NEE

ANNUAL REPORT 2018 年報

输送光明和动力的桥梁

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

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1.1 The Board, 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 The Company's Chairman, Li Tie, Chief Financial Officer, Wang Kai and Chief Accounting Officer, Xing Liwen hereby represent: guaranteeing the truthfulness, accurateness and integrity of the financial report of the Annual Report.

1.3 All Directors attended the Board meeting in person to consider and approve this annual report.

1.4 The audit committee of the Board of the Company has reviewed and confirmed the Company's financial report for 2018.

1.5 The Company's annual financial report is prepared under the PRC GAAP and is audited by Ruihua CPAs (special general partner) and it issued an unqualified auditor's report with paragraphs describing emphasized events .

1.6 The forward-looking description involved in the announcement such as the future plan and development strategy does not constitute any substantial commitment of the Company to investors. Investors need to be aware of risks attached to investments.

1.7 The risks that may be faced and countermeasures to be adopted by the Company are described in "Prospect of the Company's Future Development" of "Report of the Directors" in this announcement and can be referenced by wide investors.

1.8 The Company proposes not to distribute cash dividend, issue bonus share, or capitalise from capital reserves, subject to consideration and approval at the 2018 Annual General Meeting.

1.9 The consolidated turnover is RMB32,310,000, decreasing from 2017 by RMB670,000.

1.10 Profit attributable to equity holders of the Company is RMB14,600,000.

1.11 Earnings per share attributable to equity holders of the Company are RMB0.02.

1.12 Unless otherwise stated, Renminbi is the only monetary unit in this announcement.

1.13 This announcement is published in both Chinese and English. If there are any inconsistencies in content, the Chinese version shall prevail in all aspects.

1.14 Definitions.

Asia-Pacific International	Asia-Pacific International Conference Center Co., Ltd. (亞太國際會議中心有限公司), a related party of the Company
Ankao Solar Thermal	Jiangsu Ankao Solar Thermal Power Generation System Technology Co. (江蘇安靠光熱發電系統科技有限公司), Ltd., the counterparty of a substantial asset disposal
Beijing Haihongyuan	Beijing Haihongyuan Investment Management Co., Ltd. (北京海鴻源投資管理有限公司), a substantial shareholder of the Company
CSRC	China Securities Regulatory Commission
Dongguan Yujingwan	Dongguan Yujingwan Hotel (東莞御景灣酒店), a related party of the Company
Danzhou Xintiandi	Danzhou HNA Xintiandi Hotel Co., Ltd. (儋州海航新天地酒店有限公司), a related party of the Company
Fuxin Busbar	Fuxin Enclosed Busbar Co., Ltd., a subsidiary of the Company
Hainan Tangyuan	Hainan Tangyuan Technology Co., Ltd. (海南唐苑科技有限公司), a subsidiary of the Company
HNA Hotel (Hong Kong)	HNA Hotel Group (Hong Kong) Co., Ltd. (海航酒店集團（香港）有限公司), a related party of the Company
HNA Group	HNA Group Co., Ltd., a related party of the Company

Hainan Guoshang	Hainan Guoshang Hotel Management Co., Ltd. (海南國商酒店管理有限公司), a related party of the Company
Hangzhou Huagang	Hangzhou Huagang HNA Resort Co., Ltd., a related party of the Company
Jiangsu Disheng	Jiangsu Disheng Silian New Energy Investment Co., Ltd. (江蘇迪盛四聯新能源投資有限公司)
Jilin Province Tourism Group	Jilin Province Tourism Group Co., Ltd. (吉林省旅遊集團有限責任公司), a related party of the Company
NEE, the Company, the listed company	Northeast Electric Development Company Limited
NNE Jinzhou PC	New Northeast Electric (Jinzhou) Power Capacitor Co., Ltd., the former subsidiary of the Company
NEE Chengdu	Northeast Electric (Chengdu) Electric Engineering Design Co., Ltd. (東北電氣（成都）電力工程設計有限公司), a subsidiary of the Company
SZSE	Shenzhen Stock Exchange
Stock Exchange	The Stock Exchange of Hong Kong
Shanghai Yizhou	Shanghai Yizhou Investment Management Co., Ltd. (上海驛舟投資管理有限公司), a related party of the Company
Tianjin Center	HNA Tianjin Center Development Co., Ltd. (海航天津中心發展有限公司), a related party of the Company
Yunnan Tonghui Hotel	Yunnan Tonghui Hotel Management Co., Ltd. (雲南通匯酒店管理有限公司), a related party of the Company

1.	Legal Chinese name	:	東北電氣發展股份有限公司
	Legal English name	:	Northeast Electric Development Company Limited
	Chinese abbreviation	:	東北電氣
	English abbreviation	:	NEE
2.	Legal representative	:	Li Tie
3.	Executive directors	:	Li Tie, Li Rui, Zhu Jie, Ma Yun, Bao Zongbao and Su Weiguo
4.	Independent non-executive directors	:	Li Ming, Qian Fengsheng And Fang Guangrong
5.	Supervisors	:	Zhou Jinyang, Lei Xiao and Li Wei
6.	Secretary to the Board of Directors	:	Su Weiguo
	Address	:	22nd Floor, HNA Plaza, No.7 Guoxing Road, Meilan District, Haikou City, Hainan Province
	Telephone	:	0898-68876008
	Fax	:	0898-68876033
	Email	:	nee@nee.com.cn
	Representative for securities affairs	:	Zhu Xinguang, Ding Jishi
	Address	:	22nd Floor, HNA Plaza, No.7 Guoxing Road, Meilan District, Haikou City, Hainan Province
	Telephone	:	0898-68876028；0898-68876008
	Fax	:	0898-68876033
	Email	:	nemm585@sina.com；dbdqdshbgs@hnair.com
7.	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
	Correspondence address	:	22nd Floor, HNA Plaza, No.7 Guoxing Road, Meilan District, Haikou City, Hainan Province
	Postal Code	:	570203
	Telephone	:	0898-68876008
	Fax	:	0898-68876033
	Website	:	www.nee.com.cn
	E-mail address	:	nee@nee.com.cn

8.	PRC newspapers for information disclosure	:	"Securities Times"
	Website containing the annual report	:	www.cninfo.com.cn www.hkexnews.hk www.nee.com.cn
	Place for inspection of annual report	:	Office of the Board of Directors

9. Place of listing, stock names and codes

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

10.	Date of Company's first registration	:	16 February 1993
	Place of registration	:	No. 18, North Er Zhong Road, Tie Xi District, Shenyang, Liaoning Province, the PRC
	Date of the Company's latest change of registration	:	18 July 2018
	Place of registration	:	Room A1-1077, 5th Floor, Building A, Entrepreneurship Incubation Center of Haikou National High-tech Zone, No.266 Nanhai Avenue, Haikou City, Hainan Province
	Unified social credit code	:	91210000243437397T
11.	Auditing institutions	:	Ruihua Certified Public Accountants, LLP.
	Office address	:	9th Floor,West Tower of China Overseas Property Plaza, Building 7, No. 8,Yongdingmen Xibinhe Road, Dongcheng District, Beijing

(1) Financial Data

1.1 Principal accounting data for the year prepared under the PRC GAAP

Whether retroactive adjustments or restatements need be made by the Company to the accounting data for the previous years?

□ Yes √ No

	2018	2017	Increase/decrease of the year over last year (%)	2016	2015	2014
Operating revenues (RMB)	32,311,485.10	32,985,857.66	-2.04%	63,514,424.29	151,740,484.82	197,439,030.24
Net profit attributable to shareholders of listed company (RMB)	14,596,076.43	-397,057,643.19	-103.68%	-99,493,754.11	4,933,337.50	6,169,105.14
Net profit attributable to shareholders of listed company after extraordinary items (RMB)	-38,948,124.08	-96,660,890.16	-59.71%	-99,613,423.79	-775,922.03	4,390,358.73
Net cash flow arising from operating activities (RMB)	-4,595,466.11	45,961,817.45	-110.00%	-29,891,482.85	-18,237,185.20	26,805,591.07
Basic earnings per share (RMB/Share)	0.020	-0.450	-104.44%	-0.11	0.0056	0.01
Diluted earnings per share (RMB/Share)	0.020	-0.450	-104.44%	-0.11	0.0056	0.01
Weighted average ROE	–	–	–	-39.40%	1.68%	2.18%

	As at the end of 2018	As at the end of 2017	Increase/decrease of the year over last year (%)	As at the end of 2016	As at the end of 2015	As at the end of 2014
Total assets (RMB)	505,113,480.52	306,236,911.04	64.94%	401,830,329.21	483,445,718.25	482,595,791.02
Net assets attributable to shareholders of listed company (RMB)	8,619,218.15	-198,631,842.02	-104.34%	202,789,879.48	296,987,112.46	286,188,311.72

1.2 Differences in figures under domestic and foreign accounting standards

There are no differences in net profits and net assets prepared under International Financial Reporting Standards and PRC GAAP in the reporting period of the Company.

1.3 Major financial indicators by quarter

Unit: RMB

	The first quarter	The second quarter	The third quarter	The fourth quarter
Operating revenues	4,755,785.11	9,540,375.33	7,308,500.61	10,706,824.05
Net profit attributable to shareholders of listed company	-4,648,986.52	-9,470,446.30	23,784,065.49	4,931,443.76
Net profit attributable to shareholders of listed company after extraordinary items	-7,889,855.34	-9,623,862.15	-8,933,351.87	-12,501,054.72
Net cash flow arising from operating activities	-4,194,229.68	-969,494.63	-29,506,498.23	30,074,756.43

Whether there is any significant difference between above financial indicators or their sum and relevant financial indicators disclosed in the quarterly report and interim report

√ Yes □ No

During the reporting period, the Company actually received advanced guarantees of a total of RMB22.9 million from Jinzhou Power Capacitors Co., Ltd. on 26 June and 26 September 2018 respectively, which was recorded into non-operating income. an emergency notice from Jinzhou Power Capacitors Co., Ltd. claimed that the amount is its transaction amount received. Now, there may be a risk of refund due to disputes arising between the parties involved. The Company may need to cooperate when necessary. Based on the principle of financial prudence, the Company decided to adjust the amount received to other payables – temporary receipt. Before the relevant matters to be further verified, performance of internal control approval procedure for the listed company and assessment of its legal risks, the Company would take no further action. This account adjustment has impact on the non-recurring profit and loss item, the net profit attributable to shareholders of listed company and the owner's equity attributable to the parent company at the end of the period in the disclosed 2018 semi-annual report and the third quarterly report of 2018, therefore, a re-disclosure was made.

1.4 Extraordinary profit or loss items and the related amount

Unit: RMB

Item	2018	2017	2016	Remarks
Profit and loss on disposal of non-current assets (including the part of provision for assets impairment being written off)	15,785,816.33	-177,333.23	-291,209.88	
Government subsidy included in the current profits and losses (closely related to business of the enterprise, excluding the government subsidy enjoyed fully or quantitatively according to uniform standards of the country)	1,070,676.39	50,000.00		
Gains/losses from fair value changes of trading financial assets and trading financial liabilities, and investment income from disposal of trading financial assets, trading financial liabilities and available-for-sale financial assets, except effective hedging activities related to the Company's normal operations	N/A		367,369.30	
Reversal of account receivable provision by single devaluation test	N/A	9,590,990.45		
Other non-operating income and expense other than the above items	3,358,853.23	-309,696,590.44	43,510.26	
Other non-recurring gains or losses	34,695,454.56			
Less: Effect of income tax	1,366,600.00	163,819.81		
Total	53,544,200.51	-300,396,753.03	119,669.68	--

Notes for the Company's non-recurring gains or losses as defined in the Explanatory Announcement on Information Disclosure for Companies Offering Their Securities to the Public No.1 – Non-recurring Gains or Losses and the non-recurring gains or losses as illustrated in the Explanatory Announcement on Information Disclosure for Companies Offering Their Securities to the Public No.1 – Non-recurring Gains or Losses defined as its recurring gains or losses.

□ Applicable √ Not applicable

During the reporting period, no non-recurring gains or losses as defined and illustrated in the Explanatory Announcement on Information Disclosure for Companies Offering Their Securities to the Public No.1 – Non-recurring Gains or Losses were defined as recurring gains or losses.

(1) Overview

Though confronting with the complex and severe international situation and the arduous tasks of reform, development and stabilization, Chinese economy and society retained a constant and healthy growth in 2018, embodying in its economic growth, moderate inflation, steady employment rate, and solid progress of supply-side reforms such as leverage stabilization, in spite of the increasing risks and hardships in the global economy, slow-down growth in major economies, mounting inflation, beginning of tight monetary policy, and waking protectionism.

In 2018, the machinery industry saw the steady production and sales, improved investment, and a positive export better than expected. However, old problems such as climbing costs, dropping benefits, sluggish demands and insufficient orders still haunted the industry, which increased the pressure to maintain a steady operation.

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

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

During the reporting period, the operating income of the Company amounted to RMB32,310,000, with a year-on-year decrease of RMB670,000, accounting for 97.96% of that of the previous year; the net profit attributable to shareholders of the listed company was RMB14,600,000, turning a loss into a gain.

(2) Priority Work

1. Progress of disposal of material assets

To optimize the corporate asset structure, minimize the impairment loss of assets, and protect the interests of investors, the Board of the Company determined to dispose of New Northeast Electric (Jinzhou) Power Capacitor Co., Ltd ("NNE Jinzhou PC") on 17 September 2017, which was considered and approved by Shenzhen Stock Exchange, Hong Kong Stock Exchange, and the second extraordinary general meeting of 2018. On 14 December 2018, the change of industrial and commercial registration in relation to the equity transfer was completed.

2. Progress of equity grant

To support the development of the Company, the proposal on the Equity Transfer Agreement entered into by Hainan Tangyuan, a majority-owned subsidiary of the Company, and Shanghai Yizhou was considered and passed at the 27th meeting of the eighth Board and the fourth extraordinary general meeting of 2018, pursuant to which, Shanghai Yizhou granted 10.50% of its share equity in HNA Tianjin Center Development Co., Ltd. ("Tianjin Center") for no consideration to Hainan Tangyuan. According to the "Evaluation of Net Asset of HNA Tianjin Center Development Co., Ltd." issued by Vigers Appraisal & Consulting Limited. (International Asset Appraisal Consultants), the appraisal value of such equity in Tianjin Center was RMB201,480,405. On 26 December 2018, the change of industrial and commercial registration in relation to the equity transfer was completed.

3. Progress of material legal proceedings

(1) Shenyang Tiexi District State-owned Assets Supervision and Administration Bureau vs. the Company for the payment of allowance for staff

On 31 July 2018, the Company received the civil judgment (Liao 01 Min Chu (2017) No. 430) issued by Liaoning Shenyang Municipal Intermediate People's Court ("Shenyang Intermediate Court"). Shenyang Intermediate Court has given a first-instance judgment on the contract dispute between Shenyang Tiexi District State-owned Assets Supervision and Administration Bureau ("Tiexi SASAB") and the Company, Shenyang High Voltage Switchgear Co., Ltd., ("Shenyang High Voltage Switchgear") and New Northeast Electric (Shenyang) High Voltage Switchgear Co., Ltd. ("New Northeast Electric"). Shenyang Intermediate Court rejected the claim of the plaintiff Tiexi SASAB which requested the defendant the Company to pay arrears of RMB28.53 million, interest and liquidated damages. The plaintiff Tiexi SASAB appealed to Shenyang Intermediate Court during the appeal period. In the early December 2018, Liaoning Shenyang Municipal High People's Court accepted the case. At present, the case is still on the docket.

(2) The legal proceedings involving Fuxin Enclosed Busbar Co., Ltd. (the "Fuxin Busbar"), a wholly-owned subsidiary of the Company

74.4% of the equity in New Northeast Electric (Shenyang) High-voltage Insulated Switchgears Co., Ltd. (formerly known as Shenyang Suntime High Voltage Electric Co., Ltd.) (the "Underlying Equity") was held by Fuxin Busbar by 22 September 2008. Due to the enforcement of the final judgment made by Supreme People's Court on 5 September 2008 for the case of China Development Bank (Document (2008) Min Er Zhong Zi No.23) and under the coordination, Fuxin Busbar returned the Underlying Equity to Shenyang High Voltage Switchgear Co., Ltd. ("Shenyang HVS") free of charge, and completed the change of equity registration on 22 September 2008 as required by the local industrial and commercial administration. Therefore, the Underlying Equity held by Fuxin Busbar was returned to Shenyang HVS free of charge. However, according to the enforcement ruling issued by Supreme People's Court on 31 August 2017 (Document (2017) Zui Gao Fa Zhi Fu No.27), "the fact that the return of the Underlying Equity free of charge under the coordination of Northeast Electric cannot be ascertained". Given the failure of Shenyang HVS to pay the outstanding equity transfer consideration of USD16 million constituted a breach of contract, Fuxin Busbar, the plaintiff, in order to protect the interests of the Company, raised an litigation against the above 2 defendants, namely, Shenyang HVS and Northeast Electric, claiming for the return of the consideration for the transfer of the Underlying Equity. The Higher People's Court of Hainan Province accepted the case on 30 November 2018, and published an announcement in connection with its service of documents such as pleadings to Shenyang High Voltage Switchgear on 3 January 2019. The case was tried on 21 March 2019 and the outcome of first instance is unavailable yet.

4. Changes of business address and registered address

To fulfill its business development needs and approved at the 22th meeting of the 8th Board in the conference room of the Company, the Company has moved from Changzhou City in Jiangsu Province to Haikou City in Hainan Province since 28 May 2018.

For the strategic development, the Company was approved by the 23rd meeting of the 8th Board and the 2017 Annual General Meeting to change its office address from 23rd Floor, Building 4, No. 9 Taihu East Road, Xinbei District, Changzhou City, Jiangsu Province to a new location for business operation in Haikou City, Hainan Province. On 17 July 2018, the Company completed the industrial and commercial registration procedures for the change of registered address and obtained the business license issued by Industrial and Commercial Administration Bureau of Haikou City, Hainan Province. The registered address after change is Room A1-1077, 5th Floor, Building A, Entrepreneurship Incubation Center of Haikou National High-tech Zone, No.266 Nanhai Avenue, Haikou City, Hainan Province.

5. 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 Hotel (Hong Kong) (the person acting in concert with Beijing Haihongyuan) signed the Subscription Agreement with the listed company, agreeing to purchase 155,830,000 new H shares that the Company planned to allot and issue, at the price of HKD2.40 per share. Beijing Haihongyuan and its person acting in concert, HNA Hotel (Hong Kong), are both subsidiaries of HNA Group Co., Ltd. The matter was approved at 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 relevant procedures. Now the matter is under review by the International Cooperation Division of the CSRC.

(3) Analysis of Financial Position

Please refer to "Discussion and Analysis of Business Condition" for the analysis of financial position of the Company.

(4) Prospect of Future Development

1. Industry development trend and competition outlook

Under the impact of the macroeconomic situation, the economy growth in China is expected to slow down, for which demands for electricity power and investment will decrease accordingly. As China continues to deepen the structural reform of supply side, the key of power grid development is switching to the construction of UHV transmission line and smart power grids, continuously boosting the market share of power generated by clean energy. In light of this, thermal power generating units are developing towards high capacity, high parameter and environmental protection. It is expected that the macro economy in China remain stable amid growth in 2019. In the meantime, since the continuous adjustment of economic structure, and deepening supply-side reform may have negative impact over the infrastructure industries of the national economy. It is of high probability that economic structuring of the country will continue to have adverse impact on the power sector, the thermal power industry in particular, resulting in insufficient demands and decreased benefits in the power sector and the downstream sectors, which further create harmful effect over the future performance of the Company.

2. Development strategy of the Company

In 2019, the Company will take the initiative to adapt itself to the new normal of national economic development, new pattern of energy development, innovation-driven development trend, and have brand-building as its key strategy. By virtue of its capability of integrating resources, the Company will optimize resources allocation, and use resources in an efficient manner. Centering on improving the quality and the efficiency of development, the Company will increase industrial stock and seek for more customers, foster new driving force and new source of economic growth and transform to the upstream and downstream industries of hotel by upgrading industrial structure and prioritizing market expansion, in an effort to form a new synergistic pattern, and reshape the industry structure of the Company.

3. 2019 operation plan

The Company will focus on optimizing the industrial layout and deepening reform to facilitate reform, innovation and improve quality and efficiency. Through the perfection of internal control system, enhancement of internal management, operating efficiency and key competitive edges, the Company will make every effort to achieve a breakthrough, and reverse the declining performance. By virtue of seizing opportunities, and taking fully use of capital market, the Company will fine tune its principal activities and operating strategy. To enhance the profitability and comprehensive power of the listed company on a going concern, the Company will actively increase the operating income and profits from activities in connection with hotel, and promote the development of the listed company for maximum protection of the interests of all shareholders, the minority shareholders in particular.

4. Priorities of the Company in 2019

(1) The Company will further improve the corporate governance structure, facilitate the transformation of management mindset, strive for innovation, and broaden sources of income and reduce expenditure. With an aim to inspire the vitality, motivation and creativity of the management, the Company will promote and scale up its ability of development and innovation by tapping into new markets and acquiring new customers.

(2) Under the support of substantial shareholders, the Company will vigorously change its operation and development mindset, create favorable conditions for orderly industrial restructuring, and facilitate industrial upgrading. The Company will improve its ability of sustained operating, profitability and asset quality, in order to enhance its capability of risk defense and key competitive edges. In 2019, Beijing Haihongyuan, a substantial shareholder of the Company, proposes to offer financial assistance with an accumulated amount not exceeding RMB80 million to Shenyang Kaiyi Electric Co., Ltd., a wholly-owned subsidiary of the Company, for supporting production and operation of the listed company.

(3) In response to changes and demands of the market, the Company will actively adjust product structure and upgrade its business, expedite the transformation to modern service industry, and optimize the overall pattern; develop new customer group, improve and strengthen sales system, and enhance the profitability of principal activities.

(4) By engaging Hainan Tangyuan, a majority-owned subsidiary of the Company, as a platform, the Company will study and explore new business segment for sake of new development space. Supported by the resources and the talent pool of the substantial shareholder in respect of modern service industry, the Company will tap into new business, develop new industry, in order to enrich the business scope, improve the structure of asset portfolio, and breathe new life to the continuing operations of the listed company. Incomes and profits generated from such new services will facilitate the listed company to transform from a traditional manufacturing company to a modern service company.

(5) The Company will continue to advance the review progress for new privately-issued H shares at securities regulators. Through equity financing, the Company will further optimize its principal activities, seek for opportunities of new business segments, and scale up the core competitive edges and sustainable development of the Company.

(6) Based on the operation policies, the Company will continue to strip off under-performing assets, equity investment with small volume of business, and other non-operating assets. The Company will increase the cash flows, and refine equity structure of the Company.

(7) The Company intends to carry out full budget management and cost control, and put various expenditures are under strict control to diminish operating costs. Ultimately, the Company can maximize the profitability of principal activities.

(8) Through strict observance of Standardised Operation of Listed Companies, the Company will keep upgrading its working standards and internal control system, establish a sound operation organization across the Company, and strengthen various internal control systems. The Company will also develop robust risk control measures to mitigate operating risks, create a more feasible internal control system, eradicate the incidents that may damage the interests of the listed company and shareholders, as well as ensure the realization of its operating targets.

The abovementioned future prospects of the Company do not constitute a substantial commitment to investors. Investors should be aware of the risks attached to investments.

5. Risks faced by the Company and measures

(1) Market risks arising from macro-economic environment

The industry in which the Company operates is closely connected with the demands of power equipment industry. The prosperous level of the industry is also directly pegged with the national economy. Given to its significant impact over the Company, we will keep focusing on the impact of the national macro economy and the global economy over the industry.

(2) Risk of market competition

Enclosed busbars produced by the Company is the major income source of its principal activities. Intensifying market competition creates an adverse impact on the average profit margin of the industry. The Company will continue to improve its technology, strengthen innovation ability, scale up production, and enhance the efficiency of operation and management, along with efforts to prevent steady decrease in operating income, gross margin of products and profitability.

(3) Risk of strategic transformation

To ensure the sustainable development of the Company in the mid and long term, the Company is seeking for strategic transformation by tapping into prospective sectors. The Company may have the risk of strategic transformation slippage, and even failure, provided that transformation is not carried out for various reasons. The Company will actively promote the related work, while developing relevant businesses to realize strategic transformation gradually through various methods.

(5) Profit distribution and dividend declaration

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

(6) Analysis of financial status of the Company in accordance with Appendix 16 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited

Earnings per share

The calculation of basic earnings per share is based on the profit attributable to owners of the Company of RMB0.02 (total shares: 873,370,000 shares).

Share capital

During the reporting period, there is no change in the share capital of the Company.

Reserve

Details of the annual changes in the reserves of the Company and the Group are set out in the financial statement and the changes in shareholders' equity.

Distributable reserve

As at 31 December 2018, according to the relevant regulations, the Company's distributable reserve is RMB-2,019,154,197.71. Pursuant to the resolution approved by the Board on 28 March 2019, the Company proposes not to distribute cash dividend, issue bonus share, or capitalize from capital reserves during the year. The matter is still subject to approval by the general meeting.

The Company is not aware of any shareholders who have waived or agreed to waive any arrangements of dividend as of the reporting date.

Analysis of loans and borrowings

The Company's short-term borrowings amounted to RMB4,500,000, primarily consisting of the secured loans borrowed from Bank of China by Fuxin Busbar, a subsidiary of the Company.

Property, plant and equipment

Details of the Company's property, plant and equipment are set out in Note VI(9) to the financial statements.

Working capital and financial resources

The net cash generated from the Group's operating activities for the year ended 31 December 2018 was approximately RMB-4,595,466.11 (2017: net cash generated from operating activities was approximately RMB45,961,817.45).

As at 31 December 2018, the Group had bank deposits and cash (including pledged bank balances) of approximately RMB145,725,658.23 (2017: RMB45,175,761.77) and bank loans of RMB4,500,000 (2017: no bank loans).

As of 31 December 2018, the Group had current liabilities of RMB400,226,813.06, non-current liabilities of RMB82,770,287.50, and shareholders' equity attributable to shareholders of the Company of RMB8,619,218.15. Details of the capital structure of the Group are set out in the financial report of the Company's annual report.

The Company's funding needs have no obvious seasonal patterns.

Capital expenditure

The Group's funds can meet the capital requirements of the capital expenditure plan and daily operations.

Capital structure

The Company's sources of funds are mainly operating cash inflows and loans of substantial shareholders. As at 31 December 2018, the Group's short-term bank borrowings amounted to RMB4,500,000, and the cash and cash equivalents were RMB145,725,658.23 (2017: RMB45,175,761.77). Borrowings bear fixed interest rate, and no hedging instruments are hedged.

The Group's policy is to manage its capital to ensure that the Group's entities are able to continue to operate while maximizing returns to shareholders by optimizing the ratio of liabilities and equity. The overall strategy of the Group has remained unchanged from previous years.

Prospects for new business

Details of the prospects for new business are set out in "(4) Future Development Outlook" of "Report of the Directors".

Significant investments held and the performance of such investments

Details of the significant investments held and the performance of these investments are set out in "Analysis of Major Subsidiaries and Investees" of "Discussion and Analysis of Business Condition"

Significant investments and sales

Details of the significant investments and sales are set out in "Disposal of material assets" of "Discussion and Analysis of Business Condition".

Segmental information of results

Details of the major investments and sales are set out in the "Main Business Composition" section of the "Discussion and Analysis of Business Condition".

Assets pledge

As of 31 December 2018, the Company had fixed asset and net land value of RMB26,624,511.71 for mortgages.

Plan for major investment or acquisition of capital assets in the future

As of the latest practicable date prior to the publication of this report, the Company has no relevant plans.

Gearing ratio

As of 31 December 2018, the Group's gearing ratio (calculated as total liabilities/total assets) was 95% (2017: 163.55%).

Risks of exchange rate fluctuation and any related hedges

The Group's assets and liabilities are denominated in Renminbi, and the risk of exchange rate changes has little impact on the Group. The Group has taken the following measures in reducing the risk of exchange rate fluctuations: (1) increase the export price of products to reduce the risk of exchange rate fluctuations; (2) agree with the other party in advance in case of large export contracts, the risks of exchange rate fluctuations shall be borne by both parties when the exchange rate fluctuation exceeds the limit of agreed scope; (3) strive to sign forward agreements with financial institutions to lock up exchange rates and avoid risks.

Contingent liabilities

As of 31 December 2018, the Company had no material contingent liabilities.

(I) Overview

During the reporting period, the operating income of the Company amounted to RMB32,310,000 with a year-on-year decrease of RMB670,000, accounting for 97.96% of that of the previous year; the net profit attributable to shareholders of the listed company was RMB14,600,000, turning a loss into a gain.

(II) Analysis of Principal Business

(1) Composition of operating income

Unit: RMB

	2018		2017		
	Amount	Percentage of operating income	Amount	Percentage of operating income	Year-on-year increase/decrease
Total operating income	**32,311,485.10**	**100%**	**32,985,857.66**	**100%**	**-2.04%**
By industries					
Power transmission and transformation	32,074,907.02	99.27%	32,382,320.55	98.17%	-0.96%
Others	236,578.08	0.73%	603,537.11	1.83%	-155.11%
By products					
Enclosed busbars	30,855,743.61	95.49%	30,072,679.91	91.17%	2.60%
Power capacitors	1,219,163.41	3.77%	2,309,640.64	7.00%	-47.21%
Others	236,578.08	0.73%	603,537.11	1.83%	-60.80%
By regions					
Northeast China	9,243,837.94	28.61%	1,319,451.60	4.00%	600.58%
North China	4,231,675.89	13.10%	5,135,379.25	15.57%	-17.60%
Central China	9,195,534.49	28.46%	9,815,797.89	29.76%	-6.32%
East China	1,818,408.13	5.63%	701,838.03	2.13%	159.09%
South China	356,809.67	1.10%	1,186,290.66	3.60%	-69.92%
Southwest China	6,233,538.28	19.29%	9,106,143.07	27.61%	-31.55%
Northwest China	995,102.62	3.08%	5,117,420.05	15.51%	-80.55%
Others	236,578.08	0.73%	603,537.11	1.83%	-60.80%

(2) Industry, product or region accounting for more than 10% of the operating income or profit of the Company

√ Applicable □ Not applicable

Whether the Company needs to be in compliance with the disclosure requirements for specific industries

No

Unit: RMB

	Operating income	Operating cost	Gross margin	Increase/decrease in operating income compared with the same period of previous year	Increase/decrease in operating cost compared with the same period of previous year	Increase/decrease in gross margin compared with the same period of previous year
By industries						
Power transmission and transformation	32,074,907.02	26,649,958.43	16.91%	-0.95%	4.22%	-4.12%
Others	236,578.08	145,538.27	38.48%	-60.80%	-63.50%	4.55%
By products						
Enclosed busbars	30,855,743.61	25,752,486.14	16.54%	2.60%	7.26%	-3.62%
Power capacitors	1,219,163.41	897,472.29	26.39%	-47.21%	-42.53%	-5.99%
Others	236,578.08	145,538.27	38.48%	-60.80%	-63.50%	4.55%
By regions						
Northeast China	9,243,837.94	7,227,720.40	21.81%	600.58%	897.25%	-23.26%
North China	4,231,675.89	3,508,309.69	17.09%	-17.60%	-31.70%	17.12%
Central China	9,195,534.49	7,724,408.15	16.00%	-6.32%	16.38%	-16.38%
East China	1,818,408.13	1,122,461.97	38.27%	159.09%	134.01%	6.61%
South China	356,809.67	207,676.17	41.80%	-69.92%	-42.46%	-27.77%
Southwest China	6,233,538.28	6,188,855.81	0.72%	-31.55%	-21.57%	-12.62%
Northwest China	995,102.62	670,526.24	32.62%	-80.55%	-84.55%	17.43%
Others	236,578.08	145,538.27	38.48%	-60.80%	-63.50%	4.55%

Due to adjustments to the statistical criteria for the Company's principal business during the reporting period, the data on the Company's principal business in the recent year after making adjustments to the statistical criteria at the end of the reporting period.

□Applicable √ Not applicable

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

By industry	Item	Unit	2018	2017	Year-on-year increase/ decrease
Enclosed busbar	Sales	meter	4,784	4,045	18.27%
	Production	meter	5,856	4,319	35.59%
	Stock	meter	722	524	37.79%
Power capacitor – high-voltage capacitor	Sales	kilovar	37,275	107,955	-65.47%
	Production	kilovar	0	135,800	-100.00%
	Stock	kilovar	298,938.5	336,085.5	-11.05%
Power capacitor – low-voltage capacitor	Sales	kilovar	57,393.5	83,442.4	-31.22%
	Production	kilovar	61,400	76,400	-19.63%
	Stock	kilovar	259,463.88	254,948.88	1.77%

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

√ Applicable □ Not applicable

Enclosed busbars:

The increase of production was mainly due to: a. the increase of sales, and b. the increase of inventory reserves to support product sales.

Power capacitor:

The key products are high-voltage oil filled power capacitor and low-voltage thin film capacitor. In recent years, due to the structural adjustment of the national macroeconomic policy and the overcapacity of the power industry, the market demand and product price of power capacitors were reduced. Meanwhile, due to disposal of subsidiaries in this reporting period, the computation caliber of comparative figures for this year ended in September 2018.

(4) Performance of major sales contract signed by the Company as of the reporting period

□Applicable √ Not applicable

(5) Cost of sales

Unit: RMB

		2018		2017		
By product	Item	Amount	As a percentage of operating costs	Amount	As a percentage of operating costs	Year-on-year increase/ decrease
Enclosed busbars	Direct materials	22,448,083.49	87.17%	20,700,134.43	86.22%	
Enclosed busbars	Direct labor	1,615,639.27	6.27%	1,631,803.16	6.80%	
Enclosed busbars	Manufacture expense	1,678,763.38	6.52%	1,677,113.06	6.98%	
Power capacitor	Direct materials	446,380.81	49.74%	1,241,247.49	79.48%	
Power capacitor	Direct labor	25,773.34	2.87%	100,261.81	6.42%	
Power capacitor	Manufacture expense	82,685.38	9.21%	220,201.18	14.10%	

Remarks:

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

(6) Whether consolidation scope changed during the reporting period

√ Yes □ No

The consolidation scope for the period reduced two companies, namely the significant assets sale NNE Jinzhou PC and its subsidiary.

(7) Significant changes or adjustment in businesses, products or services during the reporting period

√Applicable □ Not applicable

The consolidation scope for the period reduced two companies, namely the significant assets sale NNE Jinzhou PC and its subsidiary, whose main product, power capacitors, were split from the listed company along with sale.

(8) Major customers and major suppliers

Major customers

Total sales of the top five customers (RMB)	14,567,834.80
Proportion of total sales of the top five customers over total sales for the year	47.16%
Proportion of sales of connected parties in the top five customers over total sales for the year	0.00%

The top five customers

No.	Name	Sales (RMB)	Percentage over the annual total amount of sales
1	Power Construction Corporation of China Shandong Electric Power Construction First Engineering Co., Ltd. (Xinyou Qitai)	4,116,379.30	13.33%
2	Shenhua Guoneng Baoqing Electrify Co., Ltd. (Luneng Baoqing)	2,978,205.13	9.64%
3	Fujian Huadian Shaowu Energy Co., Ltd.	2,820,515.00	9.13%
4	China Resources Power (Changzhou) Co., Ltd.	2,375,384.48	7.69%
5	(Shandong Steel Rizhao) Beijing Xuguo Energy Co., Ltd.	2,277,350.89	7.37%
Total	--	14,567,834.80	47.16%

Other conditions of the major customers

√ Applicable □ Not applicable

The top five customers are not related to the Company, and none of directors, supervisors, senior management, key technicians, shareholders with more than 5% shareholding, the de facto controller and other related parties of the Company was directly or indirectly interested in the major customers.

Major suppliers

Total purchases attributable to the top five suppliers (RMB)	22,720,249.48
Proportion of total purchases attributable to the top five suppliers over total purchases for the year	70.39%
Proportion of purchases of connected parties in the top five suppliers over total purchases for the year	0.00%

The top five suppliers

No.	Name	Purchase (RMB)	Percentage over the annual total purchase
1	Shenyang Taihua Copper Co., Ltd.	9,594,989.25	29.73%
2	Shenyang Haqingdong Metal Co., Ltd.	5,924,816.38	18.36%
3	Shenyang Xinhuahao Trading Co., Ltd.	5,451,416.45	16.89%
4	Fuxin Xiandao Electric Wire Factory	880,067.60	2.73%
5	Fuxin Hongsheng Steel Sales Co., Ltd.	868,959.80	2.69%
Total	--	22,720,249.48	70.39%

Other conditions of the major suppliers

√ Applicable □ Not applicable

The top five suppliers are not related to the Company, and none of directors, supervisors, senior management, key technicians, shareholders with more than 5% shareholding, the de facto controller and other related parties of the Company was directly or indirectly interested in the major suppliers.

3. Expenses

Unit: RMB

	2018	2017	Year-on-year increase/decrease	Explanation of significant changes
Selling expenses	5,146,937.71	5,791,491.04	-11.13%	Reduction due to the decrease in operating income
Administrative expenses	36,877,974.78	44,710,248.31	-17.52%	Significant decrease in employee remuneration and agency fees
Financial costs	-299,852.96	1,061,942.38	-128.24%	Sharp increase in interest income and remarkable decrease in interest expense
R&D expenses	1,243,087.03	464,465.42	167.64%	Increase in R&D expense of subsidiary

4. R&D investment

① The main isolated-phase busbars with 600MW, the pilot project in line with IEC international standards. With the said project, the Company also won the project "Panama 1X420MW unit of isolated-phase and nonsegregated-phase busbars". The Company could evade the market environment with low bid domestically, and tap into the international market by virtue of internationally acclaimed lab report.

② The R&D and trial-production of the busbars dehumidifying system have been successfully applied in the transformation of Unit 1# plant & standby transformer nonsegregated-phase busbars in Chaoyang Yanshan Power Plant.

R&D investment of the Company

	2018	2017	Changes of Proportion
Number of research personnel	12	12	
Proportion of research personnel	8.00%	2.00%	6.00%
Amount of R&D investment (RMB)	1,230,932.11	230,900.00	433.10%
Proportion of R&D investment to operating incomes	3.81%	0.70%	3.11%
Capitalization of R&D investment (RMB)	0.00	0.00	
Proportion of capitalization of R&D investment to total R&D investment	0.00%	0.00%	

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

√ Applicable □ Not applicable

To increase the operating income and R&D investment.

Reasons and explanations for the significant changes in the proportion of capitalization of R&D investment

□ Applicable √ Not applicable

5. Cash flow

Unit: RMB

Item	2018	2017	Year-on-year increase/decrease
Subtotal of cash inflow from operating activities	102,957,939.17	145,843,824.75	-29.41%
Subtotal of cash outflow from operating activities	107,553,405.28	99,882,007.30	7.68%
Net cash flow from operating activities	-4,595,466.11	45,961,817.45	-110.00%
Subtotal of cash inflow from investment activities	143,583,209.45		
Subtotal of cash outflow from investment activities	67,331,511.75	48,749,848.24	38.12%
Net cash flow from investment activities	76,251,697.70	-48,749,848.24	-256.41%
Subtotal of cash inflow from financing activities	43,255,139.00	27,355,984.89	36.76%
Subtotal of cash outflow from financing activities	38,610,932.86	38,622,195.25	-0.03%
Net cash flow from financing activities	4,644,206.14	-11,266,210.36	-141.22%
Net increase in cash and cash equivalents	76,315,876.46	-14,080,468.44	-642.00%

Description on main factors of material changes compared to the previous year

√Applicable □ Not applicable

1. Cash inflows from sales of goods during the reporting period decreased. Repayment for the principal and interests from ICBC Jinzhou Branch of 18.33 million and cash for payment of bid bonds increased. Therefore, net cash flows from operating activities is negative;

2. Transaction amount received from disposal of the subsidiary during the reporting period.

3. Loan on mortgage from the subsidiary during the reporting period.

Cause description of great differences between the net cash flows generated from operating activities of the Company in the reporting period and the net profits of current year

√Applicable □ Not applicable

Revenue from recognized assets disposal upon relocation of the new plant of the subsidiary during the reporting period was RMB15,790,000

(III) Analysis of Non-principal Business

□ Applicable √ Not applicable

(IV) Assets and Liabilities

1. Significant changes in assets

Unit: RMB

	As at the end of 2018		As at the beginning of 2018			
	Amount	Percentage of total assets	Amount	Percentage of total assets	Increase/decrease in percentage	Explanation of significant changes
Monetary fund	145,725,658.23	28.85%	45,175,761.77	14.75%	14.10%	Receiving consideration from subsidiary
Receivables	21,774,633.39	4.31%	77,087,033.39	25.17%	-20.86%	Decrease in receivables due to the disposal of subsidiary
Inventory	9,588,337.76	1.90%	11,533,044.52	3.77%	-1.87%	
Long-term equity investment	22,484,598.52	4.45%	19,463,641.61	6.36%	-1.91%	
Fixed assets	50,136,802.72	9.93%	36,335,533.78	11.87%	-1.94%	
Construction in progress	2,803,418.80	0.56%	42,553,751.05	13.90%	-13.34%	The new plant of the subsidiary converted to fixed assets upon completion
Short-term borrowings	4,500,000.00	0.89%	0	0.00%	0.89%	

2. Asset and liability at fair value

□Applicable √Not applicable

3. Restricted assets right as at the end of the reporting period

Item	Book value at the end of the year	Reasons for restriction
Monetary fund – other monetary fund	6,001,320.00	performance guarantee
Fixed assets – buildings	14,018,221.48	mortgage loan
Intangible assets – land use right	12,606,290.23	mortgage loan
Total	32,625,831.71	

(V) Investment

1. Overview

□Applicable √ Not applicable

2. Significant equity investment obtained during the reporting period

□Applicable √ Not applicable

3. Significant on-going non-equity investment during the reporting period

□Applicable √ Not applicable

4. Financial asset investment

(1) Securities investment

□Applicable √ Not applicable

The Company had no securities investment during the reporting period.

(2) Derivative investment

□Applicable √ Not applicable

The Company had no derivative investment during the reporting period.

5. Use of proceeds

□Applicable √ Not applicable

There was no use of proceeds during the reporting period.

(VI) Significant Assets and Equity Disposal

To optimize the corporate asset structure, minimize the impairment loss of assets, and protect the interests of investors, the Board of the Company determined to dispose of NNE Jinzhou PC on 17 September 2017. On 25 May 2018, this disposal of material asset was considered and approved by the Company's second extraordinary general meeting of 2018. All parties have already completed the payment of equity transfer price after deducting the preliminary estimated interim profits and losses and finished transfering the ownership of the target asset.

Counterparty: Jiangsu Ankura Solar Power System Technology Limited (江蘇安靠光熱發電系統科技有限公司)
Asset disposed: 100% equity interests in New Northeast Electric (Jinzhou) Power Capacitors Co., Ltd.
Actual consideration paid: RMB103,000,000
Net profit contributed by the asset to the listed company from the beginning of this period (1 January 2018) to the disposal day (30 September 2018): RMB-12,920,000

(VII) Analysis of Major Subsidiaries and Investees

√ Applicable □ Not applicable

Main subsidiaries and investees which contributed more than 10% net profit to the Company

Unit: RMB

Name	Type	Principal business	Registered capital	Total capital	Net capital	Operating income	Operating profit	Net profit
Northeast Electric Development (HK) Co., Ltd. (東北電氣發展（香港）有限公司)	Subsidiary	Trading	US$20 million	71,213,936.05	56,296,443.33	0.00	-51,523.46	-51,523.46
Gaocai Technology Co., Ltd. (高才科技有限公司)	Subsidiary	Investment	US$1	83,650,459.71	4,882,840.43	0.00	-18,025.35	-18,025.35
Shenyang Kaiyi Electric Co., Ltd. (沈陽凱毅電氣有限公司)	Subsidiary	Manufacturing of electrical equipment	RMB1 million	162,304,370.19	-11,502,247.33	0.00	-2,819,029.13	-2,821,064.08
Fuxin Enclosed Busbar Co., Ltd.	Subsidiary	Manufacturing of enclosed busbars	US$8.5 million	143,573,542.44	6,597,833.40	30,885,916.02	6,449,007.94	6,449,007.94
Hainan Tangyuan Technology Co., Ltd.	Subsidiary	Public space business	RMB10 million	331,667,746.68	200,372,779.63	113,896.72	-233,911.44	-233,911.44
Northeast Electric (Chengdu) Electric Engineering Design Co,, Ltd.	Subsidiary	Electric power engineering	RMB10 million	13,612,334.10	7,088,605.48	0.00	-827,342.28	-827,342.28

Acquisition and disposal of subsidiaries during the reporting period

√Applicable □ Not applicable

Name	Disposal of subsidiaries during the reporting period	Impact to the overall production, operation and results
New Northeast Electric (Jinzhou) Power Capacitor Co., Ltd.	Consideration payment in cash	Reduction in loss of profits
Jinzhou Jinrong Electric Appliances Co., Ltd. (錦州錦容電器有限責任公司)	Consideration payment in cash	Reduction in loss of profits

(VIII) Production and operation

1.1 Completion of operating incomes, product gross margin, period expense, and net profit

Investment revenue recognized from disposal of the subsidiary during the reporting period was RMB34,690,000; Revenue from recognized assets disposal upon relocation of the new plant of the subsidiary during the reporting period was RMB15,800,000; impairment provision of assets during the reporting period decreased by RMB41,270,000 compared with the previous year.

Reasons for the significant difference from the previous reporting period

Due to the disposal of the subsidiary New Jinrong, monetary funds increased, and account receivables declined. Besides, investment income increased. As the subsidiary completed the relocation of the new plant, construction in progress reduced and fixed assets increased, and thus asset disposal income increased. As a result of receiving the donation of equity, other investments on equity instruments increased.

Due to the significant reduction in employee benefits and agent fee, administrative expenses decreased. As the subsidiary increased inputs in R&D, R&D expenditure increased. Because of the dramatic increase in interest income, interest expenses and financial costs declined.

1.2 Accelerating implementation of the technical transformation project

During the reporting period, Fuxin Busbar, a wholly-owned subsidiary of the Company, completed its relocation to the new plant which was officially put into use. The new plant will significantly enhance the technological level of our busbar manufacturing, improve our market competitiveness, and radically reverse the trend of shrinking orders due to outdated equipment and declining technologies.

1.3 Developing hotel public space sharing business

In order to obtain new investment opportunities and profit growth drivers, Hainan Tangyuan, a majority-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 in the public space of hotel. The Lease Agreements were considered and approved at Northeast Electric's 24th meeting of the 8th Board of Directors and the third extraordinary general meeting of 2018. This will help invigorate its continuing operation and help the Company transform from the traditional manufacturing sector to modern service industry.

1.4 Cooperating 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 was considered and approved at Northeast Electric's 24th meeting of the 8th Board of Directors and the third extraordinary general meeting of 2018. This will help the Company and its holding subsidiaries strengthen capital management and control, reduce and prevent operational risks, facilitate settlement business with associates, shorten the time for funds in transit, accelerate capital turnover, and save transaction costs and expenses.

1.5 Further strengthening prevention of financial risks

During the reporting period, the Company strengthened internal financial management and monitoring, focused on the follow-up on key projects, and worked out reasonable goals and specific measures pertinently, which actively prevented financial risks and improved business performance.

1.6 Enhancing management and quality of human resources

During the reporting period, 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 headquarter office and the conduction of the subsidiaries' business operations. A total of 5 senior management members have been appointed and over 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.

(I) Substantial connected transactions of the Company for the year

1. Pursuant to the Hong Kong Listing Rules, the connected transaction of the Company for 2018 is as follows:

The equity transfer agreement with Shanghai Yizhou

Hainan Tangyuan (the holding subsidiary of the Company) and Shanghai Yizhou Investment Management Co., Ltd. ("Shanghai Yizhou") are controlled by the same de facto controller (i.e., Hainan Province Cihang Foundation), Shanghai Yizhou is a related party of the Company. Shanghai Yizhou is a limited liability company whose businesses include investment management, industrial investment, consultation, etc.

To support the development of the Company, improve the asset structure and enhance the sustainable operation capacity, Hainan Tangyuan and Shanghai Yizhou signed the Equity Transfer Agreement on 16 October 2018. According to the Equity Transfer Agreement, Shanghai Yizhou transferred 10.50% of its equity in Tianjin Center to Hainan Tangyuan for no consideration. As per the Evaluation of Net Assets of HNA Tianjin Center Development Co., Ltd. issued by Vigers Appraisal & Consulting Limited., an international asset appraiser, such shares valued RMB201,480,405. This connected transaction was a gratuitous gift of Shanghai Yizhou to Hainan Tangyuan, without any conditions or obligations attached.

2. Pursuant to the Hong Kong Listing Rules, the continuing connected transactions of the Company for 2018 are as follows:

The financial service agreement with Finance Company

The Company and Finance Company, a related party of the Company, are controlled by the same de facto controller (i.e., Hainan Province Cihang Foundation). Finance Company is a limited liability company whose businesses include: financial and financing advisor, credit verification and relevant consultation and agency services for group members; assisting group members in receipt and payment of transaction monies; approved insurance agency business; provision of guarantees for group members; services for entrusted loans and entrusted investments among group members; bill acceptance and discount services for group members; services for internal transfer settlement among group members and the design of settlement and clearing schemes; absorption of deposits from group members; loan and finance lease for group members; inter-bank borrowing; issuance of bonds of Finance Company under approval; underwriting of corporate bonds of group members; equity investment in financial institutions; securities investment; provision of consumer credit, buyer credit and finance lease services related to the products of group members.

To adapt to the development of the Company, further optimize the financial business process, reduce the financial cost, improve the capital utilization efficiency and maximum its benefits, the Company and Finance Company signed the Financial Services Agreement on 17 July 2018. The agreement has a term of 3 years, starting from 17 July 2018. According to the Financial Services Agreement, Finance Company agrees to provide credit service, deposit service, fund settlement service and other financial services approved by CBIRC for the Company and its subsidiaries. As of 31 December 2018, the balances of the deposits the Company and its subsidiaries placed with Finance Company was RMB70,206,244.75.

Lease agreements with the lessors

Hainan Tangyuan (the holding subsidiary of the Company) and the lessors (Hainan Guoshang Hotel Management Co., Ltd., Danzhou HNA Xintiandi Hotel Co., Ltd., Dongguan Yujingwan Hotel, HNA Tianjin Center Development Co., Ltd., Hangzhou Huagang HNA Holiday Hotel Co., Ltd., Asia-Pacific International Conference Center Co., Ltd., Yunnan Tonghui Hotel Management Co., Ltd., and Jilin Province Tourism Group Co., Ltd.) are controlled by the same de facto controller (i.e., Hainan Province Cihang Foundation), the lessors are the related parties of the Company. The principal businesses of the lessors include hotel management, consultation and other businesses.

To further expand the business of the Company, Hainan Tangyuan entered into the Lease Agreements with the lessors on 17 July 2018 for a term of 3 years, starting from 1 July 2018 to 30 June 2021. According to the Lease Agreements, the lessors agreed to lease the Leased Properties to Hainan Tangyuan. During the reporting period in 2018, the Company did not carry out any practical business, no relevant lease payment was incurred.

The independent non-executive Directors of the Company unanimously confirmed that the continuing connected transactions of the Company in 2018 were:

(1) in the ordinary course of business of the Company;

(2) carried out based on normal commercial terms or better terms; and

(3) carried out based on the terms of the relevant transaction agreements, and the relevant terms were fair and reasonable, and in the interests of the shareholders of the Company as a whole;

In respect of the above continuing connected transactions (the “Transactions”) specified in Chapter 14A of Hong Kong Listing Rules, Ruihua CPAs has performed the relevant reviews for the Transactions for the year ended 31 December 2018 and issued a letter to the Board of the Company, stating that: (1) they were not aware that the Transactions were carried out without the approval of the Board; (2) they were not aware of any matters which would make them believe that the Transactions were inconsistent with the pricing policies of the Group in any material aspects in connection with the Transactions where the Group provided commodities and services; (3) they were not aware of any matters which would make them believe that the Transactions were inconsistent with the terms of the agreements in any material aspects; (4) they were not aware of any matters which would make them believe that the annual accumulative amount of any of the Transactions exceeded the annual cap.

The Board and all the Directors confirm that the Company has complied with the disclosure provisions in Chapter 14A of the Hong Kong Listing Rules.

Except for the connected transactions disclosed above, there is no connected transaction involving joint external investment, creditor’s rights and debts, or other connected transactions which are not subject to the annual reporting requirements.

(II) Significant Litigations and Arbitrations

1. Shenyang Tiexi District State-owned Assets Supervision and Administration Bureau v. the Company, Shenyang High Voltage Switchgear Co., Ltd. and New Northeast Electric (Shenyang) High Voltage Switchgear Co., Ltd. for dispute concerning the payment of employee resettlement fee

Shenyang Tiexi District State-owned Assets Supervision and Administration Bureau (“Tiexie SASAB”) raised litigation to Shenyang Intermediate People’s Court (“Shenyang Intermediate Court”) against the Company, Shenyang High Voltage Switchgear Co., Ltd. (“Shenyang HVS”) and New Northeast Electric (Shenyang) High Voltage Switchgear Co., Ltd. for dispute concerning the payment of employee resettlement fee, requesting the court to judge that the defendants shall pay arrears of RMB28.53 million under the Agreements, interest of RMB7,788,690 and liquidated damages of RMB1,426,500, totaling RMB37,745,190 to the plaintiff.

On 12 June 2018, the case was heard in the Shenyang Intermediate Court. On 18 July, the Shenyang Intermediate Court issued a civil written order ((2017) Liao 01 Min Chu No.430). The Shenyang Intermediate Court held that when the Plaintiff, Tiexie SASAB, reclaimed its rights to the Company on 21 July 2016, it has been more than two years of statute of limitations. The Shenyang Intermediate Court rejected the claim that the Plaintiff requested the Company to pay arrears of RMB28.53 million, interest and liquidated damages. The judgment of Shenyang Intermediate Court is as follows: (1) Shenyang HVS, the defendant shall pay the plaintiff, Tiexie SASAB, arrears of RMB24.99 million and the liquidated damages of RMB1.2495 million within 15 days after the judgment takes effect. (2) Reject other claims of the plaintiff, Tiexie SASAB. The litigation fee is RMB230,526, which shall be assumed by Shenyang HVS, the defendant. If any party refuses to accept this judgment, it may appeal to Liaoning Higher Peoples' Court by submitting the appellate petition to the Court within 15 days from the date of delivery of the judgment. Tiexie SASAB, the plaintiff, has submitted appellate petition to Shenyang Intermediate People's Court within the appeal period. Liaoning Higher Peoples' Court accepted the appellate petition in early December 2018.

According to the legal opinions from lawyers and based upon the principle of financial prudence, the Company has made provision for estimated liabilities of RMB37,745,190 according to the amount of money involved in the case in 2017, with details referring to the Earnings Forecast 2017 published on 31 January 2018 (announcement number: 2018-006), as well as the Annual Report 2017 published on 29 March 2018. Given the judgment was only the first instance judgment, the Company was unable to estimate the possible impact of the final judgment on the profit for the current period or the profits afterwards of the Company.

This case is still on the docket. The Company will timely perform its announcement obligation in relation to the progress of the case according to related regulations.

2. Progress in the execution of case involving China Development Bank

According to the announcement made by the Company on 19 October 2017, the Supreme People's Court issued Document of Ruling (2017) Zui Gao Fa Zhi Fu No.27 on August 2017, which stated that the reconsideration application of NEE was rejected, document of ruling (2015) Gao Zhi Yi Zi No.52 issued by The People's High Court of Beijing should be upheld, and the ruling should be final. China Development Bank, the execution applicant, requested the court based on the civil judgment that had taken effect to order the relevant persons subject to enforcement, including NEE, to perform the obligations set out in the civil judgment that had taken effect. The lawyer handling the case believed that the Company shall pay the compensation of RMB272,627,700 according to the final ruling of the Supreme People's Court. Based upon the principle of financial prudence, the Company has charged the compensation payable under the final ruling to the profit and loss for the period. For details, please refer to Earnings Forecast 2017 issued on 31 January 2018 and Annual Report 2017 issued on 29 March 2018 by the Company.

3. Fuxin Busbar v. Shenyang HVS and NEE for return of transfer price for target equity

Fuxin Busbar held 74.4% of the equity of New Northeast Electric (Shenyang) High-voltage Disconnecting Switch Co., Ltd. (formerly known as Shenyang Suntime High-voltage Electric Co, Ltd.) (the "Underlying Equity") before 22 September 2008. Since NEE performed the final judgment (2008) Min Er Zhong Zi No.23 on the case concerning China Development Bank made by the Supreme People's Court on 5 September 2008, based on coordination, Fuxin Busbar, its wholly-owned subsidiary, returned the Underlying Equity to Shenzhen HVS free of charge and finished the change of equity registration on 22 September 2008 as required by the industrial and commercial administration where the Company registered. Since then, the Underlying Equity held by Fuxin Busbar had been returned to Shenyang HVS free of charge. However, according to the document of ruling (2017) Zui Gao Fa Zhi Fu No.27 issued by the Supreme People's Court on 31 August 2017, "the fact that the equity involved in the case had been returned under the coordination of NEE could not be affirmed". Given the failure of Shenyang HVS to pay the outstanding equity transfer consideration of USD16 million constituted a breach of contract, Fuxin Busbar, to protect the interests of the Company, claimed against the two defendants for the return of the transfer price for the Underlying Equity.

Hainan Higher Peoples' Court accepted this case on 30 November 2018 (Case No.: (2018) Qiong Min Chu No.69) and delivered the case materials, including the indictment, to Shenyang HVS through service by publication on 3 January 2019. Given the plaintiff Fuxin Busbar is a wholly-owned subsidiary of the Company, the judgment made by the court will not have any negative impact on the profit for current period and profit afterwards of the Company on a consolidated basis.

The case was heard on 21 March 2019, and is currently waiting for the outcome of the first trial.

(III) Other major events

Profit distribution of ordinary shares and conversion of capital reserve into share capital of the Company

The Company recorded net profit attributable to shareholders of the listed company of RMB14,596,076.43, profit distributable for shareholders as at the end of the year of RMB-2,019,154,197.71 in 2018. The Board of the Company does not recommend paying cash dividend, issuing bonus shares or transferring capital reserve during the reporting period.

Explanation of changes in accounting policy, accounting estimates and accounting methods in comparison with the financial reports of the previous year

On 15 June 2018, the Ministry of Finance of the PRC issued the Notice on Revising and Issuing the Format of 2018 Financial Statements for General Enterprises (Cai Kuai [2018] No.15), pursuant to which, non-financial enterprises that adopt Accounting Standards for Business Enterprises should prepare their financial statements following the Accounting Standards for Business Enterprises and the requirements in the Notice. According to the above revision requirements, the Company adjusted the format of its original statement, and prepared its financial statements in the light of the format of financial statements for general enterprises as specified in the above document.

Explanation of retrospective restatement for adjustment of significant accounting errors occurred during the reporting period

During the reporting period, there is no retrospective restatement for adjustment of significant accounting errors occurred in the Company.

Explanation of change in the scope of consolidated statement in comparison with the financial reports of the previous year

The consolidated statement reduced two companies during the period, namely the significant assets sale NNE Jinzhou PC and its subsidiaries.

Notes by the Board of directors, Supervisory Committee and the independent directors on the "standard auditors' report "issued by the accounting firm for the reporting period

Northeast Electric Development Co., Ltd. (the "Company") engaged Ruihua Certified Public Accountants (Special General Partnership) as the auditors of the Company for 2018. Ruihua Certified Public Accountants (Special General Partnership) has issued the unqualified auditors' report with explanatory paragraph for 2018 financial report of the Company.

Special Notes by the Board of directors on matters involved in non-standard audit opinion

Content of matters involved in audit opinion

The users of financial statements shall pay attention to the fact that the Company's net loss after deduction of non-recurring gains and losses was RMB39,445,995.65, and as of 31 December 2018, the current liabilities of the Company were RMB217,093,262.12 higher than current assets. In the meanwhile, the Company faced a compensation amount of RMB272 million for settled lawsuits. Such matters or situations indicate the existence of significant uncertainties that could lead to significant doubts about the continuing operation viability of the Company. This matter does not have effects on the issued audit opinions.

The Board's opinion on such matter and specific measures to eliminate the matter and its influence

The Board of the Company believes that the aforesaid audit opinions gave a true and fair view of the Company's actual financial position, and disclosed the risks in the continuing operations of the Company. In order to enhance the Company's sustainable development capability and profitability, improve asset quality, promote its long-term, healthy development, and strive to cancel the risk warning of delisting, the Company plans to take the following measures to improve its ability to continue as a going concern:

1. In 2019, the Company's substantial shareholder, Beijing Haihongyuan Investment Management Co., Ltd. plans to provide financial support for Shenyang Kaiyi Electric Co., Ltd., a wholly-owned subsidiary of the Company, with a cumulative amount of not more than RMB80 million to support the production and operation of listed companies.

2. Continue to promote the private placement of H shares and improve the capital structure, thereby accelerating the transition to the modern service industry and improving operational capability, profitability and risk resistance.

3. Continue to divest inefficient assets, as well as equity investments with less business and other non-operating assets according to the business policy, increase cash flow, and improve the ownership structure of the Company.

4. By taking Hainan Tangyuan Technology Co., Ltd., a majority-owned subsidiary of the Company, as a platform to research and develop business modules, and by leveraging strengths in resources and talents of the substantial shareholder in the modern service industry to conduct new businesses, develop new industries, and expand business scope, improve the asset portfolio structure and inject new vitality into the continuing operation of the listed company. The revenue and profits generated from such new service industry will help the listed company expand from the traditional manufacturing industry to modern service industry.

5. Actively adjust product structure and industrial upgrading according to market changes and demands, accelerate the process of transformation to the modern service industry, optimize the overall layout, develop new customer groups, improve and strengthen the sales system, and improve the profitability of the main business.

6. Increase income and reduce expenditure, strengthen overall budget management and cost control, strictly control expenditure, reduce operating costs, and maximize the profitability of main business.

Through the above measures, the Company's management considers that it is reasonable to prepare the financial statements on the basis of going concern, and the board of directors has made a full and detailed assessment of the Company's going concern ability, including reviewing the company's operating capital forecast compiled by the management in the next 12 months. It is believed that the Company can obtain sufficient sources of financing to ensure the need of working capital and capital expenditure and identify with the management to prepare these financial statements on the basis of going concern. The board of directors will continue to pay attention to and supervise the management of the Company to take effective measures to enhance the Company's sustainability and safeguard the legitimate rights and interests of the Company and investors.

Special Notes by the Supervisory Committee on Matters Related to Non-standard Audit Opinions

The Supervisory Committee of the Company considers that the above audit opinions truly, accurately and fairly reflect the Company's financial position and operating results in 2018 in all major respects, indicating significant uncertainties related to going concern, but without affecting the published audit opinions. The Supervisory Committee agrees with the Specific Notes of the Board of Directors on Matters Related to Non-standard Audit Opinions. The Supervisory Committee will continue to pay attention to and supervise the board of directors and the management of the Company to take proactive and effective measures to enhance the sustainability of the Company and safeguard the legitimate rights and interests of the company and investors.

Special Notes by Independent Directors on Matters Related to Non-standard Audit Opinions

The auditors' report issued by Ruihua Certified Public Accountants (Special General Partnership) for the Company with an unqualified opinion on the stressed items section objectively and truthfully reflects the actual financial situation of the company. We have no objection to the auditors' report.

We agree with the Special Notes of the Board of Directors on Matters Related to Non-standard Audit Opinions, and will continue to pay attention to and supervise the effective measures taken by the board of directors and management of the Company to enhance the Company's sustainability and safeguard the interests of the company and investors.

Appropriation of non-business capital on the listed company by controlling shareholder and its related parties

The controlling shareholder and its related parties did not have any appropriation of non-business capital on the listed company.

Matters related to bankruptcy reorganization

The Company did not have any matters related to bankruptcy reorganization.

Directors' interests in business that competes with the Group

None of the Directors was interested in any business that competes or is likely to compete, either directly or indirectly, with the Group's businesses.

Purchase, sale or redemption of shares

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

Loans to an entity

As at the end of the reporting period, neither the Company nor its subsidiaries has granted loans to any entity.

Share option scheme

During the reporting period, the Company and its subsidiaries did not have any share option scheme.

Profiles of Directors, Supervisors and senior management

Details of the profiles of Directors, Supervisors and senior management of the Company are set out in the section headed "(3) Appointment" in "Directors, Supervisors, Senior Management and Employees".

Directors, Supervisors and chief executives' interests in Shares, underlying shares and debentures

As at 31 December 2018, none of the Directors, Supervisors and chief executives of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code.

Registration and management of persons informed of inside information

The Company has always been in compliance with the Registration and Management System for Persons Informed of Inside Information considered and approved by the Board. During the reporting period, the Company has not been aware of any violation.

Service contracts of Directors and Supervisors

Since the term of office of the 8th Board was due on 10 March 2019, the Company convened the extraordinary general meeting on 11 March 2019 to reelect and appoint Directors.

Directors and Supervisors of the Company have each entered into service contracts with the Company for a term beginning on 11 March 2019 and ending on the expiration of the term of the 9th Board of Directors on 10 March 2022;

Save as the service contracts of Directors and Supervisors, none of the Directors or Supervisors has entered into any service contract with the Company or its subsidiaries which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

Directors and Supervisors' interests in arrangements or contracts

None of the Directors or Supervisors has any direct or indirect interests in any arrangements or contracts entered into by the Company, its holding company or any of its subsidiaries or fellow subsidiaries which was significant the Group's business during the reporting period.

Remuneration of directors and supervisors

For details of remuneration information of the Company's current and resigned directors, supervisors, senior management during the reporting period are set out in "changes in shareholdings and remuneration of supervisors, senior management" under the section "Directors, Supervisors, Senior Management and Employees".

According to the Company's remuneration management system and annual performance appraisal, the Remuneration Committee of the Company has determined the remuneration standard based on their positions. The remuneration standard for Directors and Supervisors that has been considered and approved by the Company's general meeting is as follows: The total remuneration of all Directors of the 9th Board of Directors of the Company in each accounting year shall not exceed RMB6 million (after tax) on average during their terms of office. The total remuneration of all Supervisors of the 9th Supervisory Committee of the Company in each accounting year shall not exceed RMB800,000 (after tax) on average during their terms of office.

The Company is not aware of any shareholders who have waived or agreed to waive any arrangements of remuneration as of the reporting date.

Retirement fund scheme

Details of the Group's retirement fund scheme for the year ended 31 December 2018 are set out in Note VI(19) to the financial statements.

Remuneration policy

The Company's employee remuneration policy is based on the Company's economic benefits. According to the Company's annual business plan and business task indicators, the Company conducts a comprehensive performance appraisal to determine the employees' annual salary distribution. The Company determines employees' compensation standards based on job value, and adheres to performance-oriented and ability-oriented principles, giving reasonable returns to excellent employees. All employees shall enjoy fair and consistent treatment, without gender discrimination. At the same time, the Company is committed to attracting and retaining outstanding talents by offering them competitive salaries. The salary and welfare of the Company's employees will be appropriately adjusted according to its operating benefits, regional living standards, and changes in the price index.

The Remuneration Committee under the Board of the Company is responsible for formulating and reviewing the Company's remuneration plan based on the duties of Directors, Supervisors and senior management, the Company's performance and the salary level of relevant positions in the industry.

Top five employees with the highest remuneration

Details of the top five employees with the highest remuneration of the Company during the reporting period are set out in "Changes in Shareholdings of Directors, Supervisors and Senior Management and Their Remuneration" of "Directors, Supervisors, Senior Management and Employees".

Permitted indemnity provisions

The requirement of "an issuer shall arrange appropriate insurance cover in respect of legal action against its directors" in Rule A.1.8 of Corporate Governance Code is changed from "the recommended best practices" to "code provisions". The Company is keeping a close eye on markets investigation and assessing feasible operation plans.

Additionally, according to the requirement of Rule A.6.5 of Corporate Governance Code, all directors should participate in continuous professional development to develop and refresh their knowledge and skills. This is to ensure that their contribution to the board remains informed and relevant. The company should be responsible for arranging and funding suitable training, placing an appropriate emphasis on the roles, functions and duties of a director in the listed company.

Management contract

During the reporting period, the Group has not entered into or renewed any contracts in relation to the management and administration of all or any important businesses.

Auditor

Considered and approved at the general meeting convened on 11 March 2019, the Company renewed the appointment of Ruihua CPAs (special general partner) as its auditor for the year 2018 and authorized the Board to determine its remuneration, which was determined as RMB900,000.

Public float

Based on the publicly available data as at the latest practicable date prior to the publication of this report and which the Directors are aware of, the Company confirms that the public float is sufficient.

Audit Committee

The ninth session of Audit Committee of the Company has reviewed the final results and financial report of the Group for the year ended 31 December 2018.

Changes in accounting policy

On 15 June 2018, the Ministry of Finance of the PRC issued the Notice on Revising and Issuing the Format of 2018 Financial Statements for General Enterprises (Cai Kuai [2018] No.15), pursuant to which, non-financial enterprises that adopt Accounting Standards for Business Enterprises should prepare their financial statements following the Accounting Standards for Business Enterprises and the requirements in the Notice. According to the above revision requirements, the Company adjusted the format of its original report, and prepared its financial statements in the light of the format of financial statements for general enterprises as specified in the above document. The changes in accounting policy affected only the presentation items in financial statement, did not cause any impacts to the Company's financial status and operating results for the current period and period before the changes in accounting policy. The changes in accounting policy have been reviewed and approved at the second meeting of the 9th Board on 28 March 2019, and need not be submitted to the Company's general meeting for consideration and approval.

Major suppliers and customers

For the year ended 31 December 2018, the total amount of purchases from the Group's top five suppliers was RMB22,720,249.48, accounting for 70.39% of the Group's total annual purchases; the total amount of sales to the top five customers was RMB14,567,834.80, accounting for 47.16% of the Group's total annual sales. Among them, the sales amount to the largest customer accounts for 13.33% of the total annual sales of the Group. The top five customers have no connected relationship with the Company.

The top five suppliers have no connected relationship with the Company. Directors, Supervisors, senior management, core technical personnel, shareholders with more than 5% Shares of the Company, de facto controllers and other connected parties are not directly or indirectly interested in major customers and major suppliers.

(1) Change in Equity (Unit: shares)

	Before the change		Increase/decrease as a result of the change (+, -)					After the change	
	Number	Percentage	New shares issued	Bonus shares	Capital reserve converted to shares	Others	Subtotal	Number	Percentage
I. Shares subject to trading moratorium	5,999,022	0.69%	0	0	0	0	0	5,999,022	0.69%
1. State-owned shares	0	0.00%	0	0	0	0	0	0	0.00%
2. State-owned legal person shares	0	0.00%	0	0	0	0	0	0	0.00%
3. Other domestic shares	5,999,022	0.69%	0	0	0	0	0	5,999,022	0.69%
Including: Domestic corporate shares	5,999,022	0.69%	0	0	0	0	0	5,999,022	0.69%
Domestic natural person shares	0	0.00%	0	0	0	0	0	0	0.00%
4. Foreign shares	0	0.00%	0	0	0	0	0	0	0.00%
Including: Foreign corporate shares	0	0.00%	0	0	0	0	0	0	0.00%
Foreign natural person shares	0	0.00%	0	0	0	0	0	0	0.00%
II. Shares not subject to trading moratorium	867,370,978	99.31%	0	0	0	0	0	867,370,978	99.31%
1. RMB ordinary shares	609,420,978	69.78%	0	0	0	0	0	609,420,978	69.78%
2. Domestic-listed foreign shares	0	0.00%	0	0	0	0	0	0	0.00%
3. Overseas-listed foreign shares	257,950,000	29.53%	0	0	0	0	0	257,950,000	29.53%
4. Others	0	0.00%	0	0	0	0	0	0	0.00%
III. Total number of shares	873,370,000	100.00%	0	0	0	0	0	873,370,000	100.00%

(2) Shareholding of Shareholders (Unit: shares)

Shareholdings of the shareholders holding more than 5% of the total share capital or the top ten shareholders

Name of shareholders	Nature of shareholder	Percentage	Shares held at the end of the reporting period	Increase or decrease during the period	Number of shares subject to trading moratorium	Number of shares not subject to trading moratorium	Shares pledged or frozen: Status of shares	Shares pledged or frozen: Number
HKSCC Nominees Limited	Overseas legal person	29.43%	257,037,899	0	0	257,037,899		
Beijing Haihongyuan Investment Management Co., Ltd	Domestic non-state-owned legal person	9.33%	81,494,850	0	0	81,494,850	Pledged	81,494,850
Nanjing Fang Kai Enterprise Management Co., Ltd	Domestic non-state-owned legal person	0.84%	7,352,100	3,137,600	0	7,352,100		
Yang Qinxiu	Domestic natural person	0.45%	3,963,094	-23,992,658		3,963,094		
Shi Yubo	Domestic natural person	0.41%	3,560,000	-194,300		3,560,000		
Shenzhen Zhongda Software Development Ltd	Domestic non-state-owned legal person	0.41%	3,550,000	0	3,550,000	0		
Wan Jinchun	Domestic natural person	0.33%	2,879,200	1,906,400		2,879,200		
Liang Liusheng	Domestic natural person	0.31%	2,713,900			2,713,900		
Xu Kaidong	Domestic natural person	0.28%	2,432,059	700		2,432,059		
Fu Lianjun	Domestic natural person	0.27%	2,384,689			2,384,689		

Notes:

(1) So far as the Company is aware, there is no connected relationship among the top ten shareholders or persons acting in concert as required 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 ("SFO") or which were required to be recorded in the designated register 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 the issuance of pre-emptive rights under the laws of the PRC and the Articles of Association of the Company.

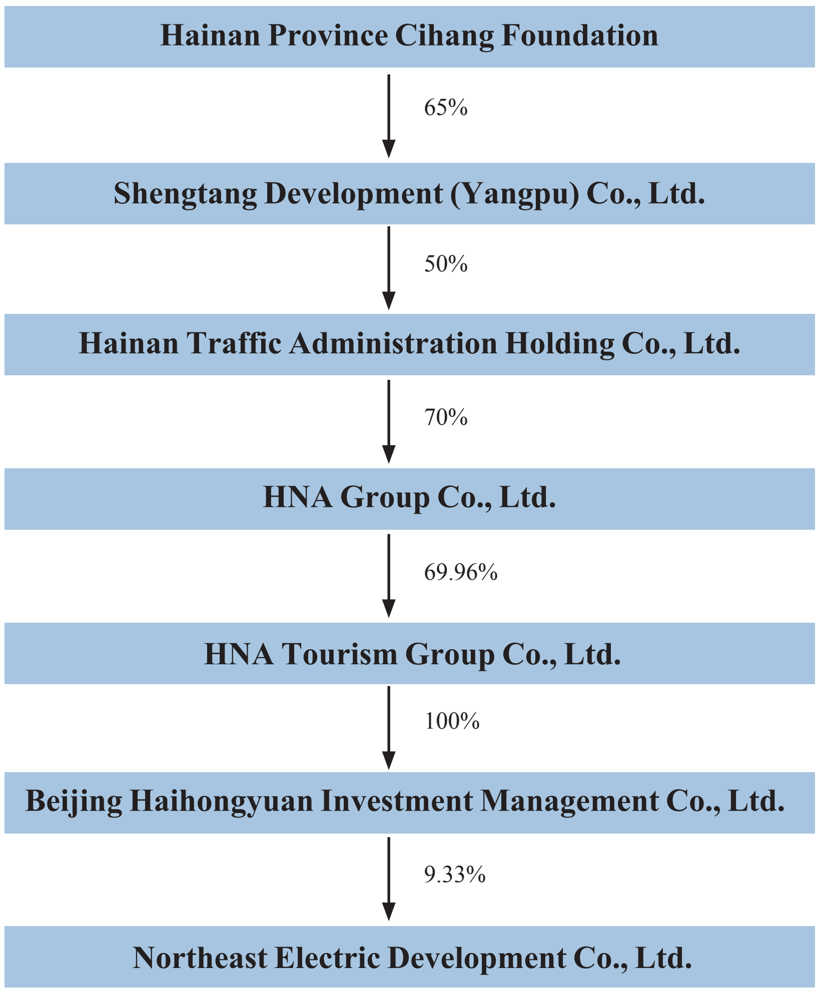
(6) Convertibles, options, warrants or other similar rights

As of 31 December 2018, the Company did not issue any convertible securities, options, warrants or any other similar rights.

(7) The pledge 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 21 December 2018.

(3) Controlling Shareholders and de facto Controller

The largest shareholder of the Company is Beijing Haihongyuan Investment Management Co., Ltd. ("**Beijing Haihongyuan**") and the de facto controller of the Company is Hainan Province Cihang Foundation. The block diagram of property rights and control relationships between the Company and the de facto controller:



(1) Changes in shareholdings of Directors, Supervisors and senior management and their remuneration

Name	Title	Status of office	Gender	Age	Term of office commencing on	Term of office ending on	Number of shares held at the beginning of the period (shares)	Increase in the number of shares held during the period (shares)	Decrease in the number of shares held during the period (shares)	Other increase or decrease (shares)	Number of shares held at the end of the period (shares)	Remuneration (RMB0'000)
Li Tie	Director, Chairman	Incumbent	Male	43	25 May 2018	10 March 2022	0	0	0	0	0	0
Li Rui	Director, Vice Chairman, General Manager	Incumbent	Male	42	11 May 2017	10 March 2022	0	0	0	0	0	22.55
Zhu Jie	Director	Incumbent	Male	38	3 December 2018	10 March 2022	0	0	0	0	0	0
Ma Yun	Director	Incumbent	Female	47	11 March 2019	10 March 2022	0	0	0	0	0	–
Su Weiguo	Director, Secretary to the Board	Incumbent	Male	57	3 December 2018	10 March 2022	0	0	0	0	0	120
Bao Zongbao	Director	Incumbent	Male	36	5 June 2017	10 March 2022	0	0	0	0	0	0
Li Ming	Independent director	Incumbent	Male	66	25 May 2018	10 March 2022	0	0	0	0	0	7
Fang Guangrong	Independent director	Incumbent	Male	64	11 March 2019	10 March 2022	0	0	0	0	0	-
Qian Fengsheng	Independent director	Incumbent	Male	55	11 March 2016	11 March 2022	0	0	0	0	0	12
Jin Wenhong	Former independent director	Resigned	Male	69	11 March 2016	10 March 2019	0	0	0	0	0	12
Qin Jianmin	Former Director	Resigned	Male	68	26 June 2018	10 March 2019	0	0	0	0	0	0
Liu Daoqi	Former Director, former Chairman	Resigned	Male	41	11 May 2017	16 May 2018	0	0	0	0	0	0
Bai Haibo	Former Director, former vice Chairman	Resigned	Male	43	11 May 2017	16 August 2018	0	0	0	0	0	0
Song Xiang	Former Director	Resigned	Male	40	11 May 2017	14 November 2018	0	0	0	0	0	0
Zhang Xiangsheng	Former Director	Resigned	Male	36	5 June 2017	2 March 2018	0	0	0	0	0	0
Zhang Luyang	Former independent director	Resigned	Male	69	11 March 2016	25 May 2018	0	0	0	0	0	5

Name	Title	Status of office	Gender	Age	Term of office commencing on	Term of office ending on	Number of shares held at the beginning of the period (shares)	Increase in the number of shares held during the period (shares)	Decrease in the number of shares held during the period (shares)	Other increase or decrease (shares)	Number of shares held at the end of the period (shares)	Remuneration (RMB0'000)
Zhou Jinyang	Shareholder representative supervisor	Incumbent	Female	54	29 October 2018	10 March 2022	0	0	0	0	0	4.84
Lei Xiao	Shareholder representative supervisor	Incumbent	Female	29	29 October 2018	10 March 2022	0	0	0	0	0	11.92
Li Wei	Employee representative supervisor	Incumbent	Male	33	29 October 2018	10 March 2022	0	0	0	0	0	16.86
Hao Lianjie	Former shareholder representative supervisor	Resigned	Male	33	25 May 2018	29 October 2018	0	0	0	0	0	0
Wang Jun	Former shareholder representative supervisor	Resigned	Male	40	5 June 2017	29 October 2018	0	0	0	0	0	0
Deng Yongfei	Former employee representative supervisor	Resigned	Male	30	25 May 2018	29 October 2018	0	0	0	0	0	0
Li Dong	Former shareholder representative supervisor	Resigned	Male	57	11 March 2016	25 May 2018	0	0	0	0	0	4
Qiu Yongjian	Former employee representative supervisor	Resigned	Male	55	11 March 2016	25 May 2018	0	0	0	0	0	0
Xiao Xun	Former vice general manager, former Chief Finance Officer	Resigned	Male	32	9 March 2018	10 March 2019	0	0	0	0	0	27.86
Zhao Guogang	Former vice general manager, former Chief Risks Officer	Resigned	Male	36	9 March 2018	10 March 2019	0	0	0	0	0	0
Xiong Haocheng	Former vice general manager	Resigned	Female	34	29 August 2018	10 March 2019	0	0	0	0	0	16.6
Feng Xiaoyu	Former vice general manager, Financial manager	Resigned	Male	46	11 March 2016	2 March 2018	0	0	0	0	0	2.93
Wang Kai	Vice general manager, Chief Finance Officer	Incumbent	Male	44	12 March 2019	10 March 2022	0	0	0	0	0	0

(2) Changes in Directors, Supervisors and Senior Management

During the reporting period, changes in Directors, Supervisors and senior management are set out as follows.

Name	Position	Type	Date	Reason
Liu Daoqi	Former Director, former Chairman	Resigned	16 May 2018	Work adjustment
Bai Haibo	Former Director, former Vice Chairman	Resigned	16 August 2018	Work adjustment
Song Xiang	Former Director	Resigned	14 November 2018	Work adjustment
Zhang Xiangsheng	Former Director	Resigned	2 March 2018	Job change
Zhang Luyang	Former independent Director	Resigned	25 May 2018	Heavy business commitment
Hao Lianjie	Former shareholder representative supervisor, former chairman of the Supervisory Committee	Resigned	29 October 2018	Work adjustment
Wang Jun	Former shareholder representative supervisor	Resigned	29 October 2018	Work adjustment
Deng Yongfei	Former employee representative supervisor	Resigned	29 October 2018	Work adjustment
Li Dong	Former shareholder representative supervisor	Resigned	25 May 2018	Heavy business commitment
Qiu Yongjian	Former employee representative supervisor	Resigned	25 May 2018	Heavy business commitment
Feng Xiaoyu	Former vice general manager, former financial manager	Dismissed	2 March 2018	Job change
Li Tie	Director, Chairman		25 May 2018	Elected due to job demand
Li Rui	Director, Vice Chairman		29 August 2018	Elected due to job demand
Zhu Jie	Director		3 December 2018	Elected due to job demand
Qin Jianming	Former Director	Resigned due to expiration of term of office	10 March 2019	Work adjustment
Su Weiguo	Director		3 December 2018	Elected due to job demand

Name	Position	Type	Date	Reason
Li Ming	Independent Director		25 May 2018	Elected due to job demand
Jin Wenhong	Former independent Director	Resigned due to expiration of term of office	10 March 2019	Work adjustment
Ma Yun	Director		11 March 2019	Elected due to job demand
Fang Guangrong	Independent Director		11 March 2019	Elected due to job demand
Zhou Jinyang	Shareholder representative supervisor, chairman of the Supervisory Committee		29 October 2018	Elected due to job demand
Lei Xiao	Shareholder representative supervisor		29 October 2018	Elected due to job demand
Li Wei	Employee representative supervisor		29 October 2018	Elected due to job demand
Xiao Xun	Former vice general manager, former financial manager	Resigned due to expiration of term of office	10 March 2019	Resigned due to expiration of term of office
Zhao Guogang	Former vice general manager, former risk control director	Resigned due to expiration of term of office	10 March 2019	Resigned due to expiration of term of office
Xiong Haocheng	Former Vice Chairman	Resigned due to expiration of term of office	10 March 2019	Resigned due to expiration of term of office
Wang Kai	Vice general manager, financial manager		12 March 2019	Appointed due to job demand

(3) Employment

1. Employment of Directors to the 9th Board of Directors

The term of office of the 8th session of the Board was due on 10 March 2019. Upon consideration and approval by the 32nd meeting of the 8th Board on 22 February 2019, the 1st extraordinary general meeting of 2019 on 11 March 2019 and the 1st meeting of the 9th Board on 12 March 2019, Mr. Li Tie, Mr. Li Rui, Mr. Zhu Jie, Ms. Ma Yun, Mr. Bao Zongbao and Mr. Su Weiguo were appointed as the non-independent Directors of the 9th session of the Board of the Company; Mr. Li Ming, Mr. Qian Fengsheng and Mr. Fang Guangrong were appointed as the independent Directors of the 9th session of the Board of the Company; Mr. Li Tie was elected as the Chairman of the 9th session of the Board; Mr. Li Rui was elected as the Vice Chairman of the 9th session of the Board. The above terms of office are effective until the expiration of the term of the 9th session of the Board of Directors on 10 March 2022.

(1) Directors of the 9th session of the Board

① Executive Directors

Mr. Li Tie, born in 1976, with Chinese nationality and without the right of permanent residence abroad, is a certified public accountant, insurance assessor, certified tax agent, and postgraduate, and has successively majored in law at Anhui University, and taken courses of Executive Master of Business Administration (EMBA) at Tsinghua University, and obtained a bachelor's degree and a master's degree respectively. He once served as the president of Hainan Airlines Holding Co., Ltd., the chief executive officer of HNA Travel Group Co., Ltd., the chairman of China Civil Aviation Investment Group Ltd., the chief investment officer of HNA Tourism Group Co., Ltd., and the chairman and chief executive officer of tourism investment platform of HNA Tourism Group Co., Ltd. He currently serves as a Director and the Chairman of the 9th session of the Board of the Company.

Mr. Li Rui, born in 1977, with Chinese nationality and without the right of permanent residence abroad, graduated from School of Management, Huazhong University of Science and Technology. He joined HNA Group Co., Ltd. in 1999 and has successively held the posts of deputy general manager and standing deputy general manager of securities business department of HNA Group Co., Ltd., the standing deputy general manager and the general manager of investment management department of HNA Group Co., Ltd. and the vice president and board secretary of Hainan Airlines Holding Co., Ltd. He currently serves as a Director of the 9th session of the Board, vice chairman and the general manager of the Company.

Mr. Zhu Jie, born in 1981, with Chinese nationality and without the right of permanent residence abroad, graduated from York University and obtained a master degree in business administration. He once served as the chairman of HNA Tourism Innovative Investment Co., Ltd., the chairman of HNA Tourism Travel Group, the chairman of HNA Navigation Investment Group Co., Ltd., and the venture capital investment president of HNA-Caissa Travel Group Co., Ltd. He currently serves as the chairman of Hainan HNA International Hospitality Management Limited and a Director of the 9th session of the Board of the Company.

Ms. Ma Yun, born in 1972, with Chinese nationality and without the right of permanent residence abroad, graduated from Toulouse Business School with a master's degree in travel and hotel management. She once served as the general manager of Guangzhou Chen Jian Tianyu Real Estate Development Co., Ltd. (廣州市城建天譽房地產開發有限公司), the general manager of Beijing Kehang Investment Co., Ltd. (北京科航投資有限公司), the deputy general manager and employer's representative of Beijing Marriott Hotel Northeast, and the general manager of Hangzhou Huagang HNA Resort. She currently serves as the president of HNA International Hotel Management Co., Ltd. and a Director of the 9th session of the Board of the Company.

Mr. Bao Zongbao, born in 1983, with Chinese nationality and without the right of permanent residence abroad, graduated from Civil Aviation University of China. He once served as the investment director of HNA Investment Holding Co., Ltd. and the chief financial officer of HNA Tourism Hospitality Investment Group Co., Ltd. He currently serves as a Director of the 9th session of the Board of the Company and a supervisor of Beijing Haihongyuan Investment Management Co., Ltd.

Mr. Su Weiguo, born in 1962, with Chinese nationality and without the right of permanent residence abroad, is a senior economist and graduated from Harbin University of Science and Technology with a major in heat treatment and later from Dalian Maritime University with a major in international economic law, and obtained a bachelor's degree in engineering and a master's degree in law. He served as the section chief of the business management department, deputy general manager, Board secretary, general manager and chairman of the Company, and the section chief of business management department, assistant president and deputy general manager of Northeast Electric Power Transmission and Transformation Equipment Group, and the general manager of Tieling Copper Industry Co., Ltd., and the chairman of Shenyang Furukawa Cable Co., Ltd., which is a Sino-Japanese joint venture. He is currently a Director and Board secretary of the 9th session of the Board of the Company.

② Independent Non-Executive Directors

Mr. Li Ming, born in 1953, with Chinese nationality and without the right of permanent residence abroad, majored in law at Hainan Radio and TV University and has been long engaged in legal practice. He once served as secretary of the party committee of Hainan Technology and Business College and is now retired. He currently serves as an Independent Director of the 9th session of the Board of the Company.

Mr. Qian Fengsheng, born in 1964, with Chinese nationality and without the right of permanent residence abroad, graduated from Shanghai University of Finance and Economics with a major in Accounting in 1986 and obtained Ph.D. in Management (Accounting) in 1999. He is a professional accountant and was the director of the MPACC Center in Shanghai University of Finance and Economics. He currently serves as an associate professor of the School of Accounting in Shanghai University of Finance and Economics, a consultant expert of the first session of Accounting Standards for Business Enterprises in the Ministry of Finance, the member of the Accounting Basic Theory Special Committee in the Ministry of Finance, and an Independent Director of the 9th session of the Board of the Company.

Mr. Fang Guangrong, born in 1955, with Chinese nationality and without the right of permanent residence abroad, graduated from Ningxia University and obtained a bachelor's degree. He has been long engaged in accounting management and financial work. He once served as the deputy director of Department of Finance of Hainan Province and the director of Hainan Financial Supervision Agent Office. He currently serves as a director of the sixth session of The Chinese Institute of Certified Public Accountants, the president of Hainan Institute of Certified Public Accountants, and an Independent Director of the 9th session of the Board of the Company.

The Company has received the annual written confirmation from the Independent Non-Executive Directors above in respect of their independence and believes that they are independent.

(2) Members of the special committees under the 9th session of the Board

Upon the approval of the first meeting of the 9th session of the Board on 12 March 2019, the members of each special committee of the 9th session of the Board are as follows:

① Strategic Development Committee

Chairman: Mr. Li Tie

Members: Mr. Zhu Jie, Mr. Li Rui, Ms. Ma Yun, Mr. Fang Guangrong

② Nomination Committee

Chairman: Mr. Li Ming

Members: Mr. Li Tie, Mr. Fang Guangrong

③ Remuneration Committee

Chairman: Mr. Fang Guangrong

Members: Mr. Zhu Jie, Mr. Li Ming, Mr. Qian Fengsheng

④ Investment Management Committee

Chairman: Mr. Li Tie

Members: Mr. Zhu Jie, Mr. Li Rui, Mr. Su Weiguo, Mr. Fang Guangrong

⑤ Audit Committee

Chairman: Mr. Li Ming

Members: Mr. Fang Guangrong, Mr. Qian Fengsheng, Mr. Bao Zongbao

2. Appointment of the Supervisors of the 9th session of the Supervisory Committee

The term of office of the 8th session of the Supervisory Committee was due on 10 March 2019. Upon consideration and approval by the 16th meeting of the 8th session of Supervisory Committee on 22 February 2019, the 1st meeting of 2019 of the Labor Union Committee on 11 March 2019, the 1st extraordinary general meeting of 2019 on 11 March 2019, and the 1st meeting of the 9th session of Supervisory Committee on 12 March 2019, Ms. Zhou Jinyang and Ms. Lei Xiao were appointed as Shareholder Representative Supervisors of the 9th session of the Supervisory Committee; Mr. Li Wei was appointed as the Employee Representative Supervisor of the 9th session of the Supervisory Committee; Ms. Zhou Jinyang was elected as the Chairman of the 9th session of the Board; Mr. Li Rui was elected as the Vice Chairman of the 9th session of the Supervisory Committee. The above terms of office are effective until the expiration of the term of the 9th session of the Supervisory Committee on 10 March 2022.

(1) Supervisors of the 9th session of the Supervisory Committee

① **Shareholder Representative Supervisors**

Ms. Zhou Jinyang, born in 1965, with Chinese nationality and without the right of permanent residence abroad, graduated from Guizhou University, majoring in foreign language and literature, with a bachelor's degree in arts. She once served as the manager of Shenzhen operation department of Hainan Airlines Holding Co., Ltd., the deputy general manager of Hainan Airlines Foods Co., Ltd., the general manager of Hainan Airlines Beverage Manufacture Co., Ltd. and the deputy general manager of comprehensive management department of Yishi Group Co., Ltd. She currently serves as the Shareholder Representative Supervisor and the chairman of the 9th session of Supervisory Committee of the Company.

Ms. Lei Xiao, born in 1990, with Chinese nationality and without the right of permanent residence abroad, graduated from University of Bristol, majoring in accounting and financial management, with a master's degree of science. She once served as the business manager of planning finance department of HNA Tourism Investment Holdings Co., Ltd. She currently serves as the business director of planning finance department and Shareholder Representative Supervisor of the 9th session of Supervisory Committee of the Company.

② **Employee Representative Supervisor**

Mr. Li Wei, born in 1986, with Chinese nationality and without the right of permanent residence abroad, graduated from Northwest University of Political Science and Law, majoring in economics, with a bachelor's degree in economics. He once served as the deputy manager of General Management Department of HNA Tourism Investment Group Co., Ltd. (海航旅遊投資集團有限公司). He currently serves as the director of the human resources and administrative department and the employee representative supervisor of the 9th session of Supervisory Committee of the Company.

3. Members of the Senior Management

The terms of office of General Manager, Chief Financial Officer, and Secretary to the Board were due on 10 March 2019. Upon the consideration and approval of the first meeting of the 9th session of the Board on 12 March 2019, Mr. Li Rui, Mr. Wang Kai, and Mr. Su Weiguo were appointed as the General Manager, Chief Financial Officer and Secretary to the Board, respectively. The above terms of office are effective until the expiration of the term of the 9th session of the Board on 10 March 2022.

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

Mr. Wang Kai, born in 1975, with Chinese nationality and without the right of permanent residence abroad, graduated from Xi'an Political Academy of PLA (中國人民解放軍西安政治學院), majoring in international accounting and applied psychology. He served as the vice president of CDB Leasing Co., Ltd., the vice chairman of Minan Property and Casualty Insurance Co., Ltd, the vice president of Wanjiang Financial Leasing Co., Ltd., the general manager of HNA Financial Services Co., Ltd. (海航金融服務有限公司), and the vice chairman of Hainan HNA Shared Financial Services Agency Co., Ltd. (海南海航財務共用服務代理有限公司). He currently serves as Chief Financial Officer of the Company.

Mr. Su Weiguo, born in 1962, with Chinese nationality and without the right of permanent residence abroad, is a senior economist and graduated from Harbin University of Science and Technology with a major in heat treatment and later from Dalian Maritime University with a major in international economic law, and obtained a bachelor's degree in engineering and a master's degree in law. He served as the section chief of the business management department, deputy general manager, Board secretary, general manager and chairman of the Company, the section chief of business management department, assistant president and deputy general manager of Northeast Electric Power Transmission and Transformation Equipment Group, the general manager of Tieling Copper Industry Co., Ltd., and the chairman of Shenyang Furukawa Cable Co., Ltd., which is a Sino-Japanese joint venture. He is currently a Director and Board secretary of the 9th session of the Board of the Company.

The Company has formulated two versions of "Corporate Governance Report" in accordance with different requirements of PRC securities regulatory authorities and the Listing Rules of the Hong Kong Stock Exchange in terms of form and content, respectively. To avoid undue repetitions and keep the presentation lucid, a cross-referencing approach has been adopted.

Part 1: Corporate Governance Report (Prepared in Accordance with the Requirements of PRC Securities Regulatory Authorities)

1. Basic Status of Corporate Governance

During the reporting period, the Company, in strict compliance with provisions of the Company Law, Securities Law and other laws and regulations as well as relevant normative documents, improved its corporate governance structure and regulated its daily operation on an ongoing basis to further upgrade the level of normalization. As of the end of the reporting period, the Company's actual corporate governance met the requirements of normative documents on the governance of listed companies published by CSRC. No significant difference existed.

(1) Shareholders and general meeting

The Company strictly complied with the provisions and requirements of the Company Law, Articles of Association and Rules of Procedure for General Meeting to convene general meetings and normalize its voting procedure. External lawyers were appointed to witness the meeting in order to ensure its legality, and ensure that all shareholders, especially minority shareholders, can enjoy equal status and fully exercise their rights. Professional lawyers were appointed to serve as a witness at the general meeting and issue their legal opinions.

(2) Relationship between substantial shareholders and the listed company

The Company's substantial shareholders strictly complied with the Company Law, Articles of Association and Code of Conduct of Substantial Shareholders to normalize their behaviors, exercised their rights according to law, as well as assume their corresponding obligations. During the reporting period, they did not, directly or indirectly, interfere with the Company's decision-making or business activities by circumventing the general meeting. The Company's Board of Directors, Supervisory Committee and relevant departments could work normally and independently.

(3) Directors and the Board of Directors

In compliance with the Company Law, Articles of Association and Rules of Procedure for the Board Meeting, the Company's Directors worked, attended relevant meetings in a conscientious manner, actively participated in trainings, and familiarized themselves with relevant laws and regulations. The Company strictly complied with the election procedure as specified in the Articles of Association to complete the election at expiration of terms of office. During the reporting period, the Company had nine directors, of whom there were three independent directors. Each of the elected directors had participated or committed to participating in relevant trainings organized by securities regulators. The composition of the Board of Directors met requirements of relevant laws, regulations and the Articles of Association. The independent directors, in accordance with the provisions of Working Rules of Independent Directors and other rules, fulfilled their duties independently, attended the Company's board meetings and general meeting, and expressed their independent opinions on the Company's significant matters so as to ensure the Company's normal operation.

(4) Supervisors and Supervisory Committee

The Company's Supervisory Committee worked under relevant provisions of the Company Law, Articles of Association, and Rules of Procedure for Meeting of Supervisory Committee, and its supervisors were recommended, elected and appointed in accordance with relevant laws and regulations. The supervisors earnestly fulfilled their duties, and supervised the Company's financial situation and the legality and compliance of significant matters, thus safeguarding the legal rights and interests of the Company and its shareholders.

(5) Information disclosure and transparency

Pursuant to Information Management Rules, the Company strengthened its management of investor relations and conscientiously fulfilled its information disclosure obligation. Securities Times and www.cninfo.com.cn were designated as the newspapers and website to disclose the Company's information, thus ensuring truthful, accurate, complete and timely information disclosure, as well as enabling all of the Company's shareholders to have equal chances for information.

(6) Stakeholders

In accordance with Information Management Rules, the Company strengthened the confidentiality of internal information and the management of owners of inside information, prevented insiders misusing the right of information, revealing inside information for insider dealings. The Company could fully respect and safeguard the legal rights and interests of the stakeholders, and realize the coordination and balance of interests among shareholders, staff and society so as to jointly push the Company's stable and sound growth.

(7) Performance appraisal and incentive and restraint mechanisms

The Company has established a series of performance appraisal and incentive and restraint mechanisms. Its appointment of senior management was open and transparent, meeting the requirements of relevant laws and regulations.

(8) Establishment and implementation of internal audit system

The executive office of Audit Committee under the Company's Board is internal audit department. The internal audit department exercises its rights of audit supervision within the authorized scope of Audit Committee. Guided by the Management System for Internal Control Supervision and Inspection and according to law, the department checked the Company's accounting books and related assets, and analyzed and evaluated its capital operation, utilization of assets and other financial operation, therefore ensuring the truth and integrity of the Company's assets. The execution of internal audit enabled the Company to avoid operation risks and enhance its economic benefit.

2. The Company's Independence from its Controlling Shareholders on Business, Personnel, Assets, Organization Structure, and Finance

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

With respect to business, the Company' business has been absolutely independent from that of its controlling shareholders. The Company has been responsible for its own operation and management, profits and losses, independent of any shareholders or any other related parties. It has a complete and independent business structure.

With respect to personnel, the Company has an independent and complete human resources management system. Pursuant to relevant policies in PRC, the Company has established a sound personnel management system, and implemented the labor contract system to all the staff so as to systemize and normalize the personnel management. Independent management has been carried out in staff's social security and remuneration.

With respect to assets, the Company's assets have been complete and separated from those of controlling shareholders. None of the Company's capital, assets or other resources has been utilized without payment by any controlling shareholders, de facto controllers or any other enterprises under their control.

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

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

3. Information on General Meetings Convened

The Company convened its first extraordinary general meeting in 2018 by way a combination of on-site voting and online voting on 20 March 2018, details of which are set out in the Announcement of the Voting Results of the First Extraordinary General Meeting of Shareholders in 2018 issued on 20 March 2018.

The Company convened its second extraordinary general meeting in 2018 by a combination of on-site voting and online voting on 25 May 2018, details of which are set out in the (1) Announcement on the Poll Results of the Extraordinary General Meeting; (2) Resignation of Independent Non-executive Director; (3) Resignation of Supervisors; and (4) Appointment of Directors, Independent Non-executive Director and Supervisors issued on 25 May 2018.

The Company convened its 2017 annual general meeting by a combination of on-site voting and online voting on 26 June 2018, details of which are set out in the (1) Announcement on the Poll Results of the 2017 Annual General Meeting; and (2) Appointment of Executive Directors issued on 26 June 2018.

The Company convened its third extraordinary general meeting in 2018 by a combination of on-site voting and online voting on 29 October 2018, details of which are set out in the (1) Announcement on the Poll Results of the Extraordinary General Meeting; and (2) Resignation of Supervisors; and (3) Appointment of Supervisors issued on 29 October 2018.

The Company convened its fourth extraordinary general meeting in 2018 by a combination of on-site voting and online voting on 3 December 2018, details of which are set out in the (1) Announcement on the Poll Results of the Extraordinary General Meeting; and (2) Appointment of Directors issued on 29 October 2018.

4. Performance of Duties by Independent Non-executive Directors

During the reporting period, the independent directors did not raise objections to relevant matters of the Company. The independent directors, in strict accordance with the Articles of Association and Working Rules of Independent Directors and other laws and regulations, kept an eye on the standard operation of the Company, independently performed their duties, presented their valuable and professional advices on such matters as the improvement of the Company's system and its daily operation and decision making, issued independent and fair opinions about the engagement of annual report auditor, related transactions, and the election and appointment of Directors, Supervisors and senior management during the reporting period, thus playing their due role in improving the Company's supervision mechanism and safeguarding the legal rights and interests of the Company and its shareholders.

Attendance of independent non-executive directors at board meetings and general meetings in 2018 was as follows:

	Attendance of independent directors at board meetings and general meetings						
Name of independent directors	Number of board meeting required to be attended during the reporting period	Number of board meeting attended in person	Number of board meeting attended via communications	Number of board meeting attended by proxy	Number of absence from board meetings	Failure to attend in person at two consecutive board meetings	Number of attendance at general meetings
Li Ming	9	0	9	0	0	No	2
Jin Wenhong	12	0	11	1	0	No	1
Qian Fengsheng	12	0	12	0	0	No	0
Zhang Luyang	3	0	3	0	0	No	0

5. Performance of Duties by Special Committees under the Board during the Reporting Period

In compliance with the Rules Governing the Listing of Stocks on the Shenzhen Stock Exchange (revised in November 2018) and Guidelines for the Standardised Operation of Listed Companies, the Company has set up Strategic Development Committee, Nomination Committee, Remuneration Committee, Audit Committee and Investment Management Committee, each of which operates normatively according to their respective rules of procedure.

(1) Performance of Duties by Strategic Development Committee

Duties and major work of the committee include consideration and assessment of the Company's development, financial budget, investment and business operations. As of the end of this report, the chief member of the committee was Mr. Li Tie, while other members included Mr. Zhu Jie, Mr. Li Rui, Mr. Su Weiguo, and Mr. Jin Wenhong.

During the reporting period, the committee convened one committee meeting, which was attended by all members of the committee. At the meeting, the Committee reviewed the future development program and other matters of the Company. Upon the consideration and approval at the first meeting of the ninth Board of Directors held on 12 March 2019, Mr. Li Tie was elected as the chief member of the committee, and other members included Mr. Zhu Jie, Mr. Li Rui, Ms. Ma Yun and Mr. Fang Guangrong.

(2) Performance of Duties by Nomination Committee

Duties and major work of the committee include assessment of performance of directors and senior management, nomination of candidates for directors, independent directors and senior management, as well as regular review of the structure, membership of the Board of Directors and performance of work of directors. As of the end of this report, the chief member of the committee was Mr. Li Tie, while other members included Mr. Li Ming and Mr. Qian Fengsheng.

During the reporting period, the committee convened five committee meetings, which were attended by all members of the committee. At the meeting, the Committee reviewed the appointment of Directors, senior management and other matters of the Company. Upon the consideration and approval at the first meeting of the ninth Board of Directors held on 12 March 2019, Mr. Li Ming was elected as the chief member of the committee, and other members included Mr. Li Tie and Mr. Fang Guangrong.

(3) Performance of Duties by Remuneration Committee

Duties and major work of the committee include formulation of remuneration policies for directors and senior management and approval of terms of directors' service contracts. As of the end of this report, the chief member of the committee was Mr. Jin Wenhong, while other members included Mr. Zhu Jie, Mr. Li Ming and Mr. Qian Fengsheng.

During the reporting period, the Committee convened one committee meeting, which was attended by all members of the committee. The Remuneration Committee under the Board reviewed the remuneration disclosed by directors, supervisors and senior management of the Company. Upon the consideration and approval at the first meeting of the ninth Board held on 12 March 2019, Mr. Fang Guangrong was elected as the chief member of the committee, and other members included Mr. Zhu Jie, Mr. Li Ming and Mr. Qian Fengsheng.

(4) Performance of Duties by Audit Committee

Duties and main work of the committee include review of the Company's financial reports, appointment of independent auditors, approval of audit and audit-related services as well as monitoring of internal control and risk management procedure, financial report procedure and management policies. The committee convenes at least four meetings every year to jointly review the accounting principles adopted, internal control system and relevant financial affairs, ensuring the integrity, fairness and accuracy of the financial statements and other related materials. As of the end of this report, the chief member of the committee was Mr. Li Ming, while other members included Mr. Jin Wenhong, Mr. Qian Fengsheng and Mr. Bao Zongbao.

As of the end of this report, the committee convened four meetings, which was attended by all members of the committee. At these meetings, the annual report, interim financial report and the first and third quarterly reports were audited respectively, the internal control report was debriefed, and relevant auditors' report and opinions were issued. Especially during the audit period of annual report, Audit Committee deeply communicated with the audit institution, discussed on key audit matters, continuous operation issues, and other important events or transactions occurred in the period. Upon the consideration and approval at the first meeting of the ninth session of Board held on 12 March 2019, Mr. Li Ming was elected as the chief member of the committee, and other members included Mr. Fang Guangrong, Mr. Qian Fengsheng and Mr. Bao Zongbao.

(5) Performance of Duties by Investment Management Committee

Duties and major work of the committee include consideration and assessment of the Company's strategic plans on annual investment return. During the reporting period, the chief member of the committee was Mr. Li Tie, while other members included Mr. Zhu Jie, Mr. Li Rui, Mr. Su Weiguo, and Mr. Qian Fengsheng.

During the reporting period, the committee convened three committee meetings, which were attended by all members of the committee. At the meeting, the Committee reviewed the business development and other matters of the Company. Upon the consideration and approval at the first meeting of the ninth session of Board held on 12 March 2019, Mr. Li Tie was elected as the chief member of the committee, and other members included Mr. Zhu Jie, Mr. Li Rui, Mr. Su Weiguo, and Mr. Fang Guangrong.

6. Performance of Duties by Supervisory Committee

During the year, the Supervisory Committee of the Company carried out effective supervision and verification on the Company's decision-making process in operation, operation, finance, assets disposal, appropriation of non-operating funds and related transactions pursuant to laws and regulations of PRC and the Articles of Association. No objection was raised during the supervision on these matters.

7. Appraisal and Incentives to Senior Management

The Company has established a series of performance appraisal and incentive and restraint mechanisms. Its appointment of senior management was open and transparent, meeting the requirements of relevant laws and regulations. The Company's Remuneration Committee under the Board, in accordance with the Company's remuneration management system and annual performance appraisal, has established remuneration standards based on positions and duties of directors, supervisors and senior management.

8. Internal Control

During the reporting period, there is no significant deficiency in internal control of the Company. Details about the internal control are set out in "Self-assessment Report on Internal Control" and "Audit Report on Internal Control" issued by the auditor.

Part 2: Corporate Governance Report (Prepared in Accordance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited)

1. Compliance with Corporate Governance Code

The Company is committed to achieving and maintaining an overall high level of corporate governance by unswervingly continuing to improve its corporate governance practices and procedures, and it has always been well aware of the importance of assumption of responsibility and communication with shareholders. The Company adopts Corporate Governance Code as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited as its corporate governance code. Through the establishment of a sound and effective board of directors, a comprehensive internal control system and a stable corporate structure, the Company is committed to disclosing data completely and transparently, enhancing operational stability, and consolidating and increasing value and profits for shareholders.

During the reporting period, the Board regularly monitored and reviewed the progress of the Group's corporate governance practices to ensure compliance with the relevant codes. The Company confirmed that the Company had remained compliant with the principles and code provisions of Corporate Governance Code as set out in Appendix 14 of the Listing Rules ("Code Provision") during the period from 1 January 2018 to 31 December 2018, except for the following deviations:

Code Provision E.1.2 stipulates that the chairman of a board of directors shall attend the annual general meeting of shareholders.

2. Model Code for Securities Transactions by Directors of Listed Issuers

The Company takes the "Model Code for Securities Transactions by Directors of Listed Issuers" (the "**Model Code**") under the Listing Rules as a code of conduct for directors' securities transactions; after accepting specific enquiries, all members of the Board of the Company confirmed that they had complied with the Model Code during their tenure as directors of the Company.

The Board has formulated guidelines on the trading of securities of listed companies by directors and relevant employees. The Board of Directors has given written notices in advance to insiders (including the Company's directors, supervisors, senior management and controlling shareholders, de facto controllers as well as connected parties, as defined in the Listing Rules) stating that purchase and sales of shares of the Company shall comply with relevant regulations and forbidding the insider to purchase or sell the shares with inside information: no transactions of the company securities shall be carried out during the price-sensitive time within sixty days, a lock-up period from 28 January 2019 to 28 March 2019, prior to results report.

All directors confirmed that: During the reporting period, they adhered to the guidelines, and neither they nor their related parties conducted securities transactions of the Company.

3. The Board

All directors of the Board, in the best interests of the Company, lead and supervise the Company and assume joint and individual responsibility to all shareholders of the Company regarding the management, monitoring and operation of the Company.

Functions of the Board

The Board is responsible for convening general meetings, reporting to the general meeting and implementing the resolutions of the general meeting in a timely manner, determining the Company's business plan and investment plan, and supervising and guiding the senior management of the Company. The Board is also responsible for monitoring the Company's operating and financial performance, formulating the Company's annual financial budget plan, final settlement plan and preparation of financial accounts.

Composition of the Board

The composition of the Board is in compliance with Rules 3.10(1), 3.10(2) and 3.10A of the Listing Rules. As at the end of the reporting period, the Board consisted of six executive directors and three independent non-executive directors, which is shown as follows:

Executive directors:

Li Tie	Chairman of the Board, chief member of Nomination Committee, chief member of Investment Management Committee, chief member of Strategy Committee
Li Rui	Vice Chairman of the Board, member of Investment Management Committee, member of Strategy Committee
Zhu Jie	Member of Remuneration Committee, member of Investment Management Committee, member of Strategy Committee
Qin Jianmin	
Bao Zongbao	Member of Audit Committee
Su Weiguo	Member of Investment Management Committee, member of Strategy Committee

Independent non-executive directors:

Li Ming	Chief member of Audit Committee, member of Remuneration Committee, member of Nomination Committee
Jin Wenhong	Member of Audit Committee, chief member of Remuneration Committee, member of Strategy Committee
Qian Fengsheng	Member of Audit Committee, member of Remuneration Committee, member of Nomination Committee, member of Investment Management Committee

In view of the expiration of the term of the eighth Board on 10 March 2019, the Company held an extraordinary general meeting and a board meeting on 11 March 2019 and 12 March 2019, respectively, re-electing and appointing relevant directors and adjusting the membership of the special committees under the Board. As at the date of this report, the composition of the Board is as follows.

Executive director:

Li Tie	Chairman of the Board, member of Nomination Committee, chief member of Investment Management Committee, Director of Strategy Committee
Li Rui	Vice Chairman of the Board, member of Investment Management Committee, member of Strategy Committee
Zhu Jie	member of Remuneration Committee, member of Investment Management Committee, member of Strategy Committee
Ma Yun	Member of Strategy Committee
Bao Zongbao	Member of Audit Committee
Su Weiguo	Member of Investment Management Committee

Independent non-executive directors:

Li Ming	Chief member of Audit Committee, member of Remuneration Committee, chief member of Nomination Committee
Qian Fengsheng	Member of Audit Committee, member of Remuneration Committee
Fang Guangrong	Member of Audit Committee, chief member of Remuneration Committee, member of Nomination Committee, member of Investment Management Committee, member of Strategy Committee

There are no financial, business, family or other significant/related relationships between the members of the Board of the Company.

The Company has appointed three independent non-executive directors, representing one third of the Board.

Independent non-executive director, Mr. Qian Fengsheng is expertised in accounting and financial management.

Attendance of the Board Meetings and General Meetings

In 2018, the Board of the Company held 12 meetings. In 2018, the Company held 5 general meetings. In 2018, the attendance of directors at board meetings and general meetings was as follows:

	Board meeting			General meeting	
Number of meetings	**13**			**5**	
Members of the Board Note 1	**Number of attendance in person**	**Number of attendance by proxy**	**Attendance rate** Note2	**Number of attendance in person**	**Attendance rate** Note2
Chairman of the Board and executive directors					
Li Tie (Elected on 25 May 2018)	9	0	9/9	1	1/3
Liu Daoqi (Departed on 16 May 2018)	3	0	3/3	0	0/1
Executive directors					
Li Rui	12	0	12/12	5	5/5
Zhu Jie (Elected on 3 December 2018)	1	0	1/1	0	0/0
Su Weiguo (Elected on 3 December 2018)	1	0	1/1	0	0/0
Bao Zongbao	12	0	12/12	0	0/5
Qin Jianmin (Elected on 26 June 2018)	6	0	6/7	0	0/2
Bai Haibo (Departed on 16 August 2018)	6	0	6/6	0	0/3
Song Xiang (Departed on 14 November 2018)	10	0	10/10	0	0/4
Zhang Xiangsheng (Departed on 2 March 2018)	0	0	0/0	0	0/0
Independent non-executive directors					
Li Ming (Elected on 25 May 2018)	9	0	9/9	2	2/3
Qian Fengsheng	12	0	12/12	0	0/5
Jin Wenhong	11	1	11/12	1	1/5
Zhang Luyang (Departed on 25 May 2018)	3	0	3/3	0	0/2

Note 1: During the year, the changes in the members of the Board of Directors of the Company are set out in section "(2) Change in Directors, Supervisors and Senior Management" of "8. Directors, Supervisors, Senior Management, and Employees".

Note 2: The number of attendance by proxy is not included when the attendance rate is calculated. The attendance rate of departed and appointed directors during the year is calculated based on the number of board meetings and general meetings held during their respective term of office.

Responsibilities and Authorities of the Board and Management

The responsibilities and authorities of the Board and management are clearly defined. The powers of the Board are set out in Article 153 of the Articles of Association. For an overview, please refer to section "Functions of the Board of Directors" in "Part 2: Corporate Governance Report"; the management conducts day-to-day operations and management and reports to the Board, providing the Board and its special committees with sufficient data in a timely manner to ensure that they make informed decisions. In addition, each director has the right to request further data from the management of the Company.

Training and sustainable development of directors

After a director is appointed, the Company provides relevant inaugural materials and then provides information to help the director understand the business and operations of the Company on a regular basis. From time to time, the Company sends updated materials in connection with relevant new laws and regulations, internal publications and others to the directors and organizes continuing professional training for directors (with the expense borne by the Company) to help them fully understand the duties of directors as stipulated in the relevant laws and regulations such as the Listing Rules and the Rules Governing the Listing of Stocks on the Shenzhen Stock Exchange and timely and comprehensively learn the operations of the Company.

The relevant records of training for directors are listed below:

	Training content	
Member of the Board	**Reading materials such as laws, regulations and rules**	**Lectures or training**
Chairman of the Board and executive directors		
Li Tie (Elected on 25 May 2018)	√	—
Liu Daoqi (Departed on 16 May 2018)	√	—
Executive directors		
Li Rui		—
Zhu Jie (Elected on 3 December 2018)	√	—
Su Weiguo (Elected on 3 December 2018)	√	—
Bao Zongbao	√	—
Qin Jianmin (Elected on 26 June 2018)	√	—
Bai Haibo (Departed on 16 August 2018)	√	—
Song Xiang (Departed on 14 November 2018)	√	—
Zhang Xiangsheng (Departed on 2 March 2018)	√	—
Independent non-executive directors		
Li Ming (Elected on 25 May 2018)	√	√
Qian Fengsheng	√	—
Jin Wenhong	√	—
Zhang Luyang (Departed on 25 May 2018)	√	—

Board Diversity

With a view to achieving a sustainable and balanced development, the Company sees increasing diversity at the Board level as an essential element in supporting the attainment of its strategic objectives and its sustainable development. The remuneration committee and the nomination committee will regularly review the structure, size, and composition of the Board （including but not limited to gender, age cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service） in support of the Company's strategy. The Remuneration and Nomination Committee reviews and implements the board diversity policy as and when appropriate, and proposes any recommended revisions as and when necessary to the Board for consideration and approval so as to ensure the effectiveness of the policy. The Company will make proper information disclosure on board composition (including gender, ethnicity, age and length of service) according to laws and regulations and listing rules.

4. The Chairman and the Chief Executive Officer

Code Provision A.2.1 requires that the roles of chairman and chief executive officer should be two separate roles and should not be performed by the same individual. Mr. Li Tie serves as the Chairman of the Company while Mr. Li Rui serves as the Chief Executive Officer, which is in compliance with Code Provision A.2.1.

The primary role of the Chairman is to lead the Board and to ensure that it works effectively in discharging its responsibilities by setting the overall strategy and making major development decisions of the Company and monitoring their implementation and ensuring the creation of value for Shareholders.

The General Manager who also serves as the Chief Executive Officer of the Company is responsible for the day-to-day operation and management of the Company's business, formulating different business and financial targets and management rules, proposing strategies to the Board and ensuring the effective implementation of the strategies and policies adopted by the Board, including the building of a strong corporate culture within the Company.

5. Non-executive directors

The non-executive directors of the Company are three independent non-executive directors (being Mr. Li Ming, Mr. Qian Fengsheng and Mr. Fang Guangrong), each with a term of office of three years from 11 March 2019 to 10 March 2022.

6. Performance of Duties by Special Committees

Details of performance of duties by special committees are set out in "5. Performance of Duties by Special Committees under the Board During the Reporting Period" of "Part 1: Corporate Governance Report".

7. Remunerations of Auditor

On 11 March 2019, the general meeting considered and approved of the reappointment of Ruihua CPAs (special general partner) as the auditor of the Company for the year 2018 and authorized the Board to determine the auditor's remuneration. As determined, the remuneration is RMB900,000.

8. Secretary of the Company

Mr. Chan Yee Ping (Michael) is engaged by the Company as the joint company secretary to assist the Company in dealing with the compliance matters relating to the Hong Kong Companies Ordinance. Mr. Chan Yee Ping the Company's external personnel, and he can contact and communicate with Mr. Su Weiguo, the internal contact and the secretary of the Board of the Company in his day-to-day work.

According to Rule 3.29 of the Hong Kong Listing Rules, the secretary of the Board has taken no less than 15 hours of relevant professional trainings during the reporting period.

9. Shareholders' Rights and Investor Relations

Shareholders' rights

The Company adopts various measures to facilitate and ensure the smooth exercise of shareholders' rights in strict compliance with relevant laws and regulations such as the Company Law, Securities Law, and Hong Kong Listing Rules in accordance with pertinent requirements under the Articles of Association of the Company.

Procedures for Shareholders' Requirement to Convene an Extraordinary General Meeting ("EGM") or a Class Meeting

The following set out the procedures for Shareholders to convene an extraordinary general meeting or a class meeting of the Company:

Shareholders that, either individually or jointly, hold over 10% of shares of the Company have the right to propose to the Board for the convening of an EGM, and such proposal shall be made in writing to the Board. The Board shall, in accordance with laws, administrative regulations, and these Articles, provide written feedback within ten days after receiving the proposal with respect to whether it agrees with the proposal to convene an EGM.

In the event that the Board agrees to convene an EGM, a notice of the general meeting shall be provided within five days of such resolution by the Board. Alterations to the original proposals in the notice shall be approved by the relevant shareholders.

In the event that the Board disagrees with the convening of an EGM, or fails to provide any feedback within ten days after receiving the proposal, shareholders that, either individually or jointly, hold over 10% of shares of the Company have the right to propose to the Supervisory Committee for the convening of an EGM, and such proposal shall be made in writing to the Supervisory Committee.

In the event that the Supervisory Committee agrees to convene an EGM, a notice of convening a general meeting shall be provided within 5 days after receiving the proposal. Alterations to the original proposals in the notice shall be approved by the relevant shareholders.

In the event that the Supervisory Committee did not provide a notice of convening a general meeting within the specified timeframe, the Supervisory Committee shall be considered to be unwilling to convene and preside over the general meeting. The shareholders that, either individually or jointly, hold over 10% of shares of the Company for a period of 90 consecutive days or more may at their sole discretion convene and preside over the EGM.

Procedures by Which Enquiries May be Made by Shareholders

A shareholder requests for information such as the Articles of Association, register of shareholders and minutes of shareholders' meetings or inspect relevant information should provide written documentation to the Company to evidence the type and number of shares of the Company that he/she holds. Upon verification of the shareholder's identities, the Company will provide the copy as per the shareholder's request within seven days upon receipt of reasonable charges. In addition, the shareholders can also review the copy of minutes of general meetings free of charge during the business time.

The shareholders can also make enquiries or questions in writing to the securities affairs representative and the secretary of the Board by various methods such as phone, mail, site visit and internet platform. The Office of the Board, whose contact information is set out in "BASIC INFORMATION OF THE COMPANY" of this report, is responsible for the day-to-day communication with shareholders,

For the consideration of and voting on a proposal in a general meeting, the shareholders are entitle to make enquiries and suggestions to the proposal. The shareholder shall first introduce his/her identity as a shareholder and his/her shareholding. The chairman of the general meeting shall in person or appoint an attendee to reply to or give an explanation to such enquiries or suggestions.

Procedures for Shareholders to Put Forward Proposals at a General Meeting

When the Company convenes a general meeting, the Board, the Supervisory Committee, and shareholders that, either individually or jointly, hold more than 3% of shares of the Company have the right to make proposals to the Company and can make and deliver the temporary proposals to the convener in writing ten days or more prior to the general meeting. The convener shall give a supplementary notice of the general meeting within two days after receiving such proposals, and announce the contents of the temporary proposals. Other than circumstances stipulated in the above provision, proposals already listed in the notice of the general meeting shall not be altered and new proposals shall not be added following the issuance of the announcement of the notice of the general meeting by the convener.

Investor Relations

In order to further maintain the accuracy and timeliness of the Articles of Association of the Company, the Board announced that the amendments to the Articles of Association in accordance with the relevant laws and the listing rules with reference to the actual circumstances of the Company were necessary. The proposed amendments to the Articles of Association were approved at the annual general meeting of 2017 and the third extraordinary general meeting of 2018 by special resolution. For details about the Articles of Association, please refer to the Company's announcement dated 11 May 2018 and the Company's circular dated 14 September 2018.

The latest version of Articles of Association is available for inspection at the Company's website and the website of Hong Kong Stock Exchange.

10. Risk Control and Internal Control

The Board of Directors of the Company is responsible for reviewing the Company's risk management and internal control systems to ensure its effective implementation. The Board of Directors has delegated to the Audit Committee the responsibility for reviewing the effectiveness of the risk management and internal control systems of the Company and its subsidiaries. The Board shall reasonably ensure operations in compliance with laws and regulations, security of assets, and truthfulness and completeness of financial reports and relevant information, enhance the efficiency and effectiveness of operations, and promote the realization of development strategies. Additionally, the Board shall ensure the adequacy of resources, staff qualifications and experience for accounting, internal audit and financial reporting functions, and of the courses and budget for staff training.

During the year, the Audit Committee of the Company reviewed for twice the control over financial, operational and compliance matters of the Company and its subsidiaries and whether the risk management and internal control systems had been operating effectively and what further improvements could be made, and reported their findings to the Board of the Company.

In accordance with the provisions and requirements of Basic Code of Corporate Internal Control and its supporting guidelines and with reference with the internal control systems and evaluation policies of the Company, the Company conducted an effective assessment on the Company's internal control for 2018 in respects of specific operations such as outward investment, guarantee business, funds raising, procurement, asset management, sales, capital activities, and comprehensive budgeting, and the Company itself and Fuxin Enclosed Busbars Co., Ltd. which were also under internal control, based upon day-to-day and special monitoring of internal control, and drew a conclusion in terms of the effectiveness of internal control: during the reporting period, the Company has established and implemented internal control measures of the businesses and matters which fell into the scope of evaluation, achieving the Company's target of internal control, and there was no material deficiency.

The Board reviewed the effectiveness of the internal control system of the Company during the year. During the course of the review, the Board considered that the Company had established an appropriate internal control system for itself based on the actual situation and was not aware of any material deficiency in the Company's internal control system. The Board believed that during the financial year as of 31 December 2018, the systems of risk management and internal monitoring were effective and sufficient. In addition, the Company engaged Ruihua CPAs (special general partner) to perform an independent audit on the effectiveness of the Company's internal control and an audit report on internal control was issued. The auditor is of the view that as at 31 December 2018, the Company maintained effective internal control related to financial reporting in accordance with Basic Code of Corporate Internal Control and relevant requirements in all material aspects.

瑞华会计师事务所
Ruihua
Certified Public Accountants

Postal Address: 9/F, West Tower of China Overseas Property Plaza, Building 7, NO.8, Yongdingmen Xibinhe Road, Dongcheng District, Beijing
Post Code: 100077
Tel: +86(10)88095588 Fax: +86(10)88091199

Auditors' Report

Ruihua Shen Zi [2019] No. 48190004

To the Shareholders of Northeast Electric Company Limited

I. Opinion

We have audited the Financial Statements of Northeast Electric Development Company Limited ("the Company"), which comprise the consolidated and Company Balance Sheet as of 31 December 2018, the Consolidated and Company Income Statement, the Consolidated and Company Cash Flows Statement and the Consolidated and Company Statements of Changes in Equity for the year then ended, and Notes to the Financial Statements.

In our opinion, the Financial Statements attached have been prepared in accordance with Accounting Standards for Business Enterprises and present fairly, in all material respects, the consolidated and Company financial positions as at 31 December 2018 and the consolidated and Company results of operations and cash flows for the year ended 31 December 2018.

II. Basis of forming the opinion

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

III. Material uncertainties relating to business continuous operating

We would like to emphasize to the Report readers that the Company has a net loss of RMB39,445,995.65 after deducting extraordinary items in year 2018, as stated in Note II.2, and as at 31 December 2018, current liabilities were RMB217,093,262.12 more than current assets. In the meantime, the aggregate compensation for resolved litigation has amounted to RMB272 million. These issues or items, as described in Note II.2, might cause material uncertainties as to the continuous operating of the Company. Such issues do not affect the Opinion.

IV. Key Auditing Items

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

1. Equity donation for no consideration by the related party

1.1 Description

As disclosed in Note VI.8 to the Financial Statements, Shanghai Yizhou Investment Management Co., Ltd. ("Shanghai Yizhou") and Hainan Tangyuan Technology Co., Ltd. ("Hainan Tangyuan Technology"), a majority-owned subsidiary of the Company entered into the Equity Transfer Agreement, pursuant to which, Shanghai Yizhou intends to grant 10.50% of its share equity in HNA Tianjin Center Development Co., Ltd. ("Tianjin Center") for no consideration. Hainan Tangyuan Technology accepted the granted assets without any conditions and obligations attached. The appraisal value of the 10.50% equity in Tianjin Center granted by Shanghai Yizhou for no consideration is RMB201,480,400.

The matter mentioned above has a significant effect on the net assets of the Company, therefore, it is considered as a key audit item.

1.2 Auditor's Response

Our auditing procedures on the aforesaid equity donation for no consideration by the related party to the Company mainly include:

1.2.1 Obtaining and reviewing donation-related documents, the equity transfer agreement, information of equity transfer and changes in industrial and commercial registration, and verifying the authenticity of the donation issue.

1.2.2 Checking resolutions made by the Board meeting and the general meeting of shareholders, and understanding the purpose of the connected transactions, pricing policy, basis of pricing and the impact on the Company's net assets.

1.2.3 Obtaining the valuation report of net assets and the auditors' report, reviewing the pricing principles and basis of transactions and judging the fairness of the pricing of transactions.

2. Material disposal of assets

2.1 Description

As disclosed in Note VI.39 to the Financial Statements, the Company transferred 100% equity in New Northeast Electric (Jinzhou) Power Capacitors Limited, a wholly-owned subsidiary of the Company, to Jiangsu Ankura Solar Power System Technology Limited, which generated an investment income of RMB34,695,500. The material disposal of assets has a significant effect on the Company's profit in 2018, therefore, it is considered as a key audit item.

2.2 Auditor's Response

Our auditing procedures on the aforesaid material disposal of the Company's assets mainly include:

2.2.1 Obtaining the equity transfer agreement, approvals and delivery documents, finding out reasons of the disposal and determining whether the transferee of the equity transfer has relations with the Company, the capital sources of the transferee and the commercial reasonableness of the receipt of asset by the counterparty.

2.2.2 Obtaining the evaluation report issued by the external evaluation authorities, reviewing the pricing principles and basis for the transactions and judging the fairness of the pricing of transactions.

2.2.3 Reviewing the actual implementation of the transaction, identifying the reasonableness of the determination of the disposal date by the management, and conducting audit procedures such as analysis process and re-calculation to re-check the correctness of the treatment of the loss of control in individual and consolidated statements and the calculation of gains and losses on disposal.

3. Compensation for relocation

3.1 Description

As disclosed in Note VI.22 and Note VI.40 to the Financial Statements, Fuxin Enclosed Busbar Co., Ltd. (hereinafter referred to as "Fuxin Enclosed Company"), a wholly owned subsidiary of the Company, signed an Investment Promotion Agreement with Xihe District People's Government of Fuxin City, under which the parties agreed upon matters in relation to the investment in constructing a new plant project with the annual output of 20 million KW enclosed busbars and the relocation of plant from original site. In 2018, the new plant was completed and was put into operation. Such mater generated an income of RMB15,804,500 from disposal of assets during the reporting period. Due to the significant effect of the compensation for relocation on the Company's profit in 2018, it is considered as a key audit item.

3.2 Auditor's Response

Our auditing procedures on the relocation compensation for the subsidiary of the Company mainly include:

3.2.1 Obtaining the investment promotion agreement and agreement on compensation for relocation from the local government and reviewing the conditions for the effectiveness of these agreements.

3.2.2 Obtaining the meeting minutes about the compensation and re-housing plan, handling the original certificates related to remaining assets, receiving materials including the original certificate of compensation fees for relocation and re-housing.

3.2.3 Reviewing the Company's accounting for the compensation fees on relocation, and assessing whether its accounting complies with the relevant requirements of China Accounting Standards for Business Enterprises No. 16 – Government Subsidies.

V. Other Information

The management of the Company is responsible for other information, which includes the information contained in the Company's 2018 annual report except for the financial statements and our auditors' report.

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

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

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

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

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

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

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

VII. Auditors' Responsibility for the Financial Statements

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

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

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

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

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

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

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

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

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

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

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

Ruihua Certified Public Accountants	Chinese Certified Public Accountants (Engagement Partner): Renzhi, Liu
Beijing. China	Chinese Certified Public Accountants: Biwen, Xu

28 March 2019

Prepared by: Northeast Electric Development Co., Ltd.

Unit: RMB

Item	Note VI	31 December 2018	31 December 2017
Current assets:			
Monetary funds	1	145,725,658.23	45,175,761.77
Financial assets held for trading		–	–
Financial assets measured by fair value with changes in fair value recognised in profit or loss		–	–
Derivative financial assets		–	–
Notes receivable and accounts receivable	2	21,774,633.39	92,132,512.68
Including: Notes receivable		–	15,878,744.00
Accounts receivable		21,774,633.39	76,253,768.68
Advances to suppliers	3	1,941,493.37	1,878,311.93
Other receivables	4	3,063,837.30	3,123,072.43
Including: Interests receivable		–	–
ividends receivable		–	–
Inventories	5	9,588,337.76	11,533,044.52
Contract assets		–	–
Held-for-sale assets		–	–
Non-current assets due within one year		–	–
Other current assets	6	1,039,590.89	3,696,251.15
Total current assets		**183,133,550.94**	**157,538,954.48**

Prepared by: Northeast Electric Development Co., Ltd.

Unit: RMB

Item	**Note VI**	**31 December 2018**	**31 December 2017**
Non-current assets:			
Debt investments		–	–
Available-for-sale financial assets		–	31,760,858.70
Other debt investments		–	–
Held-to-maturity investments		–	–
Long-term receivables		–	–
Long-term equity investments	7	22,484,598.52	19,463,641.61
Other equity instrument investments	8	230,996,496.87	–
Other non-current financial assets		–	–
Investment properties		–	–
Fixed assets	9	50,136,802.72	36,335,533.78
Construction in progress	10	2,803,418.80	42,553,751.05
Biological assets held for production		–	–
Oil and gas assets		–	–
Intangible assets	11	15,029,136.13	16,664,015.40
Development expenditure		–	–
Goodwill	12	–	72,097.15
Long-term deferred charges	13	529,476.54	1,545,177.16
Deferred tax assets	14	–	–
Other non-current assets	15	–	302,881.71
Total non-current assets		**321,979,929.58**	**148,697,956.56**
Total asset		**505,113,480.52**	**306,236,911.04**

Prepared by: Northeast Electric Development Co., Ltd.

Unit: RMB

Item	Note VI	31 December 2018	31 December 2017
Current liabilities:			
Short-term borrowings	16	4,500,000.00	–
Financial liabilities held for trading		–	–
Financial liabilities measured by fair value with changes in fair value recognised in profit or loss		–	–
Derivative financial liabilities		–	–
Notes payable and accounts payable	17	12,221,771.06	21,541,715.83
Advances from customers	18	2,637,043.59	4,185,139.12
Contract liabilities		–	–
Employment benefits payable	19	1,554,344.98	3,022,542.03
Taxes and fees payable	20	2,253,284.13	341,620.35
Other payables	21	377,060,369.30	365,460,755.28
Including: Interests payable		5,712.50	–
Dividends payable		–	40,017.86
Held-for-sale liabilities		–	–
Non-current liabilities due within one year		–	–
Other current liabilities		–	–
Total current liabilities		**400,226,813.06**	**394,551,772.61**

Prepared by: Northeast Electric Development Co., Ltd.

Unit: RMB

Item	Note VI	31 December 2018	31 December 2017
Non-current liabilities:			
Long-term borrowings		–	–
Debt instruments payable		–	–
Including: Preferred shares		–	–
Sustainable debts		–	–
Long-term payables		–	–
Designated payables	22	–	30,965,484.89
Long-term employee benefits payable		–	–
Provisions	23	72,099,690.00	75,360,671.25
Deferred income	24	10,670,597.50	–
Deferred income tax liabilities		–	–
Other non-current liabilities		–	–
Total non-current liabilities		**82,770,287.50**	**106,326,156.14**
Total liabilities		**482,997,100.56**	**500,877,928.75**

Prepared by: Northeast Electric Development Co., Ltd.

Unit: RMB

Item	Note VI	31 December 2018	31 December 2017
Shareholders' equity			
Share capital	25	873,370,000.00	873,370,000.00
Other equity instruments		–	–
Including: Preferred shares		–	–
Sustainable debts		–	–
Capital reserves	26	1,074,828,788.67	883,422,403.92
Less: Treasury shares		–	–
Other comprehensive income	27	-29,012,497.21	-29,869,066.75
Designated reserves		–	–
Surplus reserves	28	108,587,124.40	108,587,124.40
Provision for General risks		–	–
Retained earnings	29	-2,019,154,197.71	-2,034,142,303.59
Total equity attributable to shareholders of the Parent		**8,619,218.15**	**-198,631,842.02**
Minority interests		13,497,161.81	3,990,824.31
Total shareholders' equity		**22,116,379.96**	**-194,641,017.71**
Total liabilities and shareholders' equity		**505,113,480.52**	**306,236,911.04**

Prepared by: Northeast Electric Development Co., Ltd.

Unit: RMB

Item	Note VI	2018	2017
I. Total operating income		**32,311,485.10**	**32,985,857.66**
Including: Revenue from operation	3	32,311,485.10	32,985,857.66
II. Total operating costs		**71,747,660.92**	**121,144,688.70**
Including: Cost for operation	30	26,795,496.70	25,969,499.69
Taxes and surcharges	31	1,441,374.71	1,335,946.97
Selling expenses	32	5,146,937.71	5,791,491.04
Administrative expenses	33	36,877,974.78	44,710,248.31
Research and development expenses	34	1,243,087.03	464,465.42
Financial costs	35	-299,852.96	1,061,942.38
Including: Interest expense		508,574.91	1,056,010.25
Interest income		896,055.67	84,802.07
Loss on asset impairment	36	64,818.41	41,811,094.89
Credit impairment loss	37	477,824.54	
Add: Other income	38	1,070,676.39	50,000.00
Investment income (loss presented with "-" prefix)	39	34,685,634.73	-9,396.59
Including: Investment income from associates and joint ventures			
Net open hedge income(loss presented with "-" prefix)			
Gain from changes in fair value (loss presented with "-" prefix)			
Gain on disposal of assets (loss presented by "-" prefix)	40	15,804,474.53	

Prepared by: Northeast Electric Development Co., Ltd.

Unit: RMB

Item	Note VI	2018	2017
III. Profit from operation (loss presented with "-" prefix)		**12,124,609.83**	**-88,118,227.63**
Add: Non-operating income	41	3,434,659.42	1,218,806.22
Less: Non-operating expenses	42	94,464.39	311,092,729.89
IV. Total profits (total loss presented with "-" prefix)		**15,464,804.86**	**-397,992,151.30**
Less: Income tax expenses	43	1,366,600.00	163,819.81
V. Net profit (net loss presented with "-" prefix)		14,098,204.86	-398,155,971.11
A. Classified by business continuity			
1. Profit or loss from continued operations (net loss presented with "-" prefix)		14,098,204.86	-398,155,971.11
2. Net profit from discontinued operations (net loss presented with "-" prefix)			
B. Classified by ownership			
1. Net profit attributable to minority interests (net loss presented with "-" prefix)		-497,871.57	-1,098,327.92
2. Net profit attributable to shareholders of the Parent (net loss presented with "-" prefix)		14,596,076.43	-397,057,643.19
VI. Net after-tax other comprehensive income		**817,989.99**	**-4,364,078.31**
Net after-tax other comprehensive income attributable to shareholders of the parent		856,569.54	-4,364,078.31
A. Other comprehensive income not reclassifiable to profit or loss		-2,206,187.28	
1. Remeasurement of changes in defined benefit plans			
2. Other comprehensive income measured by the equity method not reclassifiable to profit or loss			
3. Changes in fair value of other equity instruments investment		-2,206,187.28	
4. Changes in the fair value of the company's own credit risk			
5. Others			

Prepared by: Northeast Electric Development Co., Ltd.

Unit: RMB

Item	Note VI	2018	2017
B. Other comprehensive income reclassifiable to profit or loss		3,062,756.82	-4,364,078.31
1. Other comprehensive income of convertible profit and loss under the equity method			
2. Changes in fair value of other debt investments			
3. Gain or loss on changes in fair value of financial assets available for sale			
4. The amount of financial assets reclassified into other comprehensive income			
5. Gain or loss on reclassification of held-to-maturity investments to financial assets available for sale			
6. Other debt investment credit impairment provisions			
7. Cash flow hedge reserve (Effective elements of gain or loss of cash flow hedges)			
8. Exchange difference on translation of foreign financial statements		3,062,756.82	-4,364,078.31
9. Others			
Net after-tax other comprehensive income attributable to minority interests		-38,579.55	
VII. Total comprehensive income		**14,916,194.85**	**-402,520,049.42**
Total comprehensive income attributable to shareholders of the Parent		15,452,645.97	-401,421,721.50
Total comprehensive income attributable to minority interests		-536,451.12	-1,098,327.92
VIII. Earning per share:			
A. Basic earning per share (RMB per share)		0.02	-0.45
B. Diluted earning per share (RMB per share)		0.02	-0.45

Prepared by: Northeast Electric Development Co., Ltd.

Unit: RMB

Item	Note VI	2018	2017
I. Cash flows from operating activities			
Cash received for sales of goods and rendering of services	45(1)	43,560,205.08	67,838,754.27
Tax refund received		-	-
Other cash receipts relating to operating activities		59,397,734.09	78,005,070.48
Cash inflows from operating activities (subtotal)		**102,957,939.17**	**145,843,824.75**
Cash payments for purchase of goods and services		32,220,644.46	34,077,326.85
Cash paid to or on behalf of employees		21,305,858.85	25,376,336.83
Taxes and fees paid		1,989,145.48	2,496,257.11
Other cash payments relating to operating activities	45(2)	52,037,756.49	37,932,086.51
Cash outflows for operating activities (subtotal)		**107,553,405.28**	**99,882,007.30**
Net cash flows from operating activities		**-4,595,466.11**	**45,961,817.45**
II. Cash flows for operating activities			
Cash received from investment withdrawal		-	-
Cash investment income received		-	-
Net cash received from disposal of fixed assets, intangible assets or other long-term assets		595,510.00	-
Net cash received from disposal of subsidiaries or other invested entities		102,987,699.45	-
Other cash receipts relating to investing activities	45(3)	40,000,000.00	-
Cash inflows from investing activities (subtotal)		**143,583,209.45**	**-**
Cash paid for purchase or construction of fixed assets, intangibles assets or other long-term assets		2,331,511.75	17,344,848.24
Cash paid for investment		-	-
Net cash paid for acquisition of subsidiaries and other invested entities		-	-
Other cash payments relating to investing activities	45(4)	65,000,000.00	31,405,000.00
Cash outflows for investing activities (subtotal)		**67,331,511.75**	**48,749,848.24**
Net cash flows from investing activities		**76,251,697.70**	**-48,749,848.24**

Prepared by: Northeast Electric Development Co., Ltd.

Unit: RMB

Item	Note VI	2018	2017
III. Cash flows from financing activities:			
Cash received from investors		-	-
Including: Cash received from minority shareholders of subsidiaries		-	-
Cash received from loans raised		43,100,800.00	7,000,000.00
Cash received from debt instruments issued		-	-
Other cash receipts relating to financing activities	45(5)	154,339.00	20,355,984.89
Cash inflows from financing activities (subtotal)		**43,255,139.00**	**27,355,984.89**
Cash paid for debt repayment		38,115,126.90	36,000,000.00
Cash paid for dividends, profit distribution and interests		495,805.96	849,695.25
Including: Cash dividends and profit distribution paid to minority shareholders of subsidiaries		-	-
Other cash payments relating to financing activities	45(6)	-	1,772,500.00
Cash outflows for financing activities (subtotal)		**38,610,932.86**	**38,622,195.25**
Net cash flows from financing activities		**4,644,206.14**	**-11,266,210.36**
IV. Impact of change of foreign exchange rates on cash and cash equivalents		**15,438.73**	**-26,227.29**
V. Net increase of cash and cash equivalents		**76,315,876.46**	**-14,080,468.44**
Add: cash and cash equivalents opening balance		8,408,461.77	22,488,930.21
VI. Cash and cash equivalents closing balance		**84,724,338.23**	**8,408,461.77**

Consolidated Statement of Changes in Shareholders' Equity (31 December 2018)

For the year ended 31 December 2018 (Prepared in accordance with P.R.C. Accounting Rules and Regulations)

Prepared by: Northeast Electric Development Co., Ltd.

Unit: RMB

Item	2018									
	Equity attributable to shareholders of the Parent									
	Share capital	Capital reserves	Less: Treasury stock	Less: Treasury stock	Designated reserves	Surplus reserves	Provision for general risks	Retained earnings	Minority interests	Total shareholders' equity
I. Closing balance of the preceding 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 of accounting policies	-	-	-	-	-	-	-	392,029.45	-885.27	391,144.18
Correction of prior period errors	-	-	-	-	-	-	-	-	-	-
Business combination under common control	-	-	-	-	-	-	-	-	-	-
Others	-	-	-	-	-	-	-	-	-	-
II. Opening balance of the current year	**873,370,000.00**	**883,422,403.92**	**-**	**-29,869,066.75**	**-**	**108,587,124.40**	**-**	**-2,033,750,274.14**	**3,989,939.04**	**-194,249,873.53**
III. Changes for the period (decrease presented by "-" prefix)	**-**	**191,406,384.75**	**-**	**856,569.54**	**-**	**-**	**-**	**14,596,076.43**	**9,507,222.77**	**216,366,253.49**
I. Total comprehensive income	-	-	-	856,569.54	-	-	-	14,596,076.43	-536,451.12	14,916,194.85
II.Shareholders' contribution and capital decline	-	191,406,384.75	-	-	-	-	-	-	10,043,673.89	201,450,058.64
a. Contribution by shareholders of oridinary shares	-	-	-	-	-	-	-	-	-	-
b. Contribution by holders of other equity instruments	-	-	-	-	-	-	-	-	-	-
c. Share-based payments directly recognised in equity	-	-	-	-	-	-	-	-	-	-
d. Others	-	191,406,384.75	-	-	-	-	-	-	10,043,673.89	201,450,058.64

Prepared by: Northeast Electric Development Co., Ltd.

Unit: RMB

	2018									
	Equity attributable to shareholders of the Parent									
Item	Share capital	Capital reserves	Less: Treasury stock	Less: Treasury stock	Designated reserves	Surplus reserves	Provision for general risks	Retained earnings	Minority interests	Total shareholders' equity
III. Profit distribution	-	-	-	-	-	-	-	-	-	-
a. Recognition of surplus reserves	-	-	-	-	-	-	-	-	-	-
b. Recognition of provision for general risks	-	-	-	-	-	-	-	-	-	-
c. Distribution to shareholders	-	-	-	-	-	-	-	-	-	-
d. Others	-	-	-	-	-	-	-	-	-	-
4. Movements within equity	-	-	-	-	-	-	-	-	-	-
a. Capital reserves transferred to capital (or share capital)	-	-	-	-	-	-	-	-	-	-
b. Surplus reserves transferred to capital (or share capital)	-	-	-	-	-	-	-	-	-	-
c. Loss set-off by surplus reserves	-	-	-	-	-	-	-	-	-	-
d.Set the benefit plan change amount to carry forward retained earnings	-	-	-	-	-	-	-	-	-	-
e.Other comprehensive income carry-over retained earnings	-	-	-	-	-	-	-	-	-	-
f. Others	-	-	-	-	-	-	-	-	-	-

Prepared by: Northeast Electric Development Co., Ltd.

Unit: RMB

	2018									
	Equity attributable to shareholders of the Parent									
Item	Share capital	Capital reserves	Less: Treasury stock	Less: Treasury stock	Designated reserves	Surplus reserves	Provision for general risks	Retained earnings	Minority interests	Total shareholders' equity
5. Designated reserves	-	-	-	-	-	-	-	-	-	-
a. Recognition during the current period	-	-	-	-	-	-	-	-	-	-
b. Withdrawal during the current period	-	-	-	-	-	-	-	-	-	-
6. Others	-	-	-	-	-	-	-	-	-	-
IV. Closing balance of the current year	**873,370,000.00**	**1,074,828,788.67**	**-**	**-29,012,497.21**	**-**	**108,587,124.40**	**-**	**-2,019,154,197.71**	**13,497,161.81**	**22,116,379.96**

Prepared by: Northeast Electric Development Co., Ltd.

Unit: RMB

	2017									
	Equity attributable to shareholders of the Parent									
Item	Share capital	Capital reserves	Less: Treasury stock	Less: Treasury stock	Designated reserves	Surplus reserves	Provision for general risks	Retained earnings	Minority interests	Total shareholders' equity
I. Closing balance of the preceding 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 of accounting policies	-	-	-	-	-	-	-	-	-	-
Add: Changes of accounting policies	-	-	-	-	-	-	-	-	-	-
Business combination under common control	-	-	-	-	-	-	-	-	-	-
Others	-	-	-	-	-	-	-	-	-	-
II. Opening balance of the current 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 for the period (decrease presented by "-" prefix)	**-**	**-**	**-**	**-4,364,078.31**	**-**	**-**	**-**	**-397,057,643.19**	**-1,098,327.92**	**-402,520,049.42**
1. Total comprehensive income	-	-	-	-4,364,078.31	-	-	-	-397,057,643.19	-1,098,327.92	-402,520,049.42
2. Shareholders' contribution and capital decline	-	-	-	-	-	-	-	-	-	-
a. Contribution by shareholders of oridinary shares	-	-	-	-	-	-	-	-	-	-
b. Contribution by holders of other equity instruments	-	-	-	-	-	-	-	-	-	-
c. Share-based payments directly recognised in equity	-	-	-	-	-	-	-	-	-	-
d. Others	-	-	-	-	-	-	-	-	-	-

Prepared by: Northeast Electric Development Co., Ltd.

Unit: RMB

	2017									
	Equity attributable to shareholders of the Parent									
Item	Share capital	Capital reserves	Less: Treasury stock	Less: Treasury stock	Designated reserves	Surplus reserves	Provision for general risks	Retained earnings	Minority interests	Total shareholders' equity
3. Profit distribution	-	-	-	-	-	-	-	-	-	-
a. Recognition of surplus reserves	-	-	-	-	-	-	-	-	-	-
b. Recognition of provision for general risks	-	-	-	-	-	-	-	-	-	-
c. Distribution to shareholders	-	-	-	-	-	-	-	-	-	-
d. Others	-	-	-	-	-	-	-	-	-	-
4. Movements within equity	-	-	-	-	-	-	-	-	-	-
a. Capital reserves transferred to capital (or share capital)	-	-	-	-	-	-	-	-	-	-
b. Surplus reserves transferred to (or share capital)	-	-	-	-	-	-	-	-	-	-
c. Loss set-off by surplus reserves	-	-	-	-	-	-	-	-	-	-
d.Set the benefit plan change amount to carry forward retained earnings	-	-	-	-	-	-	-	-	-	-
e.Other comprehensive income to carry forward retained earnings	-	-	-	-	-	-	-	-	-	-
f. Others	-	-	-	-	-	-	-	-	-	-

Prepared by: Northeast Electric Development Co., Ltd.

Unit: RMB

	2017									
	Equity attributable to shareholders of the Parent									
Item	Share capital	Capital reserves	Less: Treasury stock	Less: Treasury stock	Designated reserves	Surplus reserves	Provision for general risks	Retained earnings	Minority interests	Total shareholders' equity
5. Designated reserves	-	-	-	-	-	-	-	-	-	-
a. Recognition during the current period	-	-	-	-	-	-	-	-	-	-
b. Withdrawal during the current period	-	-	-	-	-	-	-	-	-	-
6. Others	-	-	-	-	-	-	-	-	-	-
IV. Closing balance of the current 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**

Prepared by: Northeast Electric Development Co., Ltd.

Unit: RMB

Item	2018	2017
I. Income from operation	-	-
Less: Cost for operation	-	-
Taxes and surcharges	15.00	1,662.30
Selling expenses	-	-
Administrative expenses	12,531,574.35	15,375,551.17
Research and development expenses	-	-
Financial costs	-72,008.92	655,240.86
Including: Interest expense	-	-
Interest income	-	-
Loss on asset impairment	-	50,740,598.92
Credit impairment loss	574,087.73	-
Add: Other income	-	-
Investment income (loss presented with "-" prefix)	-	-
Including: Investment income from associates and joint ventures	-	-
Net exposure hedge income(loss presented with "-" prefix)	-	-
Gain from changes in fair value (loss presented with "-" prefix)	-	-
Gain on disposal of assets (loss presented by "-" prefix)	-	-
II. Profit from operation (loss presented with "-" prefix)	**-13,033,668.16**	**-66,773,053.25**
Add: Non-operating income	3,260,981.25	-
Less: Non-operating expenses	-	310,372,890.00
III. Total profit (loss presented with "-" prefix)	**-9,772,686.91**	**-377,145,943.25**
Less: Income tax expenses	-	-

Prepared by: Northeast Electric Development Co., Ltd.

Unit: RMB

Item	2018	2017
IV. Net profit (loss presented with "-" prefix)	**-9,772,686.91**	**-377,145,943.25**
1. Net profit from continued operations (net loss presented with "-" prefix)	-9,772,686.91	-377,145,943.25
2. Net profit from discontinued operations (net loss presented with "-" prefix)	-	-
V. After-tax other comprehensive income	**-**	**-**
A. Other comprehensive income not reclassifiable to profit or loss	-	-
1. Remeasurement of net assets or net liabilities of defined benefit plans	-	-
2. Share of other comprehensive income of investees measured by the equity method not reclassifiable to profit or loss	-	-
3. Changes in fair value of other equity instruments investment	-	-
4. Changes in the fair value of the company's own credit risk	-	-
5. Others	-	-
B. Other comprehensive income reclassifiable to profit or loss	-	-
1. Other comprehensive income of convertible profit and loss under the equity method	-	-
2. Changes in fair value of other debt investments	-	-
3. Gain or loss on changes in fair value of financial assets available for sale	-	-
4. The amount of financial assets reclassified into other comprehensive income	-	-
5. Gain or loss on reclassification of held-to-maturity investments to financial assets available for sale	-	-
6. Provisions for other debt investment credit impairment	-	-
7. Cash flow hedge reserve(Effective elements of gain or loss of cash flow hedges)	-	-
8. Exchange difference on translation of foreign financial statements	-	-
9. Others	-	-
VI. Total comprehensive income	**-9,772,686.91**	**-377,145,943.25**

Prepared by: Northeast Electric Development Co., Ltd

Unit: RMB

Item	2018	2017
Current assets:		
Monetary funds	131,150.21	20,119.58
Financial assets held for trading	-	-
Financial assets measured by fair value with changes in fair value recognised in profit or loss	-	-
Derivative financial assets	-	-
Notes receivable and accounts receivable	-	497,804.72
Including: Notes receivable	-	-
Accounts receivable	-	497,804.72
Advances to suppliers	1,668,168.36	1,668,168.36
Other receivables	265,704,605.00	270,790,205.23
Including: Interests receivable	-	-
Dividends receivable	-	-
Inventories	-	-
Contract assets	-	-
Held-for-sale assets	-	-
Non-current assets due within one year	-	-
Other current assets	718,327.52	363,531.99
Total current assets	**268,222,251.09**	**273,339,829.88**

Prepared by: Northeast Electric Development Co., Ltd

Unit: RMB

Item	2018	2017
Non-current assets:		
Debt investments	-	-
Available-for-sale financial assets	-	-
Other debt investments	-	-
Held-to-maturity investments	-	-
Long-term receivables	-	-
Long-term equity investments	56,436,473.03	56,436,473.03
Other equity investments	-	-
Other non-current financial assets	-	-
Investment properties	-	-
Fixed assets	32,630.16	46,373.60
Construction in progress	-	-
Biological assets held for production	-	-
Oil and gas assets	-	-
Intangible assets	-	-
Development expenditure	-	-
Goodwill	-	-
Long-term deferred charges	529,476.54	1,018,224.11
Deferred income tax assets	-	-
Other non-current assets	-	-
Total non-current assets	**56,998,579.73**	**57,501,070.74**
Total asset	**325,220,830.82**	**330,840,900.62**

Prepared by: Northeast Electric Development Co., Ltd.

Unit: RMB

Item	2018	2017
Current liabilities:		
Short-term borrowings	-	-
Financial liabilities held for trading	-	-
Financial liabilities measured by fair value with changes in fair value recognised in profit or loss	-	-
Derivative financial liabilities	-	-
Notes payable and accounts payable	-	-
Advances from customers	581,743.59	581,743.59
Contract liabilities	-	-
Employment benefits payable	472,797.28	908,719.52
Taxes and fees payable	243,342.01	27,037.06
Other payables	337,056,335.75	329,433,337.90
Including: Interests payable	-	-
Dividends payable	-	-
Held-for-sale liabilities	-	-
Non-current liabilities due within one year	-	-
Other current liabilities	-	-
Total current liabilities	**338,354,218.63**	**330,950,838.07**

Prepared by: Northeast Electric Development Co., Ltd.

Unit: RMB

Item	**2018**	**2017**
Non-current liabilities:		
Long-term borrowings	-	-
Debt instruments payable	-	-
Including: Preferred shares	-	-
Sustainable debts	-	-
Long-term payables	-	-
Long-term employee benefits payable	-	-
Provisions	72,099,690.00	75,360,671.25
Deferred income	-	-
Deferred tax liabilities	-	-
Other non-current liabilities	-	-
Total non-current liabilities	**72,099,690.00**	**75,360,671.25**
Total liabilities	**410,453,908.63**	**406,311,509.32**

Prepared by: Northeast Electric Development Co., Ltd.

Unit: RMB

Item	2018	2017
Shareholders' equity		
Share capital	873,370,000.00	873,370,000.00
Other equity instruments	-	-
Including: Preferred shares	-	-
Sustainable debts	-	-
Capital reserves	995,721,167.46	995,721,167.46
Less: Treasury shares	-	-
Other comprehensive income	-	-
Designated reserves	-	-
Surplus reserves	108,587,124.40	108,587,124.40
Provision for general risks	-	-
Retained earnings	-2,062,911,369.67	-2,053,148,900.56
Total shareholders' equity	**-85,233,077.81**	**-75,470,608.70**
Total liabilities and shareholders' equity	**325,220,830.82**	**330,840,900.62**

Prepared by: Northeast Electric Development Co., Ltd.

Unit: RMB

Item		2018	2017
I.	**Cash flows from operating activities:**		
	Cash received for sales of goods and rendering of services	-	-
	Tax refund received	-	-
	Other cash receipts relating to operating activities	146,086,925.93	148,908,008.13
	Cash inflows from operating activities (subtotal)	146,086,925.93	148,908,008.13
	Cash payments for purchase of goods and services	-	-
	Cash paid to or on behalf of employees	6,286,418.89	4,198,407.96
	Taxes and fees paid	1,677.30	7,350.90
	Other cash payments relating to operating activities	139,690,902.26	119,559,906.85
	Cash outflows for operating activities (subtotal)	145,978,998.45	123,765,665.71
	Net cash flows from operating activities	107,927.48	25,142,342.42
II.	**Cash flows from investing activities:**		
	Cash received from investment withdrawal	-	-
	Cash investment income received	-	-
	Net cash received from disposal of fixed assets, intangible assets or other non-current assets	-	-
	Other cash receipts relating to investing activities	-	-
	Cash inflows from investing activities (subtotal)	-	-
	Cash paid for purchase or construction of fixed assets, intangibles assets or other long-term assets	-	1,525,872.00
	Cash paid for investment	-	-
	Other cash payments relating to investing activities	-	1,405,000.00
	Cash outflows for investing activities (subtotal)	-	2,930,872.00
	Net cash flows from investing activities	-	-2,930,872.00

Prepared by: Northeast Electric Development Co., Ltd.

Unit: RMB

Item		2018	2017
III.	**Cash flows from financing activities:**		
	Cash received from investors	-	-
	Cash received from loans raised	-	-
	Cash received from debt instruments issued	-	-
	Other cash receipts relating to financing activities	-	-
	Cash inflows from financing activities (subtotal)	-	-
	Cash paid for debt repayment	-	20,000,000.00
	Cash paid for dividends, profit distribution and interests	-	468,611.11
	Other cash payments relating to financing activities	-	1,772,500.00
	Cash outflows for financing activities (subtotal)	-	22,241,111.11
	Net cash flows from financing activities	-	-22,241,111.11
IV.	**Impact of change of foreign exchange rates on cash and cash equivalents**	**3,103.15**	**-**
V.	**Net increase of cash and cash equivalents**	**111,030.63**	**-29,640.69**
	Add: cash and cash equivalents brought forward	20,119.58	49,760.27
VI.	**Cash and cash equivalents carried forward**	**131,150.21**	**20,119.58**

Statement of Changes in Shareholders' Equity (31 December 2018)

For the year ended 31 December 2018 (Prepared in accordance with P.R.C. Accounting Rules and Regulations)

Prepared by: Northeast Electric Development Co., Ltd.

Unit: RMB

	2018								
Item	**Share capital**	**Capital reserves**	**Less: Treasury stock**	**Other comprehensive income**	**Designated reserves**	**Surplus reserves**	**Provision for general risks**	**Retained earnings**	**Total shareholders' equity**
I. Closing balance of the preceding year	**873,370,000.00**	**995,721,167.46**	**-**	**-**	**-**	**108,587,124.40**	**-**	**-2,053,148,900.56**	**-75,470,608.70**
Add: Changes of accounting policies	-	-	-	-	-	-	-	10,217.80	10,217.80
Correction of prior period errors	-	-	-	-	-	-	-	-	-
Others	-	-	-	-	-	-	-	-	-
II. Opening balance of the current year	**873,370,000.00**	**995,721,167.46**	**-**	**-**	**-**	**108,587,124.40**	**-**	**-2,053,138,682.76**	**-75,460,390.90**
III. Changes for the period (decrease presented by "-" prefix)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-9,772,686.91**	**-9,772,686.91**
1. Total comprehensive income	-	-	-	-	-	-	-	-9,772,686.91	-9,772,686.91
2. Shareholders' contribution and capital decline	-	-	-	-	-	-	-	-	-
a. Contribution by shareholders of ordinary shares	-	-	-	-	-	-	-	-	-
b. Contribution by holders of other equity instruments	-	-	-	-	-	-	-	-	-
c. Share-based payments directly recognised in equity	-	-	-	-	-	-	-	-	-
d. Others	-	-	-	-	-	-	-	-	-
3. Profit distribution	-	-	-	-	-	-	-	-	-
a. Recognition of surplus reserves	-	-	-	-	-	-	-	-	-
b. Recognition of provision for general risks	-	-	-	-	-	-	-	-	-
c. Distribution to shareholders	-	-	-	-	-	-	-	-	-
d. Others	-	-	-	-	-	-	-	-	-

Prepared by: Northeast Electric Development Co., Ltd.

Unit: RMB

Item	2018								
	Share capital	Capital reserves	Less: Treasury stock	Other comprehensive income	Designated reserves	Surplus reserves	Provision for general risks	Retained earnings	Total shareholders' equity
4. Movements within equity	-	-	-	-	-	-	-	-	-
a. Capital reserves transferred to capital (or share capital)	-	-	-	-	-	-	-	-	-
b. Surplus reserves transferred to capital (or share capital)	-	-	-	-	-	-	-	-	-
c. Loss set-off by surplus reserves	-	-	-	-	-	-	-	-	-
d.Set changes in the benefit plan change to carry forward retained earnings	-	-	-	-	-	-	-	-	-
e.Other comprehensive income to carry forward retained earnings	-	-	-	-	-	-	-	-	-
f. Others	-	-	-	-	-	-	-	-	-
5. Designated reserves	-	-	-	-	-	-	-	-	-
a. Recognition during the current period	-	-	-	-	-	-	-	-	-
b. Withdrawal during the current period	-	-	-	-	-	-	-	-	-
6. Others	-	-	-	-	-	-	-	-	-
IV. Closing balance of the current year	**873,370,000.00**	**995,721,167.46**	**-**	**-**	**-**	**108,587,124.40**	**-**	**-2,062,911,369.67**	**-85,233,077.81**

Prepared by: Northeast Electric Development Co., Ltd.

Unit: RMB

Item	2017								
	Share capital	Capital reserves	Less: Treasury stock	Other comprehensive income	Designated reserves	Surplus reserves	Provision for general risks	Retained earnings	Total shareholders' equity
I. Closing balance of the preceding year	**873,370,000.00**	**995,721,167.46**	**-**	**-**	**-**	**108,587,124.40**	**-**	**-1,676,002,957.31**	**301,675,334.55**
Add: Changes of accounting policies	-	-	-	-	-	-	-	-	-
Correction of prior period errors	-	-	-	-	-	-	-	-	-
Others	-	-	-	-	-	-	-	-	-
II. Opening balance of the current year	**873,370,000.00**	**995,721,167.46**	**-**	**-**	**-**	**108,587,124.40**	**-**	**-1,676,002,957.31**	**301,675,334.55**
III. Changes for the period (decrease presented by "-" prefix)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-377,145,943.25**	**-377,145,943.25**
1. Total comprehensive income	-	-	-	-	-	-	-	-377,145,943.25	-377,145,943.25
2. Shareholders' contribution and capital decline	-	-	-	-	-	-	-	-	-
a. Contribution by shareholders of ordinary shares	-	-	-	-	-	-	-	-	-
b. Contribution by holders of other equity instruments	-	-	-	-	-	-	-	-	-
c. Share-based payments directly recognised in equity	-	-	-	-	-	-	-	-	-
d. Others	-	-	-	-	-	-	-	-	-
3. Profit distribution	-	-	-	-	-	-	-	-	-
a. Recognition of surplus reserves	-	-	-	-	-	-	-	-	-
b. Recognition of provision for general risks	-	-	-	-	-	-	-	-	-
c. Distribution to shareholders	-	-	-	-	-	-	-	-	-
d. Others	-	-	-	-	-	-	-	-	-

Prepared by: Northeast Electric Development Co., Ltd.

Unit: RMB

	2017								
Item	Share capital	Capital reserves	Less: Treasury stock	Other comprehensive income	Designated reserves	Surplus reserves	Provision for general risks	Retained earnings	Total shareholders' equity
4. Movements within equity	-	-	-	-	-	-	-	-	-
a. Capital reserves transferred to capital (or share capital)	-	-	-	-	-	-	-	-	-
b. Surplus reserves transferred to capital (or share capital)	-	-	-	-	-	-	-	-	-
c. Loss set-off by surplus reserves	-	-	-	-	-	-	-	-	-
d.Set changes in the benefit plan to carry forward retained earnings	-	-	-	-	-	-	-	-	-
e.Other comprehensive income to carry forward retained earnings	-	-	-	-	-	-	-	-	-
f. Others	-	-	-	-	-	-	-	-	-
5. Designated reserves	-	-	-	-	-	-	-	-	-
a. Recognition during the current period	-	-	-	-	-	-	-	-	-
b. Withdrawal during the current period	-	-	-	-	-	-	-	-	-
6. Others	-	-	-	-	-	-	-	-	-
IV. Closing balance of the current year	**873,370,000.00**	**995,721,167.46**	**-**	**-**	**-**	**108,587,124.40**	**-**	**-2,053,148,900.56**	**-75,470,608.70**

Notes to the Financial Statements
For the year ended 31 December 2018
(All amounts expressed in RMB unless otherwise specified)

I. Company Profile

1.1 History of the Company

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

Unified Social Credit Code of the Company is: 91210000243437397T; Registered capital: RMB873,370,000.00, Legal representative: Li Tie; Business address: 22nd Floor, New HNA Building, No. 7 Guoxing Avenue, Meilan District, Haikou City, Hainan Province.

1.2 Principal Industry

Electrical machinery and equipment manufacturing industry.

1.3 Business scope

The Company engages in production and sales of power transmission equipment and related accessories, provision of power transmission technology developing, consulting, transferring and testing services; wholesale of metal materials, rubber and rubber materials and products, insulating materials, ceramic materials and products, chemical raw materials and products (except for dangerous goods), electronic components, instrumentation, mechanical and electrical equipment and spare parts (the above commodities do not involve in state trading, import and export quota licenses, export quota bidding, import and export licenses and other special management commodities).

1.4 Main products

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

I. Company Profile *(Continued)*

1.5 First controlling shareholder of the Company

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

1.6 The financial statements are approved at the 2nd meeting of the 9th board of directors on 28 March 2019.

1.7 The results of 6 subsidiaries of the Company have been consolidated in the Financial Statements for Year 2018. Please see Note 8 "Disclosures of equity in other entities". The Company's consolidation scope this year is reduced by 2 subsidiaries compared with the previous year. Please see Note 7 "Change of Consolidation".

II. Basics of preparation of financial statements

2.1 Basis of preparation of financial statements

The financial statements of the Company have been prepared based on the actual transactions and events on a going concern basis in accordance with the requirements of "Accounting Standards for Business Enterprises – Basic Standards" – issued by Decree No.33 of the Ministry of Finance, amended by Decree No.76 of the Ministry of Finance – and 42 Specific Accounting Standards issued by the Ministry of Finance on 15 February 2006, and application guidelines, explanations and other relevant regulations which announced subsequently (together the "Accounting Standards for Business Enterprises"), and the disclosure requirements in accordance with the "Disclosure Requirement on Listed Issuers No.15- General Requirements on Financial Statements (2014 revision) " issued by China Securities Regulatory Commission.

In addition, the Company implemented relevant provisions of "Notice of the Ministry of Finance on Revising the General Format of Corporate Financial Statements for 2018" (Cai Kuai [2018] No. 15) on 1 January 2018, and prepared the financial statements in accordance with the Accounting Standards for Business Enterprises and Annex 2 "General format of corporate financial statements" (applicable for companies that have implemented new financial standards or new revenue standards) to this Notice.

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

II. Basics of preparation of financial statements *(Continued)*

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

The Company's net loss after deducting non-recurring gains and losses in 2018 was RMB 39,445,995.65. As at 31 December 2018, the total current liabilities exceeded the total current assets of RMB 217,093,262.12. In the meantime, the aggregate compensation for resolved litigation has amounted to RMB272 million. These are major items or uncertainties that might probably cause concerns in regards with the continuous operation ability of the Company, even cause the Company unable to liquidate its assets and repay debts. This report is prepared on the assumption that the Parent Company – Beijing Haihongyuan Investments Management Co., Ltd agreed to provide all necessary financial support to the Company in the foreseeable future.

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

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

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

2. The company will continue to fasten the approval of securities regulatory authorities for new non-public offering of H share, further optimize principle business through equity financing, actively seek opportunities for expanding new business segments, and enhance the Company's core competitiveness and sustainable development capabilities.

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

4. With its wholly-owned subsidiary Hainan Tangyuan as a platform, the Company will research and explore new business sectors, and utilize the existing resources and talent advantages of its substantial shareholders in modern service industries to launch new business and develop new industries, thereby expanding the business scope of the Company, improving its asset portfolio, and bringing fresh energy into its sustained operation.

II. Basics of preparation of financial statements *(Continued)*

5. In line with the operation strategies, divest low-efficiency capital and equity investments and other non-operational assets with less frequent transactions, increase the cash flow, and improve the shareholding structure of the Company.

6. Enhance overall budget management and cost control, exert strict control over various expenditures and expenses, lower the operation costs, and maximize the profitability of principal business.

7. In strict accordance with the requirements of the listed company's standard operation, the Company continuously improves working standards and perfects the internal control system, establishes and improves the operation organization of the enterprise, continuously improves various internal control systems, strengthens risk control measures, and reduces the Company's operational risks. The Company's internal control system is more operable, to prevent damage to the interests of listed companies and shareholders, and to ensure the realization of the Company's business objectives.

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

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

The financial statements of the Company for the year ended 31 December 2018 are in compliance with the Accounting Standards for Business Enterprises, and truly and completely present the financial position of the Company as at 31 December 2018 and of its operating results, cash flows and other information for the year then ended. In addition, all material aspects of the financial statements of the Company are complied with the requirements of "Disclosure Requirement on Listed Issuers No.15- General Requirements on Financial Statements (2014 revision)" issued by China Securities Regulatory Commission in relation to the disclosure requirements on financial statements and its accompanying notes.

IV. Significant accounting policies and accounting estimates

The Company and its subsidiaries have set up specific Accounting Policies and Accounting Estimates on accounting items such as Accounts Receivables, Inventories, Fixed Assets, Income according to actual characteristics of manufacturing and operations. Notes to this fact please refer to Note 4.28"Significant accounting policies and accounting estimates".

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

4.1 Accounting period

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

4.2 Operating Cycle

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

4.3 Recording currency

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

4.4 Accounting treatment for business Combinations

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

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

4.4 Accounting treatment for business Combinations *(Continued)*

4.4.1 Business combination under common control

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

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

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

4.4.2 Business combination not under common control

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

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

4.4 Accounting treatment for business Combinations *(Continued)*

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

For business combination not under common control, the cost of business combination is the fair value of consideration paid including cash and non-cash assets, liabilities undertaken, debts and equity securities issued for the controlling interest of the acquiree at the acquisition date. Costs that are directly attributable to the business combination such as audit fee, legal services fee, consultancy fee and other relevant expenses incurred by the company as acquirer are expensed in the profit or loss in the period incurred. Transaction fees of equity securities or debt securities issued for a business combination are included in the initially recognised amount of equity securities or debt securities. For conditions that existed at the date of the acquisition and within 12 months of the acquisition date, when there are updated or new evidence which affect the fair value of the contingent assets and liabilities acquired or undertaken as consideration of the business combination, the goodwill arising from the business combination shall be amended accordingly. The cost of combination and identifiable net assets obtained by the acquirer in a business combination are measured at fair value at the acquisition date. Where the cost of the combination exceeds the acquirer's interest in the fair value of the acquiree's identifiable net assets, the difference is recognised as goodwill; where the cost of combination is lower than the acquirer's interest in the fair value of the acquiree's identifiable net assets, the difference is recognised in profit or loss for the current year after a review of computation.

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

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

4.4 Accounting treatment for business Combinations *(Continued)*

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

For a business combination not involving enterprises under common control and achieved in stages, the company would determine whether the business combination shall be regarded as "a bundle of transactions" in accordance with "Interpretation 5 on Accounting Standards for Business Enterprises" (Cai Kuai [2012] No.19) and "Decree 33, Accounting Standards for Business Enterprises – Consolidated Reports" (Refer to Note 4.5(2)). When the business combination is regarded as "a bundle of transactions", the accounting treatment for the business combination shall be in accordance with the previous paragraphs and Note 4(12) "Long term equity investment"; when the business combination is not regarded as "a bundle of transactions", the accounting treatment for the business combination in company and consolidated financial statements shall be as follows:

In the company's financial statements, the initial cost of the investment shall be the sum of the carrying amount of its previously-held equity interest in the acquiree prior to the acquisition date and the amount of additional investment made to the acquiree at the acquisition date. The other comprehensive income involved in the previously-held equity interest in the acquiree prior to the acquisition date are accounted on the same basis as the investee when disposing of their relative assets or liabilities (i.e. Except for the portion varied due to change of net liabilities or net assets under remeasurement of defined benefit plans, the rest are taken into the current Return on investment).

In the consolidated financial statements, the fair value of the previously-held equity interest in the acquiree is remeasured at the acquisition date, The difference between the fair value and the carrying amount is recognized as investment income for the current period; the amount recognized in other comprehensive income relating to the previously-held equity interest in the acquiree are accounted on the same basis as the investee when disposing of their relative assets or liabilities (i.e. Except for the portion varied due to change of net liabilities or net assets under re-measurement of defined benefit plans, the rest are taken into the current return on investment).

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

4.5 Preparation method of consolidated financial statements

4.5.1 Scope of consolidation

The consolidated scope of consolidated financial statements is determined based on the concept of control. Control is the power the Company has over the investee (s), that the Company enjoys variable return on investment by taking part in the investee's operating activities, and is able to affect the amount of return by using such power. The scope of consolidation includes the company and all of its subsidiaries. Subsidiaries are the entities controlled by the company.

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

4.5.2 Preparation method of consolidated financial statements

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

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

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

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

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

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

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

When control to a subsidiary ceased due to disposal of a portion of an interest in a subsidiary, the fair value of the remaining equity interest is remeasured at the date control ceased. The difference between the sum of the consideration received from disposal of equity interest and the fair value of the remaining equity interest, less the net assets attributable to the company since acquisition date, is recognized as the investment income from the loss of control. Other comprehensive income in relation to the subsidiary are accounted on the same basis as the investee when control cease (i.e. Except for changes due to net liabilities or net assets from such investee's re-measured defined benefits plan, the rest are reclassified as investment income during the period). Subsequent measurement of the remaining interests shall be in accordance with relevant accounting standards such as "Accounting Standards for Business Enterprises 2 – Long-term Equity Investments" or "Accounting Standards for Business Enterprises 22 – Financial Instruments Recognition and Measurement", which are detailed in Note 4.12 "Long-term equity investments" or Note 4.9 "Financial instruments".

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

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

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

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

① the transactions are entered into after considered the mutual consequences of each individual transaction;

② the transactions needed to be considered as a whole in order to achieve a deal with commercial sense;

③ the occurrence of an individual transaction depends on the occurrence of one or more individual transactions in the series;

④ the result of an individual transaction is not economical, but it would be economical after taken into account of other transactions in the series.

When the transactions are not regarded as a bundle of transactions, the individual transactions shall be accounted as "disposal of a portion of an interest in a subsidiary which does not lead to loss of control" (Detailed in Note 4.12(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 in each individual transactions before loss of control shall be recognized as other comprehensive income, and reclassified as profit or loss arising from the loss of control when control is lost.

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

4.6 Joint venture arrangement classification and relative accounting methods

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

Equity method is adopted to account for investment in the joint ventures by the Company, details see Note 4.12(2) ii.

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 recognized, as well as income from sales of products pro rata the Company's share in the joint operation. Moreover, expenses by the Company as well as shared expenses pro rata the Company's share are recognized.

When the Company, as a party in the joint operation, transfers or sells assets to, or purchase assets from the joint operation, only the relative profit or loss arising from such transaction attributable to other participating parties will be recognized by the Company before the relative asset is sold to a third party. If any loss occur due to such transaction and meet the criteria of "Accounting Standard for Business Enterprise No.8 – Impairment of assets", the Company will recognize loss in full amount if it is the Company that transfers or sells assets to joint operation, and will recognize 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)

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

4.7 Definitions of cash and cash equivalents

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

4.8 Foreign currency translation

4.8.1 Foreign currency transactions

Foreign currency transactions are, on initial recognition, translated to the recording currency using the spot exchange rate at the dates of the transactions (refer to the midpoint rate published by the People's Bank of China on the same day, hereafter the same), except when the Company carried on a business of currency exchange or involve in currency exchange transactions, at which the actual exchange rates would be used.

4.8.2 Foreign currency translations for foreign-currency monetary items and foreign-currency non-monetary items

At the balance sheet date, monetary items denominated in foreign currency are translated into the recording currency using the spot rate of the balance sheet date. Exchange differences arising from these translations are recognised in profit or loss for the current year, except for (i) those attributable to foreign currency borrowings that have been taken out specifically for the acquisition, construction or production of qualifying assets, which are capitalised as part of the cost of those assets; and (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 year.

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

4.8 Foreign currency translation *(Continued)*

4.8.3 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 from translation of foreign operations", when the foreign operation is disposed, the exchange difference will be transferred to profit or loss during the period of disposal.

The asset and liability items in the balance sheets for overseas operations are translated at the spot exchange rates on the balance sheet date. Among the shareholders' equity items, the items other than "undistributed profits" are translated at the spot exchange rates of the transaction dates. The income and expense items in the income statements of overseas operations are translated at the spot exchange rates of the transaction dates. Opening balance of undistributed profits is equal to the closing balance of undistributed profits after translation in last year; closing balance of undistributed profit is computed according to the items in profit distribution after translation. The exchange difference arising from translation of assets, liabilities and equity items are recognised as other comprehensive income. Such exchange difference listed under Shareholders' Equity in Balance Sheet will be reclassified to profit or loss in the current year when the foreign operation is disposed according to the proportion of disposal.

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

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

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

4.8 Foreign currency translation *(Continued)*

4.8.3 Translation of foreign currency financial statements *(Continued)*

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

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

4.9 Financial Instruments

A financial asset or financial liability is recognised when the Company becomes a party in the relative financial instrument contract.

4.9.1 Classification, recognition and measurement of financial assets

The Company classifies financial assets into three categories based on the business model under which the financial asset is managed and its contractual cash flow characteristics: financial assets measured at amortised cost; financial assets measured at fair value through other comprehensive income; financial assets measured at fair value through profit or loss.

The financial asset is measured by fair value when it's initially recognized. Transaction expenses of such financial asset are accounted directly into Profit & Loss, when expenses of other types of financial instrument are classified in its initial recognised amount. For the accounts receivable or bills receivable arising from the sale of products or the provision of services that do not contain or consider the significant financing components, the Company shall use the consideration amount that is expected to be received as the initial recognised amount.

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

4.9 Financial Instruments *(Continued)*

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

① Financial assets measured at amortised cost

The Company's business model for managing financial assets measured at amortised cost is to collect contractual cash flows, and the contractual cash flow characteristics of such financial assets are consistent with the basic lending arrangements, i.e. the cash flows generated on a specific date, are solely payments of principal and interest on the principal amounts outstanding The Company's financial assets are subsequently measured at amortised cost using the effective interest method. The gains or losses arising from amortisation or impairment are recognised in profit or loss.

② Financial assets measured at fair value through other comprehensive income

The Company's business model for managing such financial assets is to target both the collection of contractual cash flows and the sale, and the contractual cash flow characteristics of such financial assets are consistent with the basic lending arrangements. Such financial assets are measured at fair value through other comprehensive income by the Company. The impairment losses or gains, exchange differences and interest income calculated using the effective interest method are recognised in profit or loss.

In addition, the Company has designated certain non-trading equity instrument investments as financial assets measured at fair value through other comprehensive income. The Company includes the related dividend income of such financial assets in the current profit and loss, and changes in fair value in other comprehensive income. When the financial assets are derecognised, the accumulated gains or losses previously recognised in other comprehensive income are transferred from other comprehensive income to retained earnings, which are not recognised in the current profit or loss.

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

4.9 Financial Instruments *(Continued)*

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

③ Financial assets measured at fair value through current profit or loss

The financial assets which are neither measured at amortised cost nor measured at fair value through other comprehensive income are classified as financial assets measured at fair value through current profit or loss. In addition, at the time of initial recognition, the Company designated certain financial assets as financial assets measured at fair value through profit or loss in order to eliminate or significantly reduce accounting mismatch. For such financial assets, the Company adopts fair value for subsequent measurement, and changes in fair value are included in current profit and loss.

4.9.2 Classification, recognition and measurement of financial liabilities

Financial liabilities at initial recognition are classified into financial liabilities at fair value through profit or loss and other financial liabilities. For financial liabilities at fair value through profit or loss, 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.

① Financial liabilities at fair value through profit or loss

Financial liabilities measured at fair value through profit or loss include the transactional financial liabilities (including derivatives that are financial liabilities) and financial liabilities designated at fair value through profit or loss at inception.

Transactional financial liabilities (including derivatives that are financial liabilities) are subsequently measured at fair value. Except for relating to hedge accounting, changes in fair value are recognised in current profit or loss.

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

4.9 Financial Instruments *(Continued)*

4.9.2 Classification, recognition and measurement of financial liabilities *(Continued)*

① Financial liabilities at fair value through profit or loss (Continued)

For financial liabilities measured at fair value through profit or loss, the changes in fair value of the liabilities arising from changes in the Company's own credit risk are included in other comprehensive income, and when the liabilities are derecognised, the accumulated changes in fair value caused by changes in its own credit risk are transferred to retained earnings. The remaining changes in fair value are included in the current profit and loss. If the effects of changes in the credit risk of these financial liabilities are treated as described above, which may cause or expand the accounting mismatch in the profit or loss, the Company will include the entire gain or loss of financial liabilities (including the amount affected by changes in the Company's credit risk) in the current profit and loss.

② Other financial liabilities

Financial liabilities other than financial liabilities and financial guarantee contracts formed by the transfer of financial assets that do not meet the conditions for termination of recognition or continue to be involved in the transferred financial assets are classified as financial liabilities measured at amortised cost, which are subsequently measured at amortised cost, and the gains or losses resulting from termination of recognition or amortization are included in current profit and loss.

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

4.9 Financial Instruments *(Continued)*

4.9.3 Recognition and measurement on transfer of financial assets

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

① The contractual right for receiving cash flows from the financial asset is terminated;

② The financial asset is transferred, and the risk and rewards of ownership of the financial asset have been substantially transferred to the transferee;

③ The financial asset is transferred; the Company neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset, but ceases the control over the financial asset.

If the Company neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset, and the control over the financial asset is not ceased, the financial asset and the related financial liabilities should be recognised base 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 is met and the financial asset is wholly transferred, the difference between the carrying amount and the sum of the consideration received and the cumulative changes in fair value that had been recognised directly in equity, is recognised in profit or loss.

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

4.9 Financial Instruments *(Continued)*

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

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

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

4.9.4 Derecognition of financial liabilities

If the current obligation of a financial liability (or part of it) has been discharged, the Company derecognises the financial liability (or part of the financial liability). The Company (borrower) enters into an agreement with the lender to replace the original financial liability in the form of new financial liabilities, and if the new financial liabilities are substantially different from the original financial liabilities, the original financial liabilities are derecognised and the new financial liabilities are recognised. If the Company makes substantial changes to the contractual terms of the original financial liabilities (or a part thereof), the original financial liabilities are derecognised and the new financial liabilities are recognised in accordance with the revised terms.

If the financial liability (or a part thereof) is derecognised, the difference between the carrying amount and the consideration paid (including the transferred non-cash assets or liabilities assumed) is recognised in current profit or loss.

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

4.9 Financial Instruments *(Continued)*

4.9.5 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.

4.9.6 Determination of fair value of financial assets and financial liabilities

Fair value is the amount at which an asset could be sold or a liability could be transferred between willing parties in an orderly transaction on a measurement date. The fair value of a financial instrument that is traded in an active market is determined at the quoted price in the active market. Quoted price in the active market represent quoted price which can be easily obtained periodically from exchange market, brokers, industry associations or pricing services agency etc, which are the transactions amount in arm's length transactions. The fair value of a financial instrument that is not traded in an active market is determined by using a valuation technique. Valuation techniques include using prices of recent market transactions between knowledgeable and willing parties, reference to the current fair value of another financial asset that is substantially the same with this instrument, discounted cash flow analysis and option pricing models, etc. At the time of valuation, the Company adopts valuation techniques that are applicable in the current circumstances and are sufficiently supported by data and other information to select inputs that are consistent with the characteristics of the assets or liabilities that market participants would take into account in a transaction for the asset or liability, and maximise the use of relevant observable inputs. Use unobservable inputs if the relevant observable inputs are not available or are not practicable.

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

4.9 Financial Instruments *(Continued)*

4.9.7 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. Transaction expenses relating to such transaction is deducted from share equity. Relative change to fair value of the equity instrument is not recognised.

The Company's equity instruments distribute dividends (including "interests" generated by instruments classified as equity instruments) during the duration as profit distribution.

4.10 Impairment of financial assets

The Company's financial assets subject to recognition of impairment loss include financial assets at amortised cost, debt instruments at fair value through other comprehensive income and lease receivables, which mainly include bills receivable, accounts receivable, other receivables, debt investments, other debt investments, contract assets, and long-term receivables. In addition, for contract assets and financial guarantee contract, the Company shall make provisions for impairment and recognise the credit impairment loss in accordance with the accounting policies described in this section.

4.10.1 Recognition approach of impairment provisions

On the basis of expected credit losses, the Company makes provisions for impairment and recognises the credit impairment loss for above items.

Credit loss refers to the difference between all contractual cash flows receivable from contracts and all cash flows expected to be received by the Company at the original effective interest rate, that is, the present value of all cash shortages. Among them, credit-impaired financial assets that purchased or originated by the Company shall be discounted at the financial assets' effective interest rate after credit adjustment.

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

4.10 Impairment of financial assets *(Continued)*

4.10.1 Recognition approach of impairment provisions *(Continued)*

At each balance sheet date, the Company assesses whether the credit risk on a financial asset has increased significantly since the initial recognition. If the credit risk has increased significantly since the initial recognition, the Company measures the loss allowance at an amount equal to lifetime ECLs; if the credit risk has not increased significantly since the initial recognition, the Company measures the loss allowance at an amount equal to 12-month ECLs. When assessing expected credit losses The Company considers all reasonable and evidenced information, including forward-looking information.

4.10.2 Criteria for determining significant increase in credit risk since initial recognition

The credit risk of a financial asset will significantly increase since initial recognition when the probability of default of a financial asset within the expected lifetime determined at the balance sheet date is remarkably higher than that within the expected lifetime determined at the initial recognition date. Unless in special circumstances, the Company adopts the changes in default risks within the next 12 months as the reasonable estimate of the changes in default risks in the lifetime to determine whether the credit risk has increased significantly since initial recognition.

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

4.10 Impairment of financial assets *(Continued)*

4.10.3 Simplified approach options

For receivables and contract assets that do not contain a significant financing component, the loss allowance is measured at an amount equal to lifetime ECLs by the Company.

For receivables, contract assets and lease receivables that contain a significant financing component, the loss allowance is measured at an amount equal to lifetime ECLs by the Company.

For financial instruments with low credit risk at the balance sheet date, the Company assumes that its credit risk has not increased significantly since initial recognition and measures the loss allowance at an amount equal to 12-month ECLs.

4.10.4 Methods for assessing expected credit risks on collective basis

The Company adopts individual assessment on financial assets with substantially different credit risks, such as amounts due from related parties; receivables that are in dispute with counterparties or that involve litigation and arbitration; receivables that has obvious indications showing the debtor may be unable to perform the obligation of repayment.

Other than the financial assets for which the credit risk is assessed separately, the Company classifies the financial assets into different categories based on common risk characteristics and performs collective assessment on each category. The basis on which the categories are determined is set forth as follows:

Item	Basis of determination
Category 1	The characteristics of credit risk for this category is the ageing of receivables.
Category 2	This category includes receivables such as various types of deposits, advances, and quality deposits in daily operations.

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

4.11 Inventories

4.11.1 Classifications of inventories

Inventories mainly include raw materials, work in progress, finished goods and goods in transit, etc.

4.11.2 Costing of inventories

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

4.11.3 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.

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

4.11 Inventories *(Continued)*

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

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

4.11.4 The Company adopts the perpetual inventory system.

4.12 Long-term equity investments

Long-term equity investments in this section refers to those with which the Company exercise single or joint control over the invested entity, or has significant influence on its operation. Long-term equity investments fall out of this category are classified either as available-for-sale financial asset or as financial asset measured by its fair value and is accounted into current profit or loss by its changed value. For detailed accounting policy see Note IV.9 “Financial Instruments”.

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

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

4.12 Long-term equity investments *(Continued)*

4.12.1 Recognition of cost of investment

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

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

4.12 Long-term equity investments *(Continued)*

4.12.1 Recognition of cost of investment (Continued)

For a long-term equity investment obtained through a business combination involving entities not under common control, the cost of business combination includes the sum of assets paid by the acquirer, liabilities paid or undertaken and the fair value of equity securities issued. For a business combination realized by two or more transactions of exchange and ultimately not under the same control, different accounting methods are adopted by the criteria of whether those transactions are classified as "a bundle of transactions" or not. If yes, all exchange transactions are deemed as one transaction getting control of the invested entity and are dealt with the relative accounting method. If no, the Company 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, the relative other comprehensive income is not accounted for the period.

Transaction costs such as audit fee, legal service fee, consultancy fee and other relevant overheads incurred by the acquirer for the purpose of business combination are recognized in current profit or loss as incurred.

For long-term equity investments acquired other than through a business combination, the investment shall be initially recognized at cost, the cost of investment varies between different ways of acquisition, which is recognized based on the actual amount of cash consideration paid by the Company, fair value of equity instruments issued by the Company, value of investment contracts or agreement made, fair value or original carrying amount of non-monetary assets transferred or the fair value of the long-term equity investments, etc. The costs directly attributable to the acquisition of long-term equity investments, taxes or other necessary expenses are also included in the cost of investment. For long-term equity investment with significant influences, or enjoys joint control over the invested entity without constituting control by adding investment, its cost of investment is the sum of fair value of equity investment plus newly added cost of investment, according to the regulations in "Accounting Standard for Business Enterprises No. 22 –Recognition and measurement of financial instruments".

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

4.12 Long-term equity investments *(Continued)*

4.12.2 Methods for subsequent measurement and profit and loss recognition

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

4.12.2.1 Long-term equity investment accounted for using cost method

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

4.12.2.2 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 current profit or loss and the cost of the long-term equity investment is adjusted accordingly.

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

4.12 Long-term equity investments *(Continued)*

4.12.2 Methods for subsequent measurement and profit and loss recognition (Continued)

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

For long-term equity investment accounted for using equity method, return on investment and other comprehensive income are recognized separately according to the share in the invested entity's net profit/or loss and its other comprehensive income, with the book value adjusted for the long-term equity investment by the Company. Book value of the long-term equity investment will be deducted according to the announced profit to be distributed by the invested entity or the share of cash dividend. Changes to shareholders' equity other than net profit/or loss, other comprehensive and profit distribution cause book value of long-term equity investment to be adjusted, and taken into capital reserve. Net profit of the invested entity is recognized after adjustment on the basis of fair value of all recognizable assets of the invested entity on acquisition. Accounting policies and accounting period of the invested entity will be adjusted according to the Company's relative regulations if that entity adopted different policies. Meanwhile return on investment and other comprehensive income are adjusted accordingly. For transactions between the Company and its associates and joint ventures not constituting business transactions by transferring or selling assets, relative unrealized profit/or loss on internal transactions attributable to the Company pro rata will be offset, and return on investment will be recognized on such basis. However if such realized loss on internal transactions are classified as loss on decline in value of asset, then the relative loss are not to be offset. Furthermore, if such assets transfer are classified as business transactions, fair value of the asset transferred are recognized as initial cost of investment, and the difference between initial cost of investment and book value of asset transferred are taken in full amount into current profit or loss, if the investing party obtain long-term equity investment but not control over the invested entity. The difference between consideration of assets sold to associate or joint venture and book value of the asset are taken in full amount into current profit or 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 current profit or loss relating to the transaction are recognized, according to the regulations in "Accounting Standard for Business Enterprise No. 20 –Business Combination".

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

4.12 Long-term equity investments *(Continued)*

4.12.2 Methods for subsequent measurement and profit and loss recognition (Continued)

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

The Company discontinues recognizing its share of net losses of the investee after the carrying amount of the long-term equity investment and any long-term interest that in substance forms part of the company's net investment in the investee is reduced to zero, except to the extent that the company has an obligation to assume additional losses. Where net profits are subsequently made by the investee, the Company resumes recognizing its share of those profits only after its share of the profits equals the share of losses not recognized.

4.12.2.3 Acquisition of minority interest

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

4.12.2.4 Disposal of long-term equity investment

When preparing consolidated financial statements, when the parent company disposes part of its subsidiary without loss of control, the difference between the consideration received and the share of net asset for the disposed portion of long-term equity investment shall be recognized in shareholders' equity; when the parent company disposes part of its subsidiary with loss of control, the accounting treatment should be in accordance with the accounting policies stated at Note IV 5 (2) "Preparation of consolidated financial statements".

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

4.12 Long-term equity investments *(Continued)*

4.12.2 Methods for subsequent measurement and profit and loss recognition (Continued)

4.12.2.4 Disposal of long-term equity investment (Continued)

For disposal of long-term equity investment in other situations, the difference between the considerations received and the carrying amount of the disposed investment shall be recognized in current profit or loss.

For long-term equity investment accounted for using equity method, the other comprehensive income originally accounted into shareholders' equity will be accounted on the same basis as the invested entity while disposing relative asset or liability according to its proportion. Shareholders' equity recognized by the invested entity due to change to such item other than net profit/or loss, other comprehensive income or profit distribution, will be accounted into current profit or loss.

For the remaining equity accounted with cost method after partial disposal, the same basis as the invested entity while disposing relative asset or liability will be used for the other comprehensive income recognized using equity method before the investment, or recognized by the regulations of financial instrument recognition and measurement, and such income will be transferred to current profit or 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 current profit or loss.

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

4.12 Long-term equity investments *(Continued)*

4.12.2 Methods for subsequent measurement and profit and loss recognition (Continued)

4.12.2.4 Disposal of long-term equity investment (Continued)

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

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

4.12 Long-term equity investments *(Continued)*

4.12.2 Methods for subsequent measurement and profit and loss recognition *(Continued)*

4.12.2.4 Disposal of long-term equity investment (Continued)

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

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

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

4.13 Investment properties

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

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

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

Impairment loss assessment and provision for impairment loss for investment properties are detailed at Note IV.19 "Impairment loss on long-term assets".

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

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

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

4.14 Fixed assets

4.14.1 Recognition criteria for fixed asset

Fixed assets are tangible assets that are held for producing goods, rendering of services, leasing out to other parties or administrative purposes, with useful life more than one year. Fixed assets are recognized when future economic benefits that are associated with the fixed asset probably will flow to the company and its cost can be measured reliably. The fixed assets are initially measured at cost by taking account into the effect of factors such as the expected disposal expenses.

4.14.2 Depreciation for different categories of fixed assets

Depreciation starts from the month following the fixed asset is available for its intended use and is made using the straight-line method in the lifetime. The expected useful life and estimated residual value, the annual depreciation rates of different categories of fixed asset are as following:

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

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

4.14.3 Impairment loss assessment and provision for fixed assets

The impairment loss assessment method and provision method of fixed asset is detailed at Note IV.19 “Impairment on non-current assets”.

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

4.14 Fixed assets *(Continued)*

4.14.4 Basis for identification of fixed assets held under a finance lease and its measurement

A lease that transfers substantially all the risks and rewards incidental to ownership of an asset is a finance lease, the ownership of the asset may or may not transferred. Fixed assets leased under finance lease are depreciated using the same policy as that those fixed assets owned by the company. For those leased assets that the ownership of the assets can be ascertained by the expiration date, the assets should be depreciated within estimated useful lives. Otherwise, the assets should be depreciated within the shorter period of the leasing period and estimated useful lives.

4.14.5 Other explanations

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

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

The Company reviews life, estimated scrap value and method of depreciation of fixed asset at least once by end of the year, any change in these issues are considered as changes to accounting estimates.

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

4.15 Construction in progress

Construction in progress is measured at actual cost, including various construction costs and other related expenses. Construction in progress is transferred to fixed assets when the assets are ready for their intended use.

The impairment loss assessment method and provision method of construction in progress is detailed at Note IV.19 “Impairment loss on non-current assets”.

4.16 Borrowing costs

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

Borrowing costs arising from specific borrowings is capitalized after deducting any interest income earned from depositing the unused specific borrowings in the banks or any investment income arising on the temporary investment of those borrowings. For general borrowings, the amount of borrowing costs eligible for capitalization is determined by applying the capitalization 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.

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

4.16 Borrowing costs *(Continued)*

During the capitalization period, all exchange differences related to specific borrowings denominated in foreign currency are capitalized. Exchange differences related to general borrowings denominated in foreign currency are recognized in current profit or loss.

Qualifying assets represent fixed assets, investment properties, inventories and other assets that are required to be constructed or produced for a substantial period of time to get ready for their intended use or sale.

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

4.17 Intangible assets

4.17.1 Intangible assets

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

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

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

4.17 Intangible assets

4.17.1 Intangible assets

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

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

4.17.2 Research and development

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

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

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

4.17 Intangible assets *(Continued)*

4.17.2 Research and development *(Continued)*

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

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

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

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

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

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

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

4.17.3 Impairment loss assessment and provision for intangible assets

The impairment loss assessment method and provision method of intangible asset is detailed at Note IV.19 “Impairment on non-current assets”.

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

4.18. Long-term deferred expenses

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

4.18.1 Prepaid rental for operating lease of fixed assets, amortized evenly over the lease term of the leasing contract.

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

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

For long-term deferred expenses which will not benefit the subsequent periods, the amortized value of the long-term deferred expenses is transferred to current profit and loss.

4.19. Impairment on non-current assets

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

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

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

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

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

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

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

4.20. Employee compensation

Employee compensation of the Company mainly comprises short-term employee compensation, post-employment benefits, termination benefits, and other long-term employee compensation, including:

Short-term employee compensation include wage, bonus, allowances and subsidies, employee welfare, medical insurance premium, maternity insurance premium, work injury insurance premium, housing provident funds, labor union expenditures and employee education expenses, non-monetary welfare, etc. Short-term employee compensation incurred during the accounting period in which the employee renders services to the Company is recognized as liability and included in the profit or loss for the period or related asset costs. Non-monetary welfare is measured at fair value.

Post-employment benefits mainly comprise of basic endowment insurance, unemployment insurance, while post-employment benefits program include defined contribution plan. The relevant contribution amount is included in the related asset costs or the profit or loss for the period during which the expenses incurred.

The Group provides compensation for terminating the employment relationship with employees before the end of the employment contracts or as an offer to encourage employees to accept voluntary redundancy before the end of the employment contracts. The Group recognizes a liability of employee compensation arising from compensation for termination benefits, with a corresponding charge to profit or loss for the current period, on the date when the Company cannot unilaterally withdraw the offer of termination benefits because of an employment termination plan or a curtailment proposal and when the Company recognizes costs related to the restructuring that involves the payment of termination benefits, whichever is earlier. However, termination benefits shall be recognized as other long-term employee compensation if the benefits cannot be settled within 12 months after the annual reporting date.

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

4.20. Employee compensation ***(Continued)***

Internal retirement plan adopts the same principle as the above mentioned compensation for the termination of employment relationship with the employee. The Company accounts for the wage and social insurance contributions to be paid incurred from the date on which the employee cease rendering services to the Company to the scheduled retirement date into termination benefits in profit or loss for the period, when requirements for recognition of provisions are met.

Where other long-term employee benefit provided by the Company for its employees falls in defined contribution plans, it shall be accounted for as a defined contribution plan, or otherwise as a defined benefit plan.

4.21. Provision

Provision is made when there is an obligation in relation to contingent events and the following conditions are met: (1) the obligation is a current obligation borne by the Company; (2) it is probable that an outflow of economic benefits will be required to perform the obligation; (3) the amount of the obligation can be measured reliably.

At the balance sheet date, a provision is measured at the best estimate of the expenditures required to perform the related current obligation, after taking into account relevant risks, uncertainties, time value of money and other factors pertinent to the contingent events.

If the expenditures required to settle the provision is expected to be wholly or partially compensated by a third party, the compensation amount, on a recoverable basis, is recognized as asset separately, and the compensation amount recognized shall not exceed the carrying amount of the provision.

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

4.22. Revenue

Revenue is recognized when the customer obtains control of the relevant commodity, and the contract between the Company and the customer meets the following conditions: the parties have approved the contract and have committed to perform their respective obligations; the contract identifies the rights and obligations of the parties relating to the goods transferred or the provision of services; the contract has a clear payment terms associated with the transferred goods; the contract has commercial substance, which means that the fulfillment of the contract will result in changes in risk, time distribution or amount of the future cash flows of the Company; the consideration that the Company is entitled to for the transfer of goods to customers is likely to be recovered.

From the effective date of the contract, the Company identifies each individual performance obligation under the contract and allocates the transaction price to each individual performance obligation based on the relative proportion of the individual selling price of the commodities promised by each individual performance obligation. When determining the transaction price, the impact of variable consideration, major financing components in the contract, non-cash consideration, consideration payable to customers and other factors are considered.

For each individual performance obligation in the contract, the Company recognizes the transaction price allocated to the individual performance obligation as revenue in accordance with the performance progress period during the relevant performance period, if one of the following conditions is met: the customer obtains and consumes the economic benefits of the Company's performance as the Company performs it; the customer can control the commodities in progress in the course of the Company's performance; the commodities produced during the performance of the Company have irreplaceable uses and the Company has the right to receive payments for the portion of the performance that has been completed to date. In addition, the performance of the contract is determined by the input method or the output method according to the nature of the transferred goods. When the performance of the contract cannot be reasonably determined, if the costs incurred by the Company are expected to be compensated, the revenue will be recognized according to the amount of costs incurred until the performance of the contract can be reasonably determined.

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

4.22. Revenue *(Continued)*

If one of the above conditions is not met, the Company will recognize the transaction price which was allocated to each of the individual performance obligation as revenue when the customer obtains control of the relevant commodity. When determining whether the customer has obtained control of the commodity, the Company will consider the following indications: the Company has the current right to receive payment for the goods, which means that the customer has a current payment obligation for the goods; the Company has transferred the legal title of the item to the customer, which means that the customer has already own the legal title of the item; the Company has transferred the goods in kind to the customer, which means the customer has possessed the goods in kind; the Company has transferred the main risks and rewards of ownership of the goods to the customer, which means the customer has obtained the main risks and rewards of ownership of the goods; and the customer has accepted the goods; other indications that the customer has obtained control of the goods.

4.23. Assets relating to contract cost

Where the Company expects the incremental costs for acquiring a contract to be recoverable, such contract acquisition costs are recognized as an asset.

Costs incurred by the Company for the performance of a contract are recognized as an asset as contract performance costs if they do not fall under the scope of other accounting standards other than the Accounting Standards for Business Enterprises No. 14 – Revenue (Revised in 2017) but meet all the following conditions: ① they are directly related to a current or anticipated contract, including direct labour, direct materials, manufacturing expenses (or similar expenses), to be borne by customers as specifically stipulated, and otherwise incurred solely in connection with the contract; ② they will increase the resources to be utilised in the Company's future performance of its contractual obligations; ③ they are expected to be recoverable.

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

4.23. Assets relating to contract cost

The Company amortises assets relating contract costs on the same basis as that for the recognition of revenue relating to such assets and recognizes the amortised assets in profit or loss for the period.

For assets relating to contract costs whose carrying value is higher than the difference between the following two items, the Company makes provision for impairment for the excess to be recognized as asset impairment losses: ① the remaining consideration expected to be obtained as a result of the transfer of goods relating to such assets; ② estimated costs to be incurred in connection with the transfer of relevant goods. In the event that the difference between ① and ② becomes higher than the carrying value of such assets as a result of changes in the factors of impairment for previous periods, previous provisions for asset impairment losses should be written back and included in profit or loss for the period, provided that the carrying asset value following the write-back shall not exceed the carrying value such assets would have on the date of write-back were there no provision for impairment.

4.24. Government grants

Government grants are transfers of monetary or non-monetary assets from the government to the Company at nil consideration, except for the investment made to the Company by the government at a capacity of an owner. Government grant can be classified as asset-related government grant and income-related government grant. The Company considers any government grant that funds purchase or construction of fixed assets, or in other means resulting in fixed assets as asset-related government grant; other government grants are considered revenue-related. If beneficiary of grant is not specified, then the following steps are taken to decide whether it's asset-related or revenue-related: (1) For those that specific project is specified, it is judged according to proportion of expenditure to form assets and expenditure that charged into expense, such ratio is reviewed at least once on each balance sheet date, and should change if necessary; (2) For those of general purpose without any specific project specified, it is considered revenue-related grant. If a government grant is in the form of a transfer of a monetary asset, it is measured at the amount received or receivable. If a government grant is in the form of a non-monetary asset, it is measured at fair value. If the fair value cannot be reliably determined, it is measured at a nominal amount. A government grant measured at a nominal amount is recognized immediately in profit or loss for the period.

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

4.24. Government grants *(Continued)*

The government grant of the Company are normally recognized and measured at the moment they are actually received, but are measured at the amount receivable when there is conclusive evidence at the end of the accounting period that the Company will meet related requirements of the financial support policies and will be able to receive the grants. Government grants are measured according to the amount receivable shall also comply with the following conditions: (1) grants receivable be confirmed with competent authorities in written form or reasonably deduced from related requirements under financial fund management measures officially released without material uncertainties; (2) the grants be given based on the local financial projects and fund management policies officially released and voluntarily disclosed by local financial authorities in accordance with the provisions under Regulations on Disclosure Government Information, where such policies should be open to any company satisfying conditions required and not specifically for certain companies; (3) the date of payment be specified in related documents and the payment thereof is financed by corresponding budget as a guarantee to ensure such grants will be paid within the prescribed period with the a reasonable assurance; (4) other conditions (if any) shall be satisfied according to the specific circumstances of the Company and the subsidy matter.

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

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

4.24. Government grants *(Continued)*

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

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

For the repayment of government grant previously recognized, if there is any related deferred income, the repayment shall be offset against the carrying amount of the deferred income, and the excess shall be recognized in profit or loss for the period. If there is no deferred income, the repayment shall be directly recognized in profit or loss for the period.

4.25. Deferred income tax assets/deferred income tax liabilities

4.25.1 Current income tax

At the balance sheet date, current income tax liabilities (or assets) for the current or prior periods are measured at the amount expected income tax to be paid (or recovered) under applicable tax laws. The taxable incomes used for calculation of current income tax expenses are determined after adjusting the accounting profits before tax for the period in accordance with relevant requirements of tax laws.

4.25.2 Deferred income tax assets and deferred income tax liabilities

Temporary differences arising from the difference between the carrying amount of an asset or liability and its tax base, and the difference between the tax base and the carrying amount of those items that are not recognized as assets or liabilities but have a tax base that can be determined according to tax laws, shall be recognized as deferred income tax assets and deferred income tax liabilities using the balance sheet liability method.

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

4.25. Deferred income tax assets/deferred income tax liabilities *(Continued)*

4.25.2 Deferred income tax assets and deferred income tax liabilities *(Continued)*

Deferred income tax liabilities are not recognized for taxable temporary differences related to: the initial recognition of goodwill; and the initial recognition of an asset or liability in a transaction which is neither a business combination nor affects accounting profit or taxable profit (or deductible loss) at the time of the transaction. In addition, the Company recognizes the corresponding deferred income tax liability for taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, except when both of the following conditions are satisfied: 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.

Deferred income tax assets are not recognized for deductible temporary differences related to the initial recognition of an asset or liability in a transaction which is neither a business combination nor affects accounting profit or taxable profit (or deductible loss) at the time of the transaction. In addition, the Company recognizes the corresponding deferred income tax asset for deductible temporary differences associated with investments in subsidiaries, associates and joint ventures to the extent that it is probable that taxable profits will be available against which the deductible temporary differences can be utilised, except when both of the following conditions are satisfied: it is not probable that the temporary difference will reverse in the foreseeable future; and it is not probable that taxable profits will be available in the future, against which the temporary difference can be utilised.

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

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

4.25. Deferred income tax assets/deferred income tax liabilities *(Continued)*

4.25.2 Deferred income tax assets and deferred income tax liabilities *(Continued)*

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

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. Such reduction in amount shall be reversed when it is probable that sufficient taxable profits will be available.

4.25.3 Income tax expense

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

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

4.25.4 Offset of income tax

Current income tax assets and current income tax liabilities are offset and presented on a net basis if the Company has a legally enforceable right to set off them on a net basis and the entity intends either to settle on a net basis or to realize assets, settle the liabilities simultaneously.

When the Company has a legally enforceable right to settle current income tax assets and liabilities on a net basis, and deferred income tax assets and deferred income tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current income tax assets and liabilities on a net basis or to realize the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred income tax assets or liabilities are expected to be reversed, deferred tax assets and deferred tax liabilities are offset and presented on a net basis.

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

4.26. Leases

Finance leases are leases that substantially all the risks and rewards of asset ownership are transferred, the ownership may or may not be transferred eventually. All other leases are operating leases.

4.26.1 The Company as a lessee under operating leases

Rental expenses under operating lease are recognized on straight line basis as relevant asset costs or in profit or loss for the period over the lease term. Initial direct costs are recognized in profit or loss for the period. Contingent rentals are recognized in profit or loss for the period based on actual occurrence.

4.26.2 The Company as a lessor under operating leases

Rental incomes under operating lease are recognized in profit or loss for the period on straight line basis over the lease term. Initial direct cost where the amount is larger is capitalized when incurred, and are amortized in profit or loss on the same basis as rental income over the entire lease term. Other initial direct costs where the amount is fewer are charged to profit or loss for the period in which they are incurred. Contingent rentals are recognized in profit or loss based on actual occurrence.

4.26.3 The Company as a lessee under finance leases

At the leasing commencement date, the Company records the leased asset at the amount of the lower of the fair value of the leased asset and the present value of the minimum lease payments at the inception of the lease, and recognizes the minimum lease payments as the present value of long-term payables. The difference between the two recorded amounts is accounted for as unrecognized finance expenses. In addition, direct cost in relation to the negotiation of the lease and signing of lease contract can be capitalized to the recorded amount of the leased asset. Minimum lease payments less unrecognized finance expenses are presented in the balance sheet separately as long-term liability or long-term liability due within one year.

Unrecognized finance expenses are recognized as finance expenses for the period using the effective interest method over the lease term. Contingent rentals are credited to the current profit or loss based on actual occurrence.

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

4.26. Leases *(Continued)*

4.26.4 The Company as a lessor under finance leases

At the leasing commencement date, the Company records the finance lease receivable at the amount of the sum of the minimum lease receipts and initial direct costs at the inception of the lease, at the same time records 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 values are recognized as unrealized finance income. Finance lease receivable less unrealized finance income is presented in the balance sheet separately as long-term receivables and long-term receivables due within one year.

Unrealized finance income is recognized as finance income for the period using the effective interest method over the lease term. Contingent rentals are credited to the current profit or loss based on actual occurrence.

4.27. Changes in significant accounting policies and accounting estimates

4.27.1 Changes in accounting policies

① Changes in accounting policies by the implementation of the New ASBEs on Financial Instrument

Ministry of Finance (the "MOF") promulgated "Accounting Standards for Business Enterprises No. 22 – Recognition and Measurement of Financial Instrument (Revised in 2017)" (Cai Kuai [2017] No. 7), "Accounting Standards for Business Enterprises No. 23 – Transfer of Financial Assets (Revised in 2017)" (Cai Kuai [2017] No. 8), "Accounting Standards for Business Enterprises No. 24 – Hedge Accounting (Revised in 2017)" (Cai Kuai [2017] No. 9) on 31 March 2017, "Accounting Standards for Business Enterprises No. 37 – Presentation and Reporting of Financial Instrument (Revised in 2017)" (Cai Kuai [2017] No. 14) on 2 May 2017 (hereinafter referred to as the "New ASBEs on Financial Instrument"). Pursuant to the abovementioned standards, enterprises listed both in domestic and overseas markets and those listed overseas and applying International Financial Reporting Standards or Accounting Standards for Business Enterprises (the "ASBE") to prepare financial reports are required to adopt the New ASBEs on Financial Instrument from 1 January 2018. The Company started to adopt the above New ASBEs on Financial Instrument at the time stipulated by the MOF.

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

4.27. Changes in significant accounting policies and accounting estimates *(Continued)*

4.27.1 Changes in accounting policies *(Continued)*

① Changes in accounting policies by the implementation of the New ASBEs on Financial Instrument (Continued)

All recognized financial assets are measured at amortized cost or fair value subsequent to initial recognition under the New ASBEs on Financial Instrument. On the implementation date of the New Standards of Financial Instrument, through assessing the business model of managing financial assets based on the existing facts and circumstances of the Company on that date, and through assessing the features of contract cash flows of the financial assets based on the facts and circumstances at the initial recognition of the financial assets, the financial assets are classified into three categories: measured at amortized cost, measured at fair value through other comprehensive income and measured at fair value through profit or loss. For equity instrument investments at fair value through other comprehensive income, cumulative gain or loss previously charged to other comprehensive income will be transferred to retained income instead of profit or loss for the period upon the derecognition of the financial assets.

Under the New ASBEs on Financial Instrument, the Company makes provisions for and recognizes credit impairment losses for financial assets at amortized cost, debt instrument investments at fair value through other comprehensive income, rental receivables, contract assets and financial guarantee contract based on expected credit loss.

The Company applied the New ASBEs on Financial Instrument retrospectively. In case of classification and measurement (including impairment) involving inconsistence between the comparative figures in financial statements in prior periods and requirements of the New ASBEs on Financial Instrument, the Company will not make restatement.

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

4.27. Changes in significant accounting policies and accounting estimates *(Continued)*

4.27.1 Changes in accounting policies *(Continued)*

① Changes in accounting policies by the implementation of the New ASBEs on Financial Instrument (Continued)

Comparison of recognition and measurement of financial assets prior to and following the implementing the New ASBEs on Financial Instrument

31 December 2017 (prior to changes)			1 January 2018 (following changes)		
Type of financial assets	**Measurement category**	**Carrying amount**	**Type of financial assets**	**Measurement category**	**Carrying amount**
Account receivables	Loans and receivables	76,253,768.68	Account receivables	Amortized costs	77,087,033.39
Other receivables	Loans and receivables	3,123,072.43	Other receivables	Amortized costs	2,680,951.90
Available-for-sale financial assets	Available-for-sale financial assets	31,760,858.70	Other equity instrument investments	Financial assets at fair value through other comprehensive income	31,760,858.70

B. Adjustment of classification and carrying amount of financial instrument as at the first implementation date

Item	31 December 2017 (prior to changes)	Reclassification	Remeasurement	1 January 2018 (following changes)
Account receivables	76,253,768.68	–	833,264.71	77,087,033.39
Other receivables	3,123,072.43	–	-442,120.53	2,680,951.90
Available-for-sale financial assets	31,760,858.70	-31,760,858.70	–	–
Other equity instrument investments (note)	–	31,760,858.70	–	31,760,858.70

Note: The available-for-sale financial assets of the Company of RMB31,760,858.70 were reclassified to other equity instrument investments on 1 January 2018. Such investments are equity instruments held for non-trading purpose and will not be sold in the foreseeable future by the Company. During the prior periods, they were measured at cost net of impairment. Since 1 January 2018, such equity investments are measured at fair value and no changes have been incurred to the carrying amount of other equity instrument investments.

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

4.27. Changes in significant accounting policies and accounting estimates *(Continued)*

4.27.1 Changes in accounting policies *(Continued)*

C. Adjustment of provision for impairment of financial assets as at the first implementation date

Item	31 December 2017 (prior to changes)	Reclassification	Remeasurement	1 January 2018 (following changes)
Provision for impairment of account receivables	48,003,948.86	–	-833,264.71	47,170,684.15
Provision for impairment of other receivables	81,177,828.24	–	442,120.53	81,619,948.77

D. Adjustment of carrying amount of and provision for impairment of financial assets of the parent as at the first implementation date

Item	31 December 2017 (prior to changes)	Reclassification	Remeasurement	1 January 2018 (following changes)
Other receivables	270,790,205.23	–	10,217.80	270,800,423.03
Provision for impairment of other receivables	76,389,840.05	–	-10,217.80	76,379,622.25

② Changes in accounting policies by the implementation of the New ASBEs on Revenue

The MOF issued the "Accounting Standard for Business Enterprises No. 14 – Revenue (Revised in 2017)" (Cai Kuai [2017] No. 22) on 5 July 2017 (the "New ASBEs on Revenue"), pursuant to which, enterprises listed both in domestic and overseas markets and those listed overseas and applying International Financial Reporting Standards or ASBE to prepare financial reports are required to adopt the New ASBEs on Financial Instrument and New ASBEs on Revenue from 1 January 2018. The Company started to adopt the New ASBEs on Revenue at the time stipulated by the MOF.

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

4.27. Changes in significant accounting policies and accounting estimates *(Continued)*

4.27.1 Changes in accounting policies *(Continued)*

In order to implement the New ASBEs on Revenue, the Company reassessed the recognition, measurement, accounting and presentation of major contract incomes. According to the requirements of the New ASBEs on Revenue, the Company only adjusts the cumulative effect of contracts that have not been completed on 1 January 2018. For changes to contracts occurred at the beginning of the earliest comparable period (i.e. 1 January 2017) or before 1 January 2018, the Company adopted a simplified treatment method, namely, the Company would identify the performance obligations that have been and have not been fulfilled, determine the transaction price, and apportion the transaction price between the fulfilled and outstanding performance obligations according to the final arrangement of contract changes. The retained income and the amounts of relevant items in the financial statement as at the beginning of the first implementation period (being 1 January 2018) are adjusted with the cumulative impact of the first implementation, and no adjustment has been made to the financial statements for 2017.

The impact of implementing the above changes in accounting policies on the consolidated owners' equity as at 1 January 2018 is as follows:

Item	Undistributed profits	Minority interests	Total
Classification of financial assets			
Provision for impairment of financial assets	392,029.45	-885.27	391,144.18

The impact of implementing the above changes in accounting policies on the owners' equity of the parent as at 1 January 2018 is as follows:

Item	Undistributed profits	Minority interests	Total
Classification of financial assets			
Provision for impairment of financial assets	10,217.80	–	10,217.80

4.27.2 Changes in accounting estimates

The Company has no changes in accounting estimates during the year.

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

4.28 Major accounting judgment and estimate

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

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

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

4.28.1 Recognition of revenue

As stated in Note IV.22 "Revenue", the Company makes the following major accounting judgments and estimates in terms of recognition of revenue: identifying customer contracts; estimating the recoverability of the considerations that are entitled to be obtained by transferring goods to customers; identifying the performance obligation in the contract; estimating the variable consideration in the contract and cumulative revenue recognized where it is highly probable that a significant reversal therein will not occur when the relevant uncertainty is resolved; assessing whether there is a significant financing component in the contract; estimating the individual selling price of the individual performance obligation in the contract; determining whether the performance obligation is performed in a certain period of time or at a certain point in time; the determination of the progress of the contract, etc.

The Company mainly relies on past experience and work to make judgments. It is expected that the changes in major judgments and estimates may have an impact on operating revenue, operating cost, and profit and loss for the period in which the change was made or later, and may have a significant impact.

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

4.28 Major accounting judgment and estimate *(Continued)*

4.28.2 Classification of leases

The Company classifies the leases as operating lease and finance lease in accordance with Accounting Standards for Business Enterprises No. 21 – Leases. When making the classification, the management needs to analyse and judge whether all the risks and rewards relating to the ownership of leased out assets have been substantially transferred to the lessee, or whether the Company has been substantially obliged to all the risks and rewards relating to the ownership of leased assets.

4.28.3 Impairment of financial assets

The Company uses the expected credit loss model to assess the impairment of financial assets. The application of the expected credit loss model requires major judgments and estimates, and all reasonable and evidenced information, including forward-looking information, should be considered. In making such judgments and estimates, the Company infers the expected changes in the debtor's credit risk based on the historical data in combination with economic policies, macroeconomic indicators, industry risks, external market environment, technical environment, and changes of the customers.

4.28.4 Allowance for inventories

The Company measures inventories by the lower of cost and net realizable value according to the accounting policies in regard of inventories and allowance for inventories is made if the cost is higher than their net realizable value, and obsolete and slow-movement inventories. Write-down of inventories to their net realizable values is based on the valuation of marketability and net realizable values of inventories Net realizable value is determined on the basis of clear evidence obtained, and takes into consideration the purposes of holding inventories and effect of post balance sheet events. The difference between the actual result and the original estimates shall have impact on reverse of the carrying amount of the inventories and reversal and provision for the impairment of inventories during the period of change.

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

4.28 Major accounting judgment and estimate *(Continued)*

4.28.5 Fair value of financial instruments

The Company recognizes the fair value of financial instruments without active trading market through various valuation methods. These valuation methods include discounted cash flow model analysis, etc. The Company needs to evaluate the future cash flow, credit risks, market volatility and relevance, etc. and choose the proper discount rate. These relevant hypotheses are uncertain, and the changes will inflict impact on the fair value of financial instruments.

Where an equity instrument investment or contract has a public offer, the Company does not use the cost as the best estimate of its fair value.

4.28.6 Provision for impairment of long-term assets

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

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

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

4.28 Major accounting judgment and estimate *(Continued)*

4.28.6 Provision for impairment of long-term assets *(Continued)*

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

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

The Company makes an impairment test for goodwill at least at each year end. This requires an estimation of present value of future cash flow of the asset groups or sets of asset groups where goodwill has been allocated. The Company shall make estimation on the future cash flow derived from asset groups or sets of asset groups and choose an appropriate discount rate to calculate the present value of future cash flow.

4.28.7 Depreciation and amortization

Investment property, fixed assets and intangible assets are depreciated and amortized using the straight-line method over their useful lives after taking into account their residual values. The useful lives are regularly reviewed to determine the depreciation and amortization costs charged in each reporting period. The useful lives are determined based on historical experience of similar assets and the estimated technical changes. If there is any material change in the estimation previously made, the depreciation or amortization will be adjusted over the future period.

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

4.28 Major accounting judgment and estimate *(Continued)*

4.28.8 Deferred income tax assets

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

4.28.9 Income tax

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

4.28.10 Provision

Based on the contract terms, existing knowledge and historical experience, the Company estimates and makes provision for product quality assurance, estimated contract losses, and penalty for delay in delivery. In the event that such contingent events have formed a current obligation and the performance of such current obligations is likely to result in the outflow of economic benefits from the Company, the Company recognises the contingent liabilities as provisions according to the best estimate of the expenditure required to perform the relevant current obligations. The recognition and measurement of provisions is mainly dependent on the management's judgment. In the process of making judgments, the Company needs to assess factors such as risks, uncertainties and time value of money related to such contingent events.

Among them, the Company will provide provisions for after-sales quality maintenance commitments to customers for the sale, repair and modification of the products sold. The Company's recent maintenance experience data has been taken into account when estimating liabilities, but recent maintenance experience may not reflect future maintenance. Any increase or decrease in this preparation may affect the profit and loss of future years.

V. Tax

5.1 Major types of tax and tax rates

Type of tax	Tax base and tax rate
Value-added tax (VAT)	16% on taxable revenue after offsetting deductible input VAT
City maintenance and construction tax	7% on amount of turnover tax paid
Education surcharge	5% on amount of turnover tax paid
Enterprise income tax	25% on taxable income

The previous VAT rate applicable to the sales of the Company was 17%. According to the Notice of the Ministry of Finance and the State Administration of Taxation on Adjusting Value-added Tax Rates (Cai Shui [2018] No. 32), from 1 May 2018 onwards, the applicable tax rate is adjusted to 16%.

5.2 Tax concessions

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

5.2.2 Gaocai Technology Co., Ltd. is a wholly-owned subsidiary registered in BVI and no enterprise income tax is imposed on it.

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

VI. Notes to Items in Consolidated Financial Statements

Unless otherwise specified, "beginning of period" refers to 1 January 2018, "end of period" refers to 31 December 2018, "end of last period" refers to 31 December 2017 , "this year" refers to year 2018, "last year" refers to year 2017 in the following notes (including Notes to Major Items in the Financial Statements of the Company).

6.1 Cash and equivalents

Item	Closing balance	Opening balance
Cash on hand	3,139.97	7,317.67
Bank deposits	139,721,198.26	38,601,144.10
Other cash equivalents	6,001,320.00	6,567,300.00
Total	**145,725,658.23**	**45,175,761.77**
Including: total overseas deposits	328,920.93	375,463.09

Notes:

(1) As at the end of the year, time deposit is RMB55,000,000.00 in the item of bank deposits, including RMB25,000,000.00 with deposit period from 22 November 2018 till 22 November 2019 and RMB30,000,000.00 with deposit period from 20 November 2018 till 20 November 2019.

(2) Of other cash and equivalents as at the end of the year, RMB6,001,320.00 is the deposits for performance guarantee.

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

6.2 Notes receivables and accounts receivable

Item	Closing balance	Opening balance
Notes receivable	–	15,878,744.00
Accounts receivable	21,774,633.39	77,087,033.39
Total	**21,774,633.39**	**92,965,777.39**

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

6.2 Notes receivables and accounts receivable *(Continued)*

6.2.1 Notes receivable

Item	Closing balance	Opening balance
Bank acceptance notes	–	1,589,050.00
Commercial acceptance notes	–	14,289,694.00
Total	**–**	**15,878,744.00**

6.2.2 Accounts receivable

6.2.2.1 Classification of accounts receivable

	Balance at end of year				
	Carrying amount		Provision for bad debt		
Type	Amount	Percentage (%)	Amount	Percentage of provision (%)	Book value
Account receivable of provision for bad debt on an individual basis	–	–	–	–	–
Accounts receivable of provision for bad debt on a collective basis	29,053,921.29	100.00	7,279,287.90	25.05	21,774,633.39
Total	**29,053,921.29**	**100.00**	**7,279,287.90**	**25.05**	**21,774,633.39**

(Continued)

	Balance at beginning of year				
	Carrying amount		Provision for bad debt		
Type	Amount	Percentage (%)	Amount	Percentage of provision (%)	Book value
Account receivable of provision for bad debt on an individual basis	68,409,135.13	55.05	21,972,915.66	32.12	46,436,219.47
Accounts receivable of provision for bad debt on a collective basis	55,848,582.41	44.95	25,197,768.49	45.12	30,650,813.92
Total	**124,257,717.54**	**100.00**	**47,170,684.15**	**37.96**	**77,087,033.39**

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

6.2 Notes receivables and accounts receivable *(Continued)*

6.2.2 Accounts receivable *(Continued)*

6.2.2.1 Classification of accounts receivable (Continued)

Accounts receivables of provision for bad debts on collective basis based on aging combination

	Balance at end of year		
Aging	**Accounts receivable**	**Provision for bad debt**	**Percentage of provision (%)**
Within 1 year	11,430,520.60	456,930.66	4.00
1 – 2 years	6,366,773.00	655,091.88	10.29
2 – 3 years	4,351,280.00	983,583.52	22.60
3 – 4 years	1,030,625.00	434,444.40	42.15
Over 4 years	5,874,722.69	4,749,237.44	80.84
Total	**29,053,921.29**	**7,279,287.90**	**25.05**

6.2.2.2 Details of provision, retrieval and reversal of bad debts

During the reporting period, total of RMB39,891,396.25 for provision for bad debt has been decreased, of which RMB1,448,499.17 was reversed, and the rest was caused by the disposal of the subsidiary New Northeast Electric (Jinzhou) Power Capacitor Co., Ltd., resulting in narrowing of the consolidation scope.

6.2.2.3 Top five accounts receivable by debtor at the end of the year

The sum of top five accounts receivable by debtor at the end of the year amounted to RMB10,114,953.00, representing 34.81% of the total balance of accounts receivable at the end of the year, and the balance of provision for bad debts made accordingly as at the end of the year amounted to RMB656,597.20.

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

6.3 Prepayments

6.3.1 Prepayments are listed by aging

	Balance at end of year		Balance at beginning of year	
Aging	**Amount**	**Percentage (%)**	**Amount**	**Percentage (%)**
Within 1 year	265,991.01	13.70	1,868,550.24	99.48
1 – 2 years	1,668,168.36	85.92	–	–
2 – 3 years	–	–	9,174.01	0.49
Over 3 years	7,334.00	0.38	587.68	0.03
Total	**1,941,493.37**	**100.00**	**1,878,311.93**	**100.00**

6.3.2 Top five prepayments by supplier based on balance at the end of the year

The sum of top five prepayments by supplier based on balance at the end of the year amounted to RMB1,835,165.63, representing 94.52% of the total balance of prepayments at the end of the year.

6.4 Other receivables

Item	**Balance at end of year**	**Balance at beginning of year**
Interests receivable	–	–
Dividends receivable	–	–
Other receivables	3,063,837.30	2,680,951.90
Total	**3,063,837.30**	**2,680,951.90**

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

6.4 Other receivables *(Continued)*

6.4.1 Classification of other receivables

	Balance at end of year				
	Carrying amount		Provision for bad debt		
Type	Amount	Percentage (%)	Amount	Percentage of provision (%)	Book value
Other receivables of provision for bad debt on an individual basis	76,146,949.50	88.90	76,139,154.50	99.99	7,795.00
Other receivables of provision for bad debt on a collective basis	9,510,591.71	11.10	6,454,549.41	67.87	3,056,042.30
Total	**85,657,541.21**	**100.00**	**82,593,703.91**	**96.42**	**3,063,837.30**

(Continued)

	Balance at beginning of year				
	Carrying amount		Provision for bad debt		
Type	Amount	Percentage (%)	Amount	Percentage of provision (%)	Book value
Other receivables of provision for bad debt on an individual basis	78,730,236.27	93.39	78,730,236.27	100.00	–
Other receivables of provision for bad debt on a collective basis	5,570,664.40	6.61	2,889,712.50	51.87	2,680,951.90
Total	**84,300,900.67**	**100.00**	**81,619,948.77**	**96.82**	**2,680,951.90**

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

6.4 Other receivables *(Continued)*

6.4.1 Classification of other receivables *(Continued)*

A. Other receivables of provision for bad debt on an individual basis at the end of the year

	Balance at end of year			
Other receivables (by company)	Other receivables	Provision for bad debt	Percentage of provision	Reason
Benxi Iron & Steel (Group) Co., Ltd.	76,090,000.00	76,090,000.00	100%	See "Note"
Other insignificant amount of arrears	56,949.50	49,154.50	86.31%	

Note: By end of the year, principal owed from Benxi Iron & Steel (Group) Co., Ltd. (referred as "Benxi Steel") of RMB76,090,000.00 is included in other receivables, which occurred in May and September 2005, by Liaoning Trust & Investment Co., Ltd. (hereinafter referred to as "Liao Trust") repaying principals of RMB74,424,671.45 deposited with them by the Company with their receivables from Benxi Steel of RMB76,090,000.00 by the approval from related governments in Liaoning Province. The Company has taken receivables from Benxi Steel into other receivables, and surplus to the original deposit has been taken into provision for bad debt. On 16 December 2005, Liaoning High People's Court has made final ruling (2005) Liao Min Er Zhong Zi No. 220, that Benxi Steel had owed the Company RMB15,900,000.00 and related interest. The Company had applied for Enforcement. As a result, Shenyang Municipal Intermediate People's Court has established the case and delivered Enforcement Notice to Benxi Steel on 10 March 2006. On 30 March 2006, the Shenyang Municipal Intermediate People's Court has made first ruling concerning the remaining principals by Rulings (2005) Shen Zhong Min Si He Chu Zi No. 21, 22 and 23, that Benxi Steel should repay the Company principal of RMB60,190,000.00 and related interest. On 30 April 2006, Benxi Steel has appealed to Liaoning High People's Court. On 14 May 2008, Liaoning High People's Court has ordered retry of the case to Shenyang Municipal Intermediate People's Court by Rulings (2006) Liao Min Er Zhong Zi No. 214, 215, 216, repealing Rulings Shen Zhong Min Si He Chu Zi No. 21, 23, 22 by the latter People's Court. On 9 June 2009, Shenyang Municipal Intermediate People's Court has refuted the Company's case by rulings (2008) Shen Zhong Min Si Chu Zi No. 143, 144 and 145, and the Company has appealed to Liaoning High People's Court. On 26 October and 29 October 2009, the Liaoning High People's Court has made final rulings (2009) Liao Min Er Zhong Zi No. 182, 183 and 184, sustaining previous rulings. The Company may appeal for retrial by providing evidence and facts if it still holds objections. The Company objects the Ruling and appealed for retrial. The Supreme People's Court made Civil Rulings No (2010) Min Shen Zi No. 1144, 1145 and 1146 on 13 December 2010, overruled retrial appeal of the Company. Since other receivables are long outstanding and the chance of recovery is remote, the Company has made a provision in full for this other receivables.

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

6.4 Other receivables *(Continued)*

6.4.1 Classification of other receivables *(Continued)*

B. Other receivables of provision for bad debt based on aging combination

	Balance at end of year		
Aging	**Other receivables**	**Provision for bad debt**	**Percentage of provision (%)**
Within 1 year	1,502,133.02	140,903.97	9.38
1 – 2 years	2,297,137.42	830,869.54	36.17
2 – 3 years	272,890.00	44,344.63	16.25
3 – 4 years	-	-	–
Over 4 years	5,438,431.27	5,438,431.27	100.00
Total	**9,510,591.71**	**6,454,549.41**	**67.87**

6.4.2 Provision for bad debt of other receivables

Provisions for bad debt	**Phase I** Expected credit loss over the next 12 months	**Phase II** Lifetime expected credit losses (not credit-impaired loans)	**Phase III** Lifetime expected credit losses (credit-impaired loans)	**Total**
Balance as at 1 January 2018	–	81,619,948.77	–	81,619,948.77
Book balance of other receivables for the period as at 1 January 2018	–	–	–	–
Provision for the period	–	552,281.69	–	552,281.69
Reversal for the period	–	-4,924.60	–	-4,924.60
Write-off for the period	–	–	–	–
Other changes [note]	–	426,398.05	–	426,398.05
Balance as at 31 December 2018	–	82,593,703.91	–	82,593,703.91

Note: Other changes are caused by disposal of the subsidiary New Northeast Electric (Jinzhou) Power Capacitor Co., Ltd., resulting in narrowing of the consolidation scope.

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

6.4 Other receivables *(Continued)*

6.4.3 Other receivables by nature

Nature	Amount at end of period	Amount at beginning of period
Litigation (See note VI.4(1)A)	76,090,000.00	76,090,000.00
Current account	7,657,349.76	4,917,329.91
Deposits for bidding	1,910,191.45	2,557,783.42
Others	–	735,787.34
Total	**85,657,541.21**	**84,300,900.67**

6.4.4 Top five other receivables by debtor at the end of the year

Name of company	Nature	Balance at end of year	Age	Percentage in total other receivables at end of year (%)	Balance of provisions for bad debt at end of year
Benxi Iron & Steel (Group) Co., Ltd.	Current account	76,090,000.00	Over 4 years	100.00	76,090,000.00
New Northeast Electric (Jinzhou) Power Capacitor Co., Ltd.	Current account	2,296,491.42	2 – 3 years	36.18	830,784.80
Xintai (Liaoning) Precision Machinery Co., Ltd.	Current account	600,000.00	Over 4 years	100.00	600,000.00
Fuxin Aluminum Alloy Branch	Engineering cost	534,518.86	Over 4 years	100.00	534,518.86
CHD Tendering Co., Ltd.	Deposits for bidding	290,000.00	Within 1 year	10.18	29,510.30
Total	**—**	**79,811,010.28**	**—**	**97.84**	**78,084,813.96**

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

6.5 Inventories

6.5.1 Classification of inventories

	Balance at end of year		
Item	**Carrying amount**	**Allowance for impairment**	**Book value**
Raw material	4,141,655.68	32,793.03	4,108,862.65
Finished goods	3,655,439.45	313.07	3,655,126.38
Work in progress	1,824,348.73	–	1,824,348.73
Total	**9,621,443.86**	**33,106.10**	**9,588,337.76**

(Continued)

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

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

6.5 Inventories *(Continued)*

6.5.2 Allowance for inventories

Item	Balance at beginning of year	Increment		Decrement		Balance at end of year
		Provision	Others	Reverse/Write off	Others	
Raw material	4,052,269.12	24,208.96	–	66,688.21	3,976,996.84	32,793.03
Finished goods	7,739,916.06	–	–	201,421.65	7,538,181.34	313.07
Work in progress	2,917,306.10	–	–	671,673.24	2,245,632.86	–
Total	**14,709,491.28**	**24,208.96**	**–**	**939,783.10**	**13,760,811.04**	**33,106.10**

Other reason for allowance for inventories was disposing the subsidiary New Northeast Electric (Jinzhou) Power Capacitor Co., Ltd., resulting in narrowing of the consolidation scope.

6.5.3 Basis for determining net realizable value and reason for reversal or write-off of allowance for inventories during the period

Item	Specific basis for determining net realizable value	Reason for reversal of allowance during the period	Reason for write-off of allowance during the period
Raw material	Net realizable value lower than cost	–	Discard or moved out from provision with sale
Finished goods	Net realizable value lower than cost	–	Moved out from provision with sale
Work in progress	Net realizable value lower than cost	–	Used for manufacturing

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

6.6 Other current assets

Item	Balance at end of year	Balance at beginning of year
Rental expenses	–	1,670,704.05
Prepaid value-added tax	225,322.45	–
Deductable input VAT	814,231.33	1,982,155.63
Enterprise income tax	37.11	43,391.47
Total	**1,039,590.89**	**3,696,251.15**

Note: Balances of rental expenses at beginning of year are prepaid rental expenses for land, buildings and equipment in 2018.

6.7 Long-term equity investments

Investee	Balance at beginning of year	Increase/decrease during the year				
		Increase in investment	Decrease in investment	Profit or loss for investment by method of equity	Adjustment to OCI	Other change to equity
Associate						
Weida High-voltage Electric Co., Ltd.	19,463,641.61	–	–	-9,819.83	3,030,776.74	–

(Continued)

Investee	Increase/decrease during the year			Balance at end of Year	Balance of provision for decline in value at end of Year
	Cash dividend or profit declared	Provision for impairment	Others		
Associate					
Weida High-voltage Electric Co., Ltd.	–	–	–	22,484,598.52	34,118,638.85

Note: The investee of the Company is a non-listed company established in BVI.

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

6.7 Long-term equity investments

Decrease in long term equity investment in this period is a result of currencies translation difference of RMB3,030,776.74 due to foreign exchange fluctuation and investment loss of RMB9,819.83 recognized by method of equity.

6.7.1 Investment to associate

Investee	Type of enterprise	Registration place	Legal representative	Nature of business	Registered capital	Shareholding ratio of the Company (%)	Voting percentage of the Company (%)
Weida High-voltage Electric Co., Ltd.	Limited company	BVI	LoYuet	Investment holding	USD12,626	20.80	20.80

(Continued)

Investee	Total assets by end of year	Total liabilities by end of year	Total net assets by end of year	Total operating income for the year	Net profit for the year	Relations	Organization code
Weida High-voltage Electric Co., Ltd.	207,994,490.24	2,838,678.03	205,155,812.21	0.00	-47,210.74	Significant	–

6.7.2 Provision for impairment on long-term equity investment

Item	Balance at beginning of year	Increment	Decrement	Balance at end of year
Weida High-voltage Electric Co., Ltd.	32,549,383.94	1,569,254.91	–	34,118,638.85
Total	**32,549,383.94**	**1,569,254.91**	**–**	**34,118,638.85**

Increase in provision for impairment on long-term equity investment for the year of RMB1,569,254.91 is due to difference resulted by foreign exchange rates fluctuation.

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

6.8 Other equity instrument investment

Item	Balance at end of year	Balance at beginning of year	Dividend recognised during the year	Reason for designation	Cumulative gains and losses during the year transferred from OCI to retained earnings	
					Amount	Reason
Shenyang Zhaoli High-voltage Electric Equipment Co., Ltd. [note 1]	30,287,682.88	31,760,858.70	–	Equity instruments held for non-trading purpose and not expected to be sold in the foreseeable future	–	–
HNA Tianjin Center Development Co., Ltd. [note 2]	200,708,813.99	–	–		–	–
Total	**230,996,496.87**	**31,760,858.70**	–	–	–	–

Note 1: Fuxin Enclosed Busbar Co., Ltd., a wholly-owned subsidiary of the Company, holds 6.9024% share equity of Shenyang Zhaoli High-voltage Electric Equipment Co., Ltd.

Note 2: Shanghai Yizhou Investment Management Co., Ltd. and Hainan Tangyuan Technology Co., Ltd., a majority-owned subsidiary of the Company, entered into the Equity Transfer Agreement, pursuant to which, Shanghai Yizhou Investment Management Co., Ltd. ("Shanghai Yizhou") intends to grant 10.50% of its share equity in HNA Tianjin Center Development Co., Ltd. ("Tianjin Center") for no consideration. Hainan Tangyuan Technology Co., Ltd. accepted the granted assets without any conditions or obligations attached. According to the Evaluation of Net Asset Value of HNA Tianjin Center Development Co., Ltd. [File No.: VA29391-2018 (BV)] issued by Vigers Appraisal & Consulting Limited (International Asset Appraisal Consultants), the fair value of the net assets of Tianjin Center is RMB1,918,861,000 as at 31 August 2018, being the date of evaluation as agreed by both parties. The appraisal value of the 10.50% equity in Tianjin Center granted by Shanghai Yizhou for no consideration is RMB201,480,405.

6.9 Fixed assets

Item	Balance at end of year	Balance at beginning of year
Fixed assets	50,136,802.72	35,705,865.32
Disposal of fixed assets	–	629,668.46
Total	**50,136,802.72**	**36,335,533.78**

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

6.9 Fixed assets *(Continued)*

6.9.1 Fixed assets

6.9.1.1 Fixed assets

Item	Buildings	Machinery & equipment	Motor vehicles & others	Total
I. Carrying amount				
1. Balance at beginning of year	48,193,147.57	67,736,137.03	15,630,197.85	131,559,482.45
2. Increment	39,147,491.74	8,368,823.77	28,361.33	47,544,676.84
(1) Purchase	–	226,495.72	28,361.33	254,857.05
(2) Transferred from construction in progress	39,147,491.74	8,142,328.05	–	47,289,819.79
(3) Increment from business combination	–	–	–	–
3. Decrement	38,383,265.33	60,338,428.41	11,126,732.75	109,848,426.49
(1) Disposal or write-off	-	48,717.95	811,661.00	860,378.95
(2) Demolition by the government	6,122,625.69	5,767,376.51	–	11,890,002.20
(3) Disposal of subsidiaries	32,260,639.64	54,522,333.95	10,315,071.75	97,098,045.34
4. Balance at end of year	48,957,373.98	15,766,532.39	4,531,826.43	69,255,732.80
II. Accumulated depreciation				
1. Balance at beginning of year	37,288,104.69	42,469,984.29	10,594,131.15	90,352,220.13
2. Increment	1,749,615.47	2,692,779.92	606,984.12	5,049,379.51
Provision	1,749,615.47	2,692,779.92	606,984.12	5,049,379.51
3. Decrement	30,010,393.31	38,803,940.28	8,688,046.67	77,502,380.26
(1) Disposal or write-off	–	47,256.41	689,413.03	736,669.44
(2) Demolition by the government	3,844,182.68	4,930,375.91	–	8,774,558.59
(3) Disposal of subsidiaries	26,166,210.63	33,826,307.96	7,998,633.64	67,991,152.23
4. Balance at end of year	9,027,326.85	6,358,823.93	2,513,068.60	17,899,219.38

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

6.9 Fixed assets *(Continued)*

6.9.1 Fixed assets

6.9.1.1 Fixed assets

Item	Buildings	Machinery & equipment	Motor vehicles & others	Total
III. Provision for impairment				
1. Balance at beginning of year	152,106.51	5,068,498.94	280,791.55	5,501,397.00
2. Increment	–	–	–	–
Provision	–	–	–	–
3. Decrement	3,787.92	4,277,898.38	–	4,281,686.30
(1) Disposal or write-off	3,787.92	626,856.96	–	630,644.88
(2) Disposal of subsidiaries	–	3,651,041.42	–	3,651,041.42
4. Balance at end of year	148,318.59	790,600.56	280,791.55	1,219,710.70
IV. Book balance				
1. Book balance at end of year	39,781,728.54	8,617,107.90	1,737,966.28	50,136,802.72
2. Book balance at beginning of year	10,752,936.37	20,197,653.80	4,755,275.15	35,705,865.32

6.9.1.2 Some properties were restricted due to secured bank borrowings at the end of the year. Please refer to Note VI.16 and NoteVI.47.

6.9.1.3 There is no fixed asset acquired under financial lease or operating lease during the reporting period.

6.9.1.4 There is no fixed asset held-for-sale by the end of the year.

6.9.1.5 All buildings belong to the Company are located in China.

6.9.1.6 Fixed assets with certificate of title to be obtained

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

6.9 Fixed assets *(Continued)*

6.9.1 Fixed assets *(Continued)*

Item	Book value	Reason for not obtaining property right certificates
Canteen	1,582,104.91	Accepted by the government but the certificate not issued
Supporting facilities in the plant	7,862,464.43	Accepted by the government but the certificate not issued
Rivet welding workshop	10,065,754.80	Accepted by the government but the certificate not issued
Machining workshop	5,032,877.41	Accepted by the government but the certificate not issued
Assembly workshop	10,065,754.80	Accepted by the government but the certificate not issued
Office	3,068,815.63	Accepted by the government but the certificate not issued
Total	**37,677,771.98**	

6.9.2 Disposal of fixed assets

Item	Balance at end of year	Balance at beginning of year
Equipment & machinery	–	629,668.46

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

6.10 Construction in progress

Item	Balance at end of year	Balance at beginning of year
Construction in progress	2,803,418.80	42,553,751.05
Materials held for construction	–	–
Total	**2,803,418.80**	**42,553,751.05**

Construction in progress

	Balance at end of year			Balance at beginning of year		
Item	Carrying amount	Provision for impairment	Book value	Carrying amount	Provision for impairment	Book value
Equipment to be installed	2,803,418.80	–	2,803,418.80	6,070,928.52	29,902.91	6,041,025.61
Construction of new plants	–	–	–	36,512,725.44	–	36,512,725.44
Total	**2,803,418.80**	**–**	**2,803,418.80**	**42,583,653.96**	**29,902.91**	**42,553,751.05**

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

6.11 Intangible assets

Item	Land use rights	Patent	Software	Total
I. Carrying amount				
1. Balance at beginning of year	19,974,805.05	450,000.00	207,000.00	20,631,805.05
2. Increment	–	–	–	–
(1) Purchase	–	–	–	–
(2) Internal R&D	–	–	–	–
(3) Increment from business combination	–	–	–	–
3. Decrement	2,287,747.87	450,000.00	–	2,737,747.87
(1) Disposal	2,287,747.87	–	–	2,287,747.87
(2) Disposal of subsidiaries	–	450,000.00	–	450,000.00
4. Balance at end of year	17,687,057.18	–	207,000.00	17,894,057.18
II. Accumulated amortization				
1. Balance at beginning of year	3,310,789.65	450,000.00	207,000.00	3,967,789.65
2. Increment	380,431.60	–	–	380,431.60
Provision	380,431.60	–	–	380,431.60
3. Decrement	1,033,300.20	450,000.00	–	1,483,300.20
(1) Disposal	1,033,299.88	–	–	1,033,299.88
(2) Disposal of subsidiaries	0.32	450,000.00	–	450,000.32
4. Balance at end of year	2,657,921.05	–	207,000.00	2,864,921.05
III. Provision for impairment				
1. Balance at beginning of year	–	–	–	–
2. Increment	–	–	–	–
Provision	–	–	–	–
3. Decrement	–	–	–	–
Disposal	–	–	–	–
4. Balance at end of year	–	–	–	–
IV. Book balance				
1. Book balance at end of year	15,029,136.13	–	–	15,029,136.13
2. Book balance at beginning of year	16,664,015.40	–	–	16,664,015.40

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

6.12 Goodwill

6.12.1 Carrying amount of goodwill

Investee or items resulted in goodwill	Balance at beginning of year	Increment	Decrement	Balance at end of year
Northeast Electric (Chengdu) Electric Engineering Design Co., Ltd.	72,097.15	–	–	72,097.15

6.12.2 Provision for impairment of goodwill

Investee or items resulted in goodwill	Balance at beginning of year	Increment	Decrement	Balance at end of year
Northeast Electric (Chengdu) Electric Engineering Design Co., Ltd.	–	72,097.15	–	72,097.15

6.13 Long-term deferred expenses

Item	Balance at beginning of year	Increment	Amortization	Other decrement	Balance at end of year
Improvement expenditures for fixed assets rented	1,539,490.85	–	618,077.93	391,936.38	529,476.54
Property insurance premium	5,686.31	–	–	5,686.31	–
Total	**1,545,177.16**	**–**	**618,077.93**	**397,622.69**	**529,476.54**

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

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

6.14 Deferred income tax assets

6.14.1 Details of unrecognized deferred income tax assets

Item	Balance at end of year	Balance at beginning of year
Deductable temporary difference	209,172,991.68	232,262,357.09
Deductable loss	340,019,113.47	395,204,707.03
Total	**549,192,105.15**	**627,467,064.12**

6.14.2 Deductable loss of unrecognized deferred income tax asset due in the next period

Year	Balance at end of year	Balance at beginning of year	Note
2018		774,155.44	–
2019	–	366,885.87	–
2020	35,494.64	286,269.50	–
2021	98,932.33	23,091,537.86	–
2022	324,355,671.73	356,411,785.22	
2023	1,203,418.17		
No specified limit	14,325,596.60	14,274,073.14	Deductable loss by subsidiary –Northeast Electric (HK) Co., Ltd.
Total	**340,019,113.47**	**395,204,707.03**	

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

6.15 Other non-current assets

Item	Balance at end of year	Balance at beginning of year
Prepayment for equipment	–	302,881.71

6.16 Short-term borrowings

6.16.1 Classification

Item	Balance at end of year	Balance at beginning of year
Bank borrowings, secured	4,500,000.00	–

Fuxin Enclosed Busbar Co., Ltd., a subsidiary of the Company, mortgaged the house located at No.46, Xinhua Road, Haizhou District and land parcels located at the north of Xiner Road and the west of Yulong Road in Xihe Industrial Base to get a loan of RMB4.5 million from Fuxin Branch of Bank of China Limited.

6.17 Notes payable and accounts payable

Type	Balance at end of year	Balance at beginning of year
Notes payable	–	40,000.00
Accounts payable	12,221,771.06	21,501,715.83
Total	**12,221,771.06**	**21,541,715.83**

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

6.17 Notes payable and accounts payable

6.17.1 Notes payable

Type	Balance at end of year	Balance at beginning of year
Commercial acceptance notes	–	–
Bank acceptance notes	–	40,000.00
Total	**–**	**40,000.00**

6.17.2 Accounts payable

Aging	Balance at end of year	Balance at beginning of year
Within 1 year	7,836,855.34	9,571,430.20
1 – 2 years	2,052,617.30	3,915,566.83
2 -3 years	837,254.84	2,842,563.74
Over 3 years	1,495,043.58	5,172,155.06
Total	**12,221,771.06**	**21,501,715.83**

Significant accounts payable aged over 1 year

Item	Balance at end of year	Reason for outstanding or carried over
Zhejiang Cixi Xinxing Electric Accessories Plant (General Partnership) (浙江慈溪市新興電力配件廠(普通合夥))	1,478,451.31	Balance of goods purchased unsettled
Fuxin Tianyou Taiguanghui Material Trading Co., Ltd. (阜新天佑泰廣匯物資貿易有限公司)	1,228,057.05	Balance of goods purchased unsettled
Total	**2,706,508.36**	

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

6.18 Receipts in advance

Aging	Balance at end of year	Balance at beginning of year
Within 1 year	1,008,500.00	1,530,675.00
1 – 2 years	899,400.00	443,590.01
2 -3 years	147,400.00	1,394,445.02
Over 3 years	581,743.59	816,429.09
Total	**2,637,043.59**	**4,185,139.12**

6.19 Employee compensation

6.19.1 Details of employee compensation

Item	Balance at beginning of year	Increment	Decrement	Balance at end of year
I. Short-term compensation	2,930,083.87	18,127,347.88	19,646,438.91	1,410,992.84
II. Post-employment benefits – defined contribution plan	92,458.16	4,350,803.87	4,305,725.89	137,536.14
III. Termination benefits	–	520,688.73	514,872.73	5,816.00
Total	**3,022,542.03**	**22,998,840.48**	**24,467,037.53**	**1,554,344.98**

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

6.19 Employee compensation *(Continued)*

6.19.2 Short-term compensation is analyzed as follows:

Item	Balance at beginning of year	Increment	Decrement	Balance at end of year
1. Wages, bonuses, allowances, subsidies	925,478.03	13,942,790.75	13,596,575.02	1,271,693.76
2. Employee welfare	–	644,029.16	644,029.16	–
3. Social insurances	56,059.01	1,559,879.68	1,539,334.49	76,604.20
Including:.Medical insurance	38,846.97	1,288,013.97	1,271,381.94	55,479.00
Work injury insurance	13,682.24	200,363.59	197,729.49	16,316.34
Maternity insurance	3,529.80	71,502.12	70,223.06	4,808.86
4. Housing provident fund	288,165.25	1,855,115.47	2,095,914.41	47,366.31
5. Labor union expenditure and employee education expenses	1,660,381.58	125,532.82	1,770,585.83	15,328.57
Total	**2,930,083.87**	**18,127,347.88**	**19,646,438.91**	**1,410,992.84**

6.19.3 Defined contribution plan is listed as follows:

Item	Balance at beginning of year	Increment	Decrement	Balance at end of year
1. Basic endowment insurance	89,016.90	3,510,278.35	3,466,779.87	132,515.38
2. Unemployment insurance	3,441.26	114,129.78	112,550.28	5,020.76
3. Employee retirement benefit	–	726,395.74	726,395.74	–
Total	**92,458.16**	**4,350,803.87**	**4,305,725.89**	**137,536.14**

Note: The Company has joined endowment insurance plan and unemployment insurance plan set up by the government authorities, and pay for employees accordingly. The Company takes no further payment obligation than these.

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

6.20 Tax payable

Item	Balance at end of year	Balance at beginning of year
Enterprise income tax	1,366,600.00	163,782.70
Value-added tax	142,189.15	–
City maintenance and construction tax	893.92	811.44
Education surcharge	4,546.40	4,273.18
Individual income tax	363,423.05	31,795.18
Tenure tax	55,626.50	79,097.00
Housing property tax	255,715.61	44,535.95
Other	64,289.50	17,324.90
Total	**2,253,284.13**	**341,620.35**

6.21 Other payables

Item	Balance at end of year	Balance at beginning of year
Interests payable	5,712.50	–
Dividends payable	–	40,017.86
Other payables	377,054,656.80	365,420,737.42
Total	**377,060,369.30**	**365,460,755.28**

6.21.1 Interests payable

Item	Balance at end of year	Balance at beginning of year
Interests payable of short-term borrowings	5,712.50	–

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

6.21 Other payables *(Continued)*

6.21.2 Other payables *(Continued)*

6.21.2.1 Details of other payables by nature

Item	Balance at end of year	Balance at beginning of year
Compensation due for CDB case [note 1]	272,627,700.00	272,627,700.00
Guarantee amount for loan from ICBC Jinzhou Branch [note 2]	–	18,329,142.29
Current account	104,412,532.69	39,248,601.66
Shipment expenses	–	2,538,599.63
Agent fees	–	5,813,207.55
Purchase of equipment & machinery	–	23,189,555.76
Others	14,424.11	3,673,930.53
Total	**377,054,656.80**	**365,420,737.42**

Note 1: (1) Shenyang High-voltage Switches Co., Ltd. (hereafter "Shenyang High-volt") has acquired bank loan from China Development Bank (hereafter "CDB") in 1998 by Agreement of Bank Loan, which was guaranteed by other companies with Agreement of Guarantee. In 2003 and 2004, with its assets in kind and land use rights, Shenyang High-volt joined with other companies in setting up subsidiaries including New Northeast Electric (Shenyang) High-voltage Switches Co., Ltd. (hereafter "New Northeast High-volt"), New Northeast Electric (Shenyang) High-voltage Insulation Switches Co., Ltd. (hereafter "New Northeast Insulation"), Shenyang Dongli Logistics Co., Ltd. (formerly Shenyang Xintai Warehouse & Logistics Co., Ltd., hereafter "Dongli Logistics") and Shenyang Beifu Machinery Manufacturing Co., Ltd. (formerly Shenyang Chengtai Energy Power Co., Ltd., hereafter "Beifu Machinery". In 2004, the Company acquired shares of Dongli Logistics, Beifu Machinery and New Northeast Insulation with transfer of creditor's rights and share swaps. In May 2004, CDB filed a lawsuit with Beijing Higher People's Court (hereafter "Beijing Higher Court"), claiming for Shenyang High-volt to repay the overdue loan principal of RMB150,000,000 and the interest incurred, and for the Company, New Northeast High-volt, New Northeast Insulation, Dongli Logistics and Beifu Machinery to take up joint and several guarantee for the aforesaid principal and interest; also claiming for the Court to rule the share transfer agreement between Shenyang High-volt and the Company on purchase of shares of New Northeast Insulation, Dongli Logistics and Beifu Machinery to be void.

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

6.21 Other payables *(Continued)*

6.21.2 Other payables *(Continued)*

6.21.2.1 Details of other payables by nature (Continued)

The case went through trial by Beijing Higher Court and the Supreme People's Court. Eventually, the Supreme People's Court ruled in September 2008 with Ruling (2008) Min Er Zhong Zi No. 23, that 1) Cancel the agreement by which the Company swapped 95% of Beifu Machinery shares and 95% of Dongli Logistics shares held by Shenyang High-volt with obligation of RMB76.66 million and interest incurred of Northeast Electric Power Transmission and Transformation Equipment Group Co., Ltd. held by the Company; the Company should return the aforesaid shares to Shenyang High-volt within 10 days of the Ruling, or should compensate Shenyang High-volt within the limit of RMB247.1165 million if unable to return those shares; Shenyang High-volt should return the obligation of RMB76.66 million of Northeast Electric Power Transmission and Transformation Equipment Group Co., Ltd. and interest incurred to the Company within 10 days of the Ruling, or should compensate the Company within the limit of RMB76.66 million if unable to return; 2) Cancel the share swap agreement between Shenyang High-volt and the Company for 74.4% of New Northeast Insulation shares held by Shenyang High-volt and 98.5% of Shenyang Taisheng Industry & Trade Co., Ltd. (formerly Shenyang Tiansheng Communication Equipment Co., Ltd., hereafter "Taisheng Industry & Trade") shares held by the Company; 3) Shenyang High-volt should return 98.5% of Taisheng Industry & Trade shares to the Company within 10 days of the Ruling and the Company should return 74.4% of New Northeast Insulation shares to Shenyang High-volt within 10 days of the Ruling. The Company should compensate Shenyang High-volt within the limit of RMB130 million after deducting RMB27.8788 million if shares return not possible.

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

6.21 Other payables *(Continued)*

6.21.2 Other payables *(Continued)*

6.21.2.1 Details of other payables by nature (Continued)

The Company carried out the Ruling in 2007 and 2008. However, CDB filed with Beijing Higher Court for execution in 2009 by the Ruling (2008) Min Er Zhong Zi No. 23, and consequently, the Court froze 10% of Shenyang Kaiyi Electric shares held by the Company according to law. The Company appealed for such execution while the Beijing Higher Court dismissed the appeal in October 2013 with Ruling (2013) Gao Zhi Yi Zi No. 142. Then the Company filed for retrial with the Supreme People's Court, for which the Court dismissed Beijing Higher Court's ruling with Ruling (2013) Gao Zhi Yi Zi No. 142 and ruled for retrial with Ruling (2014) Zhi Fu Zi No. 9 in March 2015. Beijing Higher Court issued Ruling (2015) Gao Zhi Yi Zi No. 52 in December 2016, ruled Northeast Electric's appeal lack of evidence, did not sustain the claim of shares return already carried out, and held that the Company should carry out compensation. The Company again appealed to the Supreme People's Court, and the Supreme People's Court made final Ruling (2017) Zui Gao Fa Zhi Fu No. 27 in August 2017 to dismiss Northeast Electric's appeal and sustain Beijing Higher Court's Ruling (2015) Gao Zhi Yi Zi No. 52. The Company accordingly recognised liabilities of RMB272,627,700 in 2017.

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

6.21 Other payables *(Continued)*

6.21.2 Other payables *(Continued)*

6.21.2.1 Details of other payables by nature (Continued)

(2) On 30 November 2018, Fuxin Enclosed Busbar Co., Ltd. ("Fuxin Busbar"), a wholly-owned subsidiary of the Company, filed a lawsuit with Hainan Higher People's Court, claiming for Shenyang HVS to pay USD16 million, which was the consideration for the transfer of 74.4% of the equity in New Northeast Electric (Shenyang) High-voltage Insulation Switches Co., Ltd. (formerly Shenyang Xintai High-voltage Electric Co., Ltd.), as well as the interest accrued from the date of transfer to the date of litigation, and for the Company to be jointly liable for the payment of the equity transfer consideration by Shenyang HVS. 74.4% of the equity in New Northeast Electric (Shenyang) High-voltage Insulation Switches Co., Ltd. (formerly Shenyang Xintai High-voltage Electric Co., Ltd.) (the "Underlying Equity") was held by Fuxin Busbar by 22 September 2008. Due to the enforcement of the final judgment made by the Supreme People's Court on 5 September 2008 for the case of CDB (Document (2008) Min Er Zhong Zi No. 23) and under the coordination of the Company, Fuxin Busbar, a wholly-owned subsidiary of the Company, returned the Underlying Equity to Shenyang HVS free of charge, and completed the equity change registration on 22 September 2008 as required by the local industrial and commercial administration of the place of registration of the Company. Therefore, the Underlying Equity held by Fuxin Busbar was returned to Shenyang HVS free of charge. However, according to the enforcement ruling issued by the Supreme People's Court on 31 August 2017 (Document (2017) Zui Gao Fa Zhi Fu No. 27), "the fact that the return of the Underlying Equity free of charge under the coordination of Northeast Electric cannot be ascertained". Fuxin Busbar held that the outstanding equity transfer consideration of USD16 million of Shenyang HVS constituted a default. Hence, Fuxin Busbar filed a lawsuit with the Court, claiming for the return of the consideration for the transfer of the Underlying Equity. Hainan Higher People's Court has accepted this case but has not yet held a hearing.

Note 2: The guarantee amount for loan from ICBC Jinzhou Branch is detailed in "note 1 under Note VI.41".

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

6.21 Other payables *(Continued)*

6.21.2 Other payables *(Continued)*

6.21.2.2 Other significant accounts payable aged over 1 year

Item	Balance at end of year	Reason for outstanding or carried over
Compensation due for CDB case	272,627,700.00	Not executed
Fuxin Zhengxing Construction Engineering Co., Ltd.	27,538,870.92	Actual cost of the construction in progress not yet determined
Shenyang Transformer Co., Ltd.	26,695,903.10	Creditor not yet collect
Total	**326,862,474.02**	

6.22 Special payables

Item	Balance at beginning of year	Increment	Decrement	Balance at end of year	Reason
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**	**–**	

6.22.1 The reduction of special payables is due to the part of the compensation for the acquisition and construction of new assets is transferred to the deferred income as government grants related to asset and for the part used to compensate the fair value of the levied assets, the book value of the corresponding levied assets and related taxes are deducted, and the difference is included in the proceeds from asset disposal based on the accounting treatment principles of compensation for policy relocation in accordance with the "Accounting Standards for Business Enterprises No. 16 – Government Grants (Revised in 2017)".

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

6.22 Special payables

6.22.2 On 12 January 2016, Fuxin Enclosed Busbar Co., Ltd. ("FEB"), a wholly-owned subsidiary of the Company, signed an Investment Promotion Agreement with Xihe District Government, based on which the two parties reached an agreement for the investment in the construction of the new plant with an annual output of 20 million KW enclosed busbars and the relocation of the old plant. According to the agreement, FEB will exchange the land of 15,174 sq.m., property of 4,500 sq.m. and the attached real estate facilities in the north plant area (No.77, Dongfeng Road) for the land of 40,000 sq.m., property of 17,831 sq.m. and the attached real estate facilities in Sihe town industry base in Xihe District, Fuxin City, in order to make investment in the construction of the new plant with annual output of 20 million KW enclosed busbars ("New Plant Project"). The estimated investment in the construction of the New Plant Project was RMB50 million, including RMB12 million for land, and RMB38 million for the production and office building, the attached real estate facilities and other facilities. The fund for the new plant was derived from the expropriation compensation of the north plant area at No.77 Dongfeng Road, with the rest covered by Xihe District Government using the enterprise development fund. The final construction cost will be settled according to the final price and equipment purchase price. As of 31 December 2018, FEB had received the relocation compensation of RMB30,965,400, and the construction of the new plant has been completed and put into use.

6.23 Estimated liabilities

Item	Balance at beginning of year	Balance at end of year	Reason
External guarantee	37,615,481.25	34,354,500.00	Liability under guarantees
Lawsuits pending ruling	37,745,190.00	37,745,190.00	Case of Shenyang HVS employees' settlement
Total	**75,360,671.25**	**72,099,690.00**	

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

6.23 Estimated liabilities *(Continued)*

6.23.1 The Company has provided guarantee for the bank loan of RMB 13,000,000.00 between Bank of China Jinzhou Branch and Jinzhou Power Capacitor Co. Ltd ("Jinrong"), and thus undertake 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 undertake joint obligation of repayment. The subject District Court has ruled in May 2005 that the Company should undertake the joint obligation of repayment of the captioned loan principal and interests. The Company has not filed for appeal, and the Ruling has been effective. Intermediate Court of Liaoning Province Jinzhou City has issued Enforcement Notice (2005) Jin Zhi Zi No. 89 in September 2005. And on 23 June 2010 the Court has made Enforcement Ruling (2005) Jin Zhi Yi Zi Di 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 settled.

6.23.2 The Company has provided guarantee for loans of RMB17,000,000.00 between Jinzhou Power Capacitor Co., Ltd. and Jinzhou City Commercial Bank. The bank has launched lawsuit to the Intermediate Court of Jinzhou City against Jinrong for repayment of principal of RMB17,000,000.00 and related interests of RMB2,890,000.00, and asking for the Company to assume joint obligation of repayment. The court has sentenced the Company to assume joint liability for repaying RMB17,000,000.00 and related interests of RMB2,890,000.00 by Civil Judgment (2007) Jin Min San Chu Zi Di No. 00049 in June 2007, which has come into effectiveness for the Company has not appealed. Intermediary Court of Jinzhou City issued an order of Enforcement to the Company on 5 March 2008, requesting execution of obligations. The Company therefore has estimated liability of RMB19,890,000.00. Up till the reporting date, the Company has not paid the above mentioned liability.

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

6.23 Estimated liabilities *(Continued)*

6.23.3 The reduction of estimated liabilities is detailed in note 1 under Note VI.41.

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

In May 2007, the Company and Shenyang HVS entered into agreement with Tiexi Commission, Agreement of Shenyang HVS Employees Settlement Affairs, then in June and November of 2008, the 3 parties signed Agreement of Proper Settlement of Shenyang HVS Employees and Supplementary Agreement, the New Northeast High-Voltage has guaranteed for the relevant settlement payments. Settlement involved in these agreements totaled RMB132,390,000.00, for which Shenyang HVS has paid RMB103,860,000.00 up to July 2011. To date, there's an outstanding amount of RMB28,530,000.00.

Consequently in May 2017, Tiexi Commission sued the Company and Shenyang HVS 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 Civil Judgment (2017) Liao Min Xia Zhong No. 196 on 6 December 2017, sustaining the ruling by the Intermediate Court.

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

6.23 Estimated liabilities *(Continued)*

Although there deemed to be disputes in nature of the case, limitation of action and validity of the agreements, the Company's representing lawyer is of view that the case would probably be ruled by the Court for the Company and Shenyang HVS to settle full payment as it is concerning wellbeing of employees. Also, as Shenyang HVS's business license has been revoked, the Company has estimated liability of RMB37,745,190.00 in 2017 according to the lawyer's opinion.

On 12 June 2018, the case was heard in the Shenyang Intermediate People's Court. On 18 July, the Shenyang Intermediate People's Court issued Civil Judgment (2017) Liao 01 Minchu No. 430. The Shenyang Intermediate People's Court held that when the plaintiff Tiexi Commission reclaimed its rights to NEE on 21 July 2016, it had exceeded the two-year statute of limitations. The Shenyang Intermediate People's Court did not support the claim that the plaintiff Tiexi Commission requested the defendant NEE to repay the arrears of RMB28.53 million, interest and penalty. This judgment is the first-instance judgment of the court. The lawyer believes that in the case of the plaintiff's appeal and the second trial has not yet been tried, the court may still order the Company to assume full payment responsibility for the remaining resettlement fees and related expenses of the employees of Shenyang HVS.

6.24 Deferred income

Item	Balance at beginning of year	Increment	Decrement	Balance at end of year	Reason
Policy-based relocation compensation for new plant construction project [note]	–	10,943,884.89	273,287.39	10,670,597.50	Relocation of Fuxin Co.'s north plant

Note: Please refer to Note VI.22 for compensation for policy-based relocation.

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

6.24 Deferred income *(Continued)*

In particular, projects involving government grants:

Item	Balance at beginning of year	New grants for the year	Amount of non-operating income included in the year.	Amount of other income included in the year	Other changes	Balance at end of year	Asset and revenue related
Policy-based relocation compensation for new plant construction project	–	10,943,884.89	–	273,287.39	–	10,670,597.50	Asset related

6.25 Share Capital

Item	Balance at beginning of year	Increment/Decrement (+/-) New shares issued	Stock dividend	Reserve to shares	Others	Subtotal	Balance at end of year
Total shares	873,370,000.00	–	–	–	–	–	873,370,000.00

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

6.26 Capital reserve

Item	Balance at beginning of year	Increment	Decrement	Balance at end of year
Share premium	115,431,040.00	–	–	115,431,040.00
Other reserve	767,991,363.92	196,262,810.75	4,856,426.00	959,397,748.67
Total	**883,422,403.92**	**196,262,810.75**	**4,856,426.00**	**1,074,828,788.67**

Notes:

(1) The increase in other capital reserves is due to the donation of 10.50% equity of HNA Tianjin Development Co., Ltd. by Shanghai Yizhou Investment Management Co., Ltd., please refer to Note VI.8.

(2) The decrease in other capital reserves is caused by the disposal of the subsidiary New Northeast Electric (Jinzhou) Power Capacitor Co., Ltd.

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

6.27 Other Comprehensive Income (OCI)

		Amount incurred during the period					
Item	Balance at beginning of year	Amount before income tax	Less: previous other comprehensive income converted to current profit or loss	Less: income tax	Attributable to the parent company after tax	Attributable to minority interests after tax	Balance at end of year
I. OCI that cannot be re-classified into profit or loss	–	-2,206,187.28	–	–	-2,206,187.28	-38,579.55	-2,206,187.28
Including: Changes due to remeasurement of defined benefit plan	–	–	–	–	–	–	–
OCI that cannot be transferred to profit or loss under the equity method	–	–	–	–	–	–	–
Changes in fair value of other equity instruments investment	–	-2,206,187.28	–	–	-2,206,187.28	-38,579.55	-2,206,187.28
Changes in the fair value of the Company's own credit risk	–	–	–	–	–	–	–
II. OCI to be reclassified into profit or loss	-29,869,066.75	3,062,756.82			3,062,756.82		-26,806,309.93
Including: OCI that can be transferred to profit or loss under the equity method	–	–	–	–	–	–	–
Changes in fair value of other debt investments	–	–	–	–	–	–	–
Financial assets reclassified into OCI	–	–	–	–	–	–	–
Credit impairment provisions for other debt investments	–	–	–	–	–	–	–
Cash flow hedge reserve	–	–	–	–	–	–	–
Foreign currency translation difference	-29,869,066.75	3,062,756.82	–	–	3,062,756.82	–	-26,806,309.93
Total OCI	**-29,869,066.75**	**856,569.54**	**–**	**–**	**856,569.54**	**-38,579.55**	**-29,012,497.21**

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

6.28 Surplus reserves

Item	Balance at beginning of year	Increment	Decrement	Balance at end of year
Statutory surplus reserve	80,028,220.48	–	–	80,028,220.48
Optional surplus reserve	28,558,903.92	–	–	28,558,903.92
Total	**108,587,124.40**	**–**	**–**	**108,587,124.40**

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

6.29 Accumulated losses

Item	Year 2018	Year 2017
Accumulated losses at the end of last year	-2,034,142,303.59	-1,637,084,660.40
Adjustment for accumulated losses at the beginning of the year (Add"+", Less"-")	392,029.45	–
Accumulated losses at the beginning of the year after adjustment	-2,033,750,274.14	-1,637,084,660.40
Add: Net profit attributable to shareholders of the parent for the year	14,596,076.43	-397,057,643.19
Less: Appropriation for statutory surplus reserve	–	–
Appropriation for optional surplus reserve	–	–
Recognition of provision for general risks	–	–
Ordinary shares dividends payable	–	–
Ordinary shares dividends converted to equity	–	–
Accumulated losses at the end of the year	-2,019,154,197.71	-2,034,142,303.59

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

6.30 Revenue and cost of sales

6.30.1 Revenue and cost of sales

	Year 2018		Year 2017	
Category	**Income**	**Cost**	**Income**	**Cost**
Main business	32,074,907.02	26,649,958.43	32,382,320.55	25,570,761.13
Other business	236,578.08	145,538.27	603,537.11	398,738.56
Total	**32,311,485.10**	**26,795,496.70**	**32,985,857.66**	**25,969,499.69**

6.30.2 Breakdown information of main business income

① Main business (by regions)

	Year 2018		Year 2017	
Regions	**Revenue**	**Cost of sale**	**Revenue**	**Cost of sale**
Northeast	9,243,837.94	7,227,720.40	1,319,451.60	724,763.81
Central North	4,231,675.89	3,508,309.69	5,135,379.25	5,136,764.88
Central	9,195,534.49	7,724,408.15	9,815,797.89	6,637,085.92
Central East	1,818,408.13	1,122,461.97	701,838.03	479,657.27
South East	356,809.67	207,676.17	1,186,290.66	360,938.08
Southwest	6,233,538.28	6,188,855.81	9,106,143.07	7,891,359.72
Northwest	995,102.62	670,526.24	5,117,420.05	4,340,191.45
Total	**32,074,907.02**	**26,649,958.43**	**32,382,320.55**	**25,570,761.13**

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

6.30 Revenue and cost of sales *(Continued)*

6.30.2 Breakdown information of main business income *(Continued)*

② Main business (by products)

	Year 2018		Year 2017	
Products	**Revenue**	**Cost of sale**	**Revenue**	**Cost of sale**
Enclosed Busbar	30,855,743.61	25,752,486.14	30,072,679.91	24,009,050.65
Power Capacitor	1,219,163.41	897,472.29	2,309,640.64	1,561,710.48
Total	**32,074,907.02**	**26,649,958.43**	**32,382,320.55**	**25,570,761.13**

6.30.3 Revenue of top 5 customers

Period	Amount	Ratio of total revenue (%)
Year 2018	14,567,834.80	45.09
Year 2017	22,120,940.23	67.06

6.30.4 Purchase from top 5 suppliers

Period	Amount	Ratio of total purchase (%)
Year 2018	16,257,925.44	57.41
Year 2017	10,724,560.22	55.66

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

6.31 Business tax and surcharges

Item	Year 2018	Year 2017
City maintenance and construction tax	23,044.21	41,751.31
Education Surcharges	16,674.45	29,822.36
Land use tax	867,056.52	929,216.50
Property tax	459,064.23	270,431.40
Stamp duty	65,546.50	53,776.60
Tax on vehicles	9,988.80	10,948.80
Total	**1,441,374.71**	**1,335,946.97**

Note: Please refer to Note V. Tax for details of various taxes and surcharges payment standards.

6.32 Sales expenses

Item	Year 2018	Year 2017
Transportation fee	1,708,860.63	1,815,866.78
Employee compensation	917,644.79	1,207,470.41
Travelling expense	805,410.90	1,326,057.36
Bidding fee	435,774.46	362,296.52
Material consumption	33,112.83	48,568.97
After-sales services expenses	490,013.89	459,151.08
Entertainment fee	398,980.67	295,656.46
Other	357,139.54	276,423.46
Total	**5,146,937.71**	**5,791,491.04**

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

6.33 Administrative expenses

Item	Year 2018	Year 2017
Employee compensation	15,773,065.11	17,308,196.45
Loss of shutdown	6,153,199.21	9,881,435.36
Office expenses	3,310,969.14	2,379,529.24
Depreciation expenses	2,458,429.58	1,780,967.78
Agent fee	5,223,228.24	8,128,559.41
Heating expenses	623,651.13	1,104,169.66
Entertainment	280,528.02	1,034,410.31
Travelling expense	702,014.72	883,362.58
Amortization of intangible assets and long-term deferred expenses	505,289.68	1,003,783.01
Rental expenses	1,592,844.12	1,043,960.57
Others	254,755.83	161,873.94
Total	**36,877,974.78**	**44,710,248.31**

Note: Loss of shutdown is due to Jinrong, a subsidiary disposed by the Company this year, recorded its labour cost and manufacturing expenses which are lower than normal level into administrative expenses.

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

6.34 R&D expenditure

Item	Year 2018	Year 2017
Xinyou test section	390,919.20	–
Casting busbar test section	219,078.66	–
Dehumidifier test section	31,954.69	–
Insulating pipe busbar test section	138,211.30	–
Test fee	378,947.37	389,514.02
Others	83,975.81	74,951.4
Total	**1,243,087.03**	**464,465.42**

6.35 Finance expenses

Item	Year 2018	Year 2017
Interest expenses	508,574.91	1,056,010.25
Less: Interest income	896,055.67	84,802.07
Exchange difference	-3,107.57	2,378.01
Bank charges	90,735.37	88,356.19
Total	**-299,852.96**	**1,061,942.38**

Note: Interest expenses are mainly due to loan interest and interest expenses incurred with related party borrowings.

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

6.36 Assets impairment loss

Item	Year 2018	Year 2017
Bad debt expenses	–	14,270,240.81
Provision for decline in value on inventory	-7,278.74	963,911.84
Impairment loss of available-for-sale financial assets	–	23,313,895.54
Impairment loss of long-term equity investment	–	1,034,434.39
Impairment loss of fixed assets	–	2,228,612.31
Impairment loss of goodwill	72,097.15	–
Total	**64,818.41**	**41,811,094.89**

6.37 Credit impairment loss

Item	Year 2018	Year 2017
Loss of bad debts on notes receivable and accounts receivable	-69,532.55	–
Including: Loss of bad debts on notes receivable	-200,306.00	–
Loss of bad debts on accounts receivable	130,773.45	–
Loss of bad debts on other receivable	547,357.09	–
Total	**477,824.54**	**–**

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

6.38 Other income

Item	Year 2018	Year 2017	Amounts included in the current non-recurring profit or loss
Steady post subsidies	154,339.00	–	154,339.00
Compensation for new plant construction project in policy demolition	273,287.39	–	273,287.39
Relocation expenses and compensation for operating losses	643,050.00	–	643,050.00
Subsidiary for famous brand products	–	50,000.00	–
Total	**1,070,676.39**	**50,000.00**	**1,070,676.39**

6.39 Return on investments

Item	Year 2018	Year 2017
Return on long-term equity investment by equity method	-9,819.83	-9,396.59
Return on investment in disposing long-term equity investments [note]	34,695,454.56	–
Total	**34,685,634.73**	**-9,396.59**

Note: The Company held the 16th meeting of the 8th Board of Directors on 17 September 2017 and the 2nd extraordinary general meeting for 2018 on 25 May 2018, respectively, at which the proposal on the transfer of 100% equity from the Company's wholly-owned subsidiary New Northeast Electric (Jinzhou) Power Capacitor Co., Ltd. to Jiangsu Ankao Solar Thermal Power Generation System Technology Co. Ltd. was reviewed and approved. On 14 December 2018, the Company has completed the registration of industrial and commercial changes in equity delivery.

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

6.40 Gain on asset disposal

Item	Year 2018	Year 2017	Amounts included in the current non-recurring profit or loss
Land	6,694,252.01	–	6,694,252.01
Property	7,770,494.91	–	7,770,494.91
Equipment	1,339,727.61	–	1,339,727.61
Total	**15,804,474.53**	**–**	**15,804,474.53**

Note: The gain on asset disposal is mainly from the fair value of the assets levied resulted from the policy-oriented relocation of a subsidiary. See Note VI.22 for details.

6.41 Non-operating income

Item	Year 2018	Year 2017	Amounts included in the current non-recurring profit or loss
Gain on scrapping of non-current assets	67,416.92	–	67,416.92
Others [Note 1]	3,367,242.50	1,218,806.22	3,367,242.50
Total	**3,434,659.42**	**1,218,806.22**	**3,434,659.42**

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

6.41 Non-operating income *(Continued)*

Note 1: Of others, RMB3,260,981.25 is the reversal of estimated liabilities from the previous years to non-operating income. The Company provide guarantee and assume joint liability for loans of RMB22,900,000.00 from Industrial and Commercial Bank of China ("ICBC") Jinzhou Branch to Jinzhou Power Capacitor Co., Ltd., which loan agreement amount is RMB42,900,000.00. ICBC Jinzhou City Sub-branch has sued against Jinzhou Power Capacitor Co., Ltd. in December 2006 to the Intermediate Court of Jinzhou City, for the borrower to repay loan principal of RMB22,900,000.00 and related interest of RMB3,466,578.25, and for the Company to assume joint repayment. The Court has sentenced by Civil Judgment (2007) Jin Min San Chu Zi 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 Intermediate Court of Jinzhou City issued Enforcement Notice, requesting the Company to take the captioned liabilities. On 25 August 2010, the Intermediate Court of Jinzhou City issued (2008) Jin Zhi Yi Zi No.00067 execution notice, confiscated 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 Jinzhou Branch, agreeing to acquire reduction or exemption of overdue interest payment to such bank with either one-time repayment or repayment within 1 year of the amount agreed by all parties. Then on 21 December 2017 the Company presented to ICBC Jinzhou Branch in writing application of full repayment before 31 March 2018. In the application, the Company would repay loan principal of RMB5,000,000.00 on 22 December and 29 December 2017. By 14 March 2018 the Company has repaid the remaining loan principal, lawsuit expenses and interest incurred during overdue period. The amount of reduction and exemption of RMB3,260,981.25 by ICBC Jinzhou Branch, which was originally included in the estimated liabilities, was reversed and included in non-operating income. On 2 November 2018, the Intermediate People's Court of Jinzhou City, Liaoning Province made an Executive Ruling (2017) Liao 07 Zhi Hui No. 164, and ruled that it was partially executed for the obligations assumed by the executor Northeast Electric Development Co., Ltd. as determined in Civil Judgment (2007) Jin Min San Chu Zi No. 00019.

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

6.42 Non-operating expenses

Item	Year 2018	Year 2017	Amounts included in the current non-recurring profit or loss
Total loss on disposal of non-current assets	86,075.12	177,333.23	86,075.12
Including: loss on disposal of fixed assets	86,075.12	177,333.23	86,075.12
Loss on disposal of intangible assets	–	–	–
Fines on late payment & penalty	6,354.32	542,506.46	6,354.32
Compensation and settlement payments to employees	–	310,372,890.00	–
Others	2,034.95	0.20	2,034.95
Total	**94,464.39**	**311,092,729.89**	**94,464.39**

6.43 Income tax expense

6.43.1 Income tax expense

Item	Year 2018	Year 2017
Current income tax expense	1,366,600.00	163,819.81
Deferred income tax expense	–	–
Total	**1,366,600.00**	**163,819.81**

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

6.43 Income tax expense *(Continued)*

6.43.2 Reconciliation between accounting profit and income tax expenses

Item	Year 2018
Total profit	15,464,804.86
Income tax expenses calculated at statutory/appropriate tax rate	3,866,201.22
Effects of different tax rates applicable to subsidiaries	-6,643,579.01
Effects of adjustments to previous income taxes	–
Effects of non-taxable income	–
Effects of non- deductible cost/expenses/loss	389,348.43
Effects of utilization of deductible losses from previously unrecognized deferred income tax assets	-846,557.83
Effects of deductible temporary difference or losses from unrecognized deferred income tax assets for the year	4,601,187.19
Changes in the balances of income tax assets/liabilities arising from tax rates adjustments	–
Income tax expenses	1,366,600.00

6.44 Other comprehensive income

See Note VI. 27 for details.

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

6.45 Statements of cash flows

6.45.1 Cash received from other operating related activities

Item	Year 2018	Year 2017
Government grants	–	50,000.00
Interest income	896,055.66	84,802.07
Current accounts	49,147,238.01	71,343,909.18
Release of frozen bank deposits	240,000.00	2,104,291.23
Bidding deposits	5,621,753.90	4,402,068.00
Deposits for performance guarantees	3,386,425.27	–
Deposits	–	20,000.00
Others	106,261.25	–
Total	**59,397,734.09**	**78,005,070.48**

6.45.2 Cash paid for other operating related activities

Item	Year 2018	Year 2017
Fees for cash payments	17,006,299.40	15,345,602.41
Current accounts	7,661,021.58	12,415,381.64
Loan principal and interest repayment to ICBC Jinzhou Branch	18,329,142.29	5,000,000.00
Deposits for performance guarantees	2,860,445.27	3,760,150.00
Deposits for bidding	6,178,813.00	1,253,321.00
Others	2,034.95	157,631.46
Total	**52,037,756.49**	**37,932,086.51**

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

6.45 Statements of cash flows *(Continued)*

6.45.3 Cash received from other investment related activities

Item	Year 2018	Year 2017
Time deposits	40,000,000.00	–
Total	**40,000,000.00**	**–**

6.45.4 Cash paid for other investment related activities

Item	Year 2018	Year 2017
Agent fees for sale of subsidiary – NNE Jinzhou PC	–	1,405,000.00
Time deposits	65,000,000.00	30,000,000.00
Total	**65,000,000.00**	**31,405,000.00**

6.45.5 Cash received from other financial activities

Item	Year 2018	Year 2017
Compensation to the old plant relocation of FEB's parent company	–	20,355,984.89
Steady post subsidies	154,339.00	–
Total	**154,339.00**	**20,355,984.89**

6.45.6 Cash paid for other financial activities

Item	Year 2018	Year 2017
Agent fees for issuance of additional H Share	–	1,772,500.00
Total	**–**	**1,772,500.00**

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

6.46 Supplementary information to statement of cash flows

6.46.1 Supplementary information to statement of cash flows

Item	Year 2018	Year 2017
① Reconciliation from net profit to cash flows from operating activities		
Net profit	14,098,204.86	-398,155,971.11
Add: Provisions for assets impairment	542,642.95	41,811,094.89
Depreciation of fixed assets, oil and gas assets and productive bio-assets	5,049,379.51	5,188,122.04
Amortization of intangible assets	380,431.60	399,496.20
Amortization of long term deferred expenses	618,077.93	604,783.73
Loss on disposal of fixed assets, intangible assets and other non-current assets (gain is shown as "-")	-15,785,816.33	–
Loss on write-off of fixed assets (gain is shown as "-")	-	177,333.23
Loss on changes in fair value (gain is shown as "-")	-	–
Finance costs (gain is shown as "-")	498,415.31	1,056,010.25
Loss on investments (gain is shown as "-")	-34,685,634.73	9,396.59
Decrease in deferred income tax assets (increase is shown as "-")	-	–
Increase in deferred income tax liabilities (decrease is shown as "-")	-	–
Decrease in inventories (increase is shown as "-")	-2,503,478.81	3,760,042.88
Decrease in operating receivables (increase is shown as "-")	46,340,170.96	96,760,575.70
Increase in operating payables (decrease is shown as "-")	-19,147,859.36	294,350,933.05
Others	–	–
Net cash flows generated from operating activities	-4,595,466.11	45,961,817.45
② Significant non-cash investment and financing activities		
Debts changed to capital	–	–
Convertible bonds mature within 1 year	–	–
Fixed assets acquired under finance lease	–	–
③ Net changes in cash and cash equivalents:		
Cash at the end of period	84,724,338.23	8,408,461.77
Less: cash at the beginning of period	8,408,461.77	22,488,930.21
Add: cash equivalents at the end of period	–	–
Less: cash equivalents at beginning of period	–	–
Net increase in cash and cash equivalents	76,315,876.46	-14,080,468.44

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

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

6.46.2 Net cash from disposing subsidiaries during the year

Item	Amount
Cash or cash equivalents received from disposing subsidiaries during the year	103,000,000.00
Less: Cash or cash equivalents held by subsidiaries at the date control ceased	12,300.55
Net cash from disposing subsidiaries	102,987,699.45

6.46.3 Composition of cash and cash equivalents

Item	31 December 2018	31 December 2017
I. Cash	84,724,338.23	8,408,461.77
Including: Cash on hand	3,139.97	7,317.67
Bank deposits available on demand	84,721,198.26	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	–	–
Including: Bond investments mature within 3 months	–	–
III. Balance of cash and equivalents at end of year	84,724,338.23	8,408,461.77

Note: Time deposits of RMB55,000,000.00 and deposits for performance guarantees of RMB6,001,320.00 are not included in the balance of cash and cash equivalents at the end of the year.

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

6.47 Assets with restricted ownership or use right

Item	Book balance at end of year	Reason
Cash and equivalent – Others	6,001,320.00	Deposits for Performance Guarantees
Fixed assets – Buildings	14,018,221.48	Mortgage loan
Intangible assets – land use right	12,606,290.23	Mortgage loan
Total	**32,625,831.71**	

6.48 Foreign currency monetary items

6.48.1 Foreign currency monetary items

Item	Foreign currency balance at end of year	Exchange rate	Translated RMB balance at end of year
Currency			
Including: US dollars	154.25	6.8632	1,058.65
HK dollars	485,018.80	0.8762	424,973.47

6.48.2 Exchange rate of offshore entities

	Items on balance sheet	
Item	**31 December 2018**	**31 December 2017**
Northeast Electric Development (HK) Co., Ltd. (東北電氣發展（香港）有限公司)	HKD1.00 = RMB0.8762	HKD1.00 = RMB0.8359
Gaocai Technology Co., Ltd. (高才科技有限公司)	HKD1.00 = RMB0.8762	HKD1.00 = RMB0.8359

	Income, expenses, cash flow items	
Item	**Year 2018**	**Year 2017**
Northeast Electric Development (HK) Co., Ltd.	HKD1.00 = RMB0.8561	HKD1.00 = RMB0.8652
Gaocai Technology Co., Ltd.	HKD1.00 = RMB0.8561	HKD1.00 = RMB0.8652

Note: Northeast Electric Development (HK) Co., Ltd. is a company set up in Hong Kong by the Company, Gaocai Technology Co., Ltd. is a company set up in British Virgin Islands (BVI) by the Company.

VII. Changes in Consolidation Scope

7.1 Disposal of subsidiaries

7.1.1 Loss of control in investments in subsidiaries from a single disposal

Name of subsidiary	Equity disposal price (RMB0'000)	Equity disposal ratio (%)	Equity disposal method	Time of loss of control	Basis for determining the time of loss of control	Difference between the disposal price and the share of the subsidiary's net assets at the level of consolidated statement corresponding to the disposal investment
New Northeast Electric (Jinzhou) Power Capacitor Co Ltd,	10300.00	100.00	–	2018-10-17	–	35,291,673.88
Jinzhou Jinrong Electric Co., Ltd.	–	100.00	–	–	–	–

(Continued)

Name of Subsidiary	Proportion of remaining equity on the date of loss of control (%)	Book value of the remaining equity on the date of loss of control	Fair value of the remaining equity on the date of loss of control	Gain or loss arising from the re-measurement of the remaining equity at fair value	Method and main assumptions for determining the fair value of the remaining equity on the date of loss of control	Amount of OCI related to equity investment of original subsidiaries transferred to investment gains and losses
New Northeast Electric (Jinzhou) Power Capacitor Co., Ltd.	–	–	–	–	–	–
Jinzhou Jinrong Electric Co., Ltd.	–	–	–	–	–	–

Note: Jinzhou Jinrong Electric Co., Ltd. is a subsidiary of New Northeast Electric (Jinzhou) Power Capacitor Co., Ltd., and New Northeast Electric (Jinzhou) Power Capacitor Co., Ltd. holds 69.75% of the shares in Jinzhou Jinrong Electric Co., Ltd.

VIII. Equity in Other Entities

8.1 Equity in subsidiaries

8.1.1 Composition of the Group

Name of subsidiary	Principle operating place	Registration place	Nature of business	Shareholding ratio (%) Direct	Indirect	Means of acquisition
Northeast Electric Development (HK) Co., Ltd.	HK	HK	Investment/Trade	100.00	–	Set up by investment
Gaocai Technology Co., Ltd.	BVI	BVI	Investment	100.00	–	Set up by investment
Shenyang Kaiyi Electric Co., Ltd.	Shenyang	Shenyang	Manufacturing, sales of electrical equipment	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
Hainan Tangyuan Technology Co., Ltd. [Note]	Haikou	Haikou	Investment	–	95.00	Set up by investment
Northeast Electric (Chengdu) Electric Engineering Design Co., Ltd.	Chengdu	Chengdu	Engineering design and construction, reconnaissance and design, project consultation of new energy	–	51.00	Merger acquisition under different control

Note: Shanghai Kaixin Internet Technology Development Co., Ltd. changed its name to Hainan Tangyuan Technology Co., Ltd. on 1 June 2018, and moved its registration and business location from Shanghai to Haikou.

8.1.2 Information on significant non-wholly-owned subsidiary

Item	Percentage of minority shares (%)	Equity attributable to minority shareholders in the period	Dividends paid to minority shareholders in the period	Total year-end minority Interests
Northeast Electric (Chengdu) Electric Engineering Design Co., Ltd.	49.00	-405,397.72	–	3,473,416.68
Total	**–**	**-405,397.72**	**–**	**3,473,416.68**

VIII. Equity in Other Entities

8.1 Equity in subsidiaries

8.1.3 Financial information of significant non wholly-owned subsidiary

	Closing balance					
Name of subsidiary	Current assets	Non-current assets	Total assets	Current liabilities	Non-current liabilities	Total liabilities
Northeast Electric (Chengdu) Electric Engineering Design Co., Ltd.	13,561,068.82	51,265.28	13,612,334.10	6,523,728.62	–	6,523,728.62

(Continued)

	Opening balance					
Name of subsidiary	Current assets	Non-current assets	Total assets	Current liabilities	Non-current liabilities	Total liabilities
Northeast Electric (Chengdu) Electric Engineering Design Co., Ltd.	13,561,068.82	51,265.28	13,612,334.10	6,523,728.62	–	6,523,728.62

	Opening balance					
Name of subsidiary	Current assets	Non-current assets	Total assets	Current liabilities	Non-current liabilities	Total liabilities
Northeast Electric (Chengdu) Electric Engineering Design Co., Ltd.	14,693,490.53	92,285.12	14,785,775.65	6,869,827.89	–	6,869,827.89

	Year 2018				Year 2017			
Name of subsidiary	Operating income	Net profit	OCI	Cash flow from operating activities	Operating income	Net profit	OCI	Cash flow from operating activities
Northeast Electric (Chengdu) Electric Engineering Design Co., Ltd.	–	-827,342.28	–	6,431,072.67	–	-1,942,685.27	–	-2,156,825.52

VIII. Equity in Other Entities *(Continued)*

8.2 Equity in associates

8.2.1 Basic information of associates

Name of company	Principle operating place	Registration place	Shareholding ratio (%)	Nature of business
Weida High-voltage Electric Co., Ltd.	BVI	BVI	20.80%	Investment holding

8.2.2 Main financial information of significant associates accounting by equity method

Item	31 December 2018	31 December 2017
Current assets	207,994,490.24	219,506,121.17
Including: Cash and cash equivalents	97,079.03	13,659.27
Non-current assets	–	–
Total assets	207,994,490.24	219,506,121.17
Current liabilities	2,838,678.03	23,741,296.33
Non-current liabilities	–	–
Total liabilities	2,838,678.03	23,741,296.33
Net asset	205,155,812.21	195,764,824.84
Share in net asset pro rata shares held	42,672,408.94	40,719,083.57
Book value of equity investment to associate	22,484,598.52	19,463,641.61
Operating income	–	–
Net profit	-47,210.74	-45,175.91

8.2.3 Risk information relating to equity in associates

① Significant restriction to fund transfer

Nil.

② Shared portion of excessive loss in associate

Nil.

IX. Risks Related to Financial Instrument

Financial instruments the Company invested mainly include equity investment, borrowings, accounts receivables and accounts payables. Please see Note VI for details of financial instruments. 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 or loss or shareholders' equity by the reasonable and possible variations of risks. Since any variation of a risk seldom happen isolatedly, relativity between variables will cause significant influences on the ultimate impacted amount of a changed variable of risk, so the following statement is based on supposition that each variable happens independently.

Goal and policies of risk management

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

IX. Risks Related to Financial Instrument *(Continued)*

9.1 Market risks

9.1.1 Foreign currency risks

Foreign currency risk is the risks of loss caused by fluctuation in exchange rates. The main foreign currency risks for the Company involve HKD. Except for subsidiaries established overseas – Northeast Electric (HK) Co., Ltd. and Gaocai Technology Co., Ltd. which record in HKD for their financial statements, other principal operating activities of the Company are settled in RMB. On 31 December 2018, only daily expenses reported with no purchases or sales for overseas subsidiaries of the Company.

On 31 December 2018, impacts on the current profit or loss and shareholders' equity are as follows, supposing HKD against RMB appreciate or depreciate 0.5% while all other variables remain unchanged:

		Year 2018		Year 2017	
Item	Change in exchange rate	Impacts on profit	Impacts on shareholders' equity	Impacts on profit	Impacts on shareholders' equity
Translation from foreign currency reports	Appreciate 0.5% against RMB	-121.59	311,843.30	-10,094.69	339,326.48
Translation from foreign currency reports	Depreciate 0.5% against RMB	121.59	-311,843.30	10,094.69	-339,326.48

9.1.2 Risks of interest rates

Risks related to changes in cash flow of financial instruments due to interest rates' fluctuations mainly involve floating-rate bank borrowings, and the Company's present policy is to maintain the floating interest rates of these borrowings.

IX. Risks Related to Financial Instrument *(Continued)*

9.2 Credit risks

By 31 December 2018, maximum exposure of credit risks when the counterparty of the contract fails to perform its obligations and cause losses on financial assets and financial guarantee undertaken by the Company.

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

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

9.2.1 Notes receivable

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

9.2.2 Accounts receivable

The Company only conducts transactions with a recognized third party with good credit. All 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.

IX. Risks Related to Financial Instrument *(Continued)*

9.2 Credit risks *(Continued)*

9.2.2 Accounts receivable

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

Detailed transaction entries and accounting are requested by the Company. Payment records of customers are used as important reference for their credit evaluation. Dynamic management are exercised over customers' information, updated information of customers' are required for related credit policy to customers.

Management of the Company considers credit risks facing by the Company have been greatly reduced because it only conducts transactions with recognized third party with good credit, and manages concentration of credit risks by customer.

9.2.3 Other receivables

Other receivables of the Company consists mainly of petty cash, guarantee deposits, etc. The Company manages all these receivables with relevant business operations and supervises on an ongoing basis to make sure no significant bad debt risk will occur.

9.3 Liquidity risk

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

X. Disclosure of Fair Value

Year-end fair value of assets and liabilities measured at fair value

	Year-end fair value			
Item	**Level 1 fair value measurement**	**Level 2 fair value measurement**	**Level 3 fair value measurement**	**Total**
I. Recurring fair value measurement	–	–	–	–
(I) Financial assets held for trading	–	–	–	–
(2) Other debt investment	–	–	–	–
(3) Other equity instrument investment	–	–	230,996,496.87	230,996,496.87
Total assets measured at fair value on a recurring basis	–	–	230,996,496.87	230,996,496.87
Total liabilities measured at fair value on a recurring basis	–	–	–	–
II. Non-recurring fair value measurement	–	–	–	–
Total assets measured at fair value on a non-recurring basis	–	–	–	–
Total liabilities measured at fair value on a non-recurring basis	–	–	–	–

The year-end fair value of assets measured at fair value on a non-recurring basis is assessed by a third-party professional appraisal agency, and the value is determined based on the appraisal value issued by the appraisal agency.

XI. Related parties and related party transactions *(Continued)*

11.1 The largest controlling shareholder of the Company

Name	Registration place	Nature of business	Registered capital	Shareholding ratio of the largest shareholder (%)	Voting percentage of the largest shareholder (%)
Beijing Haihongyuan Investment Management Co., Ltd.	Beijing	Investment and management	RMB3,000,000	9.33	9.33

11.1.1 On 23 January 2017, the former largest controlling shareholder of the Company – Changzhou Qsing Chuang Industrial Investment Group Limited (常州青創實業投資集團有限公司) agreed to transfer 81,494,850 A Shares (9.33% of the Company's total share capital) without selling restriction of the Company to Beijing Haihongyuan Investment Management Co., Ltd. ("Beijing Haihongyuan") by signing Transfer Agreement of Shares of Northeast Electric Development Company Limited.

On 13 February 2017, registration of share transfer completed at China Securities Depository and Clearing Corporation Limited Shenzhen Office. Thus, Beijing Haihongyuan has become the largest controlling shareholder of the Company, taking 81,494,850 Shares of the Company which is 9.331% of total shares.

11.1.2 Beijing Haihongyuan increased its share capital from RMB20 million to RMB30,000.00 million in October 2017, with RMB3,520.00 million paid-up. Ultimate controlling party of the Company becomes Hainan Province Cihang Foundation.

11.1.3 On 21 December 2018, Beijing Haihongyuan pledged 9.33% shares it held in the Company to Bank of Guangzhou Co.,Ltd.

XI. Related parties and related party transactions *(Continued)*

11.2 Subsidiaries of the Company

Please refer to Note VIII. 1. Equity in subsidiaries.

11.3 Associate of the Company

Please refer to Note VIII.2. Equity in associates.

11.4 Other related parties

Name of other related parties	Relationship with the Company
Jiangsu Zhilin Electric Technology Co., Ltd. ("Jiangsu Zhilin")	Shareholder of subsidiary – Northeast Electric (Chengdu)
Jiangsu Disheng Silian New Energy Investment Co., Ltd.	Under same controlling party as Jiangsu Zhilin
HNA Group Finance Co., Ltd.	Under the same de facto controller as the Company
Hainan Yingzhi Construction and Development Co., Ltd.	Under the same de facto controller as the Company
Hainan Trans Property Management Company Limited	Under the same de facto controller as the Company
HNA Business Services Co., Ltd.	Under the same de facto controller as the Company
Hainan Junbo Hotel Management Co., Ltd.	A legal person controlled by the Company's major shareholder
Antu Business Travel Services Co., Ltd.	Under the same de facto controller as the Company

Note: On 27 November 2017, Jiangsu Zhilin held 39% of shares in Northeast Electric (Chengdu) Electric Engineering Design Co., Ltd. through equity transfer, the latter being a subsidiary of the Company. Jiangsu Disheng Silian New Energy Investment Co., Ltd. ("Jiangsu Disheng") is under the same controller as Jiangsu Zhilin. Therefore, Jiangsu Zhilin and Jiangsu Disheng became related since 27 November 2017.

XI. Related parties and related party transactions *(Continued)*

11.5 Related party transactions

11.5.1 Related party transactions for the purchase and sale of goods, provision and receipt of services

① Receipt of services

Related party	Related transaction content	Year 2018	Year 2017
Hainan Yingzhi Construction and Development Co., Ltd.	Receipt of services	275,035.50	–
Hainan Trans Property Management Company Limited	Receipt of services	248,353.05	–
HNA Business Services Co., Ltd.	Receipt of services	2,800.00	–
Antu Business Travel Services Co., Ltd.	Receipt of services	2,038.00	

11.5.2 Related party lease

② The Company as a lessee

Lessor name	Type of leased assets	Rental expense recognized in 2018	Rental expense recognized in 2017
Hainan Yingzhi Construction and Development Co., Ltd.	House leasing	550,071.00	–

11.5.3 Related party funds lending

Borrowing:

Related party	Borrowing amount	Repayment amount	Description
Beijing Haihongyuan Investment Management Co., Ltd.	38,600,800.00	38,115,126.90	

XI. Related parties and related party transactions *(Continued)*

11.6 Related party payments

Item	Related party name	Balance at end of year	Balance at beginning of year
Notes receivable	Jiangsu Disheng Silian New Energy Investment Co., Ltd.	–	14,490,000.00
Other receivables	HNA Business Services Co., Ltd.	5,440.00	–
Other receivables	Hainan Junbo Hotel Management Co., Ltd.	117,313.62	
Other payables	Weida High-voltage Electric Co., Ltd.	343,711.50	313,872.23
Other payables	Hainan Yingzhi Construction and Development Co., Ltd.	825,106.50	–
Other payables	Hainan Trans Property Management Company Limited	248,353.05	–
Other payables	Beijing Haihongyuan Investment Management Co., Ltd.	980,336.56	–

For details of relationship between the Company and Jiangsu Disheng please see Note XI.4. Jiangsu Disheng entered into Agreement of Cooperation Framework with Northeast Electric (Chengdu) Electric Engineering Design Co., Ltd. on 30 December 2016, pursuant to which, they took part in the construction of PV Power Plant of 20MW capacity in Longzi County, Shannan Tibet. Jiangsu Disheng has paid RMB14.6 million in aggregate for construction in December 2016 and January 2017. The bid was then won by a third party, hence neither party took part in the construction. Jiangsu Disheng formed connected relationship with the Company on 27 November 2017. At the end of the year, the Company had no receivables from Jiangsu Disheng.

11.7 Compensation for key management personnel

Item	Year 2018	Year 2017
Employee compensation	2,384,393.82	3,532,056.43

XI. Related parties and related party transactions *(Continued)*

11.8 Other related party transactions

11.8.1 Deposit service

HNA Group Finance Co., Ltd. is under the same de facto controller as the Company. It provides deposit services and other financial services that are approved by China Banking Regulatory Commission to the Company and its subsidiaries. As of 31 December 2018, the balance of deposits of the Company and its subsidiaries in HNA Group Finance Co., Ltd. was RMB70,206,244.75.

11.8.2 Please refer to Note VI.8 for details of the gratuitous equity grants of related parties.

XII. Contingent Events

12.1 As of 31 December 2018, for pending litigations of the Company, please see Note VI.21(2) and Note VI.23(4)

12.2 External guarantee

As of 31 December 2018, the Company has pledged guarantee for Jinzhou Power Capacitor Co. Ltd.'s RMB30.00 million bank loans. Please refer to Note VI.23 Estimated Liabilities for details.

12.3 Other contingent liabilities and relevant impacts on financial statements

As of 31 December 2018, the deposits for performance guarantee with Bank of China Fuxin Branch were RMB3,335,850.00, the deposits for performance guarantee with Bank of Communications Fuxin Branch were RMB2,665,470.00.

XIII. Commitment

There's no material commitment during the reporting period.

XIV. Post Balance Sheet Date Events

14.1 The impact of the implementation of the new accounting rules from 1 January 2019.

On 7 December 2018, the MOF issued "Accounting Standards for Business Enterprises No.21 – Leasing (Revised in 2018)" (Cai Kuai [2018] No. 35, hereinafter referred to as "New ASBEs on Leasing "), pursuant to which, enterprises listed both in domestic and overseas and those listed overseas and applying International Financial Reporting Standards or ASBE to prepare financial reports are required to adopt the New ASBEs on Leasing from 1 January 2019. The Company started to adopt the New ASBEs on Leasing on 1 January 2019, and will make changes to its accounting policies accordingly.

The following are the main contents of the accounting policy changes involved:

The New ASBEs on Leasing defines the lease as "an contract whereby the lessor conveys the right to use the asset to the lessee in return for consideration within a certain period" and further states that if a party to the contract assigns the right to control the use of one or more identified assets for a certain period in exchange for consideration, the contract is a lease or includes a lease. At the same time, the New ASBEs on Leasing also provides for the separation of contracts involving lease and non-lease components and the circumstances under which multiple contracts should be consolidated into one lease contract for accounting purposes.

XIV. Post Balance Sheet Date Events *(Continued)*

14.1 The impact of the implementation of the new accounting rules from 1 January 2019. *(Continued)*

Under the New ASBEs on Leasing, the lessee no longer divides the lease into an operating lease or a finance lease, but adopts a uniform accounting treatment model to recognize the right-of-use assets and lease liabilities for all leases other than short-term leases and low-value asset leases. Depreciation and interest expenses are accrued separately.

The New ASBEs on Leasing clearly stipulates that in case of a major event or change within the controllable scope of the lessee, which impacted the lessee's rational determination to exercise the corresponding option, the lessee shall reassess whether it is reasonably ascertain to exercise the option to renew the lease, option to purchase or option to not terminate the lease. The lease change refers to the change in the lease scope, consideration and term beyond the original contract terms. Enterprise shall account for it as a separate lease or re-measure the lease liability based on their respective changes.

XV. Other Major Events

15.1 Significant uncertainties in regards with continuous operation of the Company

As of 31 December 2018 the Company recorded net loss of RMB-2,019,154,197.71, and total liabilities of RMB482,997,100.56, gearing ratio of 95.62%, excess of RMB217,093,262.12 of current liabilities over current assets and equity attributable to parent's shareholders of RMB8,619,218.15. In the meantime, aggregate compensation for settled litigation amounted to RMB272.00 million. The above major matters which might impact the continuous operation of the Company exists material uncertainties, thus may result in the Company's inability to liquidate assets and repay debts during its normal operation.

15.2 Non-public issuance of H Share of the Company

In the 2nd extradinary general meeting for 2017, the Proposal on Approving the Terms and Conditions and Proposed Transactions under Purchase Agreement of New H Share Between HNA Hotel Group (Hong Kong) Co., Ltd. with the Company Signed on 5 April 2017 was considered and approved in a way of special resolution. The additional H Shares are 155,830,000 shares in total, with a purchase price of HKD2.4 per share.

XV. Other Major Events ***(Continued)***

15.2 Non-public issuance of H Share of the Company ***(Continued)***

On 7 August 2017, the Company received from China Securities Regulatory Commission of Notice of Acceptance of Administrative License Application by CSRC (No. 171506).

On 3 December 2018, the Company issued the Announcement on the Confirmation Letter on the Deadline for the Extension of the H Share Purchase Agreement. The Company signed a Confirmation Letter with HNA Hotel Group (Hong Kong) Co. Ltd., agreeing to extend the deadline to 30 June 2019 or such other date as the parties may agree.

15.3 On 1 January 2018, the Company implemented the relevant provisions under the Notice by the Ministry of Finance on Revising and Issuing the Format of 2018 Financial Statements for General Enterprises (Cai Kuai [2018] No. 15, hereinafter referred to as "Cai Kuai No. 15") and the Notice on Revising and Issuing the Format of the 2018 Consolidated Financial Statements (Cai Kuai (2019) No. 1) promulgated on 18 January 2019.

Cai Kuai No. 15 revised the presentation items in the balance sheet and income statement, and added new items such as "notes receivable and accounts receivable", "notes payable and accounts payable" and "research and development expenses" items, amended items under "other receivables", "fixed assets", "construction in progress", "other payables" and "management expenses", removed "notes receivable", "accounts receivable", "dividends receivable", "interest receivable", "notes payable", "accounts payable", "interest payable" and "dividend payable" items, added "including: interest expense" and "interest income" under "finance expenses" item, and the presentation position of some items in the income statement is adjusted. The Company prepares financial statements in accordance with the requirements of the Accounting Standards for Business Enterprises and Annex 2 to Cai Kuai No. 15- Format of Financial Statement for General Enterprises (applicable to enterprises that have implemented the New ASBEs on Financial Instrument and the New ASBEs on Revenue).

XVI. Notes to Major Items in the Financial Statements of the Company

16.1 Notes receivable and accounts receivable

Item	Closing balance	Openinging balance
Notes receivable	–	–
Accounts receivable	–	497,804.72
Total	**–**	**497,804.72**

16.1.1 Classification of accounts receivable

	Closing balance				
	Carrying amount		Provision for bad debt		
Types	Amount	Ratio (%)	Amount	Ratio (%)	Book value
Account receivable of provision for bad debt on an individual basis	–	–	–	–	–
Accounts receivable of provision for bad debt on a collective basis	1,423,911.79	100.00	1,423,911.79	100.00	–
Total	**1,423,911.79**	**100.00**	**1,423,911.79**	**100.00**	**–**

(Continued)

	Beginning balance				
	Carrying amount		Provision for bad debt		
Types	Amount	Ratio (%)	Amount	Ratio (%)	Book value
Account receivable of provision for bad debt on an individual basis	–	–	–	–	–
Accounts receivable of provision for bad debt on a collective basis	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**

XVI. Notes to Major Items in the Financial Statements of the Company *(Continued)*

16.1 Notes receivable and accounts receivable *(Continued)*

16.1.1 Classification of accounts receivable *(Continued)*

Accounts receivable of provision for bad debts based on aging combination

Aging	Closing balance		
	Accounts receivable	Provision for bad debt	Ratio of provision (%)
Over 4 years	1,423,911.79	1,423,911.79	100.00

16.1.2 Provision for bad debt of accounts receivable

Item	Opening balance	Provision for the year	Retrieval or reversal	Closing balance
Accounts receivable	926,107.07	497,804.72	–	1,423,911.79

16.2 Other receivables

Item	Closing balance	Opening balance
Interests receivable	–	–
Dividends receivable	–	–
Other receivables	265,704,605.00	270,800,423.03
Total	**265,704,605.00**	**270,800,423.03**

XVI. Notes to Major Items in the Financial Statements of the Company *(Continued)*

16.2 Other receivables *(Continued)*

16.2.1 Classification of other receivables

	Closing balance				
	Carrying amount		Provision for bad debt		
Types	**Amount**	**Ratio (%)**	**Amount**	**Ratio (%)**	**Book value**
Other receivables of provision for bad debt on an individual basis	76,146,595.00	22.24	76,138,800.00	99.99	7,795.00
Other receivables of provision for bad debt on a collective basis	266,013,915.26	77.75	317,105.26	0.12	265,696,810.00
Including: Aging combination	317,105.40	0.09	317,105.26	100.00	0.14
Internal current account	265,696,809.86	77.65	–	–	265,696,809.86
Total	**342,160,510.26**	**100.00**	**76,455,905.26**	**22.35**	**265,704,605.00**

(Continued)

	Opening balance				
	Carrying amount		Provision for bad debt		
Types	**Amount**	**Ratio (%)**	**Amount**	**Ratio (%)**	**Book value**
Other receivables of provision for bad debt on an individual basis	76,090,000.00	21.92	76,090,000.00	100.00	–
Other receivables of provision for bad debt on a collective basis	271,090,045.28	78.08	289,622.25	0.11	270,800,423.03
Including: Aging combination	366,516.44	0.11	289,622.25	79.02	76,894.19
Internal current account	270,723,528.84	77.98	–	–	270,723,528.84
Total	**347,180,045.28**	**100.00**	**76,379,622.25**	**22.00**	**270,800,423.03**

XVI. Notes to Major Items in the Financial Statements of the Company *(Continued)*

16.2 Other receivables *(Continued)*

16.2.1 Classification of other receivables

A. Other receivables of provision for bad debt on an individual basis as at the end of the year

	Closing balance			
Other receivables	**Other receivables**	**Provision for bad debt**	**Ratio of provision**	**Reasons**
Benxi Iron & Steel (Group) Co., Ltd.	76,090,000.00	76,090,000.00	100%	See Note VI.4(1)A

B. Other receivables of provision for bad debts based on aging combination

	Closing balance		
Aging	**Other receivables**	**Provision for bad debt**	**Ratio of provision (%)**
Within 1 year	0.14	–	–
Over 4 years	317,105.26	317,105.26	100.00
Total	**317,105.40**	**317,105.26**	**100.00**

16.2.2 Provision for bad debts of other receivables

Provision for bad debt	**Stage one Expected credit loss over the next 12 months**	**Stage two Lifetime expected credit loss (not credit-impaired loans)**	**Stage three Lifetime expected credit loss (credit-impaired loans)**	**Total**
Balance on 1 January 2018	–	76,389,840.05		76,389,840.05
Book balance of other receivables for the period on 1 January 2018	–	–	–	–
Provision for the period	–	66,065.21	–	66,065.21
Reversal for the period	–	–	–	–
Write off for the period	–	–	–	–
Balance on 31 December 2018	–	76,455,905.26	–	76,455,905.26

XVI. Notes to Major Items in the Financial Statements of the Company *(Continued)*

16.2 Other receivables *(Continued)*

16.2.3 Other receivables classified by nature

Nature of accounts	Balance at end of year	Balance at beginning of year
Litigation (see Note VI.4(1)A)	76,090,000.00	76,090,000.00
Current account with subsidiaries	265,696,809.86	270,723,528.84
Others	373,700.40	366,516.44
Total	**342,160,510.26**	**347,180,045.28**

16.2.4 Other receivables of the top five year-end balances by debtor

Name of company	Nature of accounts	Closing balance	Ageing	Proportion of the total balance of other receivables at the end of the year (%)	Balance of provision for bad debt at the end of the year
Hainan Tangyuan Technology Co., Ltd.	Current account	119,381,570.41	Within 1 year; 2-3 years	34.89	–
Shenyang Kaiyi Electric Co., Ltd.	Current account	60,864,051.17	Within 1 year;1-2 years	17.79	–
Northeast Electric (Chengdu) Electric Engineering Design Co., Ltd.	Current account	6,138,632.29	Within 1 year	1.79	–
Gaocai Technology Co., Ltd.	Current account	79,298,247.36	Over 4 years	23.18	–
Benxi Iron & Steel (Group) Co., Ltd.	Current account	76,090,000.00	Over 4 years	22.24	76,090,000.00
Total		**341,772,501.23**		**99.89**	**76,090,000.00**

XVI. Notes to Major Items in the Financial Statements of the Company *(Continued)*

16.3 Long-term equity investments

16.3.1 Classification

	Closing balance			Beginning balance		
Item	Carrying amount	Provision for impairment	Book value	Carrying amount	Provision for impairment	Book value
Investment in subsidiaries	173,305,837.52	116,869,364.49	56,436,473.03	173,305,837.52	116,869,364.49	56,436,473.03

16.3.2 Investment in subsidiaries

Investee	Beginning balance	Increment	Decrement	Closing balance	Provision for impairment this year	Balance of provision for impairment at the end of the year
Northeast Electric Development (Hong Kong) 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
Gaocai Technology Co., 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**

XVII. Supplementary Information

17.1 Breakdown of extraordinary profit or loss

Item	Year 2018	Year 2017
Profit or loss on disposal of non-current assets	15,785,816.33	-177,333.23
Tax return/exemption with ultra vires approval/or no official approval	–	–
Government grant taken into profit or loss for the period (except for those closely related to business of the Company and those granted by the government in fixed amount or quantity according national standards)	1,070,676.39	50,000.00
Fund appropriation fees charged on non-financial enterprise taken into profit or loss for the period	–	–
Revenue generated when cost of investment is less than fair value of identifiable net assets acquired when acquiring subsidiary, associates, or joint venture	–	–
Profit or loss of non-monetary asset swap	–	–
Profit or loss entrusting third party to invest or manage asset	–	–
,Provision for impairment on assets due to force majeure for example, natural disaster	–	–
Profit or loss on debt restructuring	–	–
Expenses on reorganization of enterprise, such as settlement expense for employees and combination expenses	–	–
Profit or loss over difference between fair value and inappropriate transaction price	–	–
Net profit or loss arising from business combination under common control in relation to the period from the beginning of the year to the date of combination	–	–
Profit or loss by contingent events non-related to normal business of the Company	–	–
Except for effective hedging related to the operation of the Company, profit or loss arising from fair value change on financial assets or liabilities held for trading, disposal of financial assets or liabilities held for trading or available-for-sale financial assets	–	–

XVII. Supplementary Information *(Continued)*

17.1 Breakdown of extraordinary profit or loss *(Continued)*

Item	Year 2018	Year 2017
Reversal of provision for accounts receivable under separate impairment test	–	9,590,990.45
Profit or loss on entrusted loans	–	–
Profit or loss on subsequent measurement at fair value for investment properties	–	–
Impact on profit or loss by non-recurring adjustment according to laws and regulations of tax and accounting	–	–
Trustee fee by entrusted operations	–	–
Other non-operating incomes and expenses except for the above-mentioned	3,358,853.23	-309,696,590.44
Other items complied with definitions of extraordinary profit or loss	34,695,454.56	–
Subtotal	**54,910,800.51**	**-300,232,933.22**
Amount of impact on income tax	- 1,366,600.00	-163,819.81
Impact on minority interests (after tax)	–	–
Total	**53,544,200.51**	**-300,396,753.03**

Note: The "+" in the extraordinary profit or loss indicates the revenue and income, and the "-" indicates the loss or expenditure.

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

XVII. Supplementary Information *(Continued)*

17.2 Return on net assets and earnings per share

		Earnings per share (RMB/share)	
Profit for the period	**Weighted average return on net assets (%)**	**Basic earnings per share**	**Diluted earnings per share**
Net profit attributable to ordinary shareholders	–	0.02	0.02
Net profit attributable to ordinary shareholders after deduction of extraordinary profit or loss	–	-0.04	-0.04

Note: There's no weighted average return on asset in this period as weighted average net asset are in red.

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

(I) Originals of Accounting Statements bearing signatures and seals of the Legal Representative, Chief Financial Officer and Head of Financial Department (Accounting supervisor) of the Company;

(II) Originals of auditors' reports bearing seals of the accounting firm and signatures and seals of the certified public accountants;

(III) Originals of all the Company's documents and originals of announcements, which have been disclosed on the newspapers designated by China Securities Regulatory Commission (CSRC) during the reporting period;

(IV) Original of the annual report of the Company.

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

地址：海南省海口市美蘭區
國興大道7號新海航大厦22層
網址：www.nee.com.cn
電郵：nee@nee.com.cn
電話：0898-68876008
傳真：0898-68876033
郵編：570203

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