for diminution in value				
1. Opening Balance		4,979,267.14	522,129.86	5,501,397.00
2. Increment for the period	152,106.51			152,106.51
(1) Provision	152,106.51			152,106.51
3. Decrement for the period				
(1) Disposal or write-off				
(2) Reclassification of available-for-sale assets		3,398,313.74	239,295.91	3,637,609.65
4. Closing Balance	152,106.51	1,580,953.40	282,833.95	2,015,893.86
IV. Book value				
1. Book value at end of period	4,840,284.38	5,502,103.93	2,825,936.79	13,168,325.10
2. Book value at beginning of period	10,905,042.88	20,286,885.60	4,513,936.84	35,705,865.32

Other notes:

(1) By the end of the period, there is no fixed asset with restricted ownership.

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

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

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

(5) There is no fixed asset with certificate of title to be obtained by the end of period.

(6) All buildings of the Company are located in China, which land use rights are within 50 years.

20. Construction in progress

(1) Construction in progress

Unit: RMB

Item	Closing Balance			Opening Balance		
	Book Balance	Provision for impairment	Book value	Book balance	Provision for impairment	Book value
Equipments to be installed	5,123,931.62		5,123,931.62	6,070,928.52	29,902.91	6,041,025.61
Construction of new plants	32,725,043.69		32,725,043.69	36,512,725.44		36,512,725.44
Total	37,848,975.31		37,848,975.31	42,583,653.96	29,902.91	42,553,751.05

(2) Changes in major construction in progress during the period

Unit: RMB

Project	Budget	Opening Balance	Increment	Transfer to Fixed Asset	Decrement	Closing Balance	Total input to budget (%)	Progress	Total capitalized interest	Incl: Interest capitalized during the period	Interest capitalized ratio (%)	Funding source
Construction of new plants	38,000,000.00	42,553,751.05	714,436.91	5,419,212.65		37,848,975.31						
Total	38,000,000.00	42,553,751.05	714,436.91	5,419,212.65		37,848,975.31	–	–				–

(3) Provision for the impairment in construction in progress during the period

21. Material – construction

22. Liquidation of fixed assets

Unit: RMB

Item	Closing Balance	Opening Balance
Machinery and equipment		629,668.46
Total		629,668.46

Due to the reclassification of New Northeast Electric (Jinzhou) Power Capacitor Co., Ltd, the balance of fixed asset liquidation was transferred into available held-for-sale assets.

23. Productive biological assets

(1) Productive biological assets of the cost measurement

☐ Applicable √ Not applicable

(2) Productive biological assets of the fair value measurement

☐ Applicable √ Not applicable

24. Oil and gas assets

☐ Applicable √ Not applicable

25. Intangible assets

(1) Intangible assets

Unit: RMB

Item	Land use rights	Patent	Non-patent	Total
I. Book Balance	19,974,805.05	450,000.00	207,000.00	20,631,805.05
1. Opening Balance				
2. Increment				
(1) Purchase				
(2) Internal R&D				
(3) Increment from business combination				
3. Decrement				
(1) Disposal of assets				
4. Closing Balance	19,974,805.05	450,000.00	207,000.00	20,631,805.05

Item	Land use rights	Patent	Non-patent	Total
II. Accumulated amortization				
1. Opening Balance	3,310,789.65	450,000.00	207,000.00	20,631,805.05
2. Increment	199,748.10			199,748.10
(1) Provision	199,748.10			199,748.10
3. Decrement				
(1) Disposal of assets				
4. Closing Balance	3,510,537.75	450,000.00	207,000.00	4,167,537.75
III. Provision for assets impairment				
1.Opening Balance				
2. Increment				
(1) Provision				
3. Decrement				
(1) Disposal of assets				
4. Closing Balance				
IV. Book value				
1. Book value at end of period	16,464,267.30			16,464,267.30
2. Book value at beginning of period	16,664,015.40			16,664,015.40

(2) Land use rights with pending certificates of ownership

26. Development expenditures

27. Goodwill

(1) Original book value of goodwill

Unit: RMB

Company invested or Items resulted in goodwill	Opening Balance	Increment	Decrement	Closing Balance
Northeast Electric (Chengdu) Electric Power Engineering Design Co. Ltd	72,097.15			72,097.15
Total	72,097.15			72,097.15

(2) Provision for impairment in goodwill

28. Long-term deferred expenses

Unit: RMB

Item	Opening Balance	Increment	Amortization	Other decrement	Closing Balance
Improvement expenditures for fixed assets rented	1,539,490.85		146,444.28	521,266.74	871,779.83
Property insurance premium	5,686.31			5,686.31	
Total	1,545,177.16		146,444.28	526,953.05	871,779.83

29. Deferred tax assets/Deferred tax liabilities

(1) Deferred tax assets not offset
(2) eferred tax liabilities not offset
(3) Deferred tax assets/Deferred tax liabilities presented on net basis after offset

(4) Details of deferred tax assets not yet recognised

Unit: RMB

Item	Closing Balance	Opening Balance
Offsettable temporary difference	232,262,357.09	232,262,357.09
Offsettable loss	395,204,707.03	395,204,707.03
Total	627,467,064.12	627,467,064.12

(5) Income tax assets not yet recognised offsettable with loss which due in the next period

Unit: RMB

Year	Closing Balance	Opening Balance	Remarks
2017			
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	356,411,785.22	
No specified limit	14,274,073.14	14,274,073.14	Off-settable loss by subsidiary –Northeast Electric (HK) Co., Ltd.
Total	395,204,707.03	395,204,707.03	–

30. Other non-current assets

Unit: RMB

Item	Closing Balance	Opening Balance
Prepayment for equipment		302,881.71
Total		302,881.71

31. Short-term borrowings

32. Financial liabilities at fair value through current profit or loss

33. Derivative financial liabilities

☐ Applicable √ Not applicable

34. Notes payable

Unit: RMB

Type	Closing Balance	Opening Balance
Bank acceptance notes		40,000.00
Total		40,000.00

35. Accounts payable

Unit: RMB

Item	Closing Balance	Opening Balance
Within 1 year	8,072,541.38	9,571,430.20
1-2 years	2,042,282.02	3,915,566.83
2-3 years	1,239,577.31	2,842,563.74
More than 3 years	949,836.30	5,172,155.06
Total	12,304,237.01	21,501,715.83

36. Receipts in advance

Unit: RMB

Item	Closing Balance	Opening Balance
Within 1 year	3,070,790.00	1,530,675.00
1-2 years	147,400.00	443,590.01
2-3 years		1,394,445.02
More than 3 years	581,743.59	816,429.09
Total	3,799,933.59	4,185,139.12

37. Employee compensation

(1) Details of employee compensation

Unit: RMB

Item	Opening Balance	Increment	Decrement	Closing Balance
I. Short-term compensation	2,930,083.87	7,986,985.10	10,362,529.87	554,539.10
II. Post resignation benefit – designed provision plan	92,458.16	1,864,965.52	1,883,549.07	73,874.61
Total	3,022,542.03	9,851,950.62	12,246,078.94	628,413.71

(2) Short-term employee compensation

Unit: RMB

Item	Opening Balance	Increment	Decrement	Closing Balance
I. Wages, bonuses, allowances, subsidies	925,478.03	6,103,973.79	6,533,087.88	496,363.94
II. Social insurances	56,059.01	776,228.22	783,989.17	48,298.06
Incl: 1. Medical insurance	38,846.97	628,769.93	635,558.11	32,058.79
2. Work injury insurance	13,682.24	113,247.91	113,685.49	13,244.66
3. Maternity insurance	3,529.80	34,210.38	34,745.57	2,994.61
III. Housing provident fund	288,165.25	1,034,853.76	1,319,157.38	3,861.63
IV. Labor union expenditure and employee education expenses	1,660,381.58	71,929.33	1,726,295.44	6,015.47
Total	2,930,083.87	7,986,985.10	10,362,529.87	554,539.10

(3) Designed provision plan is listed as follows:

Unit: RMB

Item	Opening Balance	Increment	Decrement	Closing Balance
I. Basic endowment insurance	89,016.90	1,805,303.40	1,823,205.40	71,114.90
II. Unemployment insurance	3,441.26	59,662.12	60,343.67	2,759.71
Total	92,458.16	1,864,965.52	1,883,549.07	73,874.61

38. Taxes payable

Unit: RMB

Item	Closing Balance	Opening Balance
Enterprise income tax		163,782.70
Individual income tax	155,283.10	31,795.18
City maintenance and construction tax		811.44
Education surcharge	2,770.19	4,273.18
Tenure tax	79,097.00	79,097.00
Housing property tax	14,542.49	44,535.95
Others		17,324.90
Total	251,692.78	341,620.35

39. Interests payable

40. Dividends payable

41. Other payables

(1) Other payables categorized by nature are as follows

Unit: RMB

Item	Closing Balance	Opening Balance
Compensation due for CDB case	272,627,700.00	272,627,700.00
Guarantee amount for loan from ICBC Bank Jinzhou		18,329,142.29
Current account	43,951,736.41	39,248,601.66
Shipment expenses	2,161,422.00	2,538,599.63
Agent fee	5,904,434.92	5,813,207.55
Purchase of equipment	23,189,555.76	23,189,555.76
Others	4,715,306.10	3,673,930.53
Total	352,550,155.19	365,420,737.42

42. Liabilities held for sale

Unit: RMB

Item	Closing Balance	Opening Balance
New Northeast Electric (Jinzhou) Power Capacitor Co., Ltd	12,756,093.37	
Total	12,756,093.37	

Proposals such as Proposal on the Company's Significant Asset Disposal were considered and approved at the 16th meeting of the 8th Board of Directors held on 17 September 2017 and the 2nd extraordinary general meeting for year 2018 held on 25 May 2018. At present, the Company is proceeding with the equity transfer work on such significant asset disposal

43. Non-current liabilities due within 1 year

44. Other liabilities

45. Long-term borrowings

46. Bonds payable

47. Long-term payables

48. Long-term payable – salaries & benefits

49. Special payables

Unit: RMB

Item	Opening Balance	Increment	Decrement	Closing Balance	Causes
Demolition compensation	30,965,484.89			30,965,484.89	Relocation of Fuxin Co.'s North plant
Total	30,965,484.89			30,965,484.89	–

50. Estimated liabilities

Unit: RMB

Item	Closing Balance	Opening Balance	Causes
External guarantee amount provided by the Company	34,354,500.00	37,615,481.25	
Pending litigation	37,745,190.00	37,745,190.00	
Total	72,099,690.00	75,360,671.25	–

(1) The Company has provided guarantee for the bank loan of RMB13,000,000.00 between Bank of China Jinzhou Branch and the Company's subsidiary –"Jinrong", and thus undertakes obligation of joint guarantee. Bank of China Jinzhou Branch has filed a lawsuit in February 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 undertakes 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. Jinzhou Intermediate People's Court of Liaoning Province has issued Enforcement Notice (Jin Zhi Zi [2005] No. 89) in September 2005. And on 23 June 2010 the Court has made Enforcement Ruling (Jin Zhi Yi Zi [2005] No. 89), sealing up High-voltage parallel connection Capacitors owned by Jinrong, including 35 boxes of 140 sets of BFM6.61-299IW, 24 boxes totaling 96 sets of BFM2.11.5J3-300IW, 65 boxes of 240 sets of BFM3.11.5J3-300IW. The Company has accordingly estimated liabilities of RMB14,464,500.00. Up to the date of report approval, the above-mentioned repayment has not yet been made.

(2) The Company has provided guarantee for loans of RMB17,000,000.00 between Jinzhou Power Capacitor Co., Ltd. (hereinafter referred to as Jin Cap) and Jinzhou City Commercial Bank. The bank has launched lawsuit to the Jinzhou Intermediate People's Court 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 (Jin Min San Chu Zi [2007] No. 00049) in June 2007, which has come into effectiveness for the Company has not appealed. The Company therefore estimates liability of RMB19,890,000.00. Jinzhou Intermediate People's Court issued an order of Enforcement to the Company on 5 March 2008, requesting execution of obligations. Up till the reporting date, the Company has not paid the above mentioned liability.

(3) The lawsuit pending ruling refers to the case of employee settlement compensation dispute –State-owned Assets Supervision and Administration Commission of Tiexi District of Shenyang City (hereinafter referred to as "Tiexi Commission") vs. Shenyang High-Voltage Switches Co., Ltd. (hereinafter referred to as "Shenyang High-Volt") & New Northeast Electric (Shenyang) High-Voltage Switches Co., Ltd. (hereinafter referred 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 employee settlement affairs, and then in June and November of 2008, the 3 parties signed Agreement of proper settlement of Shenyang High-Volt employees and Supplementary Agreement, and 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, for which Shenyang High-Volt has paid RMB103,860,000 up to July 2011. There's an outstanding amount to be paid of RMB28,530,000.

Consequently, in May 2017, State-owned Assets Supervision and Administration Commission of Tiexi District sued the Company and Shenyang High-Volt with Intermediate Court of Shenyang City, claiming RMB37,745,190.00 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 (Liao Min Xia Zhong [2017] No. 196) on 6 December 2017, sustaining the ruling by the Intermediate Court. The Higher Court of Liaoning Province serviced summon public for the Ruling of 2nd trial on 4 January 2018 which would last for 60 days, due to inability of direct summon service.

On 12 June 2018, the case was heard in the Shenyang Intermediate People's Court. On July 18, the Shenyang Intermediate People's Court issued a civil written order (Liao 01 Min Chu [2017] No. 430). The Shenyang Intermediate People's Court rejected the claim that the Plaintiff requested the Company to pay arrears of RMB28.53 million, interest and liquidated damages.

According to the legal opinion and based upon the principle of financial prudence, in 2017, the Company also has the provision for estimated liabilities according to the amount of money involved in the case of RMB37,745,190, with details referring to the 2017 Operating Results Forecast published on 31 January 2018 (Announcement No.: 2018-006), as well as the 2017 Annual Report published on 29 March 2018. Given the fact that this judgment is the first-instance verdict of the court, the Company cannot predict the potential impacts of the litigation's final judgment on the profit of the current period and afterwards. Subject to related regulations, the Company will timely perform the information disclosure obligation according to the progress of the case.

(4) The company has provided guarantee and assumed joint liabilities for loans of RMB22,900,000.00 from ICBC Jinzhou City Sub-branch to Jin Cap., which loan agreement amount is RMB42,900,000.00. ICBC Jinzhou City Sub-branch has sued against Jin Cap in December 2006 to the Jinzhou Intermediate People's Court, 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 (Jin Min San Chu Zi [2007] No. 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 14 April, 2008, the Jinzhou Intermediate People's Court issued Enforcement Notice, requesting the Company to take the captioned liabilities. On 25 August 2010, the Jinzhou Intermediate People's Court issued (Jin Zhi Yi Zi [2008] No. 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 30 October 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. 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. In March 2018 the Company has repaid the remaining liabilities, and will write off the estimated current liabilities of RMB3,260,981.25.

51. Deferred revenue

52. Other non-current liabilities

53. Share capital

Unit: RMB

		Increment/Decrement (+/-)					
	Opening Balance	New shares issued	Stock dividend	Reserve to shares	Others	Sub-total	Closing Balance
Total shares	873,370,000.00						873,370,000.00

54. Other equity instruments

55. Capital reserve

Unit: RMB

Item	Opening Balance	Increment	Decrement	Closing Balance
Capital premium (share premium)	115,431,040.00			115,431,040.00
Other reserves	767,991,363.92			767,991,363.92
Total	883,422,403.92			883,422,403.92

56. Treasury stock

57. Other comprehensive income

Unit: RMB

		Amount for current period					
Item	Opening balance	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	Closing balance
II. OCI to be reclassified into Profit & Loss	-29,869,066.75	362,435.62			362,435.62		-29,506,631.13
Foreign currency translation difference	-29,869,066.75	362,435.62			362,435.62		-29,506,631.13
Total OCI	-29,869,066.75	362,435.62			362,435.62		-29,506,631.13

58. Special reserve

59. Surplus reserve

Unit: RMB

Item	Opening Balance	Increment	Decrement	Closing Balance
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

60. Accumulated losses

Unit: RMB

Item	Amount for current period	Amount for previous period
Accumulated losses at end of previous period	-2,034,142,303.59	-1,637,084,660.40
Accumulated losses at beginning of period after adjustment	-2,034,142,303.59	-1,637,084,660.40
Add: Net profit attributable shareholders of the Company for the year	3,880,567.18	-397,057,643.19
Accumulated losses at end of period	-2,030,261,736.41	-2,034,142,303.59

61. Operating revenue and cost

Unit: RMB

Item	Amount for current period		Amount for previous period	
	Income	Cost	Income	Cost
Principal business	14,296,160.44	12,156,795.16	17,023,141.83	12,797,920.99
Other business			589,334.83	557,057.22
Total	14,296,160.44	12,156,795.16	17,612,476.66	13,354,978.21

62. Business tax and surcharges

Unit: RMB

Item	Amount for current period	Amount for previous period
City maintenance and construction tax	9,875.97	40,939.87
Education surcharges	4,232.56	29,242.77
Property tax	87,254.94	123,215.70
Land use tax	474,582.00	454,634.50
Tax on vehicles	4,449.12	4,449.12
Stamp duty	15	501.7
Local education surcharges	2,836.71	
Others	49,745.76	
Total	632,992.06	652,983.66

63. Sales expenses

Unit: RMB

Item	Amount for current period	Amount for previous period
Transportation fee	313,959.38	1,214,803.71
Consultation fee		200,000.00
Employee compensation	555,045.38	578,059.78
Travelling expense	405,647.01	284,106.09
Bidding fee	141,785.19	72,954.63
Material consumption	31,076.09	37,441.34
After-Sales services expenses	133,429.46	522,058.22
Entertainment fee	172,593.40	83,090.45
Others	143,610.62	242,897.03
Total	1,897,146.53	3,235,411.25

64. Administrative expenses

Unit: RMB

Item	Amount for current period	Amount for previous period
Employee compensation	6,538,605.93	9,486,097.43
Office expenses	106,178.67	296,135.26
Depreciation expenses	787,258.95	809,705.48
Agent fee	194,339.62	1,291,605.45
Heating expenses	423,928.50	556,449.72
Taxes		
Entertainment fee	161,367.37	562,975.97
Travelling expense	173,415.89	477,122.51
Intangible assets amortization	199,748.10	199,748.10
Rents & leases	610,262.94	269,318.90
Others	7,354,263.72	6,338,732.98
Total	16,549,369.69	20,287,891.80

65. Finance expenses

Unit: RMB

Item	Amount for current period	Amount for previous period
Interest expenses	337,360.63	693,382.17
Less: Interest income	20,877.42	87,477.71
Exchange difference	-3,103.16	5,445.98
Bank charges	49,883.37	14,679.16
Total	363,263.42	626,905.77

66. Assets impairment loss

Unit: RMB

Item	Amount for current period	Amount for previous period
I. Bad debt expenses	595,013.58	221,171.52
II. Losses on inventory depreciation	-31,487.70	
Total	563,525.88	221,171.52

67. Income of fair value variance

68. Return on investments

69. Revenue from assets disposal

70. Other revenue

71. Non-operating income

Unit: RMB

Item	Amount for current period	Amount for previous period	Amounts included in the current extraordinary profit & loss
Gain from debt restructuring		620,476.86	
Others	21,497,158.08		21,497,158.08
Total	21,497,158.08	620,476.86	

72. Non-operating expenses

Unit: RMB

Item	Amount for current period	Amount for previous period	Amounts included in the current extraordinary profit & loss
Late payment penalty	7,223.01		7,223.01
Loss on disposal of non-current assets		139,079.29	
Others	95,650.40		95,650.40
Total	102,873.41	139,079.29	

73. Income tax expense

(1) Income tax expense

Unit: RMB

Item	Amount for current period	Amount for previous period
Total	0.00	0.00

(2) Proceedings of adjustments of accounting profit and income tax expenses

Unit: RMB

Item	Amount for current period
Total profit	3,527,352.37
Income tax expenses	0.00

74. Other comprehensive income

Please refer to Note VII.57 for details.

75. Cash flows statement

(1) Cash received from other operating activities

Unit: RMB

Item	Amount for current period	Amount for previous period
Current account	57,489,641.52	60,662,740.67
Guarantee deposits	2,020,021.00	3,018,508.00
Interest income	18,926.88	87,477.71
Others	248,365.75	
Total	59,776,955.15	63,768,726.38

(2) Cash paid to other operating activities

Unit: RMB

Item	Amount for current period	Amount for previous period
Cash expenses	34,559,160.90	10,979,963.32
Current account	27,602,830.01	3,856,258.50
Guarantee deposits for bidding	798,500.00	
Total	62,960,490.91	14,836,221.82

76. Supplementary information to cash flow statement

(1) Supplementary information to cash flow statement

Unit: RMB

Supplementary informationx	Amount for current period	Amount for previous period
1. Reconciliation from net profit to cash flows from operating activities:	–	–
Net profit	3,527,352.37	-20,285,467.98
Add: Provision for assets impairment	563,525.88	221,171.52
Depreciation of fixed assets, depreciation of oil and gas assets, depreciation of productive bio-assets	2,320,845.98	2,516,158.92
Amortization of intangible assets	199,748.10	199,748.10
Amortization of long term deferred expenses	236,929.26	-1,275,291.09
Loss on disposal of fixed assets, intangible assets and other non-current assets (gain is shown as "-")		138,870.72
Finance costs (gain is shown as "-")	20,745.19	698,604.41
Decrease in inventories (increase is shown as "-")	-563,483.36	2,071,044.42
Decrease in operating receivables (increase is shown as "-")	33,118,700.51	51,519,078.47
Increase in operating payables (decrease is shown as "-")	-50,560,881.81	-8,083,064.18
Others	5,972,793.57	
Net cash flows generated from operational activities	-5,163,724.31	27,720,853.31
2. Significant non-cash investment and financing activities:	–	–
3. Changes in cash and cash equivalents:	–	–
Less: cash at beginning of period	8,408,461.77	22,488,930.21
Add: cash equivalent at the end of period	3,390,727.00	27,391,345.93
Net increase in cash and cash equivalents	-5,017,734.77	4,902,415.72

(2) Net cash amount paid for disposing of subsidiaries

(3) Net cash amount from disposing of subsidiaries

(4) Composition of cash and cash equivalents

Unit: RMB

Item	Closing Balance	Opening Balance
I. Cash	3,390,727.00	8,408,461.77
Incl: Cash on hand	8,584.08	7,317.67
Bank deposits available on demand	3,382,142.92	8,401,144.10
Other cash assets available on demand		
Deposits with Central Bank available on demand		
Deposits with other banks		
Inter-bank lending		
II. Cash equivalents		
Incl: Bond investments mature within 3 months		
III. Balance of cash and cash equivalents at end of period	3,390,727.00	8,408,461.77
Incl: The restricted cash and cash equivalents used by the parent company and the subsidiaries of the Group.		

77. Notes to statement of changes in equity

78. The assets of the ownership or use right is restricted

Unit: RMB

Item	Book value at end of period	Causes
Cash and cash equivalents	7,325,800.00	Security deposits for bank accepted bills
Total	7,325,800.00	–

79. Monetary items for foreign currency

(1) Monetary items for foreign currency

Unit: RMB

Item	Foreign currency balance at end of period	Exchange rate	Translated RMB balance at end of year
HK dollars	448,178.83	0.8431	377,859.60

(2) Description of overseas business entities; for material overseas business entities, disclose their major business places overseas, recording currency and the selection criterion thereof; should there be any change in the recording currency, disclose the reason for such change.

√ applicable ☐ not applicable

Item	Assets and Liabilities	
	30 June 2018	31 December 2017
Northeast Electric (HK) Co., Ltd.	HKD1.00 = RMB0.8431	HKD1.00 = RMB0.8359
Great Talent Technology Ltd.	HKD1.00 = RMB0.8431	HKD1.00 = RMB0.8359

Item	Income, expenses, cash flow items	
	January to June 2018	Year 2017
Northeast Electric (HK) Co., Ltd.	HKD1.00 = RMB0.8395	HKD1.00 = RMB0.8652
Great Talent Technology Ltd.	HKD1.00 = RMB0.8395	HKD1.00 = RMB0.8652

80. Hedge

81. Others

IX. Merge and consolidated financial statements

X. Equity in other entities

1. Equity in subsidiary

(1) Composition of the Group

Name of Subsidiary	Operating location	Location of registration	Nature of business	Percentage of shares held by the Company (%)		Means of acquisition
				Direct	Indirect	
Northeast Electric (HK) Co., Ltd.	HK	HK	Investment/ Trade	100.00%		Set up by investment
Great Talent Technology Ltd.	BVI	BVI	Investment	100.00%		Set up by investment
Shenyang Kaiyi Electric Co., Ltd.	Shenyang	Shenyang	Manufacturing, sales of electric equipment	10.00%	90.00%	Set up by investment
Fuxin Enclosed Busbar Co., Ltd.	Fuxin	Fuxin	Manufacturing of enclosed busbar		100.00%	Set up by investment
New Northeast Electric (Jinzhou) Power Capacitor Co., Ltd.	Jinzhou	Jinzhou	Manufacturing power capacitor		100.00%	Business combination under common control
Jinzhou Jinrong Electric Appliance Co., Ltd.	Jinzhou	Jinzhou	Dry type capacitor banks, etc		69.75%	Business combination under common control
Hainan Tangyuan Technology Co., Ltd.	Haikou	Haikou	Public space business		100.00%	Set up by investment
Northeast Electric (Chengdu) Power Engineering Design Co., Ltd.	Chengdu	Chengdu	Design and construction of new energy, engineering design and project consulting		51.00%	Business combination not under common

(2) Important non-wholly-owned subsidiary

Unit: RMB

Name of subsidiary	Share percentage of minority shareholder	Profit/loss attributable to minority shareholders	Dividends paid to minority shareholders for the period	Accumulated minority interests by end of period
Jinzhou Jinrong Electric Appliance Co., Ltd.	30.25%	-41,456.03		70,553.88
Northeast Electric (Chengdu) Power Engineering Design Co., Ltd.	49.00%	-311,758.78		3,567,055.62

(3) Financial information on important non-wholly-owned subsidiary

Unit: RMB

Name of subsidiary	Closing Balance						Opening Balance					
	Current assets	Non-current assets	Total assets	Current liabilities	Non-current liabilities	Total liabilities	Current assets	Non-current assets	Total assets	Current liabilities	Non-current liabilities	Total liabilities
Northeast Electric (Chengdu) Power Engineering Design Co., Ltd.	14,342,796.44	71,775.20	14,414,571.64	7,134,866.29		7,134,866.29	14,693,490.53	92,285.12	14,785,775.65	6,869,827.89		6,869,827.89
Jinzhou Jinrong Electric Appliance Co., Ltd.	871,899.46	672,951.86	1,544,851.32	1,311,615.32			934,777.06	760,033.58	1,694,810.64	1,324,529.90		1,324,529.90

Unit: RMB

Name of subsidiary	Amount for current period				Amount for previous period			
	Operating income	Net profit	Total comprehensive income	Cash flow generated from operating activities	Operating income	Net profit	Total comprehensive income	Cash flow generated from operating activities
Northeast Electric (Chengdu) Power Engineering Design Co., Ltd.		-636,242.41		-364,482.95		-1,942,685.27		-2,156,825.52
Jinzhou Jinrong Electric Appliance Co., Ltd.		-137,044.74		-62,877.60		-484,007.06		-855,758.16

(4) Significant restrictions on using the Group's assets and settling the Group's debts

(5) Financial or other support providing for structural entities incorporated into the consolidated financial statements

2. Transactions with changes in equities attributable to owners of subsidiaries and still control over it

(1) Details of changes in equities attributable to owners of subsidiaries

(2) Impact of transactions on equities of minority shareholders and attributable to owners of parent company

3. Equities in joint ventures or associates

(1) Important joint ventures or associates

Names of joint ventures or associates	Operating location	Location of registration	Nature of business	Percentage of shares held (%)		Accounting methods
				Direct	Indirect	
Weida High-voltage Electric Co., Ltd.	BVI	BVI	Set up by investment	20.80%		Equity method

(2) Main information of significant joint ventures

(3) Main information of significant associates

Unit: RMB

	Closing Balance/ Amount for current period	Opening Balance/ Amount for previous period
Current assets	221,375,582.90	219,506,121.17
Total assets	221,375,582.90	219,506,121.17
Current liabilities	23,945,791.28	23,741,296.33
Total liabilities	23,945,791.28	23,741,296.33
Net assets	197,429,791.62	195,764,824.84
Pro rata shares held in net assets	41,065,396.66	40,719,083.57
Book value in equity investment to associates	19,463,641.61	19,463,641.61
Net profit	-37,980.46	-45,175.91

(4) Summarised financial information of insignificant joint ventures and associates

(5) Significant restrictions of the ability of joint ventures or associates to transfer funds to the Company:

(6) Excess losses incurred by joint ventures or associates

(7) Unrecognised commitments relating to the investments in joint ventures

(8) Contingent liabilities relating to the investments in joint ventures or associates

5. Interest in structural entities not incorporated into the consolidated financial statements

6. Others

XI. Risks related to financial instruments

Financial instruments the Company invested mainly include equity investment, borrowings, accounts receivables, and accounts payables. For details, please see the relevant items under Note 6. 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 manages and supervises 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 individually, 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 of shareholders and other equity investors. Based on this goal, the basic strategy of risk management for the Company is to ascertain and analyze all the risks that the Company confronts, establish appropriate bottom line for risk-taking, and manage the risks accordingly, in the meantime supervise all the risks in a timely and reliable manner, controlling the risks within the limited scope.

1. Market risks

(1) Foreign currency risks

Foreign currency risks are 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., and Great Talent Technology 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 30 June 2018, only daily expenses reported with no purchases or sales for these subsidiaries.

On 30 June 2018, 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:

Item	Change in exchange rate	Year 2018		Year 2017	
		Impacts on profit	Impacts on shareholders' equity	Impacts on profit	Impacts on shareholders' equity
Translation from foreign currency reports	Appreciate 0.5% against RMB	-1,749.65	342,249.26	-10,094.69	339,326.48
Translation from foreign currency reports	Depreciate 0.5% against RMB	1,749.65	-342,249.26	10,094.69	-339,326.48

(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, and the Company's present policy is to maintain the floating interest rates of these borrowings.

As at 30 June 2018, the Company had no any bank borrowings.

2. Credit risks

As at 30 June 2018, the principal 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, thus reducing credit risk. Moreover, the Company supervises 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 credit risk for those capitals.

(1) Notes receivable

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

(2) Accounts receivable

The Company only conducts transactions with a recognised 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.

Employees are trained to strengthen risk awareness, and risk management procedures are improved continuously. Measures are used to improve internal control over the management of customers' credit policy, the adjustment of which requires the 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 to formulate relative credit policy.

Management of the Company considers credit risks the Company are facing greatly reduced because it only conducts transactions with recognised third party with good credit, and manage concentration of credit risks by customer.

(3) Other receivables

Other receivables of the Company consist mainly of petty cash, guarantee deposits. The Company manages and monitors all these receivables and relative business operations to make sure no significant bad debt risk will occur.

3. Risk of liquidity

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

XII. Disclosure of fair value

1. Fair value of assets and liabilities measured at fair value as at the end of the period
2. Basis for determining Level 1 fair value at recurring and non-recurring fair measurement
3. Recurring and non-recurring Level 2 fair value measurement item, qualitative and quantitative information of the valuation techniques and significant parameters used
4. Recurring and non-recurring Level 3 fair value measurement item, qualitative and quantitative information of the valuation techniques and significant parameters used
5. Recurring Level 3 fair value measurement, adjustment between opening and closing value and sensitivity of unobservable input
6. Reasons for transfers between different levels, and the policy of determining the timing of those transfers for items under the recurring fair value measurements
7. Valuation technology changed during the period and reasons for that change
8. Fair value of financial assets and financial liabilities not at fair value
9. Others

XIII. Related parties and related party transactions

1. Parent company of the Company

Parent Company	Place of registration	Business nature	Registered capital	Percentage of shares held by Parent Company (%)	Voting shares ratio held by Parent Company (%)
Beijing Haihongyuan Investment Management Co., Ltd.	Beijing	Investment management	RMB30,000 million	9.33%	9.33%

Explanation of the parent company of the Company

(1) On 23 January 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 Haihongyuan Investment Co., Ltd (hereinafter referred to as "Beijing Haihongyuan") by signing Transfer Agreement of Shares of Northeast Electric Development Co., Ltd. These shares are 9.33% of the Company's total share capital.

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

(2) Beijing Haihongyuan increased its share capital from RMB20 million to RMB30,000 million in October 2017, with RMB3,520 million paid-up. Ultimate controlling party of the Company becomes Cihang Charity Foundation of Hainan Province.

2. Subsidiaries of the Company

Details are shown in Note 9.1 "Equity in subsidiary".

3. Joint ventures and associated enterprises of the Company

Details of substantial joint ventures and associated enterprises of the Company are shown in Note 9.2 "Equity in associated enterprises".

4. Other related parties

Name of other related parties	Relationship with the Company
Jiangsu Zhilin Electric Technology Co., Ltd. (hereinafter referred to as "Jiangsu Zhilin")	Shareholder of the subsidiary – Northeast Electric (Chengdu) Power Engineering Design Co., Ltd. (hereinafter referred to as "Northeast Electric (Chengdu)")
Jiangsu Dison Silink New Energy Investment Co., Ltd. (hereinafter referred to as "Jiangsu Dison")	Under the same controlling party as Jiangsu Zhilin

On 27 November 2017, Jiangsu Zhilin transferred 39% of shares of Northeast Electric (Chengdu), the subsidiary of the Company. Jiangsu Dison is under the same controlling party as Jiangsu Zhilin. Therefore, Jiangsu Zhilin and Jiangsu Dison are related parties since 27 November 2017.

5. Related party transactions

(1) Related party transactions of purchasing and selling goods, and rendering and receiving services

(2) Related trusteeship/contracting/outsourcing

(3) Leasing between related parties

(4) Guarantee between related parties

There is no guarantee between related parties as at 30 June 2018.

(5) Capital borrowing/lending between related parties

Unit: RMB

Name of related party	Borrowing/ lending	Start date	Due date	Remarks
Borrowing				
Beijing Haihongyuan Investment Management Co., Ltd.	9,202,000.00	9 March 2018	10 March 2019	According to the resolution of the Board of Directors of the Company on 9 March 2018, the management has been authorized to apply to substantial shareholders for capital borrowing/ lending within RMB20 million.
Lending				

(6) Asset transfer and debt restructuring of related parties

(7) Remuneration of key management personnel

(8) Other related party transactions

6. Receivables and payables of related parties

(1) Receivables

Unit: RMB

Item	Related party	Closing balance		Opening balance	
		Book balance	Bad debt provision	Book balance	Bad debt provision
Other Receivables	Jiangsu Dison	14,190,000.00	200,306.00	14,490,000.00	200,306.00
Other Receivables	HNA Business Services Co., Ltd.	740.00			

(2) Payables

Item	Related party	Book balance at end of period	Book balance at beginning of period
Other Payables	Weida High-voltage	313,872.23	313,872.23
Other Payables	Beijing Haihongyuan	9,202,000.00	

7. Commitments of related parties

8. Others

XIV. Stock payment

1. General information of stock payment

□ Applicable √ Not applicable

2. Payment of stock payment settled by equity

□ Applicable √ Not applicable

3. Payment of stock payment settled by cash

□ Applicable √ Not applicable

4. Amendment and termination of stock payment

5. Others

XV. Commitment and contingencies

1. Significant commitments

During the reporting period, the Company had no significant commitments.

2. Contingencies

(1) Important existing contingencies as at the balance sheet date

1. As at 30 June 2018, pending lawsuits of the Company are shown in Note 7.50 "Provisions".

2. As at 30 June 2018, rulings pending action of the Company are as follows:

   Liaoning Limeng State Asset Co., Ltd. (hereinafter referred to as "Limeng") applied for New Northeast Electric (Jinzhou) Power Capacitor Co., Ltd. (hereinafter referred to as "NNE Jinzhou PC"), the 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. has provided guarantee. Shenyang Intermediate People's Court ruled that Jinzhou Power Capacitor Co., Ltd. should take up guaranty for such loan by the civil ruling(Shen Zhong Min San He Chu Zi [2004] No. 372). From 10 March 2005, Shenyang Intermediate People's Court (hereinafter referred to as the "Executive Court") has issued Notice on Assistance in Enforcement several times to NNE Jinzhou PC – the Company's subsidiary, to pay rental of RMB4.2 million to Jinzhou Power Capacitor Co., Ltd., the delay of which NNE Jinzhou PC denied. Everbright Bank has now transferred the right under the original loan to Limeng, and the Executive Court ruled that the assistant executor, NNE Jinzhou PC, should fulfil the obligation to pay internal rental of RMB4.2 million to Limeng by the civil ruling (Shen Zhong Zhi Cai Zi [2015] No. 3). Now NNE Jinzhou PC refused to accept the ruling and applied for a review to the Higher People's Court of Liaoning Province and the case was not decided.

In January 2015, the plaintiff Li Yingwu obtained the above-mentioned claim and filed an application with the Shenyang Intermediate People's Court to change the application executor. On 10 April 2018, Shenyang Intermediate People's Court made the civil ruling (Liao 01 Zhi Hui Zi [2017] No. 30), and accordingly issued the Notice on Assistance in Enforcement, requesting NNE Jinzhou PC to assist in freezing the rental income of RMB6,600,000 of Jinzhou Power Capacitor Co., Ltd. On 19 April 2018, Shenyang Intermediate People's Court made the Notice (Liao 01 Zhi Hui Zi [2017] No. 30), requesting NNE Jinzhou PC to fulfill Li Yingwu's debts of RMB6,600,000 due to Jinzhou Power Capacitor Co., Ltd. Since NNE Jinzhou PC had no debt due to Jinzhou Power Capacitor Co., Ltd., NNE Jinzhou PC filed an objection to such enforcement to the Shenyang Intermediate People's Court on 28 April 2018.

NNE Jinzhou PC received the subpoena from the People's Court of Guta District, Jinzhou City on 8 August 2018. As described in the indictment attached to the subpoena, the plaintiff Li Yingwu asserted the claim against Jinzhou Power Capacitor Co., Ltd. was lawful and justified, and Jinzhou Power Capacitor Co., Ltd. was negligent in exercising the claim in due against the defendant, NNE Jinzhou PC, thus damaging the realization of the plaintiff's claim. The plaintiff filed the subrogation lawsuit and requested the people's court to rule according to laws. The subrogation lawsuit filed by the plaintiff Li Yingwu has not been heard by the court.

(2) Explanations shall also be given even if the Company has no significant contingencies to be disclosed.

The Company has no significant contingencies to be disclosed.

XVI. Events subsequent to balance sheet date

Progress of recovering the non-business capital flow of RMB14.49 million payable from Jiangsu Dison, an affiliate, to Northeast Electric (Chengdu):

During the reporting period, Jiangsu Dison repaid RMB0.3 million to Northeast Electric (Chengdu); and after the reporting period, Jiangsu Dison repaid RMB1.59 million to Northeast Electric (Chengdu). Up to the date of disclosure of this report, Jiangsu Dison still owes RMB12.6 million and its interest to Northeast Electric (Chengdu). The Company has instructed personnel to track and implement the work of recovering the amount.

XVII. Other important events

XVIII. Major notes to parent company's financial statements

1. Accounts receivables

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

Unit: RMB

Types	Closing balance					Opening balance				
	Book balance		Bad debt provision			Book balance		Bad debt provision		
	Amount	Ratio (%)	Amount	Provision ratio (%)	Book value	Amount	Ratio (%)	Amount	Provision ratio (%)	Book value
Receivables with bad debt provision made by portfolio of credit risk features	1,423,911.79	100.00%	926,107.07	65.04%	497,804.72	1,423,911.79	100.00%	926,107.07	65.04%	497,804.72
Total	1,423,911.79	100.00%	926,107.07	65.04%	497,804.72	1,423,911.79	100.00%	926,107.07	65.04%	497,804.72

Accounts receivables with significant single amount and bad debt provision made individually by the end of the period:

□ Applicable √ Not applicable

In portfolio, accounts receivables with bad debt provision drawn by aging analysis:

√ applicable ☐ not applicable

Unit: RMB

Age of account	Closing Balance		
	Accounts receivables	Bad debt provision	Provision ratio
Subitem within 1 year			
3-4 years	1,244,511.79	746,707.07	60.00%
4-5 years	179,400.00	179,400.00	100.00%
Total	1,423,911.79	926,107.07	65.04%

In portfolio, accounts receivables with bad debt provision drawn by percentage of balance:

☐ Applicable √ Not applicable

In portfolio, accounts receivables with bad debt provision drawn by other methods:

☐ Applicable √ Not applicable

(2) Provision, recovery or reversal of bad debts during the period

The amount of the bad debt provision during the period is RMB0; bad debt provision recovered or reversed during the period is RMB0.

(3) Write-off of accounts receivables during the period

(4) Top five accounts receivables are listed as follows

Name of company	Relationship	Amount	Age	Percentage in total accounts receivables (%)	Balance of bad debt provision
Shenyang Kaidi Insulation Technology Co., Ltd.	Non-related	401,960.79	2-3years	28.23	210,795.41
Yingkou Chongzheng Electric Equipment Co Ltd.	Non-related	842,551.00	2-3years	59.17	441,826.57
Total		1,244,511.79		87.40	746,707.07

(5) Account receivables that were derecognized due to the transfer of financial assets

(6) Amount of assets or liabilities for which accounts receivables is transferred but involvement continues

2. Accounts receivables

(1) Other receivables by categories are analyzed as follows

Types	Closing balance					Opening balance				
	Book balance		Bad debt provision			Book balance		Bad debt provision		
	Amount	Ratio (%)	Amount	Provision ratio (%)	Book value	Amount	Ratio (%)	Amount	Provision ratio (%)	Book value
Other receivables with significant single amount and bad debt provision made individually	76,090,000.00	22.18%	76,090,000.00	100.00%	–	76,090,000.00	21.92%	76,090,000.00	100%	–
Other receivables with bad debt provision made by portfolio of credit risk features	267,004,814.22	77.82%	299,840.05	0.11%	266,704,974.17	271,090,045.28	78.08%	299,840.05	0.11%	270,790,205.23
Total	343,094,814.22	100.00%	76,389,840.05	22.26%	266,704,974.17	347,180,045.28	100.00%	76,389,840.05	22.00%	270,790,205.23

Other receivables with significant single amount and bad debt provision made individually by the end of the period:

√ Applicable ☐ Not applicable

Unit: RMB

Name of company	Closing Balance			
	Other receivables	Bad debt provision	Provision ratio (%)	Provision reason
Benxi Steel (Group) Co. Ltd.	76,090,000.00	76,090,000.00	100.00%	As the receivable is long outstanding and the chance of recovery is remote, the Company has fully accrued the bad debt provision in the early stage.
Total	76,090,000.00	76,090,000.00	–	–

In portfolio, other receivables with bad debt provision drawn by aging analysis:

√ applicable ☐ not applicable

Unit: RMB

Age of account	Closing Balance		
	Other receivables	Bad debt provision	Provision ratio
Within 1 year	53,381,936.35		
1-2 years	70,968,622.27		
2-3 years	16,175,003.25		
3-4 years	1,796,149.98	25,897.82	1.44%
4-5 years	124,683,102.37	273,942.23	0.22%
Total	267,004,814.22	299,840.05	0.11%

In portfolio, other receivables with bad debt provision drawn by percentage of balance:

☐ Applicable √ Not applicable

In portfolio, other receivables with bad debt provision drawn by other methods:

☐ Applicable √ Not applicable

(2) Provision, recovery or reversal of bad debts during the period

The amount of the bad debt provision during the period is RMB0; bad debt provision recovered or reversed during the period is RMB0.

(3) Write-off of other receivables during the period

(4) Other receivables categorized by nature are as follows

Unit: RMB

Nature	Book balance at end of period	Book balance at beginning of period
Lawsuits	76,090,000.00	76,090,000.00
Current account with subsidiaries	266,577,048.78	270,723,528.84
Others	427,765.44	366,516.44
Total	343,094,814.22	347,180,045.28

(5) Top five other receivables are listed as follows

Unit: RMB

Name of company	Nature	Closing balance	Age	Percentage in total other receivables (%)	Balance of Bad debt provision
Shenyang Kaiyi Electric. Co., Ltd.	Internal current account	148,977,770.09	With 4 years	43.42%	
Great Talent Technology Ltd.	Internal current account	79,298,247.36	Over 4 years	23.11%	
Benxi Steel (Group) Co., Ltd.	Lawsuits	76,090,000.00	Over 5 years	22.18%	76,090,000.00
Hainan Tangyuan Technology Co., Ltd	Internal current account	31,466,070.41	Within 1 year	9.17%	
Northeast Electric (Chengdu) Power Engineering Design Co., Ltd.	Internal current account	6,820,632.29	Within 1 year	1.99%	
Total	–	342,652,720.15	–	99.87%	76,090,000.00

(6) Receivables involving government subsidy

(7) Other receivables that were derecognized due to the transfer of financial assets

(8) Amount of assets or liabilities for which other receivables is transferred but involvement continues

3. Long-term equity investments

Unit: RMB

Item	Closing Balance			Opening Balance		
	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	116,869,364.49	56,436,473.03
Total	173,305,837.52	116,869,364.49	56,436,473.03	173,305,837.52	116,869,364.49	56,436,473.03

(1) Investment to subsidiary

Unit: RMB

Investee	Opening balance	Increment	Decrement	Closing balance	Provision for impairment at current period	Balance of provision for impairment
Northeast Electric (HK) Co., Ltd.	156,699,451.63			156,699,451.63		102,942,450.54
Shenyang Kaiyi Electric Co., Ltd.	100,000.00			100,000.00		100,000.00
Great Talent Technology Ltd.	16,506,385.89			16,506,385.89		13,826,913.95
Total	173,305,837.52			173,305,837.52		116,869,364.49

(2) Investments to associates and joint ventures

(3) Other explanations

4. Revenue and cost of sales

5. Return on investments

6. Others

XIX. Supplementary information

1. Details of extraordinary profit & loss

☐ Applicable √ Not applicable

Unit: RMB

Item	Amount	Remarks
Other non-operating income and expenses apart from the aforesaid items	21,394,284.67	Recovery of compensatory secured account
Total	21,394,284.67	–

The Company shall state the reason for the extraordinary gain or loss items as defined in the Information Disclosure by Companies Offering Securities to the Public No. 1 – Non-recurring Profit and Loss and the extraordinary gain or loss items as illustrated in the Information Disclosure by Companies Offering Securities to the Public No. 1 – Non-recurring Profit and Loss defined as its recurring gain or loss items.

☐ Applicable √ Not applicable

2. Return on net assets and earnings per share

Profit for the period	Weighted average return on net assets	Earnings per share (RMB/share)	
		Basic earnings per share	Diluted earnings per share
Net profit attributable to ordinary shareholders	-2.00%	0.0044	0.0044
Net profit attributable to ordinary shareholders after deduction of extraordinary profit and loss	-	-0.0201	-0.0201

3. Differences arising from preparing financial statements in accordance with domestic and foreign accounting standards

(1) Differences arising from preparing financial statements in accordance with the International Financial Reporting Standards and the PRC accounting standards on net profit and net assets

□ Applicable √ Not applicable

(2) Differences arising from preparing financial statements in accordance with the foreign accounting standards and the PRC accounting standards on net profit and net assets

□ Applicable √ Not applicable

(3) Reasons for the differences arising from preparing financial statements in accordance with domestic and foreign accounting standards. The name of the foreign audit institution shall be indicated if the data audited by the foreign audit institution has been regulated differently.

4. Others

Chapter 8 DOCUMENTS AVAILABLE FOR INSPECTION

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

(I) The originals of financial statements signed and sealed by the legal representative, the Accounting Director and the Accounting Manager (the Chief Accountant) of the Company;

(II) The originals of all of the documents and announcements of the Company which have been disclosed on the newspapers designated by China Securities Regulatory Commission (CSRC) during the reporting period;

(III) The original of the interim report of the Company.

NEE

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

地址：中國海南省海口市國興大道7號新海航大廈22層
網址：www.nee.com.cn
電郵：nee@nee.com.cn
電話：(86) 0898-68876008
傳真：(86) 0898-68876033
郵編：570203

Address : Floor 22, HNA Plaza, No. 7 Guoxing Road, Haikou City, Hainan Province
Website : www.nee.com.cn
E-mail : nee@nee.com.cn
Tel : (86) 0898-68876008
Fax : (86) 0898-68876033
Zip : 570203