



NEE

INTERIM REPORT 2020



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

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Chapter 1 IMPORTANT NOTICE

- 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 interim report.
- 1.2 The Company's Chairman Zhu Jie, Chief Financial Officer Wang Kai and Chief Accounting Officer Wang Kai hereby represent: guaranteeing the truthfulness, accurateness and integrity of the financial reports in the interim report.
- 1.3 This report has been considered and approved by the seventeenth meeting of the 9th Board convened on 28 August 2020. All Directors attended the Board meeting in person to consider and approve this report.
- 1.4 The Group prepared the Unaudited Results Announcement for the Six Months Ended 30 June 2020 in accordance with the PRC GAAP and IFRS. The audit committee of the Board has reviewed and confirmed the Company's interim report for 2020. The audit committee has approved the financial accounting principles, standards and methods adopted by the Company for the unaudited interim accounts for the six months ended 30 June 2020.
- 1.5 The Company proposes not to distribute cash dividend, issue bonus share, or capitalise from capital reserves.
- 1.6 The consolidated turnover is RMB37,838,800.
- 1.7 The profit attributable to equity holders of the Company is RMB-11,818,400.
- 1.8 Earnings per share attributable to equity holders of the Company are RMB-0.0135.
- 1.9 Unless otherwise stated, Renminbi is the only monetary unit in this announcement.

1.10 Definitions

CSRC	China Securities Regulatory Commission
De facto controller of the Company	Hainan Liberation Commonweal Foundation
Beijing Haihongyuan	Beijing Haihongyuan Investment Management Co., Ltd., a substantial shareholder of the Company
NEE, the Company	Northeast Electric Development Company Limited
Fuxin Busbar	Fuxin Enclosed Busbar Co., Ltd., a subsidiary of the Company
NEE Chengdu	Northeast Electric (Chengdu) Electric Engineering Design Co., Ltd., a subsidiary of the Company
Garden Lane Hotel	Hainan Garden Lane Flight Hotel Management Co., Ltd., a subsidiary of the Company
HNA Hotel (Hong Kong)	HNA Hotel Group (Hong Kong) Co., Ltd., a related party of the Company
HNA Group	HNA Group Co., Ltd., a related party of the Company
Shenyang Intermediate People's Court	Shenyang Municipal Intermediate People's Court of Liaoning
Hainan First Intermediate People's Court	The First Intermediate People's Court of Hainan Province
Tiexi SASAB	Tiexi District State-owned Assets Supervision and Administration Bureau of Shenyang
Shenyang HVS, Shenyang High Voltage Switchgear	Shenyang High Voltage Switchgear Co., Ltd.

Chapter 2 CORPORATE PROFILE

2.1 Basic information

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

2.2 Contact person and contact information

	Secretary to the Board	Representative for securities affairs
Name	Ding Jishi	Zhu Xinguang, Ju Meng
Address	22nd Floor, HNA Plaza, No.7 Guoxing Road, Meilan District, Haikou City, Hainan Province	22nd Floor, HNA Plaza, No.7 Guoxing Road, Meilan District, Haikou City, Hainan Province
Telephone	0898-68876008	0898-68876008
Fax	0898-68876033	0898-68876033
Email	dbdqshbgs@hnair.com	nemm585@sina.com

2.3 Additional information

Registered address	Room A1-1077, 5th Floor, Building A, Entrepreneurship Incubation Center, Haikou National High-tech Zone, No.266 Nanhai Avenue, Haikou City, Hainan Province
Postal code	571152
Office address	22nd Floor, HNA Plaza, No.7 Guoxing Road, Meilan District, Haikou City, Hainan Province
Postal code	570203
Website	www.nee.com.cn
E-mail address	dbdqdsbgs@hnair.com

Chapter 3 PRINCIPAL FINANCIAL DATA AND INDICATORS

(I) Principal financial data and indicators prepared under the PRC GAAP

	Amount for the reporting period	Amount for the same period of last year	Increase/decrease in the reporting period compared with the same period of last year
Operating incomes (RMB)	37,838,750.59	45,163,758.53	-16.22%
Net profits attributable to shareholders of the listed company (RMB)	-11,818,431.23	-3,924,330.74	N/A
Net profits attributable to shareholders of the listed company after extraordinary items (RMB)	-13,119,309.96	-3,924,330.74	N/A
Net cash flows arising from operating activities (RMB)	61,702,699.13	-2,091,919.29	N/A
Basic earnings per share (RMB/Share)	-0.0135	-0.0045	N/A
Diluted earnings per share (RMB/Share)	-0.0135	-0.0045	N/A
Weighted average return on net assets	N/A	N/A	N/A
	As at the end of the reporting period	As at the end of last year	Increase/decrease in the reporting period compared with the end of last year
Total assets (RMB)	474,674,913.01	477,041,464.23	-0.50%
Net assets attributable to shareholders of the listed company (RMB)	-67,768,465.95	-56,590,261.98	N/A

Extraordinary items

Unit: RMB

Item	Amount
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)	668,955.66
Other non-operating income and expense other than the above items	1,076,332.82
Less: Effect of income tax	436,322.12
Impact on minority interests (after tax)	8,087.63
Total	1,300,878.73

(II) Principal financial data and indicators prepared in accordance with the International Financial Reporting Standards (IFRS)

Condensed Consolidated Statement of Profit or Loss

Unit: RMB'000

	Reporting period (January-June)	The same period of previous year
Turnover	37,838	45,163
Profit before tax	(11,594)	(3,388)
Taxation	(280)	(520)
Profit after tax	(11,874)	(3,909)
Minority Interests	(56)	15
Profits attributable to shareholders	(11,818)	(3,924)

**Condensed Consolidated Statement of Financial Position***Unit: RMB'000*

	At the end of this reporting period	At the end of previous year
Total assets	474,675	477,387
Total liabilities	537,015	528,494
Shareholders' equity	(62,340)	(51,107)

(III) Description of differences in figures under domestic and foreign accounting standards

There are no differences in net profits and net assets prepared under the PRC GAAP and IFRS.

Chapter 4 CHANGES IN SHARES AND SHAREHOLDER INFORMATION

4.1 Changes in shares

Unit: Share

	Before the change		Increase/decrease (+, -) arising from the change					After the change	
	Number	Percentage	Issue of new shares	Bonus issue	Conversion of capital reserve into 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 legal person 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: Overseas legal person shares	0	0.00%	0	0	0	0	0	0	0.00%
Overseas 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. Renminbi ordinary shares	609,420,978	69.78%	0	0	0	0	0	609,420,978	69.78%
2. Foreign shares listed domestically	0	0.00%	0	0	0	0	0	0	0.00%
3. Foreign shares listed overseas	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 shares	873,370,000	100.00%	0	0	0	0	0	873,370,000	100.00%

4.2 Number of shareholders and shareholding

Unit: Share

Total number of ordinary shareholders at the end of the reporting period				55,036			Total number of preferred shareholders with voting rights restored at the end of the reporting period (if any)		0	
Shareholdings of ordinary shareholders holding more than 5% of the total share capital or the top ten ordinary shareholders										
Name of shareholder	Nature of shareholder	Percentage	Number of ordinary shares as at the end of the reporting period	Increase/ decrease in the reporting period	Number of ordinary shares held subject to trading moratorium	Number of ordinary shares held not subject to trading moratorium	Shares pledged or frozen			
							Status of shares	Number		
HKSCC Nominees Limited	Overseas legal person	29.44%	257,097,899	-60,000	0	257,097,899				
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		
Zhao Rui	Domestic natural person	0.71%	6,167,810	+3,432,100	0	6,167,810				
Jin Lei	Domestic natural person	0.66%	5,723,710	+5,723,710	0	5,723,710				
Fu Lianjun	Domestic natural person	0.57%	4,974,489	0	0	4,974,489				
Huang Tao	Domestic natural person	0.54%	4,675,609	+4,675,609	0	4,675,609				
Miao Haonan	Domestic natural person	0.51%	4,428,812	+2,236,802	0	4,428,812				
Gao Yan	Domestic natural person	0.44%	3,834,094	+3,834,094	0	3,834,094				
Shi Yubo	Domestic natural person	0.41%	3,568,200	+8,200	0	3,568,200				
Shenzhen Zhongda Software Development Co., Ltd.	Domestic non-state-owned legal person	0.41%	3,550,000	0	0	3,550,000				
A strategic investor or ordinary legal person becoming a top ten ordinary shareholder after placing of new shares (if any)		Nil								
Explanation on the connected relationship or concerted action of the above shareholders		So far as the Company is aware, there is no connected relationship among the above shareholders or are parties acting in concert as required in the Measures for the Administration of the Takeover of Listed Companies.								

Shareholdings of the top ten holders of ordinary shares not subject to trading moratorium			
Name of shareholder	Number of ordinary shares held not subject to trading moratorium at the end of the reporting period	Type of shares	
		Class of shares	Number
HKSCC Nominees Limited	257,097,899	Overseas listed foreign shares	257,097,899
Beijing Haihongyuan Investment Management Co., Ltd.	81,494,850	RMB ordinary shares	81,494,850
Zhao Rui	6,167,810	RMB ordinary shares	6,167,810
Jin Lei	5,723,710	RMB ordinary shares	5,723,710
Fu Lianjun	4,974,489	RMB ordinary shares	4,974,489
Huang Tao	4,675,609	RMB ordinary shares	4,675,609
Miao Haonan	4,428,812	RMB ordinary shares	4,428,812
Gao Yan	3,834,094	RMB ordinary shares	3,834,094
Shi Yubo	3,568,200	RMB ordinary shares	3,568,200
Xu Lirong	3,487,200	RMB ordinary shares	3,487,200
Explanation on the connected relationship or concerted action among the top ten holders of ordinary shares not subject to trading moratorium and that between them and the top ten ordinary shareholders	So far as the Company is aware, there is no connected relationship among the top ten holders of ordinary shares not subject to trading moratorium or between them and the top ten ordinary shareholders or are parties acting in concert as required in the Measures for the Administration of the Takeover of Listed Companies.		
Explanation on the top ten ordinary shareholders involved in securities margin trading business	Nil		



Notes:

1. Based on the information that is publicly available as at the latest practicable date prior to the publishing of this interim report and within the knowledge of the Directors, there was sufficient public float of the Company's shares.
2. Save as disclosed above, as at 30 June 2020, the Directors were not aware that any person (excluding Directors, Supervisors, or chief executives (if applicable) or senior management of the Company, the "Senior Management") had any interests or short positions in the shares or underlying shares (as the case may be) of the Company which were required to be notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the Securities and Futures Ordinance ("SFO") in Chapter 571 of the Laws of Hong Kong, any interests which were required to be recorded in the register pursuant to Section 336 of the SFO, or was a substantial shareholder of the Company (as defined in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules")).
3. During the reporting period, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's shares.
4. There is no provision for pre-emptive rights under the laws of the PRC and the Articles of Association of the Company.
5. As of 30 June 2020, the Company did not issue any convertible securities, options, warrants or any other similar right.

Chapter 5 PROFILES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

5.1 Changes in shareholdings of Directors, supervisors and senior management

There was no change in shareholdings during the reporting period.

5.2 Changes in Directors, supervisors and senior management

Name	Position	Type	Date	Reason
Li Rui	Vice Chairman, general manager	Resigned	10 January 2020	Work adjustment
Ma Yun	Director	Resigned	19 May 2020	Work adjustment
Liu Huaifen	Director	Resigned	19 May 2020	Work adjustment
Wang Hongyu	Independent Director	Elected	29 June 2020	Operational needs
Wang Yongfan	Director	Elected	29 June 2020	Operational needs
Li Guoqing	Director	Elected	29 June 2020	Operational needs
Guo Qianli	Director	Elected	29 June 2020	Operational needs

5.3 Equity interest of Directors, supervisors and senior management

Save as disclosed above and to the knowledge of the Directors, senior management and supervisors of the Company, as at 30 June 2020, none of the Directors, senior management and supervisors had any interests or short positions in the shares, underlying shares and/or debentures (as the case may be) of the Company and/or any of its associated corporations (within the meaning of Part XV of the SFO, Chapter 571 of the Laws of Hong Kong) which were required to be notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which are taken to have by such Directors, senior management and supervisors under provisions of the SFO), or which were required to be recorded in the register maintained by the Company pursuant to Section 352 of the SFO, or which were required to be notified to the Company and the Hong Kong Stock Exchange pursuant to the “Model Code for Securities Transactions by Directors of Listed Issuers” in Appendix X to the Listing Rules.

Chapter 6 SUMMARY OF BUSINESS

6.1 Overview

The Company has been primarily engaged in the R&D, design, production and sales businesses of products related to power transmission and transformation equipment. Our main products are enclosed busbars that are mainly applied to the power system field to enhance the transmission efficiency of power transmission lines and support the transmission of high power electric energy. Enclosed busbar plays an important role in the power system. Besides, Hainan Garden Lane Flight Hotel Management Co., Ltd., a holding company of the Company, actively expanded its hotel management, catering and accommodation businesses during the reporting period.

There was no material change in the principal business of the Company during the reporting period.

During the reporting period, the turnover calculated under the PRC GAAP and IFRS was RMB37,838,800, representing a decrease of 16.22% as compared to RMB45,163,700 for the corresponding period of the previous year; earnings attributable to shareholders after tax and minority interests amounted to RMB-11,818,400, with earnings per share of RMB-0.0135.

No dividend was paid during the period and the Directors do not recommend the payment of the interim dividend for the six months ended 30 June 2020.

6.2 Business review for the first half of 2020

In the first half of 2020, the COVID-19 outbreak has wreaked havoc on global economy and trade. Coupled with the rising protectionism and anti-globalization movement, the prospects for the recovery of the world economy are gloomy. In the face of the ordeal brought by the COVID-19 epidemic and the complicated and changeable domestic and overseas environment, the whole country corporately promoted the epidemic prevention and control as well as the economic and social development. As a result, the epidemic prevention and control continued to improve, and the resumption of work, production, business and market was accelerated. In the first half of 2020, China's economy recorded growth despite an earlier decline. Economic growth turned from negative to positive with key indicators resuming growth and economic performance recovering steadily in the second quarter. Also, given the strong supply to basic needs for the people and generally positive market expectations, the overall situation of social development was stable.

In the first half of this year, the production and operations of the machinery industry were back to track generally, with key indicators achieving a significant rebound. The overall development environment of the industry is promising, while the trend of the main sectors, which account for more than 80% of the machinery industry, tends to be positive. It is expected that the economic operation of the machinery industry for the whole year will show a gradual rebound after suffering a decline, with an expectation for the industrial added value, operating income, total profits and other indicators to achieve a slight positive growth.

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. Our main products are enclosed busbars that are mainly applied to the power system field to enhance transmission capacity of the power transmission line, and support the transmission of high power electric energy. Enclosed busbar plays an important role in the power system. Besides, Hainan Garden Lane Flight Hotel Management Co., Ltd., a holding company of the Company, actively expanded its hotel management, catering and accommodation businesses during the reporting period.

During the reporting period, the hotel industry in which the Company operates was greatly hit by COVID-19, combined with the impact of macro-economic structural adjustments on the power transmission and distribution equipment industry, the industry experienced excess production capacity and intense market competition. The Company has therefore 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 RMB37,838,800, representing a decrease of RMB7,325,000 or 16.22% compared with the same period of last year.

Major works during the reporting period are as follows:

(I) [Risk warning on delisting for A shares of the Company](#)

According to the Audit Report of Northeast Electric Development Co., Ltd. issued by Mazars Certified Public Accountants LLP on 29 April 2020 (Mazars Shen Zi [2020] No. 170018), the Company recorded an operating income of RMB102,341,085.77, a net profit attributable to shareholders of the listed company of RMB-40,165,739.76, and a net asset attributable to shareholders of the listed company of RMB-56,590,261.98 in 2019. Shenzhen Stock Exchange implemented a risk warning on delisting for A shares of the Company from the commencement of trading on 6 May 2020, subject to Rule 13.2.1 of the Listing Rules of Shenzhen Stock Exchange.

(II) Acquisition of minority interests in Chongqing Hotel

To further explore hotel-related businesses of the listed Company, Garden Lane Hotel, a holding company of the Company, entered into the Equity Transfer Agreement of Chongqing HNA Hotel Investment Co., Ltd., (hereinafter referred to as “Chongqing Hotel”) with HNA Hotel Holding Group Company Limited (hereinafter referred to as “HNA Hotel Holding”) on 26 April 2020 (for more details, please refer to the Announcement on the Acquisition of Minority Interests in Chongqing HNA Hotel Investment Co., Ltd. and Connected Transaction (announcement No.: 2020-013)). According to the Asset Valuation Report on Market Value of Equities to be Purchased by Hainan Garden Lane Flight Hotel Management Co., Ltd Involving the Entire Equities of Chongqing HNA Hotel Investment Co., Ltd. [ZWZXPZZ (2020) No. 5005-1] issued by Zhong Wei Zheng Xin (Beijing) Asset Appraisal Co., Ltd., the appraised value of the net assets of Chongqing Hotel was RMB163,338,600 based on the valuation date of 31 December 2019. Garden Lane Hotel paid RMB48.9 million in cash as consideration to acquire 15 million shares from HNA Hotel Holding, accounting for 30% equity interests of Chongqing Hotel. Such an acquisition of equity interest in Chongqing Hotel helped the listed company expand hotel business and enabled the Company to strengthen business cooperation through equity cooperation, realize effective distribution of resources, and further optimize capacities in risk tolerance and continuing operation. The transaction used the internal funds of the Company, so it would not result in a change in the scope of the Company’s consolidated financial statements, adversely affect the Company’s financial position and results of operations, be detrimental to the interests of the Company and all shareholders, or have a material impact on the Company.

(III) Government’s expropriation of the South Plant of the Company’s subsidiary Fuxin Enclosed Busbar Co., Ltd.

After Fuxin Enclosed Busbar Co., Ltd. (hereinafter referred to as “Fuxin Busbar”), a holding subsidiary of the Company, was relocated to the new plant at No. 369 Yulong Road, Hexi Village, Sihe Township, Xihe District, Fuxin in 2018, its South Plant (including land, industrial properties, structures and supporting facilities) at No. 46 Xinhua Road, Haizhou District, Fuxin, Liaoning Province falls into the expropriation scope planned and approved by Fuxin People’s Government. For the purposes of active cooperation with the implementation of urban planning and protecting the interests of all shareholders and core assets of the listed company at the same time, Fuxin Busbar entered into the Agreement on Compensation for Land Expropriation (for more details, please refer to the Announcement on the Expropriation of the South Plant of the Subsidiary Fuxin Enclosed Busbar Co., Ltd. by the Government (announcement No.: 2020-014)) with Haizhou House Expropriation Office of Fuxin (hereinafter referred to as “Expropriation Office”, a public institution under Haizhou District People’s Government of Fuxin), pursuant to which, the Expropriation Office expropriated the above-mentioned plant owned by Fuxin Busbar. The total compensation for Fuxin Busbar as a result of the expropriation is RMB44 million. The Proposal on the Expropriation of the South Plant of the Subsidiary Fuxin Enclosed Busbar Co., Ltd. by the Government was considered and approved at the thirteenth meeting of the 9th Board of the Company held on 26 April 2020 and the annual general meeting for 2019 held on 29 June 2020, respectively.

(IV) Termination of non-public issuance of H shares

In view of the fact that the Share Subscription Agreement for the non-public issuance of H shares entered into by the Company and HNA Hotel Group (Hong Kong) Company Limited on 5 April 2017 has been terminated automatically due to the expiration on 30 June 2020, the Company held the 16th meeting of the ninth Board and the 11th meeting of the ninth Supervisory Committee on 14 July 2020 to consider and approve the Resolution on the Termination of Non-public Issuance of H Shares and the Withdrawal of Relevant Application Documents, and determined to terminate the non-public issuance and to apply to the CSRC for withdrawing the application documents for the non-public issuance of H shares. On 27 August 2020, the Company received the Notice of the CSRC on Terminating the Review on Application of Administrative Permission issued by the CSRC, in which the CSRC decided to determine the review on application of administrative permission made by the Company in accordance with relevant provisions of Article 20 of the Regulations of the China Securities Regulatory Commission on the Implementation Procedures of Administrative Permission. (For details, please refer to the Announcement on the Receipt of Notice of the CSRC on Terminating the Review on Application of Administrative Permission (Announcement No.: 2020-044))

(V) Progress of material litigations

1. Shenyang Tiexi District State-owned Assets Supervision and Administration Bureau vs. the Company for the payment of allowance for staff. 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 the Civil Judgment ((2017) Liao 01 Min Chu No.430). The Shenyang Intermediate People's Court held that when the plaintiff Tiexi SASAB reclaimed its rights to NEE on 21 July 2016, it had been more than two years of statute of limitations. The Shenyang Intermediate People's Court rejected the claim that the plaintiff Tiexi SASAB requested the defendant NEE to pay arrears of RMB28.53 million, interest and liquidated damages. The Shenyang Intermediate People's Court judged as follows: (1) The defendant Shenyang HVS shall pay the plaintiff Tiexi SASAB arrears of RMB24.99 million and liquidated damages of RMB1,249,500 within 15 days from the date when the judgment takes effect; (2) Reject the other claims of the plaintiff Tiexi SASAB. The case acceptance fee of RMB230,526 shall be borne by the defendant Shenyang HVS. If any party concerned disagrees with this judgment, it may submit an appeal to the court within 15 days from the date of service of the judgment and appeal to the Liaoning Provincial Higher People's Court. The plaintiff Tiexi SASAB has appealed to Shenyang Intermediate People's Court during the appeal period. In the early December 2018, Liaoning Provincial Higher People's Court accepted the appeal. On 8 May 2019, the case was tried in the second instance. On 21 August 2019, the Civil Order ((2018) Liao Min Zhong No. 1032) was issued by Liaoning Provincial Higher People's Court, ruling as follows: The Civil Judgment ((2017) Liao 01 Min Chu No. 430) issued by Shenyang Municipal Intermediate People's Court of Liaoning shall be abrogated; A retrial for this case shall be performed by Shenyang Municipal Intermediate People's Court of Liaoning. The case has been transferred from Shenyang Intermediate People's Court to the jurisdiction of Hainan First Intermediate People's Court on 11 February 2020 and has come to trial on 10 August 2020. No judgment has yet been made.

2. The legal proceeding involving the subsidiary Fuxin Enclosed Busbar Co., Ltd. 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 prior to 22 September 2008. Due to the enforcement of the final judgment ((2008) Min Er Zhong Zi No. 23) made by the Supreme People’s Court on 5 September 2008 for the case of China Development Bank 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 the Supreme People’s Court on 31 August 2017 ((2017) Zui Gao Fa Zhi Fu No. 27), “the fact that the return of the Underlying Equity free of charge under the coordination of NEE cannot be ascertained”. Given the failure of Shenyang HVS to pay the outstanding consideration of USD16 million for equity transfer constituted a breach of contract, the plaintiff Fuxin Busbar, in order to protect its interests, raised litigation against the above 2 defendants, namely, Shenyang HVS and NEE, 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 (case No.: (2018) Qiong Min Chu No. 69), and delivered the documents such as pleadings to Shenyang HVS on 3 January 2019. The written judgment of the first instance was received on 20 May 2019. As the defendants did not appeal within the announcement period, the judgment of the first instance has come into effect since 7 August 2019 and NEE bears no joint and several liabilities.

6.3 Analysis of core competitiveness

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

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

6.4 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 the power equipment industry. The prosperous level of the industry is also directly pegged with the national economy. Given its significant impact on the Company, we will keep focusing on the impact of the national macroeconomy and the global economy over the industry. At the same time, as the hotel management industry where the Company operates was notably influenced by the epidemic in the first half of 2020, it is estimated that the epidemic will continue to have a significant impact on the operations of the Company for some time to come. Hence, the Company will carry out relevant epidemic prevention and control in strict accordance with the requirements of the relevant government departments while trying to apply for government support policies.

2. Risk of market competition

Enclosed busbars produced and hotel-related businesses operated by the Company are 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 the decrease in operating income, gross margin of products and services as well as profitability caused by the outbreak of the epidemic, thereby strengthening the sustainable operation capacity of the Company.

3. Risk of strategic transformation

To facilitate the sustainable development of the Company in the mid and long term, the Company is seeking strategic transformation by tapping into such a modern service industry as hotel. The Company may have the risk of strategic transformation slippage, and even failure, provided that the transformation is not carried out as early as possible for various reasons. The Company will actively promote the related work, while developing relevant businesses to realize strategic transformation gradually through various methods.

6.5 Prospects for the second half of the year

Centered on the annual business objectives and work tasks for 2020, the Company's management will adopt comprehensive measures to change the loss-making situation by enhancing the operation efficiency and core competitiveness. For details, please see "Prospect of Future Development" set out in the Annual Report 2019. By virtue of seizing opportunities and making full use of the capital market, the Company will fine tune its main business and operating strategy and actively increase the operating income and profits from relevant businesses in the upstream and downstream of hotel operation, in a bid to enhance the sustained profitability and comprehensive competitive strength of the listed company, promote its development and offer maximum protection to the interests of all shareholders, the minority shareholders in particular.

Chapter 7 DISCUSSION AND ANALYSIS OF BUSINESS CONDITION

Analysis of principal business prepared under the PRC GAAP

7.1 Overview

The Company has been primarily engaged in the R&D, design, production and sales businesses of products related to power transmission and transformation equipment in recent years. Our main products are enclosed busbars that are mainly applied to the power system field to enhance the transmission efficiency of power transmission lines and support the transmission of high power electric energy. Enclosed busbar plays an important role in the power system. Besides, Garden Lane Hotel, a holding subsidiary of the Company, actively expanded its hotel management, catering and accommodation businesses during the reporting period.

There was no material change in the principal business of the Company during the reporting period.

7.2 Analysis of changes in major financial information

Unit: RMB

	Amount for the reporting period	Amount for the same period of last year	Increase/decrease compared with the same period of last year	Reason for increase/decrease
Operating incomes	37,838,750.59	45,163,758.53	-16.22%	A decrease in the income of Garden Lane Hotel due to the impact of the epidemic
Operating costs	26,403,071.53	21,417,642.83	23.28%	An increase in the cost of Fuxin Busbar corresponding to an increase in the income
Selling expenses	14,515,293.80	17,393,737.95	-16.55%	A decrease in the selling expense of Garden Lane Hotel
Administrative expenses	9,990,199.47	11,127,965.17	-10.22%	Strict control over the administrative expenses by the Company
Financial expenses	-171,294.11	-908,599.98	N/A	A decrease in the interests on deposits
Income tax expenses	280,256.09	520,173.40	-46.12%	A decrease in the profits of Garden Lane Hotel
Net cash flow from operating activities	61,702,699.13	-2,091,919.29	N/A	Maturity of time deposits
Net cash flow from investing activities	-48,435,719.34	-160,513.12	N/A	Payment of the consideration for the acquisition of equity of Chongqing Hotel in the current period
Net cash flow from financing activities	-10,725,709.27	-2,186,838.29	N/A	Repayment of the principal of short-term borrowings and interests thereon in the current period
Net increase of cash and cash equivalents	2,575,299.44	-4,438,175.88	N/A	Combined effect of all the above factors

7.3 Main business composition

7.3.1 Composition of operating income

Unit: RMB

	The reporting period		The same period of last year		Increase/ decrease compared with the same period of last year
	Amount	Percentage of operating income	Amount	Percentage of operating income	
Total operating income	37,838,750.59	100%	45,163,758.53	100%	-16.22%
By industry					
Power transmission and transformation	26,700,933.95	70.57%	16,259,273.32	36.00%	64.22%
Catering services	11,137,816.64	29.43%	28,904,485.21	64.00%	-61.47%
By product					
Enclosed busbars	26,700,933.95	70.57%	16,259,273.32	36.00%	64.22%
Catering services	11,137,816.64	29.43%	28,904,485.21	64.00%	-61.47%
By region					
Mainland China	37,838,750.59	100.00%	45,163,758.53	100.00%	-16.22%

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

Unit: RMB

	Operating income	Operating cost	Gross margin	Increase/decrease in operating income compared with the same period of last year	Increase/decrease in operating cost compared with the same period of last year	Increase/decrease in gross margin compared with the same period of last year
By industry						
Power transmission and transformation	26,700,933.95	24,245,271.69	9.20%	64.22%	140.58%	-75.81%
Catering services	11,137,816.64	2,157,799.84	80.63%	-61.47%	-80.97%	32.68%
By product						
Enclosed busbars	26,700,933.95	24,245,271.69	9.20%	64.22%	140.58%	-75.81%
Catering services	11,137,816.64	2,157,799.84	80.63%	-61.47%	-80.97%	32.68%
By region						
Mainland China	37,838,750.59	26,403,071.53	30.22%	-16.22%	23.28%	-42.52%

Explanation on the increase/decrease of more than 30% compared with the same period of last year:

1. The income of Fuxin Busbar increased in the first half of 2020 due to the increased output, and the costs increased correspondingly. The products sold in the current period are mainly products with low gross profits, resulting in lower gross margin.
2. The income of Garden Lane decreased in the first half of 2020 due to the impact of the epidemic, along with a decrease in the cost. The gross margin increased due to a greater decrease in cost than in revenue.

7.4 Significant changes in the composition of assets

Unit: RMB

	As at the end of the reporting period		As at the end of the same period of last year		Increase/decrease (%)	Explanation for significant change
	Amount	As a percentage of total assets (%)	Amount	As a percentage of total assets (%)		
Monetary fund	81,839,967.09	17.24%	140,874,668.42	26.06%	-8.82%	Payment of the consideration for the acquisition of 30% equity of Chongqing Hotel
Account receivable	32,219,606.85	6.79%	30,517,139.65	5.64%	1.15%	Increase along with the increase in the business of enclosed busbar products
Inventories	21,042,672.60	4.43%	13,179,608.97	2.44%	1.99%	Increase in production input by Fuxin Busbar during the period
Fixed assets	48,141,448.22	10.14%	49,711,031.80	9.19%	0.95%	Accumulated depreciation of fixed assets as normal

7.5 Assets and liabilities at fair value

Unit: RMB

Item	Amount at the beginning of the period	Gain/loss on changes in fair value for the current period	Cumulative changes in fair value recorded in equity	Impairment for the current period	Purchase in the current period	Sale in the current period	Other changes	Amount at the end of the period
Financial assets								
Other equity investments	198,078,808.21							198,078,808.21
Total	198,078,808.21							198,078,808.21
Financial liabilities	0.00							0.00

7.6 Restricted assets as at the end of the reporting period

Unit: RMB

Item	Book value at the end of the year	Reasons for restriction
Monetary fund – other monetary funds	3,236,900.00	Performance guarantee
Intangible assets – land use right	12,210,281.05	Mortgage loan
Total	15,447,181.05	

7.7 Disposal of major assets

During the reporting period, there is no disposal of major assets.

7.8 Analysis of major controlling company and invested company

Unit: RMB

Company name	Company type	Principal business	Registered capital	Total asset	Net asset	Operating income	Operating profit	Net profit
Northeast Electric Development (HK) Co., Ltd.	Subsidiary	Trading	USD20 million	74,162,190.22	58,608,855.51	0	-17,454.56	-17,454.56
Gaocai Technology Co., Ltd.	Subsidiary	Investment	USD1	87,259,821.14	5,131,730.31	0	-9,782.86	-9,782.86
Shenyang Kaiyi Electric Co., Ltd.	Subsidiary	Manufacturing of electrical equipment	RMB1 million	50,128,330.25	-55,092,470.97	0	-622,139.23	-622,146.74
Fuxin Enclosed Busbar Co., Ltd.	Subsidiary	Manufacturing of enclosed busbars	USD8.5 million	116,447,719.90	-38,953,588.69	26,700,933.95	-3,669,042.61	-3,680,664.59
Hainan Garden Lane Flight Hotel Management Co., Ltd.	Subsidiary	Public space business	RMB50 million	362,012,372.75	199,488,400.86	11,137,816.64	-5,858,727.70	-5,051,021.55
Northeast Electric (Chengdu) Electric Engineering Design Co., Ltd.	Subsidiary	Electric power engineering	RMB10 million	13,276,988.15	6,986,499.28	0	-10,699.20	-10,699.20
HNA Tianjin Center Development Co., Ltd.	Invested company	Property leasing, hotel catering	RMB269,887,709	3,788,998,719.70	1,183,854,920.91	28,592,825.50	-2,488,964.70	-2,728,364.40

Analysis of the 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

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 statements and the statement of changes in shareholders' equity.

Distributable reserve

As at 30 June 2020, according to the relevant regulations, the Company's distributable reserve is RMB-2,071,138,368.70. Pursuant to the resolution approved at the Board meeting on 28 August 2020, the Board proposes not to distribute cash dividend, issue bonus share, or capitalize from capital reserves during the year.

Analysis of loans and borrowings

The Group's short-term borrowings were nil, primarily because the secured loans borrowed from the Bank of China by our subsidiary Fuxin Busbar were settled.

Working capital and financial resources

The net cash generated from the Group's operating activities for the half year ended 30 June 2020 was approximately RMB61,703,000 (2019: net cash generated from operating activities of approximately RMB9,597,000).

As at 30 June 2020, the Group had bank deposits and cash (including pledged bank balances) of approximately RMB81,840,000 (2019: RMB135,275,000) and had no bank loans (2019: bank loans of RMB10,500,000).

As of 30 June 2020, the Group had current liabilities of RMB424,915,000, non-current liabilities of RMB112,101,000, and shareholders' deficit attributable to shareholders of the Company of RMB67,768,000. Details of the capital structure of the Group are set out in the financial report of the Company's interim 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 30 June 2020, the Group's short-term bank borrowings were nil, and the cash and cash equivalents were RMB81,840,000 (2019: RMB135,275,000). Borrowings bear fixed interest rates, 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 "Prospects for the second half of the year" of "Discussion and Analysis of Business Condition".

Significant investments held and the performance of such investments

Details of significant investments held and the performance of these investments are set out in "Analysis of Major Controlling Company and Invested Company" of "Discussion and Analysis of Business Condition".

Significant investments and sales

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

Segmental information of results

Details of segmental information of results are set out in the "Main Business Composition" of "Discussion and Analysis of Business Condition".

Assets pledge

As of 30 June 2020, the Company had fixed assets and net land value with a fair value of RMB12 million and the carrying amount of RMB12 million respectively 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 30 June 2020, the Group's gearing ratio (calculated as total liabilities/total assets) was 113% (2019: 111%).

Risks of exchange rate fluctuation and any related hedges

The Group's assets and liabilities are denominated in Renminbi, so 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 that 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 30 June 2020, the Company had no material contingent liabilities.

Chapter 8 Significant Events

8.1 Personnel changes

Please refer to “Chapter 5 Profiles of Directors, Supervisors and Senior Management”.

8.2 Staff of the Company and remuneration policy

As at 30 June 2020, the number of employees on the payroll of the Company was 158. The total salary of employees was RMB9.64 million in the first half of 2020 (the number of employees of the Group was 162 and the total salary of employees was RMB27,865,000 in 2019).

The remuneration of the employees of the Company includes their salaries, bonuses and other fringe benefits. The Company has different rates of remuneration for different employees, which are determined based on their performance, experience, position and other factors in compliance with the relevant PRC laws and regulations.

8.3 Corporate governance structure

At present, the actual corporate governance structure basically complies with the related requirements of securities regulators.

8.4 Profit distribution plan and its implementation

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

8.5 Commitments performed during the reporting period and not yet performed as of the end of the reporting period by the de facto controller, shareholders, connected parties, acquirers of the Company and the Company

The Company did not have any commitments performed during the reporting period and not yet performed as of the end of the reporting period by the de facto controller, shareholders, connected parties, acquirers of the Company and the Company during the reporting period.

8.6 Explanation given by the Board on the relevant situation of the “Non-standard Audit Report” of the previous year

NEE has engaged Mazars Certified Public Accountants LLP as the auditor of the Company for the year of 2019. Mazars Certified Public Accountants LLP issued an unqualified audit report for the Company’s financial report for 2019 with paragraphs regarding material uncertainties on the Company’s ability to continue as a going concern.

(I) Matters relating to the audit opinion

NEE recorded accumulated net loss of RMB-2,059,319,937.47 and equity attributable to shareholders of the parent of RMB-56,590,261.98 at the end of 2019. As of 31 December 2019, NEE’s current liabilities exceeded its current assets by RMB231,083,200.33. Meanwhile, the Company faced compensation of RMB272 million for resolved litigation cases. These matters indicate there are major uncertainties regarding the Company as a going concern, however, without any effect on the published audit opinions.

(II) Explanation given by the Board on the relevant situation of the “Non-standard Audit Report” of the previous year

The Board holds that the above audit opinion objectively and truthfully reflects the financial position of the Company and its risks as a going concern. In order to enhance the sustained development and profitability, improve the asset quality, promote the long-term and healthy development, and strive to remove the risk warning on delisting, the Company has taken the following measures to improve its ability to continue as a going concern:

1. Beijing Haihongyuan Investment Management Co., Ltd. (“Beijing Haihongyuan”), the parent of the Group, has issued a letter of commitment of financial support, undertaking to provide financial support unconditionally for the Group for one year from the issuance date of the letter, including funds and guarantees to help supplement working funds of the Group.
2. Further optimise the principal business through equity financing, actively seek opportunities for expanding new business segments, and enhance the Group’s core competitiveness and sustainable development capabilities.
3. Coping with the market changes and demands, proactively adjust product structure and industrial upgrading, accelerate the transformation to a modern service industry, and optimise overall industrial distribution; develop new client bases, improve and strengthen sales system, and enhance the profitability of the main business;

4. Research, explore and develop hotel, catering and accommodation businesses based on the wholly-owned subsidiary Hainan Garden Lane Flight Hotel Management Co., Ltd., and utilise the resources and talent advantages of the substantial shareholders in the modern service industry to launch new businesses and develop new industries, thereby expanding the business scope of the listed company, improving its asset portfolio, and bringing fresh energy into its sustained operation.
5. Enhance overall budget management and cost control, exert strict control over various expenditures and expenses, lower the operation costs, and maximise the profitability of the principal business.
6. In strict accordance with the requirements for standard operation of listed companies, the Group continuously improves working standards and perfects the internal control system, establishes and improves the operation organisation, continuously improves various internal control systems, strengthens risk control measures, and reduces the Company's operational risks, so as to enable the Group's internal control system to be more operable, to prevent damage to the interests of the listed company and shareholders, and to ensure the realisation of the Group's business objectives.

With the aforesaid measures, the management of the Group deems it reasonable to prepare the financial statements on the basis of continuous operations. The Board of the Group has conducted a thorough and detailed evaluation on the Group's ability to continue as a going concern by reviewing the future working capital forecast of the Group prepared by the management, and deems that the Group will be able to acquire enough funding resources to ensure working capital and expensing needs. Therefore, the Board agreed with the preparation of the financial statements on the basis of continuous operations.

The Board will continue to pay attention to and supervise the management of the Company so that they actively take effective measures to improve the Company's ability to continue as a going concern and protect the legitimate rights and interests of the Company and investors.

8.7 Litigation

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

Please refer to “6.2 Business Review for the First Half of 2020 – (V) Progress of material litigations”.

2. Legal proceedings involving the subsidiary Fuxin Enclosed Busbar Co., Ltd.

Please refer to “6.2 Business Review for the First Half of 2020 – (V) Progress of material litigations”.

3. The litigation brought by China Development Bank

The Supreme People’s Court issued an enforcement order ((2017) Zui Gao Fa Zhi Fu No.27) in August 2017 to reject the reconsideration request made by NEE and affirm the enforcement order of Beijing Higher People’s Court (2015) Gao Zhi Yi Zi No.52. The enforcement order was final. The case was transferred to Hainan First Intermediate People’s Court on 21 June 2019. The ruling of the case is being implemented and no actual performance has been carried out.

4. The litigation on the application made by Fushun Electric Porcelain Manufacturing Co., Ltd. (the “Fushun Electric Porcelain”) for adjudicating NEE as a person subject to enforcement

The Company received the Notice of Appearance [(2019) Qiong 96 Min Chu No.381] on adjudicating NEE as a person subject to enforcement by Fushun Electric Porcelain, the bill of indictment, and other related litigation materials served by the First Intermediate People’s Court of Hainan Province on 16 July 2019. At present, relevant departments are preparing for relevant evidence to actively respond to the litigation. As the lawsuit has not yet been heard and the final judgment of the court has not been reached, so the negative impact on the Company’s current profits or subsequent profits cannot be determined for the time being. For more details, please refer to the announcement dated 23 July 2019.

8.8 Integrity of the Company, its controlling shareholders and de facto controller

The de facto controller of the Company is Hainan Liberation Commonweal Foundation. Through verifying the information published on CREDITCHINA.GOV.CN, the National Enterprise Credit Information Publicity System, and <http://zxgk.court.gov.cn/>, Hainan Liberation Commonweal Foundation, the de facto controller of the Company, has not been included in the List of Enterprises with Abnormal Business Operation, the list (blacklist) of dishonest enterprises in material non-compliance with the laws or the list of persons subject to enforcement due to dishonesty.

Hainan Liberation Commonweal Foundation, the de facto controller of the Company, has not carried out external financing activities and has no behavior of dishonesty or breach of contract on debts.

8.9 Material connected transactions

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

8.9.2 The subsidiary Garden Lane Hotel's acquisition of 30% equity interests in Chongqing Hotel constituted a connected transaction. Please refer to "(II) Acquisition of minority interests in Chongqing Hotel – 6.2 Business Review for the First Half of 2020".

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

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

8.11 Significant contracts and their execution

During the reporting period, the Company did not enter into any material trust, contracting or lease arrangement.

8.12 Guarantees

As at the end of the reporting period, the actual balance of the external guarantee provided by the Company totaled RMB30 million, with Jinzhou Power Capacitors Co., Ltd. as the collateral.

8.13 Corporate governance

During the reporting period, the listed issuer strictly complied with the code provisions of Corporate Governance Code as set out in Appendix 14 and had no deviations from the code provisions, except for the following deviations:

Code Provision A.2.1 stipulates that the roles of chairman and chief executive should be separate and should not be performed by the same individual. Due to the resignation of Mr. Li Rui, the former general manager of the Company, Mr. Zhu Jie, the Chairman, is acting as the general manager now.

For more details on the implementation, please refer to the Corporate Governance Report disclosed in the Annual Report 2019. After the issuance of the annual report, the compliance and execution of the Code by the listed issuer remained unchanged.

8.14 Model Code for Securities Transactions by Directors

The Company takes the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) under the Listing Rules of Hong Kong Stock Exchange as a code of conduct for Directors’ securities transactions; after accepting specific inquiries, all members of the Board of the Company confirmed that they had complied with the Model Code during their tenure as the Directors.

The Board has formulated guidelines on the trading of securities of listed companies by “directors and relevant employees”. The Office of the Board has given written notices in advance to insiders (including the Company’s Directors, supervisors, senior management, controlling shareholders, de facto controllers and their 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 insiders to purchase or sell the shares with inside information: no transactions of the Company’s securities shall be carried out during the price-sensitive timeframe within 30 days, a lock-up period from 28 July 2020 to 28 August 2020, prior to the results announcement.

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

The Company has complied with Rules 3.10(1), 3.10(2) and 3.10A of the Listing Rules relating to the appointment of a sufficient number of independent non-executive Directors and at least one independent non-executive Director with appropriate professional qualifications or accounting or related financial management expertise. The Company has appointed three independent non-executive Directors including one with financial management expertise, of whom the biographical details are set out in the Annual Report 2019 of the Company.

The Company has been in place an audit committee under the Board in accordance with Rule 3.21 of the Listing Rules.



8.15 Others

Purchase, sale or redemption of shares

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

Loans to an entity

At the end of the reporting period, neither the Company nor its subsidiaries have granted loans to any entity.

Pledge of shares by controlling shareholder

At the end of the reporting period, the controlling shareholder of the Company did not pledge all or part of its equities in the Company to guarantee the Company's debts or warranty.

Terms included in the loan agreements under which the controlling shareholder shall fulfil specific responsibilities

At the end of the reporting period, the Company and its subsidiaries did not encounter any situation where the controlling shareholder should fulfil specific responsibilities according to the terms included in the loan agreements.

Breach of loan agreements

At the end of the reporting period, the Company and its subsidiaries did not have any breach of loan agreements.

Provision of financial assistance and guarantee to affiliates

At the end of the reporting period, the Company and its subsidiaries did not provide any financial assistance and guarantee to affiliates.

Share option scheme

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

Directors, supervisors and chief executive's interests in the shares, underlying shares and debentures of the Company

For details of Directors, supervisors and chief executives' interests in the shares, underlying shares and debentures of the Company, please see "Equity interest of Directors, supervisors and senior management" under "Profiles of Directors, Supervisors and Senior Management".

Audit of interim results

The unaudited results for the six months ended 30 June 2020 were prepared by the Group in accordance with the PRC GAAP and IFRS.

The audit committee under the Board of the Company has reviewed and confirmed the interim results announcement of the Company for 2020.

The audit committee has approved the financial accounting principles, standards and methods adopted by the Company for the unaudited interim accounts for the six months ended 30 June 2020.

8.16 Subsequent events

None

Chapter 9 FINANCIAL STATEMENTS

I FINANCIAL STATEMENTS PREPARED UNDER THE IFRS

Condensed Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2020

	Six months ended 30 June	
	2020	2019
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Revenue	37,839	45,164
Cost of sales and services	(26,403)	(21,418)
Gross profit	11,436	(23,746)
Other revenue and other income	2,779	1,859
Selling expenses	(14,515)	(17,394)
Administrative and other operating expenses	(10,433)	(11,740)
Gain on disposal of subsidiaries	-	-
Gain on disposal of a plant	-	-
Reversal (Provision) of loss allowance on		
– trade and rental receivables	-	-
– other receivables	-	831
Finance costs	(861)	(691)
Share of results of an associate	-	-
Loss before taxation	(11,594)	(3,389)
Income tax expenses	(280)	(520)
Loss for the period	(11,874)	(3,909)

Condensed Consolidated Statement of Comprehensive Income *(continued)*

For the six months ended 30 June 2020

	Six months ended 30 June	
	2020 (Unaudited) RMB'000	2019 (Unaudited) RMB'000
Other comprehensive income		
<i>Items that are reclassified or may be reclassified subsequently to profit or loss</i>		
Exchange difference on translation of foreign operations	111	346
Other comprehensive income for the period, net of tax	111	346
Total comprehensive loss for the period	(11,763)	(3,563)
Loss for the period attributable to:		
Equity holders of the Company	(11,818)	(3,924)
Non-controlling interests	(56)	15
Loss for the period	(11,874)	(3,909)
Total comprehensive loss for the period attributable to:		
Equity holders of the Company	(11,707)	(3,578)
Non-controlling interests	(56)	15
Total comprehensive loss for the period	(11,763)	(3,563)
Loss per share	<i>RMB cents</i>	<i>RMB cents</i>
Basic and diluted	(1.35)	(0.45)

Condensed Consolidated Statement of Financial Position

As at 30 June 2020

	As at 30 June 2020 (Unaudited) RMB'000	As at 31 December 2019 (Audited) RMB'000
Non-current assets		
Property, plant and equipment	48,141	49,843
Investment properties	14,600	16,012
Right-of-use assets	6,491	9,737
Land use right	14,499	14,675
Intangible assets	-	-
Goodwill	-	-
Interest in an associate	-	-
Designated FVOCI	198,079	198,079
Deposits	4,840	4,840
	286,650	293,186
Current assets		
Inventories	21,043	16,910
Trade, bills and rental receivables	32,397	27,113
Prepayment, deposits and other receivables	50,083	4,774
Tax recoverable	2,662	129
Cash at a financial institution	72,425	70,574
Cash at banks and in hand	9,415	64,701
	188,025	184,201

Condensed Consolidated Statement of Financial Position *(continued)*

As at 30 June 2020

	As at 30 June 2020 (Unaudited) RMB'000	As at 31 December 2019 (Audited) RMB'000
Current liabilities		
Trade payables	29,987	17,926
Contract liabilities	6,522	10,241
Other payables	375,067	362,786
Employment benefits payables	3,403	3,276
Tax payables	835	742
Interest-bearing borrowings	-	10,500
Lease liabilities	9,100	9,813
	424,914	415,284
Net current liabilities	(236,889)	(231,083)
Total assets less current liabilities	49,761	62,103
Non-current liabilities		
Provisions	72,100	72,100
Government grants	27,145	23,623
Lease liabilities	12,856	17,487
	112,101	113,210
NET LIABILITIES	(62,340)	(51,107)
Capital and reserves		
Share capital	873,370	873,370
Reserves	(941,138)	(929,960)
Equity attributable to equity holders of the Company	(67,768)	(56,590)
Non-controlling interests	5,428	5,483
TOTAL DEFICITS	(62,340)	(51,107)

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2020

	Equity attributable to equity holders of the Company									
	Reserves							Sub-total	Non-controlling interests	Total equity
	Share capital	Capital reserve	Surplus reserve	Investment revaluation reserve (non-recycling)	Exchange reserve	Accumulated losses	Total reserves			
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
As at 1 January 2020	873,370	1,082,848	108,587	(35,096)	(26,979)	(2,059,320)	(929,960)	(56,590)	5,483	(51,107)
Loss for the period	-	-	-	-	-	(11,818)	(11,818)	(11,818)	(55)	(11,873)
Other comprehensive income										
Exchange differences on translation of foreign operations	-	-	-	-	111	-	111	111	-	111
Total other comprehensive income for the period	-	-	-	-	111	-	111	111	-	111
Total comprehensive loss for the period	-	-	-	-	111	(11,818)	(11,707)	(11,707)	(55)	(11,762)
Transactions with equity holders of the Company										
<i>Contributions and distributions:</i>										
Changes in ownership interests	-	529	-	-	-	-	529	529	-	529
As at 30 June 2020 (unaudited)	873,370	1,083,377	108,587	(35,096)	(26,868)	(2,071,138)	(941,138)	(67,768)	5,428	(62,340)

Condensed Consolidated Statement of Changes in Equity (continued)

For the six months ended 30 June 2020

	Equity attributable to equity holders of the Company																
	Reserves									Total equity							
	Share capital	Capital reserve	Surplus reserve	Investment revaluation reserve (non-recycling)	Exchange reserve	Accumulated losses	Total reserves	Sub-total	Non-controlling interests								
											(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
RMB'000											RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As at 1 January 2019	873,370	1,074,828	108,587	(2,206)	(26,806)	(2,019,154)	(864,751)	8,619	13,497	22,116							
Loss for the period	-	-	-	-	-	(3,924)	(3,924)	(3,924)	16	(3,908)							
Other comprehensive income																	
Exchange differences on translation of foreign operations	-	-	-	-	346	-	346	346	-	346							
Total other comprehensive income for the period	-	-	-	-	346	-	346	346	-	346							
Total comprehensive loss for the period	-	-	-	-	346	(3,924)	(3,578)	(3,578)	16	(3,562)							
Transactions with equity holders of the Company																	
<i>Contributions and distributions:</i>																	
Changes in ownership interests in subsidiaries that do not result in a loss of control	-	8,015	-	-	-	-	8,015	8,015	(8,015)	-							
As at 30 June 2019 (unaudited)	873,370	1,082,843	108,587	(2,206)	(26,460)	(2,023,078)	(860,314)	13,056	5,498	18,554							

Condensed Consolidated Cash Flow Statement

For the six months ended 30 June 2020

	Six months ended 30 June	
	2020	2019
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
OPERATING ACTIVITIES		
Cash generated from (used in) operations	4,885	(2,037)
Income taxes paid	(1,025)	(1,217)
Interest received	992	–
Net cash generated from (used in) operating activities	4,852	(3,254)
Purchase of property, plant and equipment	–	(161)
Cash paid for investments	(48,436)	–
Net cash used in investing activities	(48,436)	(161)
FINANCING ACTIVITIES		
Repayment of bank and other loans	(10,500)	–
Repayment of lease liabilities	–	(2,055)
Interest paid	(226)	(131)
Net cash used in financing activities	(10,726)	(2,186)
Net decrease in cash and cash equivalents	(54,310)	(5,601)
Cash and cash equivalents at the beginning of the reporting period	58,954	69,518
Effect on exchange rate changes on cash and cash equivalents	34	1
Cash and cash equivalents at the end of the reporting period, represented by bank balances and cash	4,678	63,918

II FINANCIAL STATEMENTS PREPARED UNDER THE PRC GAAP

I. Audit Report

Has the interim report been audited?

Yes No

The interim report of the Company has not been audited.

II. Financial Statements

Unit in the financial statements of the notes to financial statements: RMB

1. CONSOLIDATED BALANCE SHEET

Prepared by: NORTHEAST ELECTRIC DEVELOPMENT CO., LTD.

30 June 2020

Unit: RMB

Items	30 June 2020	31 December 2019
Current assets:		
Cash and cash equivalents	81,839,967.09	135,274,303.72
Reserved deposits		
Loans to banks and other financial institutions		
Financial assets held for trading		
Derivative financial assets		
Notes receivable	177,692.20	
Accounts receivable	32,219,606.85	27,140,493.40
Receivables financing		
Prepayment	265,294.42	1,019,555.51
Premiums receivable		
Reinsurance accounts receivable		
Reinsurance contract reserves receivable		
Other receivables	49,817,907.41	759,602.00
Incl.: Interest receivable		
Dividends receivable		

1. CONSOLIDATED BALANCE SHEET (Continued)

Prepared by: NORTHEAST ELECTRIC DEVELOPMENT CO., LTD.

30 June 2020

Unit: RMB

Items	30 June 2020	31 December 2019
Financial assets purchased under agreements to resell		
Inventories	21,042,672.60	16,909,715.61
Contract assets		
Assets held for sale		
Non-current asset due within 1 year		
Other current assets	2,662,339.32	2,751,718.63
Total current assets	188,025,479.89	183,855,388.87
Non-current assets:		
Loans and advances		
Debt investments		
Other debt investments		
Long-term receivables		
Long-term equity investments		
Other equity instrument investments	198,078,808.21	198,078,808.21
Other non-current financial assets		
Investment real estate		
Fixed assets	48,141,448.22	49,802,006.47

1. CONSOLIDATED BALANCE SHEET (Continued)

Prepared by: NORTHEAST ELECTRIC DEVELOPMENT CO., LTD.

30 June 2020

Unit: RMB

Items	30 June 2020	31 December 2019
Construction in progress		
Bearer biological assets		
Oil and gas assets		
Right-of-use assets	21,090,852.30	25,749,336.93
Intangible assets	14,498,524.39	14,675,394.97
Development expenditures		
Goodwill		
Long-term deferred expenses		40,728.78
Deferred income tax assets		
Other non-current assets	4,839,800.00	4,839,800.00
Total non-current assets	286,649,433.12	293,186,075.36
Total assets	474,674,913.01	477,041,464.23
Current liabilities:		
Short-term borrowings		10,500,000.00
Borrowings from central bank		
Borrowings from banks and other financial institutions		
Financial liabilities held for trading		
Derivative financial liabilities		
Notes payable		
Accounts payable	29,987,363.52	18,436,024.06

1. CONSOLIDATED BALANCE SHEET (Continued)

Prepared by: NORTHEAST ELECTRIC DEVELOPMENT CO., LTD.

30 June 2020

Unit: RMB

Items	30 June 2020	31 December 2019
Receipts in advance		
Contract liabilities	6,522,273.11	10,233,056.45
Proceeds from sale of repurchased financial assets		
Deposits from customers and interbank		
Deposit for agency security transaction		
Deposit for agency security underwriting		
Employee compensation payable	3,403,100.41	3,275,574.02
Taxes payable	834,859.59	1,346,933.20
Other payables	375,066,974.14	362,381,183.75
Incl.: Interest payable		17,363.75
Dividends payable		
Fees and commissions payable		
Reinsurance accounts payable		
Liabilities held for sale		
Non-current liabilities due within 1 year	9,100,084.26	8,765,817.72
Other current liabilities		
Total current liabilities	424,914,655.03	414,938,589.20

1. CONSOLIDATED BALANCE SHEET (Continued)

Prepared by: NORTHEAST ELECTRIC DEVELOPMENT CO., LTD.

30 June 2020

Unit: RMB

Items	30 June 2020	31 December 2019
Non-current liabilities:		
Provision for insurance contracts		
Long-term borrowings		
Bonds payable		
Incl.: Preferred shares		
Perpetual bonds		
Lease liabilities	12,856,485.87	17,486,748.75
Long-term payables		
Long-term employee compensation payable		
Estimated liabilities	72,099,690.00	72,099,690.00
Deferred revenue	27,144,948.32	23,623,291.13
Deferred income tax liabilities		
Other non-current liabilities		
Total non-current liabilities	112,101,124.19	113,209,729.88
Total liabilities	537,015,779.22	528,148,319.08

1. CONSOLIDATED BALANCE SHEET (Continued)

Prepared by: NORTHEAST ELECTRIC DEVELOPMENT CO., LTD.

30 June 2020

Unit: RMB

Items	30 June 2020	31 December 2019
Owners' equity:		
Share capital	873,370,000.00	873,370,000.00
Other equity instruments		
Incl.: Preferred shares		
Perpetual bonds		
Capital reserve	1,083,377,417.59	1,082,848,805.11
Less: Treasury stock		
Other comprehensive income	-61,964,639.24	-62,076,254.02
Special reserve		
Surplus reserve	108,587,124.40	108,587,124.40
Provision for general risk		
Retained profits	-2,071,138,368.70	-2,059,319,937.47
Total equity attributable to owners of the parent company	-67,768,465.95	-56,590,261.98
Minority interests	5,427,599.74	5,483,407.13
Total owners' equity	-62,340,866.21	-51,106,854.85
Total liabilities and owners' equity	474,674,913.01	477,041,464.23

Legal representative: Zhu Jie

Chief financial officer: Wang Kai

Chief accounting officer: Wang Kai

2. BALANCE SHEET OF PARENT COMPANY

Unit: RMB

Items	30 June 2020	31 December 2019
Current assets:		
Cash and cash equivalents	4,164.92	893.51
Financial assets held for trading		
Derivative financial assets		
Notes receivable		
Accounts receivable		
Receivables financing		
Prepayment		
Other receivables	255,373,741.54	258,324,138.60
Incl.: Interest receivable		
Dividend receivable		
Inventories		
Contract assets		
Assets held for sale		
Non-current asset due within 1 year		
Other current assets	608,094.92	566,304.82

2. BALANCE SHEET OF PARENT COMPANY (Continued)

Unit: RMB

Items	30 June 2020	31 December 2019
Total current assets	255,986,001.38	258,891,336.93
Non-current assets:		
Debt investments		
Other debt investments		
Long-term receivables		
Long-term equity investments	56,436,473.03	56,436,473.03
Other equity instrument investments		
Other non-current financial assets		
Investment real estate		
Fixed assets	24,281.98	25,826.92
Construction in progress		
Bearer biological assets		
Oil and gas assets		
Right-of-use assets		
Intangible assets		
Development expenditures		
Goodwill		
Long-term deferred expenses		40,728.78
Deferred income tax assets		
Other non-current assets		
Total non-current assets	56,460,755.01	56,503,028.73
Total assets	312,446,756.39	315,394,365.66

2. BALANCE SHEET OF PARENT COMPANY (Continued)
Unit: RMB

Items	30 June 2020	31 December 2019
Current liabilities:		
Short-term borrowings		
Financial liabilities held for trading		
Derivative financial liabilities		
Notes payable		
Accounts payable		
Advances from customers		
Contract liabilities	581,743.59	581,743.59
Employee compensation payable	1,010,964.10	1,059,047.18
Taxes payable	302,287.21	339,467.85
Other payables	336,165,905.80	337,074,394.71
Incl.: Interest payable		
Dividends payable		
Liabilities held for sale		
Non-current liabilities due within 1 year		
Other current liabilities		
Total current liabilities	338,060,900.70	339,054,653.33

2. BALANCE SHEET OF PARENT COMPANY (Continued)

Unit: RMB

Items	30 June 2020	31 December 2019
Non-current liabilities:		
Long-term borrowings		
Bonds payable		
Incl.: Preferred shares		
Perpetual bonds		
Lease liabilities		
Long-term payables		
Long-term employee compensation payable		
Estimated liabilities	72,099,690.00	72,099,690.00
Deferred revenue		
Deferred income tax liabilities		
Other non-current liabilities		
Total non-current liabilities	72,099,690.00	72,099,690.00
Total liabilities	410,160,590.70	411,154,343.33

2. BALANCE SHEET OF PARENT COMPANY (Continued)
Unit: RMB

Items	30 June 2020	31 December 2019
Owners' equity:		
Share capital	873,370,000.00	873,370,000.00
Other equity instruments		
Incl.: Preferred shares		
Perpetual bonds		
Capital reserve	996,249,779.94	995,721,167.46
Less: Treasury stock		
Other comprehensive income		
Special reserve		
Surplus reserve	108,587,124.40	108,587,124.40
Retained profits	-2,075,920,738.65	-2,073,438,269.53
Total owners' equity	-97,713,834.31	-95,759,977.67
Total liabilities and owners' equity	312,446,756.39	315,394,365.66

3. CONSOLIDATED INCOME STATEMENT

Unit: RMB

Items	Amount for the first half of 2020	Amount for the first half of 2019
I. Total operating income	37,838,750.59	45,163,758.53
Incl.: Operating income	37,838,750.59	45,163,758.53
Interest income		
Premiums earned		
Fee and commission income		
II. Total operating cost	51,178,021.60	49,613,580.90
Incl.: Operating cost	26,403,071.53	21,417,642.83
Interest expense		
Fee and commission expense		
Surrender value		
Net payment of insurance claims		
Net provision of insurance reserve		
Premium bonus expenditures		
Reinsurance expenses		
Taxes & surcharges	440,750.91	582,834.93
Cost of sales	14,515,293.80	17,393,737.95
Administrative expenses	9,990,199.47	11,127,965.17
Research and development expenses		
Financial expenses	-171,294.11	-908,599.98
Incl.: Interest expenses	824,460.43	632,355.00
Interest income	1,031,574.82	1,600,318.15

3. CONSOLIDATED INCOME STATEMENT (Continued)
Unit: RMB

Items	Amount for the first half of 2020	Amount for the first half of 2019
Add: Other income	668,955.66	243,907.98
Investment income (“-” represents loss)		
Incl.: Investment income from associates and joint ventures		
Income from derecognition of financial assets at amortised cost (“-” represents loss)		
Foreign exchange gains (“-” represents loss)		
Net exposure hedge income (“-” represents loss)		
Gains on the changes in fair value (“-” represents loss)		
Credit impairment loss (“-” represents loss)		830,784.80
Loss on asset impairment (“-” represents loss)		
Gain on disposal of assets (“-” represents loss)		
III. Operational profit (“-” represents loss)	-12,670,315.35	-3,375,129.59
Add: Non-operating income	1,078,350.37	15,943.26
Less: Non-operating expenses	2,017.55	29,365.81
IV. Total profit (“-” represents total loss)	-11,593,982.53	-3,388,552.14
Less: Income tax expenses	280,256.09	520,173.40

3. CONSOLIDATED INCOME STATEMENT (Continued)

Unit: RMB

Items	Amount for the first half of 2020	Amount for the first half of 2019
V. Net profit (“-” represents net loss)	-11,874,238.62	-3,908,725.54
A. Classified by business continuity		
1. Net profit from continuing operations (“-” represents net loss)	-11,874,238.62	-3,908,725.54
2. Net profit from discontinued operations (“-” represents net loss)		
B. Classified by ownership		
1. Net profit attributable to owners of the parent company	-11,818,431.23	-3,924,330.74
2. Profit or loss attributable to minority interests	-55,807.39	15,605.20
VI. Net other comprehensive income after tax	111,614.78	346,094.29
Net other comprehensive income attributable to owners of the parent company after tax	111,614.78	346,094.29
A. Other comprehensive income not reclassifiable to profit or loss		
1. Remeasurement of changes in defined benefit plans		
2. Other comprehensive income not reclassifiable to profit or loss under the equity method		
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		

3. CONSOLIDATED INCOME STATEMENT (Continued)
Unit: RMB

Items	Amount for the first half of 2020	Amount for the first half of 2019
B. Other comprehensive income reclassifiable to profit or loss	111,614.78	346,094.29
1. Other comprehensive income reclassifiable to profit and loss under the equity method		
2. Changes in the fair value of other debt investments		
3. Amount of financial assets reclassified into other comprehensive income		
4. Credit impairment provisions for other debt investments		
5. Cash flow hedge reserve		
6. Exchange difference on translation of foreign financial statements	111,614.78	346,094.29
7. Others		
Net other comprehensive income attributable to minority interests after tax		
VII. Total comprehensive income	-11,762,623.84	-3,562,631.25
Total comprehensive income attributable to owners of the parent company	-11,706,816.45	-3,578,236.45
Total comprehensive income attributable to minority interests	-55,807.39	15,605.20
VIII. Earnings per share		
(I) Basic earnings per share	-0.0135	-0.0045
(II) Diluted earnings per share	-0.0135	-0.0045

4. INCOME STATEMENT OF PARENT COMPANY

Unit: RMB

Items	Amount for the first half of 2020	Amount for the first half of 2019
I. Total operating income	0.00	0.00
Less: Operating cost	2,482,469.19	5,499,074.25
Taxes & surcharges		
Cost of sales		
Administrative expenses	2,478,916.69	5,495,067.51
Research and development expenses		
Financial expenses	3,552.50	4,006.74
Incl.: Interest expenses		
Interest income		
Add: Other income		
Investment income (“-” represents loss)		
Incl.: Investment income from associates and joint ventures		
Income from derecognition of financial assets at amortised cost (“-” represents loss)		
Net exposure hedge income (“-” represents loss)		

4. INCOME STATEMENT OF PARENT COMPANY (Continued)
Unit: RMB

Items	Amount for the first half of 2020	Amount for the first half of 2019
Gains on the changes in fair value (“-” represents loss)		
Credit impairment loss (“-” represents loss)		
Loss on asset impairment (“-” represents loss)		
Gain on disposal of assets (“-” represents loss)		
II. Operational profit (“-” represents loss)	-2,482,469.19	-5,499,074.25
Add: Non-operating income	0.07	
Less: Non-operating expenses		
III. Total profit (“-” represents total loss)	-2,482,469.12	-5,499,074.25
Less: Income tax expenses		
IV. Net profit (“-” represents net loss)	-2,482,469.12	-5,499,074.25
(I) Net profit from continuing operations (“-” represents net loss)	-2,482,469.12	-5,499,074.25
(II) Net profit from discontinued operations (“-” represents net loss)		
V. Net other comprehensive income after tax		
A. Other comprehensive income not reclassifiable to profit or loss		
1. Remeasurement of changes in defined benefit plans		
2. Other comprehensive income not reclassifiable to profit or loss under the equity method		
3. Changes in the fair value of other equity instruments investment		
4. Changes in the fair value of the Company's own credit risk		
5. Others		

4. INCOME STATEMENT OF PARENT COMPANY (Continued)

Unit: RMB

Items	Amount for the first half of 2020	Amount for the first half of 2019
B. Other comprehensive income reclassifiable to profit or loss		
1. Other comprehensive income reclassifiable to profit and loss under the equity method		
2. Changes in the fair value of other debt investments		
3. Amount of financial assets reclassified into other comprehensive income		
4. Credit impairment provisions for other debt investments		
5. Cash flow hedge reserve		
6. Exchange difference on translation of foreign financial statements		
7. Others		
VI. Total comprehensive income	-2,482,469.12	-5,499,074.25
VII. Earnings per share:		
(I) Basic earnings per share		
(II) Diluted earnings per share		

5. CONSOLIDATED CASH FLOW STATEMENT

Unit: RMB

Items	Amount for the first half of 2020	Amount for the first half of 2019
I. Cash flow from operating activities:		
Cash received from sales of goods or rendering of services	34,140,434.98	38,986,746.98
Net increase in deposits from customers and interbank		
Net increase in borrowings from central bank		
Net increase in borrowings from other financial institutions		
Cash received from premiums under original insurance contracts		
Cash received from reinsurance business, net		
Net increase in policyholders' deposits and investment		
Cash from interests, fees and commissions	992,292.57	
Net increase in borrowings from banks and other financial institutions		
Net increase in income from repurchase transactions		
Cash received from securities brokerage services, net		
Tax refunds received		
Other cash receipts relating to operating activities	83,322,917.49	14,822,608.85
Sub-total of cash inflows from operating activities	118,455,645.04	53,809,355.83

5. CONSOLIDATED CASH FLOW STATEMENT (Continued)

Unit: RMB

Items	Amount for the first half of 2020	Amount for the first half of 2019
Cash paid to goods purchased and labor service received	25,687,390.51	17,595,768.96
Net increase in customers' loans and advances		
Net increase in deposits with central bank and inter-bank		
Cash paid for compensation payout under original insurance contracts		
Net increase in loans to banks and other financial institutions		
Cash paid for interests, fees and commissions	5,815.57	
Cash paid for policy dividends		
Cash paid to and for employees	8,625,644.27	11,062,378.49
Payments of taxes and surcharges	1,024,700.09	1,217,294.47
Other cash payments relating to operating activities	21,409,395.47	26,025,833.20
Sub-total of cash outflows for operating activities	56,752,945.91	55,901,275.12
Net cash flow from operating activities	61,702,699.13	-2,091,919.29



5. CONSOLIDATED CASH FLOW STATEMENT (Continued)

Unit: RMB

Items	Amount for the first half of 2020	Amount for the first half of 2019
II. Cash flow from investing activities:		
Cash from disinvestments		
Cash received from return of investments		
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		
Net cash received from disposal of subsidiaries and other operating units		
Other cash receipts relating to investing activities		
Sub-total of cash inflows from investing activities		
Cash paid in purchase/construction of fixed assets, intangible assets and other long-term assets		160,513.12
Cash paid for investment	48,435,719.34	
Net increase of mortgaged loans		
Net cash paid for acquisition of subsidiaries and other operating units		
Other cash payments relating to investing activities		
Sub-total of cash outflows for investing activities	48,435,719.34	160,513.12
Net cash flow from investing activities	-48,435,719.34	-160,513.12

5. CONSOLIDATED CASH FLOW STATEMENT (Continued)

Unit: RMB

Items	Amount for the first half of 2020	Amount for the first half of 2019
III. Cash flow from financing activities:		
Cash received by absorbing investment		
Incl.: Cash received by subsidiaries from minority interests		
Cash received from borrowings		
Other cash receipts relating to financing activities		
Sub-total of cash inflows from financing activities		
Cash paid for repayments of debts	10,500,000.00	
Cash paid for dividends, profits distribution or interests	225,709.27	131,478.61
Incl.: Dividends and profits paid by subsidiaries to minority interests		
Other cash payments relating to financing activities		2,055,359.68
Sub-total of cash outflows for financing activities	10,725,709.27	2,186,838.29
Net cash flow from financing activities	-10,725,709.27	-2,186,838.29
IV. Effect of changes in foreign currency rates on cash and cash equivalents	34,028.92	1,094.82
V. Net increase in cash and cash equivalent	2,575,299.44	-4,438,175.88
Add: Balance of cash and cash equivalents at beginning of period	74,527,767.65	84,724,338.23
VI. Balance of cash and cash equivalents at end of period	77,103,067.09	80,286,162.35

6. CASH FLOW STATEMENT OF PARENT COMPANY

Unit: RMB

Items	Amount for the first half of 2020	Amount for the first half of 2019
I. Cash flow from operating activities		
Cash received from sales of goods or rendering of services		
Tax refunds received		
Other cash receipts relating to operating activities	3,020,491.01	7,511,146.05
Sub-total of cash inflows from operating activities	3,020,491.01	7,511,146.05
Cash paid to goods purchased and labor service received		
Cash paid to and for employees	2,009,400.18	4,138,706.20
Payments of taxes and surcharges		
Other cash payments relating to operating activities	1,007,819.42	3,425,100.17
Sub-total of cash outflows for operating activities	3,017,219.60	7,563,806.37
Net cash flow from operating activities	3,271.41	-52,660.32
II. Cash flow from investing activities:		
Cash from disinvestments		
Cash received return of investments		
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		
Net cash received from disposal of subsidiaries and other operating units		
Other cash receipts relating to investing activities		
Sub-total of cash inflows from investing activities		

6. CASH FLOW STATEMENT OF PARENT COMPANY (Continued)

Unit: RMB

Items	Amount for the first half of 2020	Amount for the first half of 2019
Cash paid in purchase/construction of fixed assets, intangible assets and other long-term assets		
Cash paid for investment		
Net cash paid for acquisition of subsidiaries and other operating units		
Other cash payments relating to investing activities		
Sub-total of cash outflows for investing activities		
Net cash flow from investing activities		
III. Cash flow from financing activities:		
Cash received by absorbing investment		
Cash received from borrowings		
Other cash receipts relating to financing activities		
Sub-total of cash inflows from financing activities		
Cash paid for repayments of debts		
Cash paid for dividends, profits distribution or interests		
Other cash payments relating to financing activities		
Sub-total of cash outflows for financing activities		
Net cash flow from financing activities		
IV. Effect of changes in foreign currency rates on cash and cash equivalents		-696.38
V. Net increase in cash and cash equivalents	3,271.41	-53,356.70
Add: Balance of cash and cash equivalents at beginning of period	893.51	131,150.21
VI. Balance of cash and cash equivalents at end of period	4,164.92	77,793.51



7. CONSOLIDATED STATEMENT OF CHANGES IN OWNER'S EQUITY

Amount for the current period

Unit: RMB

Items	Amount for the first half of 2020											Total shareholders' equity			
	Equity attributable to shareholders of the parent company														
	Share capital	Other equity instruments			Capital reserve	Less: Treasury stock	Other comprehensive income	Special reserve	Surplus reserve	Provision for general risks	Retained profits		Others	Subtotal	Minority interests
		Preferred	Perpetual	Others											
I. Balance at end of last year	873,370,000.00			1,082,248,805.11		-62,076,254.02		108,587,124.40		-2,059,319,937.47		-56,590,261.98	5,483,407.13	-51,106,854.65	
Add: Changes in accounting policies															
Corrections to previous errors															
Effect of business combination under common control															
Others															
II. Balance at beginning of year	873,370,000.00			1,082,248,805.11		-62,076,254.02		108,587,124.40		-2,059,319,937.47		-56,590,261.98	5,483,407.13	-51,106,854.65	
III. Changes in the current period ("-" represents loss)															
(I) Total comprehensive income				528,612.48		111,614.78				-11,818,431.23		-11,178,203.97	-55,807.39	-11,234,011.36	
(II) Increase/Decrease of capital from shareholders				528,612.48		111,614.78				-11,818,431.23		-11,706,616.45	-55,807.39	-11,762,623.94	
1. Ordinary shares invested by shareholders												528,612.48			
2. Capital contributed by holders of other equity instrument															
3. Shares payment taken into shareholder's equity															
4. Others				528,612.48		111,614.78									
(III) Distribution of profit															
1. Appropriation of surplus reserves															
2. Appropriation of general risk provision															
3. Distribution to shareholders															
4. Others															

7. CONSOLIDATED STATEMENT OF CHANGES IN OWNER'S EQUITY (Continued)

Amount for the current period (Continued)

Unit: RMB

Items	Amount for the first half of 2020											Total shareholders' equity					
	Equity attributable to shareholders of the parent company										Minority interests						
	Share capital	Other equity instruments			Capital reserve	Less: Treasury stock	Other comprehensive income	Special reserve	Surplus reserve	Provision for general risks			Retained profits	Others	Subtotal		
	Preferred	Perpetual	Others														
(IV) Transfer within equity																	
1. Transfer-in from capital reserves																	
2. Transfer-in from surplus reserves																	
3. Loss covered by surplus reserves																	
4. Changes in defined benefit plan transferred to retained earnings																	
5. Other comprehensive income transferred to retained earnings																	
6. Others																	
(V) Special reverses																	
1. Appropriation of the special reverses																	
2. Usage of the special reverses																	
(VI) Others																	
IV. Balance at end of period	873,370,000.00				1,083,377,417.59			-61,964,639.24		108,667,124.40		-2,071,188,366.70		-67,768,465.95		5,427,599.74	-82,340,866.21

7. CONSOLIDATED STATEMENT OF CHANGES IN OWNER'S EQUITY (Continued)

Amount for the previous period

Unit: RMB

Items	Amount for the first half of 2019											Total shareholders' equity		
	Equity attributable to shareholders of the parent company										Minority interests			
	Share capital	Other equity instruments		Capital reserve	Less: Treasury stock	Other comprehensive income	Special reserve	Surplus reserve	Provision for general risks	Retained profits			Others	Subtotal
	Preferred	Perpetual	Others											
I. Balance at end of last year	873,370,000.00				1,074,828,788.67	-29,012,497.21		108,597,124.40		-2,019,154,197.71		8,619,216.15	13,497,161.81	22,116,379.36
Add: Changes in accounting policies														
Corrections to previous errors														
Effect of business combination under common control														
Others														
II. Balance at beginning of year	873,370,000.00				1,074,828,788.67	-29,012,497.21		108,597,124.40		-2,019,154,197.71		8,619,216.15	13,497,161.81	22,116,379.36
III. Changes in the current period ("-" represents loss)					8,014,911.19	346,094.29				-3,924,330.74		4,436,674.74	-7,999,305.99	-3,562,631.25
(I) Total comprehensive income						346,094.29				-3,924,330.74		-3,578,236.45	15,605.20	-3,562,631.25
(II) Increase/Decrease of capital from shareholders					8,014,911.19							8,014,911.19	-8,014,911.19	
1. Ordinary shares invested by shareholders														
2. Capital contributed by holders of other equity instrument														
3. Shares payment taken into shareholder's equity													-8,014,911.19	
4. Others					8,014,911.19									

7. CONSOLIDATED STATEMENT OF CHANGES IN OWNER'S EQUITY (Continued)

Amount for the previous period (Continued)

Unit: RMB

Items	Amount for the first half of 2019											Total shareholders' equity						
	Equity attributable to shareholders of the parent company										Subtotal		Minority interests					
	Share capital	Other equity instruments		Capital reserve	Less: Treasury stock	Other comprehensive income	Special reserve	Surplus reserve	Provision for general risks	Retained profits				Others				
		Preferred	Perpetual												Others			
(III) Distribution of profit																		
1. Appropriation of surplus reserves																		
2. Appropriation of general risk provision																		
3. Distribution to shareholders																		
4. Others																		
(IV) Transfer within equity																		
1. Transfer-in from capital reserves																		
2. Transfer-in from surplus reserves																		
3. Loss covered by surplus reserves																		
4. Changes in defined benefit plan transferred to retained earnings																		
5. Other comprehensive income transferred to retained earnings																		
6. Others																		
(V) Special reverses																		
1. Appropriation of the special reverses																		
2. Usage of the special reverses																		
(VI) Others																		
IV. Balance at end of period	833,370,000.00			1,022,843,693.86		-28,666,402.92		106,567,124.40		-2,023,076,526.45		13,055,882.89		5,437,865.82				16,533,748.71



8. STATEMENT OF CHANGES IN OWNER'S EQUITY OF PARENT COMPANY

Amount for the current period

Unit: RMB

Items	Amount for the first half of 2020										Total shareholders' equity	
	Share capital	Other equity instruments			Capital reserve	Less: Treasury stock	Other comprehensive income	Special reserve	Surplus reserve	Retained profits		Others
		Preferred	Perpetual	Others								
I. Balance at end of last year	873,370,000.00				995,721,167.46				108,587,124.40	-2,073,438,269.53		-95,759,977.67
Add: Changes in accounting policies												
Corrections to previous errors												
Others												
II. Balance at beginning of year	873,370,000.00				995,721,167.46				108,587,124.40	-2,073,438,269.53		-95,759,977.67
III. Changes in the current period ("-" represents loss)					528,612.48					-2,482,469.12		-1,953,856.64
(I) Total comprehensive income										-2,482,469.12		-2,482,469.12
(II) Increase/Decrease of capital from shareholders					528,612.48							528,612.48
1. Ordinary shares invested by shareholders												
2. Capital contributed by holders of other equity instrument												
3. Shares payment taken into shareholder's equity												
4. Others					528,612.48							528,612.48
(III) Distribution of profit												
1. Appropriation of surplus reserves												
2. Distribution to shareholders												
3. Others												

8. STATEMENT OF CHANGES IN OWNER'S EQUITY OF PARENT COMPANY (Continued)

Amount for the current period (Continued)

Unit: RMB

Items	Amount for the first half of 2020											
	Share capital	Other equity instruments			Capital reserve	Less: Treasury stock	Other comprehensive income	Special reserve	Surplus reserve	Retained profits	Others	Total shareholders' equity
		Preferred	Perpetual	Others								
(IV) Transfer within equity												
1. Transfer-in from capital reserves												
2. Transfer-in from surplus reserves												
3. Loss covered by surplus reserves												
4. Changes in defined benefit plan transferred to retained earnings												
5. Other comprehensive income transferred to retained earnings												
6. Others												
(V) Special reverses												
1. Appropriation of the special reverses												
2. Usage of the special reverses												
(VI) Others												
IV. Balance at end of period	873,370,000.00			996,249,779.94				108,687,124.40	-2,075,920,738.65			-97,713,834.31



8. STATEMENT OF CHANGES IN OWNER'S EQUITY OF PARENT COMPANY (Continued)

Amount for the previous period

Unit: RMB

Items	Amount for the first half of 2019										Total shareholders' equity	
	Share capital	Other equity instruments			Capital reserve	Less: Treasury stock	Other comprehensive income	Special reserve	Surplus reserve	Retained profits		Others
		Preferred	Perpetual	Others								
I. Balance at end of last year	873,370,000.00				995,721,167.46				108,587,124.40	-2,062,911,369.67		-85,233,077.81
Add: Changes in accounting policies												
Corrections to previous errors												
Others												
II. Balance at beginning of year	873,370,000.00				995,721,167.46				108,587,124.40	-2,062,911,369.67		-85,233,077.81
III. Changes in the current period ("-" represents loss)												
(I) Total comprehensive income												
(II) Increase/Decrease of capital from shareholders												
1. Ordinary shares invested by shareholders												
2. Capital contributed by holders of other equity instrument												
3. Shares payment taken into shareholder's equity												
4. Others												
(III) Distribution of profit												
1. Appropriation of surplus reserves												
2. Distribution to shareholders												
3. Others												

8. STATEMENT OF CHANGES IN OWNER'S EQUITY OF PARENT COMPANY (Continued)

Amount for the previous period (Continued)

Unit: RMB

Items	Amount for the first half of 2019											
	Share capital	Other equity instruments			Capital reserve	Less: Treasury stock	Other comprehensive income	Special reserve	Surplus reserve	Retained profits	Others	Total shareholders' equity
		Preferred	Perpetual	Others								
(IV) Transfer within equity												
1. Transfer-in from capital reserves												
2. Transfer-in from surplus reserves												
3. Loss covered by surplus reserves												
4. Changes in defined benefit plan transferred to retained earnings												
5. Other comprehensive income transferred to retained earnings												
6. Others												
(V) Special reverses												
1. Appropriation of the special reverses												
2. Usage of the special reverses												
(VI) Others												
IV. Balance at end of period	873,370,000.00			995,721,167.46				108,567,124.40	-2,068,410,443.92			-90,732,152.06

Legal representative: Zhu Jie

Chief financial officer: Wang Kai

Chief accounting officer: Wang Kai



III. Company Profile

Northeast Electric Development Co., Ltd. (“the Company” or “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. The Company’s registered address is located at Room A1-1077, 5th Floor, Building A, Entrepreneurship Incubation Center, Haikou National High-tech Zone, No.266 Nanhai Avenue, Haikou City, Hainan Province, and its office address is located at New HNA Building, No. 7 Guoxing Avenue, Meilan District, Haikou City, Hainan Province.

The Company and its subsidiaries (collectively, “the Group”) mainly engage in enclosed busbar, hotel catering and accommodation.

The financial statements were approved through the resolution on 28 August 2020 by the Board of Directors of the Company.

The Company’s parent company is Beijing Haihongyuan Investment Management Co., Ltd. (hereinafter referred to as “Haihongyuan”), while the ultimate controlling party of the Company is Hainan Province Cihang Foundation.

In the first half of 2020, the results of 6 subsidiaries of the Group have been consolidated. Please see Note 9 “Equity in other entities”. There is no change in the Group’s consolidation scope this year compared with last year.

IV. Basis of Preparation of Financial Statements

4.1 Basis of preparation

The financial statements of the Group 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 were announced subsequently (collectively, the “Accounting Standards for Business Enterprises”), and the disclosure requirements under the “Disclosure Requirement on Listed Issuers No.15 – General Requirements on Financial Statements (2014 revision)” issued by China Securities Regulatory Commission.

The Group has prepared its financial accounting by Accrual Basis, according to the relevant regulations of the Accounting Standards for Business Enterprises. Except for some financial instruments, the financial statements are valued at historical cost. Impairment of assets reserves is allocated once such impairment happens.

4.2 Continuing operations

As at the end of 30 June 2020, the Company had a cumulative net loss of RMB2,071,138,368.70, the equity attributable to shareholders of the parent company was RMB-67,768,465.95, and as of 30 June 2020, current liabilities were RMB236,889,175.14 more than current assets. In the meantime, the aggregate compensation for resolved litigation has amounted to RMB272 million. These may bring uncertainties to major matters or conditions that might probably cause concerns in regards with the continuing operation ability of the Company, even cause the Company unable to liquidate its assets and repay debts in the normal course of business. The financial statements are prepared on a going concern basis, since the Group's Parent Company Haihongyuan agreed to provide all necessary financial support to maintain the continuing operations of the Group in the foreseeable future.

In view of the above, the Group has taken into consideration of future liquidity and funding sources of the Group while evaluating whether there are enough financial resources for its continuing operations.

The Group is to take the following steps concerning capital operation and business direction to ensure its continuing operations according to the status quo:

1. The Group's Parent Company Haihongyuan has issued Letter of Commitment, undertaking to provide unconditional financial support including funds and guarantees to help with the Group's operating financial needs for 1 year since issuance date of the Letter.
2. The Group will further optimize principal business through equity financing (as the case may be), actively seek opportunities for expanding new business segments, and enhance the Group's core competitiveness and sustainable development capabilities.
3. Consistent with the market changes and demands, the Group will proactively adjust the product structure and industrial upgrading, and accelerate the transformation to a modern service provider, and optimize the overall industrial distribution. The Group will also develop new client bases, improve and strengthen sales system, and enhance the profitability of principal business.
4. With its wholly-owned subsidiary Hainan Garden Lane Flight Hotel Management Co., Ltd. as a platform, the Group will research and explore new hotel, catering and accommodation 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 listed company, improving its asset portfolio, and bringing fresh energy into its sustained operation.
5. The Group will 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.
6. In strict accordance with the requirements of the listed company's standard operation, the Group will continuously improve working standards and perfect the internal control system, establish and improve the operation organization of the enterprise, continuously improve various internal control systems, strengthen risk control measures, and reduce the Company's operational risks. The Group will make its internal control system more operable, to prevent damage to the interests of listed companies and shareholders, and to ensure the realisation of the Group's business objectives.

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

V. Significant Accounting Policies and Accounting Estimates

Specific notes for significant accounting policies and accounting estimates:

The Group has set up certain specific Accounting Policies and Accounting Estimates on accounting items such as Accounts Receivables, Inventories, Fixed Assets, and Income according to actual characteristics of manufacturing and operations and the relevant stipulations in the Accounting Standards for Business Enterprises. For the explanations on significant accounting judgements and estimates made by the Management, please refer to Note 5.30 “Significant accounting judgments and estimates”.

5.1 Statement of Compliance with the Accounting Standards for Business Enterprises

The financial statements of the Company are in compliance with the Accounting Standards for Business Enterprises, and truly and completely present the financial position of the Company as at 30 June 2020 and the operating results, cash flows and other information for the first half of 2020. In addition, all material aspects of the financial statements of the Company are compliant with the “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 their accompanying notes.

5.2 Accounting period

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

5.3 Operating cycle

A normal operating cycle starts from purchasing assets used to produce, and ends when cash or cash equivalents are realised. It's the Group'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.

5.4 Recording currency

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

5.5 Accounting treatment for business combinations under common control and business combination not under common control

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.

5.5.1 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 obtaining the control of the other parties at the combination date is the acquiring party, other parties involved in the business combination are the parties being acquired. The combination date is the date on which the acquiring party effectively obtains control of the parties being acquired.

Assets and liabilities that are obtained by the acquiring party in a business combination shall be measured at their carrying amounts at the combination date as recorded by the parties being acquired. The difference between the carrying amount of the net assets obtained by the acquiring party 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 capital reserve (or share premium). If the capital reserve (or share 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 expensed in the profit and loss in the period incurred.

5.5.2 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 either before or after the combination. For business combination not under common control, the party obtaining the control of the other parties at the acquisition date is the acquirer, other parties involved in the business combination are the acquirees. The acquisition date is the date on which the acquirer effectively obtains control of the acquirees.

For business combination not under common control, the cost of business combination includes assets paid by the acquirer, liabilities paid or undertaken and the fair value of equity securities issued for the controlling interest of the acquiree on the acquisition date. Costs that are attributable to the business combination such as audit fee, legal service fee, consultancy fee and other intermediate expenses as well as other management fees 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. The contingent consideration involved is included in the cost of combination at its fair value on the acquisition date. For conditions that existed at the date of the acquisition and within 12 months from the acquisition date, when there is new or further evidence which requires the adjustment of the contingent consideration, the goodwill arising from the business combination shall be amended accordingly. The cost of combination incurred 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 combination exceeds the acquiree's interest in the fair value of the acquiree's identifiable net assets on the acquisition date, the difference is recognised as goodwill; where the cost of combination is lower than the acquiree'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 differences acquired from the acquiree which were not recognised as deferred tax assets due to non-fulfillment of the recognition criteria on the acquisition date, if, within 12 months from the acquisition date, there is a new or further evidence indicating that relevant conditions existed on the acquisition date, and the economic benefits from the deductible temporary differences acquired from the acquiree on the acquisition date are expected to be realized, the relevant deferred tax assets shall be recognised and set-off against goodwill, when the amount of goodwill is less than the deferred tax assets that shall be recognised, the difference shall be recognised in current profit or loss. Except for the above circumstances, deferred tax assets recognised in relation to business combination are recognised in profit or loss for the period.

For a business combination not involving enterprises under common control and achieved in stages, the Company would determine whether the business combination shall be regarded as "a bundle of transactions" in accordance with the criteria for "a bundle of transactions" in "Interpretation 5 on Accounting Standards for Business Enterprises" (Cai Kuai [2012] No.19) and Article 51 of "Decree 33, Accounting Standards for Business Enterprises – Consolidated Reports" (Refer to Note 5.6(2) "Preparation method of consolidated financial statements"). 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 5.13 "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's 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 is accounted on the same basis as the investee when disposing of its relative assets or liabilities.

In the consolidated financial statements, the previously-held equity interest in the acquiree prior to the acquisition date is remeasured at fair value on the acquisition date. The difference between the fair value and the carrying amount is recognised as investment income for the current period. The other comprehensive income relating to the previously-held equity interest in the acquiree prior to the acquisition date is accounted on the same basis as the investee when disposing of its relative assets or liabilities.

5.6 Preparation method of consolidated financial statements

5.6.1 Principles for determining the scope of consolidated financial statements

The consolidated scope of consolidated financial statements is determined based on the concept of control. Control is the power the Group has over the investee(s), by which the Group 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 Group.

The Group will re-evaluate the definition once any relative element of the definition of control mentioned above changes due to facts or circumstances change.

5.6.2 Preparation method of consolidated financial statements

Subsidiaries are consolidated from the date on which the Group 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 financial statements 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 financial statements would be restated.

In preparing the consolidated financial statements, where the accounting policies or 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 periods of the Company. For subsidiaries acquired from a business combination not under common control, the individual financial statements of the subsidiaries are adjusted based on the fair value of the identifiable net assets at the acquisition date.

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

The portion of a subsidiary's equity and the portion of a subsidiary's net profits and losses for the period not attributable to the Company are presented as minority interests and profits and losses attributable to minority interests in the consolidated financial statements under shareholders' equity and net profit respectively. Subsidiary's net profits or losses for the period attributable to minority interests are presented in the consolidated income statement as "profits and losses attributable to minority interests" under net profit. When the amount of loss for the current period attributable to the minority shareholders of a subsidiary exceeds the minority shareholders' portion of the opening balance of shareholders' equity of the subsidiary, the excess is allocated against the minority interests.

When the control to a subsidiary ceased due to disposal of a portion of interest in the subsidiary or other reasons, the remaining equity interest is remeasured at its fair value on the date when the control ceased. The difference between the sum of the consideration received from disposal of equity interest and the fair value of the remaining equity interest, less the net assets attributable to the acquirer since acquisition date according to the original shareholding ratio, is recognised as the investment income from the loss of control. Other comprehensive income in relation to the original equity interest in the subsidiary is accounted on the same basis as the acquiree when disposing the related assets or liabilities when control ceased (i.e. except for changes due to net liabilities or net assets from such subsidiary's re-measured defined benefits plan, the rest is 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 No. 2 – Long-term Equity Investments" or "Accounting Standards for Business Enterprises No. 22 – Financial Instruments Recognition and Measurement", which are detailed in Note 5.13 "Long-term equity investments" or Note 5.10 "Financial instruments".

The Group shall determine whether a series of transactions in relation to disposal of equity investment in or even loss of control over a subsidiary in stages should be regarded as a bundle of transactions. When the terms, conditions and economic effects of the disposal transactions meet one or more of the following situations, the transactions shall normally be accounted for as a bundle of transactions: (i) The transactions are entered into simultaneously or after considering the mutual consequences of each individual transaction; (ii) The transactions need to be considered as a whole in order to achieve a deal with commercial sense; (iii) The occurrence of an individual transaction depends on the occurrence of one or more individual transaction(s) in the series; (iv) The result of an individual transaction is not economical, but it would be economical after taking 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 5.13(2)(iv) "Long-term equity investments") and "disposal of a portion of an interest in a subsidiary which leads to loss of control" (detailed in the previous paragraph), as the case may be. 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 transaction before loss of control shall be recognised as other comprehensive income in the consolidated financial statements, and reclassified as profit or loss arising from the loss of control when control is lost.

5.7 Joint venture arrangement classification and relative accounting methods

Joint venture arrangement is the arrangement jointly controlled by two or more parties. The Group 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 Group shares the assets as well as the liabilities of the invested entity. Joint venture refers to the arrangement that the Group shares only the net asset of the invested entity.

Equity method is adopted to account for investment in the joint ventures by the Group in accordance with the accounting policy as set out in “Long term equity investment accounted for using equity method” under Note 5.13 “Long-term equity investments”.

In joint operation, the Group recognises asset and liability singly held, and shared assets and liabilities pro rata shares in the invested entity by the Group. Income pro rata the Group’s share in the joint operation production are recognised, as well as income from sales of products pro rata the Group’s share in the joint operation. Moreover, expenses by the Group as well as shared expenses pro rata the Group’s share are recognised.

When the Group, as a party in the joint operation, transfers or sells assets to, or purchases assets from the joint operation, only the relative profit or loss arising from such transaction attributable to other participating parties will be recognized by the Group before the relative asset is sold to a third party. Where an impairment loss occurs due to such transaction and meet the criteria of “Accounting Standard for Business Enterprise No.8 – Impairment of assets”, the Group will recognise loss in full amount if it is the Group that transfers or sells assets to joint operation, and will recognize shared loss if it is the Group that purchases the assets from joint operation. (note: The transaction mentioned in this paragraph does not constitute a business transaction)

5.8 Definitions of cash and cash equivalents

Cash and cash equivalents of the Group 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.

5.9 Translation of foreign currency transactions and foreign currency financial statements

(1) Translation of 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 Group carried on a business of currency exchange or was involved in currency exchange transactions, at which the actual exchange rates would be used.

(2) Foreign currency translations for foreign-currency monetary items and foreign-currency nonmonetary 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 changes in fair value (including a change of exchange rate) in profit or loss for the period or in other comprehensive income.

(3) Translation of foreign currency financial statements

The financial statements denominated in foreign currency of a foreign operation are translated to RMB in compliance with the following requirements: The asset and liability items in the balance sheets are translated at the spot exchange rates on the balance sheet date. Under 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 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 is recognized as other comprehensive income. Such exchange difference in relation to the foreign operation as shown under shareholders' equity in the balance sheet will be reclassified to profit or loss for current period in full or on a pro rata basis when the foreign operation is disposed and leads to a loss of control.

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 as an adjustment item in the cash flow statement.

The opening balances and the prior year's actual figures are presented as the balances after translation in the financial statements of last year.

All the translation differences in relation to the foreign operation as shown under shareholders' equity in balance sheet and attributable to owners' of the parent company are reclassified into the profit & loss for the period, when the Group disposes all of offshore shareholders' equity, or ceases control over its overseas operations due to partial disposal of equity investment or other reasons.

The Group 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 its shareholding declines 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 on a pro rata basis when the share equity disposed are with the Group's associate or joint venture.

In case of foreign-currency monetary items that substantially constitute net investment in a foreign operation, the exchange difference arising from changes in exchange rate will be recognised as other comprehensive income under the item "exchange difference" in consolidated financial statements; when the foreign operation is disposed, the exchange difference will be recognised in the profit or loss during the period of disposal.

5.10 Financial instruments

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

5.10.1 Classification, recognition and measurement of financial assets

The Group 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; and financial assets measured at fair value through current profit or loss.

The financial asset is measured at fair value when it's initially recognised. Transaction expenses of financial assets measured at fair value through current profit or loss are accounted directly into Profit & Loss for the period, while transaction expenses of other types of financial assets are classified in their initial recognized amounts. For accounts receivable or bills receivable arising from the sale of products or the provision of services that do not contain or consider significant financing components, the Group shall use the consideration amount that is expected to be received as the initial recognised amount.

(i) Financial assets measured at amortised cost

The Group'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. Such financial assets of the Group 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 for the period.

(ii) Financial assets measured at fair value through other comprehensive income

The Group'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 Group. The impairment losses or gains, exchange differences and interest income calculated using the effective interest method are recognised in profit or loss for the period.

In addition, the Group has designated certain non-trading equity instrument investments as financial assets measured at fair value through other comprehensive income. The Group 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.

(iii) 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 Group designated certain financial assets as financial assets measured at fair value through current profit or loss in order to eliminate or significantly reduce accounting mismatch. For such financial assets, the Group adopts fair value for subsequent measurement, and changes in fair value are included in current profit and loss.

5.10.2 Classification, recognition and measurement of financial liabilities

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

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

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

For financial liabilities measured at fair value through current profit or loss, the changes in fair value of the liabilities arising from changes in the Group's own credit risk are included in other comprehensive income, and when the liabilities are derecognised, the accumulated changes in fair value included in other comprehensive income 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 Group 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.

(ii) 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.

5.10.3 Recognition and measurement on transfer of financial assets

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

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

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

When the de-recognition criteria are met and the financial asset is partially transferred, the carrying amount of the financial asset transferred should be apportioned based on fair value to the derecognised portion or the nonderecognised portion, and the difference between the sum of the consideration received and the cumulative changes in fair value of the portion that shall be apportioned to the derecognised portion and had been recognized directly in other comprehensive income and the apportioned carrying amount is recognised in current profit or loss.

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

5.10.4 Derecognition of financial liabilities

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

5.10.5 Offsetting financial assets and financial liabilities

When the Group has the legal right to offset recognised financial assets and financial liabilities, and the legal right can be executed at present, and the Group 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 in the balance sheet at net amount after offsetting. Except for the above circumstances, financial assets and financial liabilities cannot be offset and shall be presented separately in the balance sheet.

5.10.6 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 represents quoted price which can be easily obtained periodically from exchange market, brokers, industry associations or pricing services agency, etc., which is 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 Group 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 maximises the use of relevant observable inputs. Unobservable inputs shall be used if the relevant observable inputs are not available or are not practicable.

5.10.7 Equity instruments

An equity instrument is a contract that proves the residual interest of the assets after deducting all liabilities in the Group. Change to equity is accounted for when the Group issues (including refinance), repurchases, sells or cancels an equity instrument. Transaction expenses relating to such transaction are deducted from equity. Relative change to fair value of the equity instrument is not recognised.

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

5.11. Other receivables

Other receivables of the Company consist 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.

5.12. Inventories

5.12.1 Classifications of inventories

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

5.12.2 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.

5.12.3 Basis for determining net realisable values of inventories and method for making provision for decline in the value of inventories

Net realisable 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 realisable value of inventories shall be made based on concrete evidence obtained, the purpose of holding inventories and the effect of subsequent events.

On balance sheet date, inventories are stated at the lower of cost and net realisable value. Provision for decline in the value of inventories is made when the costs of the inventories are over their net realisable value. Amount of provision for is determined at the excess amount of the cost of an inventory item over its net realisable value.

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

5.12.4 The Group adopts the perpetual inventory system.

5.13. Long-term equity investments

Long-term equity investments in this section refer to those with which the Group exercises single or joint control over the invested entity, or has significant influence on its operation. Long-term equity investments falling out of this category are classified as financial assets at fair value through current profit or loss. In particular, if such long-term equity investments are non-transactional, the Group may choose to designate them as financial assets at fair value through other comprehensive income at initial recognition. For detailed accounting policy, please see Note 5.10 “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 Group has to join in the decision-making process for financial and business operation policies of the invested entity, while the Group is unable to control or share joint control with other parties over such decision makings.

5.13.1 Recognition of cost of investment

For long-term equity investment resulting from business combination under common control, the Group regards the share of the book value of owner's equity of the merged enterprise in the ultimate controlling party's consolidated financial statements as the initial cost of such investment on the date of combination. The difference between the initial cost of the long-term equity investment, cash paid, non-cash assets transferred and the book value of debts assumed 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 Group regards the share of the book value of owner's equity of the merged enterprise in the ultimate controlling party's consolidated financial statements as the initial cost of the long-term equity investment. Total face value of the stocks issued is 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 realised 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 Group regards the share of the book value of owner's equity of the merged enterprise in the ultimate controlling party's consolidated financial statements as the initial cost of the long-term equity investment on the date of combination. Difference between the initial cost of the long-term equity investment and the sum of book value of the long-term equity investment before combination and the book value of new consideration paid for the share in the invested entity on the date of combination shall offset against the capital reserve. If the capital reserve is insufficient, the retained earnings shall be adjusted. Equity investments acquired before the date of combination are not accounted for the period due to the fact that they are accounted by method of equity or are classified as financial assets at fair value through other comprehensive income.

For a long-term equity investment obtained through a business combination involving entities not under common control, the cost of business combination including the sum of assets paid by the acquirer, liabilities paid or undertaken and the fair value of equity securities issued is regarded as the initial cost of the long-term equity investment on the date of acquisition. For a business combination realised 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 Group regards the sum of book value of the equity investment of the invested entity plus added cost of investment as the initial cost of the long-term equity investment accounted for using the cost method. For such book value of the equity investment that 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 recognised in current profit or loss as incurred.

For long-term equity investments acquired other than through a business combination, the investment shall be initially recognised at cost, and the cost of investment varies between different ways of acquisition, which is recognised based on the actual amount of cash consideration paid by the Group, fair value of equity instruments issued by the Group, 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 and 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 original equity investment plus newly added cost of investment, according to the regulations in “Accounting Standards for Business Enterprises No. 22 – Recognition and measurement of financial instruments”.

5.13.2 Methods for subsequent measurement and profit and loss recognition

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

5.13.2.1 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 investments 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 included in the consideration, investment income for the period shall include cash dividend declared by the investee or appropriated profit recognised.

5.13.2.2 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 Group's share of the fair value of the investee's net identifiable assets at the time of investment, the initial investment cost of the long-term equity investment will not be adjusted; where the initial investment cost is less than the Group's share of the fair value of the investee's net identifiable assets at the time of investment, the difference is included in current profit or loss and the cost of the long-term equity investment is adjusted accordingly

For long-term equity investment accounted for using equity method, return on investment and other comprehensive income are recognised separately according to the share in the invested entity's net profit or loss and its other comprehensive income, with the book value adjusted for the long-term equity investment by the Group. 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 income and profit distribution of the invested entity cause book value of long-term equity investment to be adjusted, and taken into capital reserve. The share of net profit or loss of the invested entity is recognised after adjustment of its net profit on the basis of fair value of all recognisable assets of the invested entity on acquisition. If the accounting policies and accounting periods of the invested entity are different from that of the Group, the invested entity's financial statements shall be adjusted according to the Group's accounting policies and accounting periods. Meanwhile return on investment and other comprehensive income are recognised accordingly. For transactions between the Group and its associates and joint ventures not constituting business transactions by transferring or selling assets, relative unrealised profit or loss on internal transactions attributable to the Group pro rata will be offset, and return on investment will be recognised on such basis. However, if such unrealised loss on internal transactions is classified as loss on decline in value of the asset transferred, then the relative loss is not to be offset. Furthermore, if such assets transfer are classified as business transactions, fair value of the asset transferred is recognised as initial cost of investment, and the difference between initial cost of investment and book value of the asset transferred is taken in full amount into current profit or loss, if the investing party obtains 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 transaction is 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 is recognised, according to the regulations in "Accounting Standards for Business Enterprise No. 20 – Business Combination".

The Group discontinues recognising 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 Group's net investment in the investee are reduced to zero. In addition, if the Group has an obligation to assume additional losses, expected liabilities shall be recognised according to the expected obligations and included in current investment losses. Where net profits are subsequently made by the investee, the Group resumes recognising its share of those profits only after its share of the profits equals the share of losses not recognised.

5.13.2.3 Acquisition of minority interest

When preparing consolidated financial statements, the difference between the increased 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.

5.13.2.4 Disposal of long-term equity investment

When preparing consolidated financial statements, when the parent company disposes part of its long-term equity investment in its subsidiary without loss of control, the difference between the consideration received and the share of net assets of the subsidiary for the disposed portion of long-term equity investment shall be recognised in shareholders' equity; when the parent company disposes part of its long-term equity investment in its subsidiary with loss of control, the accounting treatment should be in accordance with the accounting policies stated in Note 5.6(2) "Preparation of consolidated financial statements"

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

For long-term equity investment accounted for using equity method, in case that the remaining equity after disposal is still 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 recognised by the invested entity due to change to such item other than net profit or loss, other comprehensive income or profit distribution, will be accounted into current profit or loss proportionately.

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 recognised using equity method before the investment, or recognised by the regulations of financial instrument recognition and measurement, and such income will be transferred to current profit or loss proportionately. Changes to shareholders' equity in the net asset of invested entity recognised by equity method other than net profit or loss, other comprehensive income or profit distribution will be taken into current profit or loss.

For the remaining share equity after partial disposal which cause the Group to lose control over the invested entity, at the time of preparing individual financial statements, equity method will be used to account and adjust for the remaining share equity as if it were accounted by the same method upon acquisition, if such equity enables the Group to 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 recognised by equity method or by financial instruments recognition and measurement before the Group took control of the invested entity, the same basis as the invested entity while disposing relative asset or liability will be adopted for accounting when the Group lost control over the investee, and changes to shareholders' equity in the net asset of invested entity recognised by equity method, other than net profit or loss, other comprehensive income and profit distribution will be carried forward to current profit or loss when the Group lost control over the investee. Meanwhile, other comprehensive income and other shareholders' equity will be carried proportionately if the remaining share equity is accounted by equity method; and will be carried in full amount if the remaining share equity is accounted by financial instrument recognition and measurement.

The remaining share equity after partial disposal that cause the Group to lose joint control or significant influences over the invested entity is accounted by financial instrument recognition and measurement, and the 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 recognised 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 when the equity method stops being adopted, and full amount of shareholders' equity recognised by changes to shareholders' equity other than net profit or loss, other comprehensive income or profit distribution of the invested entity will be taken into return on investment for the period when equity method stops being adopted.

When the Group loses 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 long-term equity investment will be recognised as other comprehensive income first before the loss of control, and altogether will be taken into current profit or loss when the control is lost.

5.14. Investment properties

Measurement model of investment properties

Cost method

Depreciation or amortization methods

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 investment properties, and they are depreciated or amortized on a basis consistent with the Company adopts for buildings and land use rights.

Impairment test and provision for impairment of investment properties are detailed in Note 5.20 "Impairment of long-term assets".

When owner-occupied property or inventories are transferred to investment property or when investment property transfers 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.

5.15 Fixed assets

5.15.1 Recognition criteria

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

5.15.2 Depreciation

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

5.15.3 Recognition, measurement and depreciation method of fixed assets held under finance leases

Finance leases are the leases that substantially transfer all the risks and rewards related to ownership of assets, under which the ownership may be or may not be finally transferred. Fixed assets held under a finance lease are depreciated on a basis consistent with the depreciation policy adopted for fixed assets that are self-owned. If it can be reasonably determined that the ownership of the leased asset can be obtained at the end of the lease period, the leased asset is depreciated over its useful life; otherwise, the leased asset is depreciated over the shorter of the lease term and its useful life.

5.16 Construction in progress

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

The impairment test and provision for impairment of construction in progress are detailed in Note 5.20 "Impairment of long-term assets".

5.17 Borrowing costs

Borrowing costs include loan interests, discount or premium amortization, 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 or production of an asset eligible for capitalization are capitalized when expenditures for the asset have been incurred, borrowing costs have been incurred and the activities relating to the acquisition and construction or production that are necessary to prepare the asset for its intended use have commenced. The capitalization ceases when the assets acquired, constructed or produced, are ready for its intended use or in a saleable state. Other borrowing costs are recognized in the current profit or loss.

Borrowing costs arising from specific borrowings are capitalized after the deduction of any interest income earned from the unused specific borrowings deposited 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 interest rate applicable to the general borrowings.

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 the current profit or loss.

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

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

5.18 Right-of-use assets

See Note 5.28 “Leases” for the determination and accounting treatment of the right-of-use assets.

5.19 Intangible assets

5.19.1 Measurement, useful lives and impairment test

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

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 associated with the asset will flow to the Group and its cost can be measured reliably. Otherwise, the outgoings are included in the current profit or loss when incurred.

Land use rights acquired are usually accounted for as intangible assets. The relevant land use right expenses and the costs of self-developed and self-constructed buildings and structures are separately accounted for as intangible assets and fixed assets. If the buildings and structures are acquired, the consideration for acquisition shall be apportioned between land use rights and buildings. However, if it is difficult to apportion the consideration reasonably; both the land use rights and buildings will be accounted for as fixed assets.

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

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

The impairment test and provision for impairment of intangible assets are detailed in Note 5.20 "Impairment of long-term assets".

5.19.2 Accounting policies on internal research and development expenditures

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

The expenditure on the research phase is included in the current profit or loss in the period in which it is incurred.

The expenditure on the development phase is recognized as intangible assets only if all of the following conditions are satisfied. The expenditure on the development phase which cannot meet all of the following conditions is included in the current profit or loss:

- 5.19.2.1 It is technically feasible to complete the intangible asset so that it will be available for use or sale;
- 5.19.2.2 The management intends to complete the intangible asset, and to use or sell it;
- 5.19.2.3 It can be demonstrated how the intangible asset will generate economic benefits, including demonstrating that there is an existing market for products produced by the intangible asset or there is an existing market for the intangible asset itself, if the intangible asset is to be used internally, the usage of it should be demonstrated;
- 5.19.2.4 There are adequate technical, financial and other resources to complete the development of the intangible assets and the ability to use or sell the intangible assets; and
- 5.19.2.5 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.

5.20 Impairment of long-term assets

At balance sheet date, the Group will assess whether there are any indications of impairment of 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 subsidiaries, joint ventures and associates. If any indication that an asset may be impaired exists, the recoverable amount of the asset will be estimated and impairment test will be performed. Impairment test will be performed on goodwill, intangible asset with indefinite useful life and intangible asset which are not yet ready for use each year, regardless of whether any indications for impairment exist.

If the result of the impairment test indicates that the recoverable amount of an asset is less than its carrying amount, a provision for impairment and an impairment loss are recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and the present value of the future cash flows expected to be derived from the asset. The fair value of an asset is determined based on the price in a sale agreement in an arm's length transaction; when there is no sale agreement but an active market for the asset, the fair value should be determined based on the bid price in the market; when there is neither sale agreement nor active market for the asset, the fair value should be estimated based on the best information available. Costs of disposal include legal fee, taxes, logistics charges and other expenses that incurred directly to bring the asset to saleable condition in relation to disposal of assets. The 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 final disposal of the asset using a selected 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 should be determined. A group of assets is the smallest group of assets that is able to generate cash inflows independently.

When the impairment test on goodwill that is separately presented in the financial statements is performed, the carrying value of goodwill should be 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 first will offset the carrying amount of goodwill that is allocated to the asset group or group of asset groups, and then offset 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.

5.21 Long-term deferred expenses

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

- 5.21.1 prepaid rental for operating lease of fixed assets, amortized evenly over the lease term of the leasing contract;
- 5.21.2 expenditures paid for improvement of fixed assets held under operating lease, amortized over the remaining lease term or the remaining useful life of the asset, whichever is shorter; and
- 5.21.3 decoration cost that is qualified to be capitalized in relation to fixed assets held under finance lease, amortized over the period between two decorations, 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 included in the current profit and loss.

5.22 Employee compensation

5.22.1 Accounting treatment of short-term employee compensation

Short-term employee compensation includes 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 Group is recognized as liability and is included in the profit or loss for the current period or related asset costs. Non-monetary welfare is measured at fair value.

5.22.2 Accounting treatment of post-employment benefits

Post-employment benefits mainly comprise basic endowment insurance, unemployment insurance and annuity, etc., while post-employment benefits program includes the defined contribution plan. In the event of a 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 are incurred.

5.22.3 Accounting treatment of termination benefits

The Group provides compensation for terminating the employment relationship with employees before the expiry of the employment contracts or as an offer to encourage employees to accept voluntary redundancy before the expiry of the employment contracts. The Group recognizes a liability of employee compensation arising from compensation for termination benefits, and charges it to the profit or loss for the current period, when the Group cannot unilaterally withdraw the offer of termination benefits because of an employment termination plan or a curtailment proposal or when the Company recognizes the 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 are not expected to be fully paid within 12 months after the end of the annual reporting period.

5.22.4 Accounting treatment of other long-term employee benefits

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

Where any other long-term employee benefit provided by the Group for its employees meets the conditions of the defined contribution plan, it shall be accounted for as a defined contribution plan, or otherwise as a defined benefit plan.

5.23 Lease liabilities

See Note 5.28 “Leases” for the methods of recognition and accounting treatment of lease liabilities.

5.24 Provisions

The provision is recognized when any obligation in relation to contingent events meets the following conditions: (1) the obligation is a current obligation borne by the Company; (2) it is probable that an outflow of economic benefits will be incurred from performing the obligation; and (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 is recognized as asset separately, on a recoverable basis, is recognized as asset separately, and the compensation amount recognized shall not exceed the carrying amount of the provision.

5.25 Revenue

Accounting policies adopted for recognition and measurement of revenues

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 performing 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 for each individual performance obligation. When the transaction price is determined, the impacts 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 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 the contract; 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 progress 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 progress of the contract can be reasonably determined.

If one of the above conditions is not met, the Company will recognize the transaction price which was allocated to the individual performance obligation as revenue, when the customer obtains the control of the relevant commodity. When determining whether the customer has obtained the 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 owned 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; the customer has accepted the goods; and other indications that the customer has obtained the control of the goods.

The adoption of different business models for the same type of business leading to different accounting policies for revenue recognition: None.

5. 26 Government grants

Government grants are monetary or non-monetary assets transferred from the government to the Group at nil consideration, except for the investment in the Group by the government as an investor. Government grant can be classified as asset-related government grant and revenue-related government grant. The Group 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; while other government grants are considered revenue-related. If the beneficiary of grant is not specified, the following steps are taken to decide whether the grant is asset-related or revenue-related: (1) For those that specific project is specified by the government document, a budget allocation is made according to the amounts the expenditures to form assets and the proportions of the expenditure that charged to expense, and the proportions allocated are reviewed on each balance sheet date, and is subject to change if necessary; (2) For those specified for general purpose without any project specified, they are considered as revenue-related government grant. If a government grant is a monetary asset, it is measured at the amount received or receivable. If a government grant is 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 included immediately in profit or loss for the period.

The government grants of the Group 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 Group will meet related requirements of the financial support policies and will be able to receive the grants. Government grants that are measured at the amount receivable shall also meet the following conditions: (1) grants receivable have been confirmed by competent authorities in written form or can be reasonably estimated according to the related requirements under the financial fund management measures officially released without estimated material uncertainties of its amount; (2) the grants are 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 Disclosing Government Information, where such policies should be open to any company satisfying the conditions required, rather than certain companies; (3) the date of the payment is specified in the related documents and the payment thereof is financed by the corresponding budget as a guarantee to ensure such grants will be received within the prescribed period with a reasonable assurance; (4) other conditions (if any) are satisfied depending on the specific circumstances of the Group and the matter to be subsidized.

Asset-related government grant is recognized as deferred income and is included in profit or loss in stages on a reasonable and systematic basis over the useful lives of related assets. For government grants related to revenue, where the grant is a compensation for related expenses or losses to be incurred in the subsequent periods, the grant shall be recognized as deferred income, and be included 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, the grant shall be included immediately in profit or loss for the period.

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

The government grants related to the daily activities of the Group 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 the government grant previously recognized, if there is any balance of related deferred income, the repayment shall 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 current period.

5.27. Deferred income tax assets/deferred income tax liabilities

5.27.1 Current income tax

At the balance sheet date, current income tax liabilities (or assets) for the current or prior periods are measured at the expected amount of the 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 current reporting period in accordance with relevant requirements of tax laws.

5.27.2 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 carrying amount and the tax base of those items that are not recognised as assets or liabilities but have a tax base that can be determined according to tax laws, shall be recognised as deferred income tax assets and deferred income tax liabilities using the balance sheet liability method.

Deferred income tax liabilities are not recognised 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 Group recognises 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 Group is able to control the timing of the reversal of the temporary differences; and it is probable that the temporary differences will not be reversed in the foreseeable future. Except for the above exceptions, the Group recognises deferred income tax liabilities arising from all other taxable temporary differences.

Deferred income tax assets are not recognised 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 Group recognises the corresponding deferred income tax asset for deductible temporary differences associated with investments in subsidiaries, associates and joint ventures except when both of the following conditions are satisfied: it is not probable that the temporary differences will be reversed in the foreseeable future; and it is not probable that taxable profits will be available in the future, against which the temporary differences can be utilized. Except for the above exceptions, the Group recognises deferred income tax assets arising from other deductible temporary differences to the extent that it is probable that taxable profits will be available against which the deductible temporary differences can be utilized.

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

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

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

5.27.3 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 recognised as other comprehensive income or directly recognised in shareholders' equity, which are recognised 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 expenses or incomes are recognised in profit or loss for the period.

5.27.4 Offset of income tax

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

When the Group 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 and liabilities are expected to be reversed, deferred income tax assets and deferred income tax liabilities are offset and presented on a net basis.

5.28. Leases

5.28.1 Accounting treatment for operating leases

Lease is a contract under which the Group has the right to transfer or obtain the right to control the use of an identified asset or several identified assets in exchange for payment of consideration or in order to pay the consideration within a certain period of time. At inception of a contract, the Group assesses whether a contract is, or contains, a lease.

5.28.1.1 The Group as a lessee

The Group's leased assets mainly include public space, dining rooms, meeting rooms, guest rooms, etc. in hotels.

5.28.1.1.1 Initial measurement

At the commencement date, the Group shall recognise its right to use the leased asset over the lease term as the right-of-use asset, and shall recognise the present value of the lease payments that have not been paid as lease liabilities, except for short-term leases and leases for which the underlying asset is of low value. The lease payments shall be discounted using the interest rate which is implicit in the lease. If that rate cannot be readily determined, the Group shall use the lessee's incremental borrowing rate as the discount rate.

5.28.1.1.2 Subsequent measurement

The Group subsequently makes depreciation provisions for the right-of-use assets with reference to the depreciation requirements of the Accounting Standards for Business Enterprises No. 4 – Fixed Assets (see Note 5.15 “Fixed assets”). If the Group can reasonably determine that a lease will transfer ownership of the assets to the Group by the end of the lease term, related assets will be depreciated over their useful life. If there is no reasonable certainty that the Group can determine that a lease will transfer ownership of the assets to the Group by the end of the lease term, related assets are depreciated over the shorter of the lease term and useful life.

As for the lease liabilities, the Group calculates their interest expenses of each period during the lease term according to a fixed periodic interest rate and includes them in current profit or loss or relevant asset costs. Variable lease payments not included in the measurement of the lease liability are recognised in profit or loss or the cost of related asset as incurred.

After the commencement date of the lease term, when the actual fixed payment, the estimated amount due for the residual value of the guarantee, the index or ratio used to determine the lease payment, the assessment result or the actual exercise of call option, renewal option or termination option changes, the Group re-measures the lease liability based on the present value of the changed lease payment, and adjusts the carrying amount of the right-of-use assets accordingly. When the carrying amount of the right-of-use asset has been written down to zero, but further write-down is still required for the lease liability, the Group recognises the remaining amount in the current profit and loss.

5.28.1.1.3 Short-term leases and leases of low-value assets

For short-term leases (of which the lease term starting from the commencement date of lease is 12 months or less) and leases of low-value assets, the Group simplifies their treatment and does not recognise the right-of-use assets and lease liabilities, but includes the lease payments in asset cost or current profit and loss on straight-line basis or other systematic and reasonable basis during each period of the lease term.

5.28.1.2 The Group as a lessor

The Group classifies leases into finance lease and operating lease based on the substance of transactions at the commencement date of lease. Finance lease is a lease that transfers substantially all the risks and rewards incidental to ownership of an asset. Operating leases are the leases other than finance leases.

The Group recognises lease income received under operating leases as rental income in each period during the lease term using the straight-line method. Variable lease payment not included in lease income in relation to operating lease is included in the current profit or loss when incurred.

5.28.2 Accounting treatment for finance leases

At the commencement date of lease, the Group recognises finance lease receivables and derecognises the underlying assets. The finance lease receivables are initially measured at the amount of net investment under the lease (the sum of the unguaranteed residual value and the present value of the lease income (which has not been received as at the commencement date of lease) discounted at the interest rate which is implicit in the lease) and the lease income during the lease term is calculated at the fixed periodic rate. The variable lease payments which are received by the Group but are not included in measurement on net investment under leases are recorded in the current profit or loss when actually incurred.

5.29. Other significant accounting policies and accounting estimates

During the process of application of accounting policies, the Group needs 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 experience of the Group's management as well as other factors that are relevant. These judgments, estimates and assumptions may affect the value of the financial statements in revenue, expenses, assets and liabilities and the disclosure of contingent liabilities at the balance sheet date. However, the result derived from those uncertainties in estimates may differ from the current estimates made by the Group's management, thus leading to significant adjustments to the carrying amounts of the assets or liabilities affected in the future.

The Group 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, they will be recognised within the same period. Where the changes in accounting estimates affect both current period and future period, they will be recognised within the period of change and future period.

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

5.29.1 Recognition of revenue

As stated in Note 5.25 “Revenue”, the Group makes the following major accounting judgments and estimates in terms of recognition of revenue: identifying customer contracts; estimating the recoverability of the considerations that the Group is entitled to by transferring goods to customers; identifying the performance obligation in the contract; estimating the variable consideration in the contract and cumulative revenue recognised 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 of time; the determination of the progress of the contract, etc.

The Group 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.

5.29.2 Leases

5.29.2.1 Identification of leases

When identifying whether a contract is or contains a lease, the Group needs to assess whether an identified asset exists and whether its customer controls the right-of-use of such asset in a certain period. In the assessment, it is necessary to consider the nature of the asset, substantive substitution right and whether the customer is entitled to almost all the economic interests generated from use of such asset and can manage the use of such asset in the period.

5.29.2.2 Classification of leases

The Group classifies leases into operating leases and finance leases as a lessor. 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.

5.29.2.3 Lease liabilities

As a lessee, the Group measures the lease liabilities initially at the present value of the outstanding lease payments as at the lease commencement date. When measuring the present value of the lease payments, the Group estimates the discount rate applied and the term of the lease contract with the option to renew or terminate the lease. When assessing the lease term, the Group takes into account all the facts and circumstance relating to the economic benefits of its exercise of options, including the facts and expected changes of situation from the lease commencement date until the option exercise date. Different judgments and estimates may affect the recognition of lease liabilities and right-of-use assets and the profit or loss in the subsequent periods.

5.29.3 Impairment of financial assets

The Group 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 Group 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.

5.29.4 Allowance for inventories

The Group measures inventories by the lower of cost and net realizable value according to the accounting policies in regard of inventories and makes allowance for inventories if the cost of inventories is higher than the net realizable value, or inventories are obsolete or slow-moving. Write-down of inventories to their net realizable values is based on the valuation of marketability and net realizable values of inventories. Identification of inventory impairment is determined and estimated on the basis of clear evidence obtained, taking 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 the carrying amount of the inventories and reversal or provision for the impairment of inventories during the period when the estimates are changed.

5.29.5 Fair value of financial instruments

The Company recognises 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 their 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.

5.29.6 Provision for impairment of long-term assets

The Group 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 their carrying amounts cannot be recovered.

An asset or asset group is impaired when its carrying amount is higher than the recoverable amount (i.e., the higher of its fair value less costs to sell and the present value of the future cash flows expected to be derived from it).

The fair value net of disposal cost is determined by reference of the price of similar assets under a sale agreement in an arm's length transaction or an observable market price less the incremental cost directly attributable to the disposal of the asset.

When estimating the present value of future cash flow, significant judgments are made in connection with 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 Group 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. When estimating the present value of future cash flow, the Group 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.

5.29.7 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 updating. If there is any material change in the estimation previously made, the depreciation and amortization costs will be adjusted in the future period.

5.29.8 Deferred income tax assets

The Group will recognise all unused tax losses as deferred income tax assets to the extent that it is probable that sufficient taxable profit will be available against which the unused tax losses can be utilized. This requires the management of the Group to make a lot of judgments for the estimation of timing and amount of the future taxable profit and use tax planning strategies to decide on the value of deferred income tax assets to be determined.

5.29.9 Income tax

There are some uncertainties in ultimate tax treatments and calculations for some transactions in the Group'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 of these tax items and their initial estimated value, the difference shall have an impact on the income tax and deferred income tax of the current period during the final determination.

5.30. Changes in significant accounting policies and accounting estimates

5.30.1 Changes in significant accounting policies

Applicable Not applicable

5.30.2 Changes in significant accounting estimates

Applicable Not applicable

5.30.3 Adjustments to the first adoption of relevant items in financial statements at the beginning of the very year due to the initial application of new income standards and new lease standards since 2020

Not applicable

5.30.4 Explanations on retrospective adjustments of previously comparative figures due to the initial application of new income standards and new lease standards since 2020

Applicable Not applicable

5.31. Others

VI. Tax

6.1. Major types of tax and tax rates

Type of tax	Tax base	Tax rate
Value-added tax (VAT)	Taxable profits shall be subject to output tax at the tax rate of 16%, 13% and 6%, and the value-added tax is paid according to the difference after deducting the input tax amount that is allowed to be deducted in the current period	16%, 13%, 6%
City maintenance and construction tax	7% on amount of turnover tax paid.	7%
Enterprise income tax	25% on amount of taxable profits.	25%, 16.5%
Education surcharge	3% on amount of turnover tax paid.	3%
Local education surcharge	2% on amount of turnover tax paid.	2%

6.2 Tax concessions

6.3 Others

- 6.3.1 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%.
- 6.3.2 Gaocai Technology Co., Ltd. is a wholly-owned subsidiary registered in BVI and no enterprise income tax is imposed on it.
- 6.3.3 The corporate income tax of Shenyang Kaiyi Electric Co., Ltd., a subsidiary of the Company, is collected in a way of verification.

VII. Notes to Items in Consolidated Financial Statements

7.1 Cash and equivalents

Unit: RMB

Item	Balance at end of the period	Balance at beginning of the period
Cash on hand	11,086.84	47,677.85
Bank deposits	77,091,980.25	129,480,089.80
Other cash and equivalents	4,736,900.00	5,746,536.07
Total	81,839,967.09	135,274,303.72
Including: Total overseas deposits	441,638.56	434,847.06

Other explanation

Notes:

- (1) Of other cash and equivalents as at the end of the period, RMB4,736,900.00 is the deposits for performance guarantee.
- (2) Overseas deposits represent deposits with banks in Hong Kong, which are not restricted.



7.2 Notes receivable

7.2.1 Disclosure by type of notes receivable

Unit: RMB

Item	Balance at end of the period	Balance at beginning of the period
Corporate acceptance bills	177,692.20	0.00
Total	177,692.20	

Unit: RMB

Type	Balance at end of the period			Balance at beginning of the period		
	Carrying amount		Provision for bad debt	Carrying amount		Provision for bad debt
	Amount	Percentage		Amount	Percentage	
Notes receivable of provision for bad debt on an individual basis	177,692.20	100.00%	0.00	0.00%	177,692.20	0.00%
Including:						
Including:						
Total	177,692.20	100.00%	0.00	0.00%	177,692.20	0.00%

7.3 Accounts receivable

7.3.1 Disclosure by type of accounts receivable

Unit: RMB

Type	Balance at end of the period				Balance at beginning of the period				
	Carrying amount		Provision for bad debt		Carrying amount		Provision for bad debt		
	Amount	Percentage	Amount	Percentage of provision	Amount	Percentage	Amount	Percentage of provision	
Including:									
Accounts receivable of provision for bad debt on a collective basis	38,663,344.22	100.00%	6,443,737.37	16.66%	33,954,758.31	100.00%	6,814,264.91	20.07%	27,140,493.40
Including:									
Total	38,663,344.22	100.00%	6,443,737.37	16.66%	33,954,758.31	100.00%	6,814,264.91	20.07%	27,140,493.40

Accounts receivable of provision for bad debt on a collective basis:

Unit: RMB

Name	Balance at end of the period		
	Carrying amount	Provision for bad debt	Percentage of provision
Within 1 year (inclusive)	26,246,491.98	445,166.37	1.70%
1 – 2 years	4,554,037.88	344,325.65	7.56%
2 – 3 years	1,271,195.50	801,367.09	63.04%
3 – 4 years	820,280.00	615,836.56	75.08%
Over 4 years	5,771,338.86	4,237,041.70	73.42%
Total	38,663,344.22	6,443,737.37	–

Disclosure by aging

Unit: RMB

Aging	Balance at end of the period
Within 1 year (inclusive)	26,246,491.98
1 – 2 years	4,554,037.88
2 – 3 years	1,271,195.50
Over 3 years	6,591,618.86
3 – 4 years	820,280.00
Over 5 years	5,771,338.86
Total	38,663,344.22

7.3.2 Provision, retrieval or reversal of bad debts for the period

Details of provision for bad debts for the period:

Unit: RMB

Type	Balance at beginning of the period	Changes during the period				Balance at end of the period
		Provision	Retrieval or reversal	Write-off	Other changes	
Provisions for bad debt of accounts receivable	6,814,264.91	0.00	370,527.54	0.00	0.00	6,443,737.37
Total	6,814,264.91	0.00	370,527.54	0.00	0.00	6,443,737.37

7.3.3 Top five accounts receivable by debtor at the end of the period

Unit: RMB

Name of company	Balance at end of the period	Percentage in total balance of other receivables at end of period	Balance of provisions for bad debt at end of the period
Inner Mongolia Huineng Group Changtan Power Generation Co., Ltd.	3,296,480.00	10.23%	0.00
Hunan Xiangjiang Electric Power Construction Group Co., Ltd.	2,940,000.00	9.12%	0.00
Fenyi power generation plant, SPIC Jiangxi Electric Power Co., Ltd.	2,596,102.56	8.06%	0.00
CPI Power Engineering Company Limited	2,446,581.20	7.59%	0.00
Zhejiang Loong Airlines Co., Ltd.	2,047,302.00	6.35%	0.00
Total	13,326,465.76	41.35%	

7.4 Prepayments

7.4.1 Prepayments by aging

Unit: RMB

Aging	Balance at end of the period		Balance at beginning of the period	
	Amount	Percentage	Amount	Percentage
Within 1 year	246,355.83	92.86%	1,000,840.52	98.16%
1 – 2 years	0.00	0.00%	11,380.99	1.12%
2 – 3 years	11,604.59	4.37%		
Over 3 years	7,334.00	2.76%	7,334.00	0.72%
Total	265,294.42	–	1,019,555.51	–

Explanation on failure in timely settlement of significant prepayments aged over 1 year:

7.4.2 Top five prepayments by supplier based on balance at the end of the period

The sum of top five prepayments by supplier based on balance at the end of the period amounted to RMB 208,113.15, representing 78.45 % of the total balance of prepayments at the end of the period.

7.5 Other receivables

Unit: RMB

Item	Balance at end of the period	Balance at beginning of the period
Other receivables	49,817,907.41	759,602.00
Total	49,817,907.41	759,602.00

7.5.1 Other receivables

7.5.1.1 Classification by nature of the amount

Unit: RMB

Nature of the amount	Carrying amount at end of the period	Carrying amount at beginning of the period
Litigation from Benxi Iron & Steel (Group) Co., Ltd.	76,090,000.00	76,090,000.00
Payment to acquire shares of Chongqing HNA Hotel	48,435,719.34	0.00
Current account	6,059,357.75	5,726,741.66
Deposits for bidding	849,195.00	590,500.00
Total	131,434,272.09	82,407,241.66

7.5.1.2 Provision for bad debt

Unit: RMB

Provisions for bad debt	Phase I	Phase II	Phase III	Total
	Expected credit loss over the next 12 months	Lifetime expected credit losses (not credit-impaired loans)	Lifetime expected credit losses (credit impaired loans)	
Balance on 1 January 2020	119,208.39		81,528,431.27	81,647,639.66
Balance on 1st January 2020 for this period	-	-	-	-
Reversal for the period	31,274.98			31,274.98
Balance on 30 June 2020	87,933.41		81,528,431.27	81,616,364.68

Changes in book amount of provision for loss with significant change during the period

Applicable Applicable

Disclosure by aging

Unit: RMB

Aging	Balance at end of the period
Within 1 year (inclusive)	49,677,028.43
1 – 2 years	138,448.18
Over 3 years	2,430.80
3 – 4 years	2,430.80
Total	49,817,907.41

7.5.1.3 Details of provision, retrieval or reversal of bad debts for the period

Details of provision for bad debts for the period:

Unit: RMB

Type	Balance at beginning of the period	Changes during the period				Balance at end of the period
		Provision	Retrieval or reversal	Write-off	Other changes	
Provision for bad debt of other receivables	81,647,639.66		31,274.98			81,616,364.68
Total	81,647,639.66		31,274.98			81,616,364.68

4) Top five other receivables by debtor at the end of the period

Unit: RMB

Name of company	Nature	Balance at end of the period	Aging	Percentage in total other receivables at end of the period	Balance of provisions for bad debt at end of the period
Benxi Iron & Steel (Group) Co., Ltd.	Current account	76,090,000.00	Over 4 years	57.88%	76,090,000.00
Xintai (Liaoning) Precision Machinery Co., Ltd.	Current account	600,000.00	Over 4 years	0.46%	600,000.00
Fuxin Aluminum Alloy Branch	Engineering cost	534,518.86	Over 4 years	0.41%	534,518.86
Fuxin Tianyuan Purified Water Co., Ltd. (阜新天緣純淨水有限公司)	Current account	167,000.00	Over 4 years	0.13%	167,000.00
Wanghua Village, Huairou County, Beijing (北京懷柔縣王化村)	Current account	146,918.62	Over 4 years	0.11%	146,918.62
Total	-	77,538,437.48	-	58.98%	77,538,437.48

7.6 Inventories

Does the Company need to comply with the disclosure requirements for real estate industry

No

7.6.1 Classification of inventories

Unit: RMB

Item	Balance at end of the period			Balance at beginning of the period		
	Carrying amount	Allowance for impairment of inventories or contract performance cost impairment loss provision	Book value	Carrying amount	Allowance for impairment of inventories or contract performance cost impairment loss provision	Book value
Raw material	7,485,072.86	7,875.75	7,439,263.23	7,706,842.34	7,875.75	7,698,966.59
Work in progress	8,002,277.22		8,002,277.22	3,838,121.56		3,838,121.56
Finished goods	5,563,511.34	313.07	5,601,132.15	5,372,940.53	313.07	5,372,627.46
Others						
Total	21,050,861.42	8,188.82	21,042,672.60	16,917,904.43	8,188.82	16,909,715.61

7.6.2 Allowance for impairment of inventories or contract performance cost impairment loss provision

Unit: RMB

Item	Balance at beginning of the period	Increment		Decrement		Balance at end of the period
		Provision	Others	Write off or Reverse	Others	
Raw material	7,875.75					7,875.75
Finished goods	313.07					313.07
Total	8,188.82					8,188.82

7.7 Other current assets

Unit: RMB

Item	Balance at end of the period	Balance at beginning of the period
Prepaid value-added tax	5,312.67	130,275.96
Deductable input VAT	2,657,026.65	2,621,442.67
Total	2,662,339.32	2,751,718.63



7.8 Long-term equity investments

Unit: RMB

Investee	Balance at beginning of the period (book value)	Increase/decrease during the period							Balance at end of the period (book value)	Balance of provision for impairment at end of the period	
		Increase in investment	Decrease in investment	Profit or loss for investment under equity method	Adjustment to OCI	Other changes to equity	Cash dividend or profit declared	Provision for impairment			Others
1. Joint venture											
2. Associate											
Great Power Technology Limited	0.00									0.00	56,603,237.37
Subtotal	0.00									0.00	56,603,237.37
Total	0.00									0.00	56,603,237.37

Other explanation

Note: The investee of the Company is a non-listed company established in BVI.

Great Power Technology Limited, a company set up in BVI, had significant uncertainties in its ability to continue as a going concern after the failure in effective integration by Haihongyuan after its acquisition of the Company. As at 31 December 2019, provision for impairment of the long-term equity investments held by the Group in Great Power Technology Limited was RMB22,484,598.52.

7.9 Other equity instrument investment

Unit: RMB

Item	Balance at end of the period	Balance at beginning of the period
Shenyang Zhaoli High-voltage Electric Equipment Co., Ltd.		
HNA Tianjin Center Development Co., Ltd.	198,078,808.21	198,078,808.21
Total	198,078,808.21	198,078,808.21

Disclosure by non-transactional equity instrument investment during the period

Unit: RMB

Item	Dividend recognized	Cumulative gains	Cumulative losses	Amount of OCI transferred to retained earnings	Reason for designation at fair value through OCI	Reason for OCI transferred to retained earnings
Shenyang Zhaoli High-voltage Electric Equipment Co., Ltd.			73,048,566.83			
HNA Tianjin Center Development Co., Ltd.			3,401,596.79			
Total			76,450,163.62			

7.10 Fixed assets

Unit: RMB

Item	Balance at end of the period	Balance at beginning of the period
Fixed assets	48,141,448.22	49,802,006.47
Disposal of fixed asset	0.00	0.00
Total	48,141,448.22	49,802,006.47

7.10.1 Fixed assets

Unit: RMB

Item	Buildings and structures	Machinery & equipment	Motor vehicles & others	Total
I. Carrying amount				
1. Balance at beginning of the period	48,957,373.98	18,644,544.06	4,683,746.22	72,285,664.26
2. Increment				
(1) Purchase			3,107.57	3,107.57
(2) Transferred from construction in progress				
(3) Increment from business combination				
3. Decrement				
(1) Disposal or write-off				
4. Balance at end of the period	48,957,373.98	18,644,544.06	4,686,853.79	72,288,771.83

Item	Buildings and structures	Machinery & equipment	Motor vehicles & others	Total
II. Accumulated depreciation				
1. Balance at beginning of the period	11,169,498.58	7,181,488.45	2,912,960.06	21,263,947.09
2. Increment				
(1) Provision	1,060,855.28	408,503.73	194,306.81	1,663,665.82
3. Decrement				
(1) Disposal or write-off				
4. Balance at end of the period	12,230,353.86	7,589,992.18	3,107,266.87	22,927,612.91
III. Provision for impairment				
1. Balance at beginning of the period	148,318.59	790,600.56	280,791.55	1,219,710.70
2. Increment				
(1) Provision				
3. Decrement				
(1) Disposal or write-off				
4. Balance at end of the period	148,318.59	790,600.56	280,791.55	1,219,710.70
IV. Book balance				
1. Book balance at end of the period	36,578,701.53	10,263,951.32	1,298,795.37	48,141,448.22
2. Book balance at beginning of the period	37,639,556.81	10,672,455.05	1,489,994.61	49,802,006.47

7.10.2 Fixed assets with certificate of title to be obtained
Unit: RMB

Item	Book value	Reason for not obtaining certificates of title
Canteen	1,459,358.16	Government procedures have not been completed yet.
Supporting facilities in the plant	7,252,455.48	Government procedures have not been completed yet.
Rivet welding workshop	9,284,803.68	Government procedures have not been completed yet.
Machining workshop	4,642,401.84	Government procedures have not been completed yet.
Assembly workshop	9,284,803.68	Government procedures have not been completed yet.
Office	2,830,723.20	Government procedures have not been completed yet.

7.11 Right-of-use assets
Unit: RMB

Item	Buildings and structures	Total
1. Balance at beginning of the period	32,238,124.43	32,238,124.43
4. Balance at end of the period	32,238,124.43	32,238,124.43
1. Balance at beginning of the period	6,488,787.53	6,488,787.53
(1) Provision	4,658,484.60	4,658,484.60
4. Balance at end of the period	11,147,272.13	11,147,272.13
1. Book balance at end of the period	21,090,852.30	21,090,852.30
2. Book balance at beginning of the period	25,749,336.93	25,749,336.93

7.12 Intangible assets

7.12.1 Intangible assets

Unit: RMB

Item	Land use rights	Patent	Non-patent technology	Software	Total
I. Carrying amount					
1. Balance at beginning of the period	17,687,057.18			207,000.00	17,894,057.18
2. Increment					
(1) Purchase					
(2) Internal R&D					
(3) Increment from business combination					
3. Decrement					
(1) Disposal					
4. Balance at end of the period					
II. Accumulated amortization					
1. Balance at beginning of the period	3,011,662.21			207,000.00	3,218,662.21
2. Increment					
(1) Provision	176,870.58				176,870.58

Item	Land use rights	Patent	Non-patent technology	Software	Total
3. Decrement					
(1) Disposal					
4. Balance at end of period					
III. Provision for impairment					
1. Balance at beginning of the period					
2. Increment					
(1) Provision					
3. Decrement					
(1) Disposal					
4. Balance at end of the period					
IV. Book balance					
1. Book balance at end of the period	14,498,524.39			0.00	14,498,524.39
2. Book balance at beginning of the period	14,675,394.97				14,675,394.97

The proportion of the intangible assets developed by the company to the balance of the intangible assets at the end of the period.

7.13 Goodwill

7.13.1 Carrying amount of goodwill

Unit: RMB

Name of the investee or item resulting in goodwill	Balance at beginning of the period	Increment		Decrement		Balance at end of period
		From business combination		Disposal		
Northeast Electric (Chengdu) Electric Engineering Design Co., Ltd.	72,097.15					72,097.15
Total						

7.13.2 Provision for impairment of goodwill

Unit: RMB

Name of the investee or item resulting in goodwill	Balance at beginning of period	Increment	Decrement	Balance at end of period
		Provision	Disposal	
Northeast Electric (Chengdu) Electric Engineering Design Co., Ltd.	72,097.15			72,097.15
Total				

Information about the asset group or combination of asset groups to which the goodwill belongs: None.

Impact of goodwill impairment test: None.

7.14 Long-term deferred expenses

Unit: RMB

Item	Balance at beginning of period	Increment	Amortization	Another decrement	Balance at end of period
Decoration expenses	40,728.78		40,728.78		0.00
Total	40,728.78		40,728.78		

7.15 Deferred income tax assets/liabilities

7.15.1 Details of unrecognized deferred income tax assets

Unit: RMB

Item	Balance at end of the period	Balance at beginning of the period
Deductible temporary difference	261,935,045.99	261,935,045.99
Deductible loss	352,157,740.76	352,157,740.76
Total	614,092,786.75	614,092,786.75

7.15.2 Deductible loss for which no deferred tax assets are recognized will become due in the following years

Unit: RMB

Year	Balance at end of the period	Balance at beginning of the period	Note
2020			
2021			
2022	324,057,938.86	324,057,938.86	
2023	1,203,418.17	1,203,418.17	
2024	12,706,128.66	12,706,128.66	
No specified limit	14,190,255.07	14,190,255.07	Deductable loss by subsidiary –Northeast Electric (HK) Co., Ltd.
Total	352,157,740.76	352,157,740.76	–

7.16 Other non-current assets

Unit: RMB

Item	Balance at end of the period			Balance at beginning of the period		
	Carrying amount	Provision for impairment	Book value	Carrying amount	Provision for impairment	Book value
Lease deposit	4,839,800.00		4,839,800.00	4,839,800.00		4,839,800.00
Total	4,839,800.00		4,839,800.00	4,839,800.00		4,839,800.00

7.17 Short-term borrowings

7.17.1 Classification of short-term borrowings

Unit: RMB

Item	Balance at end of the period	Balance at beginning of the period
Bank borrowings, secured		10,500,000.00
Total		10,500,000.00

7.18 Accounts payable

7.18.1 Accounts payable

Unit: RMB

Item	Balance at end of the period	Balance at beginning of the period
Within 1 year (including 1 year)	27,680,450.83	16,062,570.83
1 – 2 years	872,317.55	1,078,211.24
2 -3 years	832,700.63	707,159.57
Over 3 years	601,894.51	588,082.42
Total	29,987,363.52	18,436,024.06

7.18.2 Significant accounts payable aged over 1 year

Unit: RMB

Item	Balance at end of the period	Reason for outstanding or carried over
Cixi Xinxing Electric Accessories Plant (General Partnership) (慈溪市新興電力配件廠(普通合夥))	637,801.31	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)	479,883.42	Balance of goods purchased unsettled
Total	1,117,684.73	—

7.19 Contract liabilities

Unit: RMB

Item	Balance at end of the period	Balance at beginning of the period
Equipment sales contract	5,993,670.32	9,025,434.65
Hotel catering service contract	528,602.79	1,207,621.80
Total	6,522,273.11	10,233,056.45

7.20 Employee compensation payable

7.20.1 Details of employee compensation payable

Unit: RMB

Item	Balance at beginning of the period	Increment	Decrement	Balance at end of the period
I. Short-term compensation	3,015,841.50	9,002,781.54	8,783,358.54	3,235,264.50
II. Post-employment benefits – defined contribution plan	253,916.52	637,942.10	729,838.71	162,019.91
III. Termination benefits	5,816.00			5,816.00
Total	3,275,574.02	9,640,723.64	9,513,197.25	3,403,100.41

7.20.2 Short-term compensation
Unit: RMB

Item	Balance at beginning of the period	Increment	Decrement	Balance at end of the period
1. Wages, bonuses, allowances, subsidies	2,830,207.18	7,206,695.12	7,112,623.66	2,924,278.64
2. Employee welfare		560,435.23	500,435.23	60,000.00
3. Social insurances	119,084.75	400,030.39	348,295.65	170,819.49
Including: Medical insurance	73,467.77	387,141.04	323,404.70	137,204.11
Work injury insurance	20,978.32	6,049.86	17,303.57	9,724.61
Maternity insurance	24,638.66	6,839.48	7,587.37	23,890.77
4. Housing provident fund	45,121.23	809,665.52	794,942.60	59,844.15
5. Labor union expenditure and employee education expenses	21,428.34	25,955.28	27,061.40	20,322.22
Total	3,015,841.50	9,002,781.54	8,783,358.54	3,235,264.50

7.20.3 Defined contribution plan
Unit: RMB

Item	Balance at beginning of the period	Increment	Decrement	Balance at end of the period
1. Basic endowment insurance	246,052.34	398,543.70	485,610.48	158,985.56
2. Unemployment insurance	7,864.18	15,264.60	20,094.43	3,034.35
3. Employee retirement benefit		224,133.80	224,133.80	
Total	253,916.52	637,942.10	729,838.71	162,019.91

7.21 Tax payable

Unit: RMB

Item	Balance at end of period	Balance at beginning of the period
Value-added tax	11,320.75	70,667.37
Enterprise income tax		694,108.84
Individual income tax	677,715.44	410,739.23
City maintenance and construction tax	742.45	492.45
Education surcharge	4,438.20	4,114.42
Tenure tax	55,626.50	55,626.50
Housing property tax	34,116.25	34,116.25
Others	50,900.00	77,068.14
Total	834,859.59	1,346,933.20

7.22 Other payables

Unit: RMB

Item	Balance at end of period	Balance at beginning of the period
Interests payable		17,363.75
Other payables	375,066,974.14	362,363,820.00
Total	375,066,974.14	362,381,183.75

7.22.1 Interests payable
Unit: RMB

Item	Balance at end of the period	Balance at beginning of the period
Interests payable of short-term borrowings	0.00	17,363.75
Total		17,363.75

7.22.2 Other payables
7.22.2.1 Details of other payables by nature
Unit: RMB

Item	Balance at end of the period	Balance at beginning of the period
Compensation due for CDB case	272,627,700.00	272,627,700.00
Current account	101,477,061.73	89,423,504.89
Others	962,212.41	312,615.11
Total	375,066,974.14	362,363,820.00

7.22.2.2 Other significant accounts payable aged over 1 year
Unit: RMB

Item	Balance at end of period	Reason for outstanding or carried over
Compensation due for CDB case	272,627,700.00	Not executed
Shenyang Transformer Co., Ltd	26,695,903.10	Creditor not yet collect
Jinzhou Power Capacitor Co. Ltd	22,900,000.00	Creditor not yet collect
Fuxin Zhengxing Construction Engineering Co., Ltd.	10,302,386.55	Creditor not yet collect
Total	332,525,989.65	—

Other explanations

Notes: (1) Shenyang High-voltage Switches Co., Ltd. (hereafter “Shenyang HVS”) 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 HVS 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 from Shenyang HVS. In May 2004, CDB filed a lawsuit with Beijing Higher People’s Court (hereafter “Beijing Higher Court”), claiming for Shenyang HVS 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 joint and several liabilities for the aforesaid principal and interest; also claiming for the Court to rule the share transfer agreement between Shenyang HVS and the Company on purchase of shares of New Northeast Insulation, Dongli Logistics and Beifu Machinery to be void.

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 as follows 1) Cancel the agreement by which the Company swapped 95% of Beifu Machinery shares and 95% of Dongli Logistics shares held by Shenyang HVS 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 HVS within 10 days of the Ruling, or should compensate Shenyang HVS within the limit of RMB247.1165 million if unable to return those shares; Shenyang HVS 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 HVS and the Company for 74.4% of New Northeast Insulation shares held by Shenyang HVS 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 HVS 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 HVS within 10 days of the Ruling. The Company should compensate Shenyang HVS within the limit of RMB130 million after deducting RMB27.8788 million if shares return is not possible.

The Company carried out the Ruling in 2007 and 2008. However, CDB filed with Beijing Higher Court for execution in 2009 by the Ruling (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, which ruled that Northeast Electric's appeal lacked 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.

- (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 accepted this case. On 20 May 2019, the Company received the Ruling (2018) Qiong Min Chu No. 69 from Hainan Higher People's Court, which ruled that Shenyang HVS should, within 15 days of the Ruling, pay Fuxin Busbar RMB111,121,600 (since the average exchange rate of RMB against USD was 6.9451 in 2008, USD16 million was equivalent to RMB111,121,600), which was the consideration for the transfer of the Underlying Equity, as well as the interest incurred (commencing from 23 October 2008 to 23 November 2018, at the corresponding benchmark rate of one-year loan provided by the People's Bank of China).

23. Non-current liabilities due within one year

Unit: RMB

Item	Balance at end of period	Balance at beginning of period
Lease liabilities due within one year	9,100,084.26	8,765,817.72
Total	9,100,084.26	8,765,817.72

24. Lease liabilities

Unit: RMB

Item	Balance at end of period	Balance at beginning of period
Site lease	12,856,485.87	17,486,748.75
Total	12,856,485.87	17,486,748.75

25. Estimated liabilities

Unit: RMB

Item	Balance at end of period	Balance at beginning of period	Reason
External guarantee	34,354,500.00	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	72,099,690.00	72,099,690.00	—

Other explanations, including relevant important assumptions and the estimation description of material estimated liabilities.

Note: (1) The Company has provided guarantee for the bank loan of RMB13,000,000.00 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 Intermediate People’s 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 Intermediate People’s Court of Jinzhou City, Liaoning Province ruled in May 2005 that the Company should undertake the joint obligation of repayment of the captioned loan principal and interests. The Company did not file for appeal, and the Ruling became effective. The Intermediate People’s Court of Jinzhou City, Liaoning Province issued Enforcement Notice (2005) Jin Zhi Zi No. 89 in September 2005. And on 23 June 2010, the Court made Enforcement Ruling (2005) Jin Zhi Yi Zi 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, and 65 boxes of 240 sets of BFM3.11.5J3-300IW. The Company had accordingly estimated liabilities of RMB14,464,500.00. Up to the date of report approval, the above-mentioned repayment has not yet been settled.

- (2) The Company has provided guarantee for loans of RMB17,000,000.00 between Jinzhou Power Capacitor Co., Ltd. and Jinzhou City Commercial Bank, and thus undertake obligation of joint guarantee. The bank launched a lawsuit in March 2007 to the Intermediate People's Court of Jinzhou City, Liaoning Province 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 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 No. 00049 in June 2007, which came into effectiveness for the Company did not appeal. The Intermediate People's Court of Jinzhou City issued an order of Enforcement to the Company on 5 March 2008, requesting execution of obligations. The Company therefore had estimated liability of RMB19,890,000.00. Up till the reporting date, the Company has not paid the above mentioned liability.
- (3) Lawsuit pending ruling refers to the case of employee settlement compensation dispute – State-owned Asset Supervisory Commission of Tiexi District of Shenyang City (hereafter “Tiexi Commission”) vs. the Company, Shenyang High-Voltage Switchgear Co., Ltd. (hereafter “Shenyang HVS”) & New Northeast Electric (Shenyang) High- Voltage Switches Co., Ltd. (hereafter “New Northeast High-Volt”).

In May 2007, the Company and Shenyang HVS entered into an agreement with Tiexi Commission, i.e., the Agreement of Shenyang HVS Employees Settlement Affairs, then in June and November of 2008, the 3 parties signed the Agreement of Proper Settlement of Shenyang HVS Employees and the Supplementary Agreement, and New Northeast High-Volt 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.

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 Min Chu 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. The Shenyang Intermediate People's Court judged as follows: (1) The defendant Shenyang HVS shall pay the plaintiff Tiexi Commission arrears of RMB24.99 million and liquidated damages of RMB1,249,500 within 15 days from the date when the judgment takes effect; (2) Reject the other claims of the plaintiff Tiexi Commission. The case acceptance fee of RMB230,526 shall be borne by the defendant Shenyang HVS. If any party concerned disagrees with this judgment, it may submit an appeal to the court within 15 days from the date of service of the judgment and appeal to the Liaoning Provincial Higher People's Court. The plaintiff Tiexi Commission has appealed to Shenyang Intermediate People's Court during the appeal period. In the early December 2018, Liaoning Provincial Higher People's Court accepted the appeal. On 8 May 2019, the case was tried in the second instance. On 21 August 2019, the Civil Order ((2018) Liao Min Zhong No. 1032) was issued by Liaoning Provincial Higher People's Court, ruling as follows: The Civil Judgment ((2017) Liao 01 Min Chu No. 430) issued by Shenyang Municipal Intermediate People's Court of Liaoning shall be abrogated; A retrial for this case shall be performed by Shenyang Municipal Intermediate People's Court of Liaoning. The case has been transferred from Shenyang Intermediate People's Court to the jurisdiction of Hainan First Intermediate People's Court on 11 February 2020 and has come to trial on 10 August 2020. No judgment has yet been made.

7.26 Deferred income

Unit: RMB

Item	Balance at beginning of period	Increment	Decrement	Balance at end of period	Reason
Compensation for new plant construction project in policy-based relocation	23,623,291.13	4,190,612.85	668,955.66	27,144,948.32	Relocation of Fuxin Co.'s north plant
Total	23,623,291.13	4,190,612.85	668,955.66	27,144,948.32	-

Projects involving government grants:

Unit: RMB

Item	Balance at beginning of period	New grants for the period	Amount included in non-operating income for the period	Amount included in other income for the period	Amount written down cost for the period	Other changes	Balance at end of period	Asset and revenue related
Relocation compensation	23,623,291.43	4,190,612.85		668,955.66			27,144,948.62	Asset-related

7.27 Share capital

Unit: RMB

	Balance at beginning of period	Increment/Decrement (+/-)					Balance at end of period
		New shares issued	Stock dividend	Reserve to shares	Others	Subtotal	
Total shares	873,370,000.00						873,370,000.00

7.28 Capital reserve

Unit: RMB

Item	Balance at beginning of period	Increment	Decrement	Balance at end of period
Capital premium (share premium)	115,431,040.00	528,612.48		115,959,652.48
Other capital reserve	967,417,765.11			967,417,765.11
Total	1,082,848,805.11	528,612.48		1,083,377,417.59

7.29 Other comprehensive income (OCI)

Unit: RMB

Item	Balance at beginning of period	Amount incurred during the period						Attributable to minority interests after tax	Balance at end of period
		Amount before income tax	Less: previous other comprehensive income converted to current profit or loss	Less: previous other comprehensive income converted to current retained earnings	Less: income tax	Attributable to the parent company after tax			
I. OCI that cannot be reclassified into profit or loss	-35,097,575.88							-35,097,575.88	
Changes in fair value of other equity instruments investment	-35,097,575.88							-35,097,575.88	
II. OCI to be reclassified into profit or loss	-26,978,678.14	111,614.78				111,614.78		-26,867,063.36	
Foreign currency translation difference	-26,978,678.14	111,614.78				111,614.78		-26,867,063.36	
Total OCI	-62,076,254.02	111,614.78				111,614.78	0.00	-61,964,639.24	

7.30 Surplus reserves

Unit: RMB

Item	Balance at beginning of period	Increment	Decrement	Balance at end of period
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

7.31 Undistributed profit

Unit: RMB

Item	Amount for the period	Amount for previous period
Undistributed profits at the end of previous period before adjustment	-2,059,319,937.47	-2,019,154,197.71
Undistributed profits at the beginning of the current period after adjustment	-2,059,319,937.47	-2,019,154,197.71
Add: Net profit attributable to the owner of the parent company for the period	-11,818,431.23	-40,165,739.76
Undistributed profits at the end of the period	-2,071,138,368.70	-2,059,319,937.47

7.32 Operating income and operating costs

Unit: RMB

Item	Amount for the period		Amount for previous period	
	Income	Cost	Income	Cost
Main business	37,656,210.91	26,398,824.55	45,163,758.53	21,417,642.83
Other business	182,539.68	4,246.98		
Total	37,838,750.59	26,403,071.53	45,163,758.53	21,417,642.83

7.33 Tax and surcharges

Unit: RMB

Item	Amount for the period	Amount for previous period
City maintenance and construction tax	16,682.53	38,739.56
Education surcharges	1,833.80	16,602.67
Property tax	153,523.68	179,739.65
Land use tax	250,319.25	333,759.00
Tax on vehicles	4,449.12	
Local education surcharges	1,222.53	11,068.45
Others	12,720.00	2,925.60
Total	440,750.91	582,834.93

7.34 Sales expenses

Unit: RMB

Item	Amount for the period	Amount for previous period
Depreciation expense	4,658,484.60	4,208,500.00
Rental	2,800,720.19	4,058,548.76
Transportation fee	1,010,063.48	406,141.69
Employee compensation	1,911,480.30	5,879,481.97
Travelling expense	86,938.80	269,164.38
Bidding fee	10,647.66	71,347.62
Material consumption	1,720,876.36	219,760.08
After-sales services expenses	159,539.39	131,843.24
Entertainment fee	49,286.10	81,931.09
Office expenses		2,067,019.12
Welfare expenses	587,805.51	
Consulting fee	192,772.28	
Labour outsourcing fee	1,003,778.37	
Others	322,900.76	
Total	14,515,293.80	17,393,737.95

7.35 Administrative expenses

Unit: RMB

Item	Amount for the period	Amount for previous period
Employee compensation	5,301,572.40	6,638,714.82
Office expenses	52,795.94	792,450.85
Depreciation expenses	546,065.69	527,683.73
Agent fee	524,621.73	440,042.51
Heating expenses	310,422.35	299,475.33
Entertainment fee	218,546.70	177,768.73
Travelling expense	47,325.29	282,745.36
Amortization	176,870.58	176,870.58
Rental fee and supporting fee	1,216,367.20	958,571.00
Others	1,595,611.59	833,642.26
Total	9,990,199.47	11,127,965.17

7.36 Finance expenses

Unit: RMB

Item	Amount for the period	Amount for previous period
Interest expenses	824,460.43	632,355.00
Less: Interest income	1,031,574.82	1,600,318.15
Exchange gain or loss		696.38
Bank charges	35,820.28	94,879.55
Total	-171,294.11	-908,599.98

7.37 Other income

Unit: RMB

Source of other income	Amount for the period	Amount for previous period
Compensation for new plant construction project in policy-based relocation	668,955.66	243,907.98

7.38 Credit impairment loss

Unit: RMB

Item	Amount for the period	Amount for previous period
Loss of bad debts on other receivables		830,784.80
Total		830,784.80

7.39 Non-operating income

Unit: RMB

Item	Amount for the period	Amount for previous period	Amounts included in the current non-recurring profit or loss
Liquidated damages	1,060,454.07		1,060,454.07
Others	17,896.30	15,943.26	17,896.30
Total	1,078,350.37	15,943.26	1,078,350.37

7.40 Non-operating expenses

Unit: RMB

Item	Amount for the period	Amount for previous period	Amounts included in the current non-recurring profit or loss
Penalty & fines on late payment	2,017.55	29,066.76	2,017.55
Others		299.05	
Total	2,017.55	29,365.81	2,017.55

7.41 Income tax expense

7.41.1 Income tax expense

Unit: RMB

Item	Amount for the period	Amount for previous period
Current income tax expense	280,256.09	520,173.40
Total	280,256.09	520,173.40

7.41.2 Reconciliation between accounting profit and income tax expenses

Unit: RMB

Item	Amount for the period
Total profit	-11,593,982.53
Income tax expenses	280,256.09

7.42 Other comprehensive income

See Note VII. 29 for details.

7.43 Statements of cash flows

7.43.1 Cash received from other operating related activities

Unit: RMB

Item	Amount for the period	Amount for previous period
Government grants	14,000,000.00	
Interest income	1,034,628.59	44,079.43
Current accounts	3,016,123.39	12,365,300.09
Bidding deposits	1,133,349.20	
Deposits for performance guarantees	56,009,636.07	2,397,286.07
Others	8,129,180.24	15,943.26
Total	83,322,917.49	14,822,608.85

7.43.2 Cash paid for other operating related activities

Unit: RMB

Item	Amount for the period	Amount for previous period
Fees for cash payments	1,582,011.44	9,637,647.77
Current accounts	16,286,345.03	14,318,685.43
Deposits for performance guarantees	2,149,000.00	2,069,500.00
Deposits for bidding	1,392,039.00	
Total	21,409,395.47	26,025,833.20

7.43.3 Cash paid for other financial activities

Unit: RMB

Item	Amount for the period	Amount for previous period
Venue rental		2,055,359.68
Total		2,055,359.68

7.44 Supplementary information to statement of cash flows

7.44.1 Supplementary information to statement of cash flows

Unit: RMB

Supplementary information	Amount for the period	Amount for previous period
1. Reconciliation from net profit to cash flows from operating activities:	–	–
Net profit	-11,874,238.62	-3,908,725.54
Depreciation of fixed assets, oil and gas assets and productive bio-assets	1,660,558.25	1,673,138.33
Depreciation of right-of-use assets	4,658,484.63	4,208,500.00
Amortization of intangible assets	176,870.58	176,870.58
Amortization of long term deferred expenses	40,728.78	244,373.88
Finance costs (gain is shown as "-")	252,568.26	132,174.99
Decrease in inventories (increase is shown as "-")	-4,132,956.99	-3,591,271.21
Decrease in operating receivables (increase is shown as "-")	-5,035,751.32	-11,927,532.04
Increase in operating payables (decrease is shown as "-")	19,946,799.49	8,507,243.76
Others	56,009,636.07	2,393,307.96
Net cash flows generated from operating activities	61,702,699.13	-2,091,919.29
2. Significant non-cash investment and financing activities:	--	--
3. Net changes in cash and cash equivalents:	--	--
Cash at the end of period	77,103,067.09	80,286,162.35
Less: cash at the beginning of period	74,527,767.65	84,724,338.23
Net increase in cash and cash equivalents	2,575,299.44	-4,438,175.88

7.44.2 Composition of cash and cash equivalents

Unit: RMB

Item	Balance at end of period	Balance at beginning of period
I. Cash	77,103,067.09	74,527,767.65
Including: Cash on hand	11,086.84	47,677.85
Bank deposits available on demand	77,091,980.25	74,480,089.80
III. Balance of cash and equivalents at end of period	77,103,067.09	74,527,767.65

7.45 Assets with restricted ownership or use right

Unit: RMB

Item	Book balance at end of period	Reason
Cash and equivalent	3,236,900.00	
Deposits for performance guarantees		
Intangible assets	12,210,281.05	
Mortgage loan		
Total	15,447,181.05	-

7.46 Foreign-currency monetary items

7.46.1 Foreign-currency monetary items

Unit: RMB

Item	Foreign currency balance at end of period	Exchange rate	Translated RMB balance at end of period
Currency	–	–	
Including: US dollars			
Euro			
HKD	483,510.58	0.9134	441,638.56
Accounts receivable	–	–	
Including: US dollars			
Euro			
HKD			
Long-term borrowings	–	–	
Including: US dollars			
Euro			
HKD			

7.46.2 Explanations on overseas operating entities, including disclosure of significant overseas operations in respect of their principle operating places, recording currencies and selection basis for recording currency, and disclosure of the reason for the change in recording currency, if any.

Applicable Not applicable

Item	Principle operating place	Recording currency	Basis for selection of recording currency
Northeast Electric Development (HK) Co., Ltd.	Hong Kong	HKD	Principal operating place
Gaocai Technology Co., Ltd.	British Virgin Islands	HKD	Territory

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.

7.47 Government grants

7.47.1 Information on government grants

Unit: RMB

Category	Amount	Item	Amount included in current profit or loss
Related to assets	4,190,612.85	Deferred income	101,230.38

VIII. Changes in Consolidation Scope

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

IX. Equity in Other Entities

9.1 Equity in subsidiaries

9.1.1 Composition of the Group

Name of subsidiary	Principle operating place	Registration place	Nature of business	Shareholding ratio		Means of acquisition
				Direct	Indirect	
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 Garden Lane Flight Hotel Management Co., Ltd.	Haikou	Haikou	Public space business		99.00%	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

9.1.2 Information on significant non-wholly-owned subsidiary

Unit: RMB

Name of subsidiary	Percentage of minority shares	Profit/loss attributable to minority shareholders for the period	Dividends paid to minority shareholders for the period	Closing balance of minority interests
Hainan Garden Lane Flight Hotel Management Co., Ltd.	1.00%	-50,510.22		1,968,583.94
Northeast Electric (Chengdu) Electric Engineering Design Co., Ltd.	49.00%	-5,297.17		3,459,015.80

9.1.3 Main financial information on significant non wholly-owned subsidiary

Unit: RMB

Name of subsidiary	Balance at end of period					Balance at beginning of period						
	Current assets	Non-current assets	Total assets	Current liabilities	Non-current liabilities	Total liabilities	Current assets	Non-current assets	Total assets	Current liabilities	Non-current liabilities	Total liabilities
Hainan Garden Lane Flight Hotel Management Co., Ltd.	132,464,179.25	229,548,193.50	362,012,372.75	152,296,591.82	12,856,485.87	165,153,077.69	139,834,457.95	229,392,840.69	369,227,298.64	141,065,315.54	26,252,586.47	167,317,882.01
Northeast Electric (Chengdu) Electric Engineering Design Co., Ltd.	13,276,988.15		13,276,988.15	6,290,488.87		6,290,488.87	13,297,441.91	10,245.44	13,307,687.35	6,310,488.87		6,310,488.87

Unit: RMB

Name of subsidiary	Amount for the period				Amount for previous period			
	Operating income	Net profit	Total comprehensive income	Cash flow from operating activities	Operating income	Net profit	Total comprehensive income	Cash flow from operating activities
Hainan Garden Lane Flight Hotel Management Co., Ltd.	11,137,816.64	-5,051,021.55	-5,051,021.55	-3,498,971.89				
Northeast Electric (Chengdu) Electric Engineering Design Co., Ltd.		-10,699.20	-10,699.20	-278.76		-69,617.71		-6,798,157.79

X. Risks Related to Financial Instrument

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

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

10.1 Market risks

10.1.1 Foreign currency risks

Foreign currency risk is the risk 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 30 June 2020, only daily expenses reported with no purchases or sales for overseas subsidiaries of the Company.

On 30 June 2020, 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:

Item	Change in exchange rate	For the period		Year 2019	
		Impacts on profit	Impacts on shareholders' equity	Impacts on profit	Impacts on shareholders' equity
Translation from foreign currency reports	Appreciate 0.5% against RMB	-136.19	318,702.93		345,083.39
Translation from foreign currency reports	Appreciate 0.5% against RMB	136.19	-318,702.93		-345,083.39

10.1.2 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.

10.2 Credit risks

By 30 June 2020, maximum exposure of credit risks possibly causing financial losses to the Company mainly exists when the counterparty of the contract fails to perform its obligations and causes losses on financial assets and from the financial guarantee undertaken by the Company.

To reduce credit risks, a special team has been set up to be in charge of setting credit limits, making credit approvals and exercising other supervisory procedures to make sure all necessary measures are taken to retrieve overdue debts. Moreover, the Company supervises every single receivable on every balance sheet date to make sure sufficient provision on bad debt will be in place for those irretrievable receivables. Therefore, the Management of the Company considers the credit risks 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.

10.2.1 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.

10.2.2 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.

Risk awareness and 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 is exercised over customers' information, and updated information of customers is required for related credit policy to customers.

Management of the Company considers credit risks facing 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.

10.2.3 Other receivables

Other receivables of the Company consist 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.

10.3 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.

As of 30 June 2020, the current liabilities of the Company were RMB236,889,175.14 more than current assets. In the meantime, aggregate compensation for settled litigation amounted to RMB272.00 million. Material uncertainties concerning the above major matters which might impact the continuous operation of the Company exist, thus may result in the Company's inability to liquidate assets and repay debts during its normal operation.

XI. Disclosure of Fair Value

11.1 Fair value of assets and liabilities measured at fair value at the end of the period

Unit: RMB

Item	Fair value at the end of the period			Total
	Level 1 fair value measurement	Level 2 fair value measurement	Level 3 fair value measurement	
I. Recurring fair value measurement	-	-	-	-
(III) Other equity instrument investment			198,078,808.21	198,078,808.21
Total assets at fair value on a recurring basis			198,078,808.21	198,078,808.21
II. Non-recurring fair value measurement	-	-	-	-

XII. Related parties and related party transactions

12.1 The parent of the Company

Name	Registration place	Nature of business	Registered capital	Shareholding ratio of the parent	Voting percentage of the parent
Beijing Haihongyuan Investment Management Co., Ltd.	Beijing	Investment and management	RMB30,000.00 million	9.33%	9.33%

Explanation on the parent company

- (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 the 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, with 81,494,850 shares of the Company which is 9.331% of total shares.

- (2) Beijing Haihongyuan increased its share capital from RMB20 million to RMB30,000.00 million in October 2017, with RMB3,520.00 million paid-up.
- (3) On 21 December 2018, Beijing Haihongyuan pledged 9.33% of its shares held in the Company to Bank of Guangzhou Co., Ltd.

The ultimate controller of the Company is Hainan Province Cihang Foundation.

12.2 Subsidiaries of the Company

Please refer to Note IX for details of subsidiaries of the Company.

12.3 Other related parties

Name of other related parties	Relationship with the Group
Jiangsu Zhilin Electric Technology Co., Ltd.	Shareholder of subsidiary – Northeast Electric (Chengdu)
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
Antu Business Travel Services Co., Ltd.	Under the same de facto controller as the Company
Zijinghua Restaurant, Jilin Province Tourism Group Co., Ltd.	Under the same de facto controller as the Company
Beijing Haihongyuan Investment Management Co., Ltd.	Under the same de facto controller as the Company
Dongguan Yujingwan Hotel	Under the same de facto controller as the Company
Asia-Pacific International Conference Center Co., Ltd.	Under the same de facto controller as the Company
Beijing Capital Airlines Co., Ltd.	Under the same de facto controller as the Company
West Air Co., Ltd.	Under the same de facto controller as the Company
Yunnan Lucky Air Co., Ltd.	Other related party
Kunming Business Department of Hainan Airlines Holding Co., Ltd.	Other related party

12.4 Related party transactions

12.4.1 Related party transactions for the purchase and sale of goods, provision and receipt of services

Purchase of goods/Receipt of services

Unit: RMB

Related party	Related transaction content	Amount for the period	Transaction facility approved	Whether the transaction facility is exceeded	Amount for previous period
HNA Business Services Co., Ltd.	Receipt of services	4,115.00			5,580.00
Yunnan Lucky Air Co., Ltd.	Agent collection and payment of water, electricity, gas and energy consumption fees, property management fees, etc.	652,857.14	2,393,939	No	0.00

Sale of goods/Provision of services

Unit: RMB

Related party	Related transaction content	Amount for the period	Amount for previous period
Dongguan Yujingwan Hotel	Agent collection and payment of business settlement fee	3,140,715.69	4,989,740.98
Zijinghua Restaurant, Jilin Province Tourism Group Co., Ltd.	Agent collection and payment of business settlement fee	1,204,913.54	3,102,730.38
Beijing Capital Airlines Co., Ltd.	Sale of products and goods	720,862.30	
West Air Co., Ltd.	Sale of products and goods	55,117.00	
Yunnan Lucky Air Co., Ltd.	Sale of products and goods	6,566,427.29	
Kunming Business Department of Hainan Airlines Holding Co., Ltd.	Sale of products and goods	124,127.00	

12.4.2 Related party lease

The Company as a lessor: None.

The Company as a lessee:

Unit: RMB

Lessor name	Type of leased assets	Rental expense recognized in the current period	Rental expense recognized in the prior period
Dongguan Yujingwan Hotel	Venue lease	2,605,321.10	1,893,200.00
Zijinghua Restaurant, Jilin Province Tourism Group Co., Ltd.	Venue lease	890,285.71	
Yunnan Lucky Air Co., Ltd.	Venue lease	1,571,428.56	

12.4.3 Related party funds lending

Unit: RMB

Related party	Borrowing/ lending amount	Start date	Due date	Remarks
Borrowing				
Beijing Haihongyuan Investment Management Co., Ltd.	249,786.85	23 March 2020	31 December 2020	
Lending				

12.5 Receivables and payables of related parties

12.5.1 Receivables

Unit: RMB

Related party	Item	Balance at end of period		Balance at beginning of period	
		Carrying amount	Provision for bad debt	Carrying amount	Provision for bad debt
Zijinghua Restaurant, Jilin Province Tourism Group Co., Ltd.	Account receivables	192,927.38	20,068.83	401,376.54	20,068.83
Beijing Capital Airlines Co., Ltd.	Account receivables	720,862.30	23,445.62	468,912.30	23,445.62
West Air Co., Ltd.	Account receivables	55,117.00	7,101.35	142,027.00	7,101.35
Yunnan Lucky Air Co., Ltd.	Account receivables	3,760,442.69	118,872.24	2,377,444.80	118,872.24
Kunming Business Department of Hainan Airlines Holding Co., Ltd.	Account receivables	124,127.00	2,629.15	52,583.00	2,629.15
HNA Business Services Co., Ltd.	Other receivables	20,545.00	785.25	15,705.00	785.25
Asia-Pacific International Conference Center Co., Ltd.	Other receivables	136,494.77	6,824.74	136,494.77	6,824.74
Dongguan Yujingwan Hotel	Other non-current asset	2,838,900.00		2,839,800.00	
Zijinghua Restaurant, Jilin Province Tourism Group Co., Ltd.	Other non-current asset	2,000,000.00		2,000,000.00	

12.5.2 Payables

Unit: RMB

Item	Related party	Closing balance	Opening balance
Yunnan Lucky Air Co., Ltd.	Accounts payable	4,148,289.50	1,709,523.80
Great Power Technology Limited	Other payables	351,400.09	351,400.09
Hainan Yingzhi Construction and Development Co., Ltd.	Other payables	1,100,142.00	1,100,142.00
Hainan Trans Property Management Co., Ltd.	Other payables	216,028.42	193,557.58
Beijing Haihongyuan Investment Management Co., Ltd.	Other payables	249,786.85	69,786.85
Dongguan Yujingwan Hotel	Other payables	887,129.37	11,336.65
HNA Business Services Co., Ltd.	Other payables	3,200.00	3,200.00
Antu Business Travel Services Co., Ltd.	Other payables	2,248.00	2,248.00

12.6 Commitments of related parties
12.7 Others

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 30 June 2020, the balance of deposits of the Company and its subsidiaries in HNA Group Finance Co., Ltd. was RMB72,425,012.08.

XIII. Shares payment

The Company has no shares payment to be disclosed during the reporting period.

XIV. Commitment and contingent events

14.1 Contingent events

14.1.1 Significant contingent events on balance sheet date

The Company received the Notice of Appearance ((2019) Qiong 96 Min Chu No. 381) served by the First Intermediate People's Court of Hainan Province in relation to adjudicating the Company as a person subject to enforcement on 16 July 2019. The plaintiff (the petitioner for enforcement), Fushun Electric Porcelain Co., Ltd. ("Fushun Electric Porcelain") is a creditor of the New Northeast Insulation. According to the evidence of the plaintiff, the Company set up Shenyang HVS with in-kind investment assets including land at No. 39 East Shentie Road, and Shenyang HVS set up the New Northeast Insulation with the land at No. 39 East Shentie Road as investment in kind. But the use right of the land at No. 39 East Shentie Road has been registered under the name of the Company, and was executed in auction by Shenyang Intermediate People's Court due to the dispute over loan contract between the Company and New Northeast Insulation afterwards. Therefore, Fushun Electric Porcelain considered that the Company's investment in Shenyang HVS and Shenyang HVS's investment in New Northeast Insulation are not true, the assets of the New Northeast Insulation have been harmed, and the interests of Fushun Electric Porcelain Company, the creditor of the New Northeast Insulation, have also been harmed.

In view of the foregoing, according to Article 19 of the Provisions of the Supreme People's Court on Several Issues Concerning the Modification and Addition of Parties in Civil Enforcement, Fushun Electric Porcelain claims that the Company fails to fulfill its investment obligation in accordance with the law, which is to transfer the equity of Shenyang High-volt, and Shenyang HVS fails to fulfill its investment obligation in accordance with the law, which is to transfer the equity of New Northeast Insulation; that the Company and Shenyang HVS shall be liable for the debt of RMB11,258,221.34 and the interest of New Northeast Insulation and Fushun Electric Porcelain and the interest generated during the period of delayed performance within the scope of non-investment according to law (i.e. the value range of land use rights of No. 39, East Shentie Road); and that Shenyang High-voltage Switches Co., Ltd. and the Company shall be adjudicated as persons subject to enforcement for the case of Fushun Intermediate People's Court of Liaoning Province ((2015) Fu Zhong Zhi Zi No.00140). Since the lawsuit has not yet been heard in court and the final judgment of the court has not yet been made, it is impossible to judge the negative impact on the Company's current or future profits.

XV. Events subsequent to balance sheet date

The Company has no events subsequent to balance sheet date to be disclosed during the reporting period.

XVI. Other important events

16.1 Segment information

16.1.1 Basis for determination and accounting policy of reportable segments

According to the Group's internal organization structure, management requirements and internal reporting system, the Group's operating business is divided into two operating segments. The management of the Group regularly evaluates the operating results of these segments to determine the allocation of resources to them and evaluate their performance. On the basis of operating segments, the Group has identified two reportable segments, namely enclosed busbar production and sales reportable segment and hotel and catering reportable segment. These reportable segments are determined on the basis of the main products and services provided by each reportable segment. The main products and services provided by each reportable segment of the Group are:

- A. Production and sales of enclosed busbars, mainly producing and selling enclosed busbars;
- B. Hotel and catering industry, mainly producing catering and accommodation.

Segment reporting information is disclosed in accordance with the accounting policies and measurement standards adopted by the segments in reporting to the management, which are consistent with the accounting and measurement basis in the preparation of financial statements.

16.1.2 Financial information on the reportable segments

Unit: RMB

Item	Production and sales of enclosed busbar	Hotel catering and accommodation	Undistributed	Inter-segment elimination	Total
Revenue from external operations	26,700,933.95	11,137,816.64			37,838,750.59
Revenue from inter-segment transactions					
Sales expense	1,952,878.24	12,562,415.56			14,515,293.80
Gain from investment in associates and joint ventures					
Credit impairment losses					
Losses on asset impairment					
Depreciation and amortization expenses	1,604,379.92	4,658,484.60	100,014.68		6,362,879.20
Total profit (losses)	-3,671,052.65	-4,780,377.40	-2,613,940.00		-11,065,370.05
Total assets	116,447,719.90	362,012,372.75	113,055,330.97	-116,840,510.61	474,674,913.01
Total liabilities	155,401,308.59	165,153,077.69	333,301,903.55	-116,840,510.61	537,015,779.22

XVII. Major notes to parent company's financial statements

17.1 Accounts receivable

17.1.1 Classification of accounts receivable

Unit: RMB

Type	Closing balance			Opening balance		
	Book balance		Bad debt provision	Book balance		Bad debt provision
	Amount	Ratio		Amount	Ratio	
Including:						
Receivables of provision for bad debt on a collective basis	1,423,911.79	100.00%	1,423,911.79	100.00%	1,423,911.79	100.00%
Including:						
Total	1,423,911.79	100.00%	1,423,911.79	100.00%	1,423,911.79	100.00%

Provision for bad debt on a collective basis:

Unit: RMB

	Closing balance		
	Book balance	Bad debt provision	Provision ratio
Over 4 years	1,423,911.79	1,423,911.79	100.00%
Total	1,423,911.79	1,423,911.79	-

If the provision for bad debts of accounts receivable is made in accordance with the general model of expected credit losses, please disclose the information about provision for bad debts with reference to the way of disclosure of other receivables:

Applicable Not applicable

Disclosure by aging

Unit: RMB

Aging	Closing balance
Over 3 years	1,423,911.79
Over 5 years	1,423,911.79
Total	1,423,911.79

17.2 Other receivables

Unit: RMB

Item	Closing balance	Opening balance
Other receivables	255,373,741.54	258,324,138.60
Total	255,373,741.54	258,324,138.60

17.2.1 Other receivables

17.2.1.1 Other receivables by nature

Unit: RMB

Nature of accounts	Closing balance	Opening balance
Litigation from Benxi Iron & Steel (Group) Co., Ltd.	76,090,000.00	76,090,000.00
Current account with subsidiaries	255,358,461.54	258,304,608.60
Others	381,185.26	385,435.26
Total	331,829,646.80	334,780,043.86

17.2.1.2 Provision for bad debts

Unit: RMB

Bad debt provision	Phase I	Phase II	Phase III	Total
	Expected credit loss over the next 12 months	Lifetime expected credit loss (not credit-impairment loans)	Lifetime expected credit loss (credit-impairment loans)	
Balance on 1 January 2020			76,455,905.26	76,455,905.26
Balance on 1 January 2020 for the period	-	-	-	-
Balance on 30 June 2020			76,455,905.26	76,455,905.26

Changes in book balance of provision for losses with significant changes during the current period

Applicable Not applicable

Disclosure by aging

Unit: RMB

Aging	Closing balance
Within 1 year (inclusive)	3,456,346.67
1-2 years	520,892.01
2-3 years	138,376,275.35
Over 3 years	189,476,132.77
3-4 years	33,770,780.15
Over 5 years	155,705,352.62
Total	331,829,646.80

17.2.1.3 Provision, retrieval or reversal of bad debts for the period

Provision of bad debts for the period:

Unit: RMB

Type	Opening balance	Changes for the period				Closing balance
		Provision	Retrieval or reversal	Write off	Others	
Provision for bad debt of other receivables	76,455,905.26					76,455,905.26
Total	76,455,905.26					76,455,905.26

17.2.1.4 Top five other receivables by debtor at the end of the period

Unit: RMB

Name of company	Nature of accounts	Closing balance	Aging	Percentage in total balance of other receivables at end of period	Balance of provision for bad debts at end of period
Hainan Garden Lane Flight Hotel Management Co., Ltd.	Current account	113,269,913.94	Within 1 year, 2-3 years	34.54%	
Gaocai Technology Co., Ltd.	Current account	79,298,247.36	Over 4 years	24.18%	
Benxi Iron & Steel (Group) Co., Ltd.	Current account	76,090,000.00	Over 4 years	23.20%	76,090,000.00
Shenyang Kaiyi Electric. Co., Ltd.	Current account	53,137,032.65	Within 1 year, 1-2 years, 2-3 years	16.20%	
Northeast Electric (Chengdu) Power Engineering Design Co., Ltd.	Current account	6,188,162.29	1-2 year	1.89%	
Total	--	327,983,356.24	--	100.00%	76,090,000.00

17.3 Long-term equity investments

Unit: RMB

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

17.3.1 Investment in subsidiaries

Unit: RMB

Investee	Opening balance (book value)	Increase/decrease during the period			Closing balance (book value)	Balance of provision for impairment at end of period
		Increase in investment	Decrease in investment	Provision for impairment		
Northeast Electric Development (HK) Co., Ltd.	53,757,001.09				53,757,001.09	102,942,450.54
Shenyang Kaiyi Electric Co., Ltd.	0.00				0.00	100,000.00
Gaocai Technology Co., Ltd.	2,679,471.94				2,679,471.94	13,826,913.95
Total	56,436,473.03				56,436,473.03	116,869,364.49

XVIII. Supplementary information

18.1 Breakdown of extraordinary profit or loss for the period

Applicable Not applicable

Unit: RMB

Item	Amount	Remarks
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 to national standards)	668,955.66	
Other non-operating incomes and expenses except for the above-mentioned	1,076,332.82	
Less: Amount of impact on income tax	436,322.12	
Impact on minority interests	8,087.63	
Total	1,300,878.73	--

Explain the extraordinary profit and loss defined by the Company in accordance with “Explanatory Announcement No.1 on Information Disclosure for Companies Offering Their Securities to the Public – Extraordinary Profit or Loss” and the reason for defining the extraordinary profit and loss specified in the “Explanatory Announcement No.1 on Information Disclosure for Companies Offering Their Securities to the Public – Extraordinary Profit or Loss” as recurrent profit and loss.

Applicable Not applicable

18.2 Return on net assets and earnings per share

Profit for the period	Weighted average return on net assets	Earnings per share	
		Basic earnings per share (RMB/share)	Diluted earnings per share (RMB/share)
Net profit attributable to ordinary shareholders of the Company	0.00%	-0.0135	-0.0135
Net profit attributable to ordinary shareholders of the Company after deduction of extraordinary profit or loss	0.00%	-0.0144	-0.0144

18.3 Differences in figures under domestic and foreign accounting standards

18.3.1 Differences arising from preparing financial statements in accordance with the International Financial Reporting Standards and PRC GAAP on net profit and net asset

Applicable Not applicable

Unit: RMB

	Net profit attributable to shareholders of the listed company		Net asset attributable to shareholders of the listed company	
	Balance of the current period	Balance of the last period	Closing balance	Opening balance
Under the PRC GAAP	-11,818,431.23	-3,924,330.74	-67,768,465.95	-56,590,261.98
Items and amounts adjusted under the International Financial Reporting Standards				
Under the International Financial Reporting Standards	-11,818,431.23	-3,924,330.74	-67,768,465.95	-56,590,261.98

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

18.3.2 Differences arising from preparing financial statements in accordance with the foreign accounting standards and PRC GAAP on net profit and net asset

Applicable Not applicable

18.3.3 Reasons for the differences in figures under domestic and foreign accounting standards. The name of the foreign audit institution shall be indicated if the data audited by the foreign audit institution has been regulated differently.

Applicable Not applicable

Chapter 10 DOCUMENTS AVAILABLE FOR INSPECTION

- (I) The originals of financial statements signed and sealed by the legal representative, chief financial officer and head of financial department (accounting supervisor) of the Company;
- (II) The originals of all of the documents and announcements of the Company which have been disclosed on the newspapers designated by China Securities Regulatory Commission (CSRC) during the reporting period;
- (III) The original of the interim report of the Company.



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