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NEE

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

(A joint stock limited company incorporated in the People's Republic of China with limited liability)

**(Stock Code: 0042)**

# Interim Report 2011

The board of directors (the "Board") and directors ("Directors") of Northeast Electric Development Co., Ltd (the "Company") hereby announce the unaudited interim results of the Company and its subsidiaries (the "Group") for the half year ended 30 June 2011.

## IMPORTANT NOTES

The Company's Board of Directors, Supervisory Committee, Directors, Supervisors and senior management hereby confirm that there are no false representations, misleading statements or material omissions contained in this report, and they, severally and jointly, accept full responsibility for the truthfulness, accuracy and completeness of the contents of this report.

The audit committee of the Board of Directors of the Company has reviewed and confirmed the Company's Interim Report 2011.

The financial report for the six months ended 30 June 2011 of the Company and its subsidiaries (the"Group") has not been audited.

Mr. Su Weiguo, Chairman of the Company, Mr. Liu Tongyan, Chief financial officer, and Ms. Wang Hongling, Chief accounting officer, hereby state to guarantee the truthfulness and completeness of the financial report for the six months ended 30 June 2011.

Under the calculation of the Hong Kong Financial Reporting Standards, the turnover was RMB145,730,000, decreased by 0.45% compared with that of the same period last year; the profit attributable to shareholders after tax and interests of minority shareholders was RMB19,495,000, with the profit per share amounting to RMB0.0223.

The Board decide not to pay the interim dividend.

The following financial information is prepared under the HK GAAP and the PRC Accounting Standards and Regulations and is made pursuant to the second paragraph of Rule 13.09 (2) and the Appendix 16 in the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Ltd.

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

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

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# BASIC INFORMATION OF THE COMPANY

| | | |
|---|---|---|
| (I) | Legal Chinese name | : 東北電氣發展股份有限公司 |
| | Legal English name | : Northeast Electric Development Company Limited |
| | Chinese abbreviation | : 東北電氣 |
| | English abbreviation | : NEE |
| (II) | Place of listing, stock names and codes | |
| | A Shares | : Shenzhen Stock Exchange<br>Stock Name: Northeast Electric<br>Stock code: 000585 |
| | H Shares | : The Stock Exchange of Hong Kong Limited<br>Stock Name: Northeast Electric<br>Stock code: 0042 |
| (III) | Registered address | : No. 1, Xintai Road, Bayuquan District, Yingkou, Liaoning province |
| | Office address | : No. 2, Xingshun Street, Tiexi District, Shenyang |
| | Postal Code | : 110023 |
| | Company Website | : www.nee.com.cn |
| | E-mail | : nee@nee.com.cn |
| (IV) | Legal representative | : Su Weiguo |
| (V) | Secretary to the Board | : Su Weiguo (acting) |
| | Joint company secretaries and authorized representative for receipt of summons and notices in Hong Kong | : Mak Yee Chuen |
| | Representative for securities affairs | : Zhu Xinguang |
| | Contact address | : No. 2, Xingshun Street, Tiexi District, Shenyang, the PRC |
| | Telephone | : (86)24-23501976 23527080 |
| | Fax | : (86)24-23527081 |
| | E-mail | : nemm585@sina.com |
| (VI) | PRC newspapers for information disclosure | : Securities Times |
| | Website publishing the report and announcement | : www.cninfo.com.cn www.hkexnews.hk |
| | Website of the Company | : www.nee.com.cn |
| | Place for inspection of the report | : Office of the Board of Directors |
| (VII) | Date of Company's first registration | : 16 February 1993 |
| | Place of registration | : No. 18, North Er Zhong Road, tiexi District, Shenyang, Liaoning Province, the PRC |
| | Date of the Company's latest change of registration | : 9 May 2011 |
| | Registered address | : No. 1, Xintai Road, Bayuquan District, Yingkou, Liaoning province |
| | Registered number of corporate business licence | : 210100402002708 |
| | Registered taxation number | : 210132243437397 |

# MAJOR FINANCIAL DATA AND FINANCIAL INDICATORS

## (I) Major financial data and financial indicators prepared in accordance with the PRC Accounting Standards and regulations

*Unit: RMB*

| | As at 30 June 2011 | As at 31 December 2010 | Change in the reporting period compared with the end of last year (%) |
|---|---|---|---|
| Total assets | 741,921,933.11 | 844,337,174.25 | -12.13 |
| Owners' equity attributable to shareholders of listed company | 333,597,692.33 | 314,979,605.97 | 5.91 |
| Share capital | 873,370,000.00 | 873,370,000.00 | |
| Net assets per share attributable to shareholders of listed company (RMB/Share) | 0.38 | 0.36 | 5.56 |

| | For the reporting period from Jan. to Jun. 2011 | The same period last year | Change in the reporting period compared with the same period of last year (%) |
|---|---|---|---|
| Total operating revenue | 145,730,069.48 | 146,383,998.47 | -0.45 |
| Operating profit | 19,991,385.73 | 2,553,073.63 | 683.03 |
| Total profit | 19,997,067.33 | 2,534,262.58 | 689.07 |
| Net profit attributable to shareholders of listed company | 19,495,121.58 | 527,972.20 | 3,592.45 |
| Net profit attributable to shareholders of listed company after extraordinary items | -6,653,368.03 | 553,674.17 | - |
| Basic earnings per share (RMB/Share) | 0.0223 | 0.0006 | 3,616.67 |
| Diluted earnings per share (RMB/Share) | 0.0223 | 0.0006 | 3,616.67 |
| Return on net assets (%) | 6.01 | 0.166 | Increased by 5.844 |
| Earnings/net assets ratio after extraordinary item (weighted average) (%) | -2.05 | 0.17 | Decreased by 2.22 |
| Net cash flow from operating activities | -26,602,296.53 | 9,720,877.49 | - |
| Net cash flow from operating activities per share (RMB/Share) | -0.0305 | 0.0111 | - |

### Extraordinary profit and loss items

*Unit: RMB*

| | |
|---|---|
| Net profit influenced by net non-operating income and expenditure | 5,681.60 |
| Profit or loss from disposal of subsidiaries ("-" means loss) | 26,144,228.41 |
| Less: amount influenced by income tax | 1,420.40 |
| Total | 26,148,489.61 |

## (II) Prepared under Hong Kong Financial Reporting Standards

### Condensed consolidated profit and loss statement

*Unit: RMB'000*

| | For the reporting period from Jan. to Jun. 2011 | The same period last year |
|---|---|---|
| Turnover | 145,730 | 146,384 |
| Profit before taxation | 19,997 | 2,557 |
| Taxation | 871 | 2,091 |
| Profit after taxation | 19,126 | 466 |
| Minority interests | (369) | (85) |
| Profit attributable to shareholders | 19,495 | 551 |

### Condensed consolidated statement of financial position

*Unit: RMB'000*

| | As at 30 June 2011 | As at 31 December 2010 |
|---|---|---|
| Total assets | 741,922 | 844,337 |
| Total liabilities | 406,896 | 527,560 |
| Shareholders' equity | 335,026 | 316,777 |

## (III) There are no differences between net profit calculated under Hong Kong Financial Reporting Standards and the PRC Accounting Standards

*Unit: RMB*

| | Net profit |
|---|---|
| Under the PRC Accounting Standards | 19,495,121.58 |
| Under Hong Kong Financial Reporting Standards | 19,495,121.58 |

# CHANGE IN SHARE CAPITAL AND INFORMATION OF SHAREHOLDERS

## I. Changes in share capital of the Company

During the reporting period, there were no changes in the share capital.

## II. Table of changes in share capital

*Unit: Share*

| | Prior to changes | | Increase/decrease (+,-) | | | | | After changes | |
|---|---|---|---|---|---|---|---|---|---|
| | Quantity | Proportion | New shares issued | Bonus | Capitalization of surplus reserves | Others | Subtotal | Quantity | Proportion |
| **I. Shares subject to trading moratorium** | 6,230,000 | 0.71% | | | | | | 6,230,000 | 0.71% |
| 1. State-owned shares | | | | | | | | | |
| 2. State-owned legal-person shares | | | | | | | | | |
| 3. Other domestic shares | 6,230,000 | 0.71% | | | | | | 6,230,000 | 0.71% |
| Including: domestic legal-person shares | 6,230,000 | 0.71% | | | | -234,782 | -234,782 | 5,995,218 | 0.69% |
| Domestic natural person shares | | | | | | 234,782 | 234,782 | 234,782 | 0.03% |
| 4. Overseas shares | | | | | | | | | |
| Including: Overseas legal-person shares | | | | | | | | | |
| Overseas natural person shares | | | | | | | | | |
| 5. Executives' shares | | | | | | | | | |
| **II. Shares not subject to trading moratorium** | 867,140,000 | 99.29% | | | | | | 867,140,000 | 99.29% |
| 1. Common shares in RMB | 609,190,000 | 69.75% | | | | | | 609,190,000 | 69.75% |
| 2. Domestic shares listed in PRC | | | | | | | | | |
| 3. Foreign shares listed overseas | 257,950,000 | 29.54% | | | | | | 257,950,000 | 29.54% |
| 4. Others | | | | | | | | | |
| **III. Total shares** | 873,370,000 | 100.00% | | | | | | 873,370,000 | 100.00% |

## III. Introduction to shareholdings of shareholders

Shareholdings of top ten holders and top ten shareholders holding tradable shares

*Unit: Share*

| | |
|---|---|
| Total number of shareholders | Total number of shareholders as at the end of 30 June 2011 was 90,706, of which, 90,631 hold A shares and 75 hold H shares. |

**Shareholdings of top ten shareholders**

| Name of shareholders | Nature of shareholder | Percentage (%) | Number of shares | Number of untradeable shares | Number of shares pledged or frozen |
|---|---|---|---|---|---|
| HKSCC Nominees Limited | Foreign natural person | 28.36 | 247,655,998 | 0 | Unknown |
| New Northeast Electric Investments Co., Ltd. | Domestic ordinary legal person | 24.06 | 210,110,068 | 0 | 110,000,000 |
| Shenzhen Zhongda Software Development Co., Ltd | Domestic ordinary legal person | 0.41 | 3,550,000 | 3,550,000 | 0 |
| Shanxi Trust Corporation Ltd.- Xinyuan Fund Trust | Domestic ordinary legal person | 0.40 | 3,450,000 | 0 | 0 |
| Hu Li | Domestic natural person | 0.25 | 2,156,160 | 0 | 0 |
| Zhang Xiaoping | Domestic natural person | 0.24 | 2,077,200 | 0 | 0 |
| Zhang Li | Domestic natural person | 0.21 | 1,861,865 | 0 | 0 |
| Huang Jian | Domestic natural person | 0.19 | 1,689,800 | 0 | 0 |
| Shanxi Qinjian Science and Technology Investment Co., Ltd | Domestic ordinary legal person | 0.16 | 1,420,000 | 1,420,000 | 0 |
| Wang Qiusheng | Domestic natural person | 0.16 | 1,359,500 | 0 | 0 |

**Shareholdings of top ten holders of tradable shares**

| Name of shareholders | Number of tradable shares | Type of shares |
|---|---|---|
| HKSCC Nominees Limited | 247,655,998 | H shares |
| New Northeast Electric Investments Co., Ltd. | 210,094,850 | A shares |
| Shanxi Trust Corporation Ltd.- Xinyuan Fund Trust | 3,450,000 | A shares |
| Hu Li | 2,156,160 | A shares |
| Zhang Xiaoping | 2,077,200 | A shares |
| Zhang Li | 1,861,865 | A shares |
| Huang Jian | 1,689,800 | A shares |
| Wang Qiusheng | 1,359,500 | A shares |
| Chen Hua | 1,040,000 | A shares |
| Wang Changyong | 1,016,890 | A shares |
| Explanation for the connected relationship among the top ten shareholders | There is no relationship between New Northeast Electric Investments Co., Ltd and any other shareholders, and the Company is not aware of any relationship among other shareholders or parties acting in concert within the meaning of the Regulation on disclosure of Information on Changes in Shareholdings of Listed Companies. | |

***Notes:***

*1. On 20 December 2010, New Northeast Electric Investments Co., Ltd. carried out the registration of the pledge of stocks with Shanghai Pudong Development Bank Co., Ltd. Shenyang Branch, so 60,000,000 A shares and 20,000,000 A shares not subject to trading moratorium have been frozen since 20 December 2010.*

*2. On 28 June 2010, New Northeast Electric Investments Co., Ltd. carried out the registration of the pledge of stocks with Bank of Communications Liaoning Branch, so 90,000,000 A shares not subject to trading moratorium have been frozen since 28 June 2010. Upon maturity, it carried out renewal of registration of the pledge of stocks with Bank of Communications Liaoning Branch on 18 July 2011, so 30,000,000 A shares not subject to trading moratorium have been frozen since 18 July 2011.*

## IV. During the reporting period, the Company's controlling shareholder and the actual controller has not changed.

# PROFILES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

## I. Shareholdings of directors, supervisors and senior management

There was no change in the number of shares held by the Company's directors, supervisors, and senior management during the reporting period.

## II. Appointment or dismissal of directors, supervisors and senior management during the reporting period

(1) Mr. Bi Jianzhong, upon the approval of the ninth Meeting of the six session of the Board of Directors, resigned as an Executive Director, General Manager and other executive positions due to the change of work on 11 April 2011 with effect from 11 April 2011 (please refer to the announcement dated 11 April 2011 for details).

(2) Upon the approval of the ninth Meeting of the six session of the Board of Directors, Chairman Mr. Su Weiguo was appointed to concurrently serve as general manager; according to the nomination of Mr. Su Weiguo, Mr. Liu Tongyan was appointed as the deputy general manager and his term of office was the same as the Board of Directors (please refer to the announcement dated 11 April 2011 for details).

(3) The 2010 Annual General Meeting of shareholders was held on 6 May 2011, on which Mr. Liu Tongyan and Mr. Liu Bing were elected as the Executive Director of the Company for the same term as the Board expiring 7 March 2013 (please refer to the announcement dated 6 May 2011 for details).

## III. Interest of directors, supervisors and senior management

As at 30 June 2011, at no time during the period under review had the Company been notified that any director, supervisor or member of senior management (including their spouses and children more than 18 years of age) had any interest in, or had been granted, or exercised, any rights to subscribe for equity or debt securities of the Company and or associated corporations (within the meaning of the SFO), nor did they have any interest or short positions in the shares, underlying shares or debentures of the Company or its associated corporations which were required to be notified to the Company and The Stock Exchange of Hong Kong Limited pursuant to section 341 of the SFO or the Model Code for Securities Transactions by Directors of Listed Issuers.

# MANAGEMENT DISCUSSION AND ANALYSIS

## I. Discussion and analysis on the Company's operating performance in the reporting period

During the reporting period, the domestic and international economic situation was more complicated. With such negative factors as shrunk investment in the fixed assets due to macro control, rising raw material prices, the appreciation of RMB, the hiking cost of major factors of labours and the tough market competition, the Board and the management ramped up the production and operation work, strengthened technical innovation, optimized product mix, raised product quality, broadened market channels and improved contract quality, underpinning internal control standard, promoting the management level and strictly controlling the purchase cost of raw materials and other expenses in light of its operation objectives made at the beginning of the 2011, which effectively reduced the influence of various adverse factors on the production and operation of the Company and kept the stable and sound development. During the reporting period, the operating income of the Company amounted to RMB145,730,000, holding the line with the same period last year, and the net profit was RMB19,130,000 with an increase of RMB18,690,000, which was mainly arising from disposal of equity.

Under the calculation of the Hong Kong Financial Reporting Standards, the turnover was RMB145,730,000, decreasing by 0.45% compared with the same period last year; the profit attributable to shareholders after tax and of minority interests was RMB19,495,000, with the profit per share amounting to RMB0.0223.

As there was no interim dividend paid during the reporting period, the directors does not resolve to pay the interim dividend for the period of six months ended 30 June 2011.

### (I) Summary for the operating work in the first half year of 2011

**During the reporting period, the main features of the production and operation of the Company are as follows:**

(1) The strengthened production management and control and reasonable allocation of resources resulted in consummation of the production task;

(2) The broadened market channel and improved contract quality and profitability of the products promoted the comprehensive gross profit ratio compared with the same period last year;

(3) The science and technology research was enhanced to develop product innovation and optimize product mix to actively tap new sources of economic growth;

(4) Income from sales of 25.6% equity interest in New Northeast Electric (Shenyang) High-Voltage Isolators Switchgears Limited improved the asset structure and promoted the asset quality;

(5) The enhanced internal control and continuously perfected management systems sharpened the Company's core competitive edge.

## (II) Major problems and difficulties in the Company's operation and solutions for them

**Major problems and risks and the Company may be faced with**

(1) Influenced by shrunk investment in fixed assets due to the macro control policy by the State and the substantial changes in market environment, the investment in grid slowed down and the market demand was insufficient, which caused the increasingly fierce market competition and the price fall of products; meanwhile, the construction of the ultra high-voltage AC and high-voltage DC transmission projects in which the Company had edge was put off;

(2) As impacted by the rising price of raw and auxiliary materials, the Company faced with the pressure from the increasing cost.

**Solutions**

(1) In terms of the market, the Company enhanced research and judgment of the market, mastered the accurate market information in time and followed the market trends to continuously optimize the product mix according to the market demand, improve quality of products, sharpen the competitive edge and expand market share;

(2) In terms of controlling the cost of raw materials, the Company will keep a close eye on the price of main raw materials, properly implement the work in collection and analysis on dynamic information, and strengthen the control over purchase of raw materials to reduce the production cost;

(3) Further strengthen the technical innovation, research and development of new products to enhance added value of products, improving their profitability.

### (III) Outlook of the second half year

2011 is the first year to implement the "Twelfth Five-year Plan". The "Twelfth Five-year Plan" has established the construction direction of "implementation of strong smart grid in all respects and the construction of ultra high-voltage grid and urban and rural distribution network" and the industry of the Company will enjoy new growth opportunities. However, influenced by the national macro control policy and substantial changes in the market environment, investment in fix assets for grid construction slowed down, and ultra high-voltage grid projects were put off, and competition of the industry of the Company was more fierce. It is expected that the market situation in the second half of 2011 remained no fundamental changes.

Despite complicated operation environment, the Company will adopt feasible solutions and put great efforts in the implementation, which mainly including the following work:

(1) Organize production scientifically, allocate resources reasonably and strengthen the control of production to fully complete the annual production task;

(2) Seize the opportunities of increasing investment in the state grid and transformation in rural power grid, strengthen market development of products and augment the market shares;

(3) Analyse price trends of raw material based on market price and reduce the intermediate links by leveraging purchase from the source to make efforts to reduce cost of purchase of raw materials;

(4) Enhance the scientific research innovation and maintain a sustainable development of the Company;

(5) Constantly perfect management system and process of internal control, insist on standard operation and improve corporate governance level and the capacity of risk prevention of the Company.

### (IV) The Board of Directors has no plan to modify the operating plans in the second half of 2011

## II. Operation of the Company during the reporting period

The Company and its subsidiaries are the major bases of manufacturing, researching, and export of electrical transmission and transformation equipment in China and the major supplier of electrical transmission and transformation equipment in China. The Company's principal business is the manufacture and sale of system protection and transmission equipment including power capacitor and closed busbar.

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

As at the end of the reporting, the balance of monetary fund was RMB15,775,000 (the same below).

There is no obvious seasonal principle in the Company's funding requirements.

The funds are mainly satisfied by 1) the cash flow from the Company's operation and capital operation and 2) the borrowings from financial institutions.

As at the end of the reporting period, the Company had bank loans amounting to RMB22,000,000, representing 2.97% of the total assets. These bank loans bear floating interests. The debt equity ratio of the Company was 6.59% (debt equity ratio= total bank loan/total share capital reserve * 100%).

As at the end of the reporting period, the Company had net assets of RMB23,058,900 used as security.

The contingencies of the Company were detailed in Notes to the Financial Statement.

To improve its financial management, the Group has established a strict system for internal control on cash and fund management. Financial liquidity and debt paying ability of the Group are in good state.

Significant investment, acquisition or asset disposal during the reporting period are detailed in "Investment of the Company" of this section.

The classification of the Group's results was detailed in "Operation of the Company during the reporting period" of this section.

The prediction about Investment plan in the second half of 2011 of the Group was detailed in "Subsequent Events".

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

### (II) Analysis of financial conditions and operations results under the PRC Accounting Standards and Regulations

1. During the reporting period, the Company recorded operating income of RMB145,730,100, operating cost of RMB103,033,400, gross profit ratio of 29.30% and operating profit of RMB19,991,400.

   Constitution of operating income and profit of the Company by business, product and geographical segment:

### Operating income by business and product segment

*Unit: RMB'0000*

| By Business or Product | Operating income | Operating cost | Gross profit ratio (%) | Increase /decrease in operating income as compared with last year (%) | Increase /decrease in operating costs as compared with last year (%) | Increase /decrease in gross profit ratio as compared with last year (%) |
|---|---|---|---|---|---|---|
| 1. By business | | | | | | |
| Electric transmission and transformation | 14,573 | 10,303 | 29.30 | -0.44 | -4.02 | 2.64 |
| Of which: connected transactions | | | | | | |
| 2. By product | | | | | | |
| Power capacitor | 9,708 | 6,303 | 35.07 | 6.40 | 0.46 | 3.83 |
| Enclosed busbar | 2,433 | 1,586 | 34.81 | -12.17 | -23.31 | 9.47 |
| High voltage switch circuit breaker | 2,426 | 2,408 | 0.74 | -2.65 | 8.27 | -10.01 |
| Others | 6 | 6 | 0 | -97.62 | -96.45 | -32.94 |
| Of which: connected transactions | | | | | | |

### Operating income by geographical segment

*Unit: RMB'0000*

| Region | Operating income | Increase/decrease in operating income as compared with last year (%) |
|---|---|---|
| China Northeast | 1,200 | -69.29 |
| North China | 2,692 | -29.00 |
| Central China | 135 | -62.09 |
| East China | 9,391 | 917.44 |
| South China | 162 | -5.78 |
| Southwest China | 699 | -29.71 |
| Northwest China | 113 | -97.45 |
| Others | 181 | 182.95 |
| Total | 14,573 | |

2. Explanation of reasons for the major changes in principal business and its structure (Not applicable)

3. Explanation of reasons for the major change in earning capacity of principal business (gross profit ratio) compared with that of the same period of last year (Not applicable)

4. Analysis of reasons for the major change in profit structure compared with that of the same period last year (Not applicable):

   The profit in this period was income from sales of 25.6% equity interest in New Northeast Electric (Shenyang) High-Voltage Isolators Switchgears Limited, and there was no such income in previous period.

5. Caution and explanation of the possibility of losses or major changes compared with the same period last year in predicted accumulated net profit from the beginning of the year to the end of the next reporting period (Not applicable)

## (III) Operation of investee companies (applicable to situations that the investment income accounts for over 10% of the Company's net profit) (not applicable)

## (IV) Table of financial conditions and operations results

*Unit: RMB*

| Item | Amount at the end of the reporting period | Amount at the beginning of the reporting period | Increase/decrease (%) |
|---|---|---|---|
| Monetary fund | 34,809,366.36 | 74,789,999.34 | -53.46% |
| Other receivables | 21,187,216.99 | 15,254,369.48 | 38.89% |
| Short-term borrowings | 22,000,000.00 | 34,000,000.00 | -35.29% |
| Advance from customers | 12,026,120.10 | 69,358,377.40 | -82.66% |
| Employee compensation payable | 1,997,235.91 | 4,361,867.55 | -54.21% |

***Notes:***

1. *The reduction of monetary fund was mainly due to repayment of borrowings and loans;*
2. *The increase of other receivables was due to the increase of borrowings for staff and bid deposits compared with the beginning of the year;*
3. *The reduction of short-term borrowings was due to repayment of bank loans;*
4. *Advance from customers decreased because income from sales equity interest made up some advance from customers;*
5. *The reduction of the employee compensation payable was due to payment of social insurances.*

*Unit: RMB*

| Item | Amount of this period | Amount of the same period last year | Increase/decrease (%) |
|---|---|---|---|
| Financial costs | 796,223.73 | 1,256,108.91 | -36.61% |
| Losses on assets depreciation | 3,855,618.28 | 0.00 | 100% |
| Investment income | 24,412,034.90 | -500,459.42 | - |

***Notes:***

1 *The reduction of financial expenses was due to the decrease of bank loans;*

2. *The reduction of the losses on assets depreciation was mainly due to the provision of bad debt that had been translated in the same period last year but did not need to be translated in this period;*

3. *The investment income was increased, mainly because it was recorded as equity investment income in the reporting period while there was no such income in the last year.*

## III. Investments of the Company

### (I) The use of raised capital during the reporting period

During the reporting period, the Company neither had any raised capital nor situation under which the usage of raised capital prior to the reporting period needed to extend to the reporting period.

### (II) The circumstances and actual progress for non-raised capital investment project

During the reporting period, the Company neither had any raised capital nor situation under which the usage of non-raised capital prior to the reporting period needed to extend to the reporting period.

# SIGNIFICANT EVENTS

## I. Personnel Changes

Please refer to “Profiles of directors, supervisors and senior management”.

## II. Staff of the Company and the remuneration policy

As at 30 June 2011, the number of employees on the payroll of the Company was 666, compared with 711 in 2010. 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 employee, which are determined based on their performance, experience, position and other factors in compliance with the relevant PRC laws and regulations.

## III. Corporate governance structure

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

## IV. Profit distribution plan and its implementation

During the reporting period, the Company recorded net profit distributable to the parent companies of RMB19,495,121.58, and the accrued profit distributable to shareholders at the end of the period was RMB-1,507,784,986.77. Therefore the Board resolved not to make any profit distribution and not to transfer any capital reserve into share capital during the reporting period.

As there was no interim dividend paid during the reporting period, the directors does not resolve to pay the interim dividend for the period of six months ended 30 June 2011.

## V. Material litigation and arbitration

**Loan Contract Dispute Litigation of China Great Wall Asset Management Corp. Shenyang Office ("Great Wall") for the debt of RMB351.75 million**

In accordance with the temporary announcement dated 12 August 2009, 16 February 2011 and 20 July 2011 issued by the Company, on 15 February 2011, the Company received from the lawyer the civil written order ((2009) Liao Min Er Chu Zi No.12) issued by Liaoning Higher Court. According to the order, Shenyang High-voltage shall repay such liabilities including the principal of RMB351,750,000 and its interest of Great Wall, and reject Great Wall's claim against the Company. Then Great Wall Asset lodged an appeal.

On 20 July 2011, the Company received from its lawyer the civil judgment ((2011) Min Er Zhong Zi No.44). The court quashed the civil judgment ((2009) Liao Min Er Chu Zi No.12) issued by Liaoning High People's Court and remanded the case to Liaoning High People's Court for retrial.

The Company had no any material pending or threatened litigations and claims except the litigations above.

## VI. Acquisition and disposal of assets

**Transfer of 25.6% equity interest of New Northeast Electric (Shenyang) High-voltage Switchgear Ltd.**

Upon the consideration and approval of the third EGM of 2010 held on 31 December 2010, 25.6% equity interest in New Northeast Electric (Shenyang) High-Voltage Isolators Switchgears Limited held by Northeast Electric (Hong Kong) Limited, a wholly-owned subsidiary of the Company, was transferred to Sunyork International Limited (both such company and its ultimate beneficial owner are the independent third parties of the Company and its connected person) at the consideration of RMB52,800,000, and the change of industrial and commercial registration procedures was completed on 17 February 2011.

## VII. Connected transactions

Pursuant to the Listing Rules of Shenzhen Stock Exchange and the Listing Rules of Stock Exchange of Hong Kong Limited in relation to the relationship of connected parties, there were no connected transactions nor claims and debts between the Company and the connected parties during the reporting period.

## VIII. Use of capital of controlling shareholders and their subsidiaries

Controlling shareholders of the Company or its subsidiaries did not use any capital during the reporting period.

## IX. Guarantees for the controlling shareholders and their subsidiaries of the Company

The Company and its affiliated companies did not offer any guarantee for the Company's controlling shareholders and their subsidiaries during the reporting period.

## X. Significant contracts and their executions

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

### (II) Guarantees

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

As at the end of the reporting period, the actual bank loan of external guarantee provided by the Company totalled RMB99,800,000, so the real amount that the Company should assume responsibility for guarantee was RMB99,800,000. In addition, the guarantee of the Company for its holding subsidiaries amounted to RMB15,000,000. The above guarantee totalled RMB114,800,000, accounting for 36.24% of the audited net assets of the Company for 2010.

(1) External guarantees of the Company

As at the end of the reporting period, the actual external guarantee of the company totalled RMB99,800,000, including RMB22,750,000 for New Northeast Electric Group Ultra High-Voltage Equipment Co., Ltd; RMB52,900,000 for Jinzhou Power Capacitors Co., Ltd; RMB24,150,000 for Shenyang Kingdom Hotel Co., Ltd.

(2) Guarantees for the holding subsidiaries of the Company

The Company offered guarantees of RMB15,000,000 for its holding subsidiary New Northeast (Jinzhou) Power Capacitors Co., Ltd.

(3) Guarantee of the Company for the guaranteed company with debt to assets ratio over 70%

As at the end of the reporting period, the guarantee of the Company for Jinzhou Power Capacitors Co., Ltd with debt to assets ratio over 70% was RMB52,900,000, accounting for 16.7% of the audited net assets of the Company for 2010, which was translated into liabilities in total in 2007.

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

## XI. Commitments of shareholders with over 5% shares of the Company (including 5%)

To implement the Share Reform Scheme of the Company smoothly, New Northeast Electric Investments Co., Ltd, the controlling shareholder of the Company made a special undertaking that it will not sell or transfer the shares of Northeast Electric Development Co., Ltd on Shenzhen Stock Exchange within 36 months from the date for implementation of the Share Reform Scheme. Following the expiry of the said 36 months, the original Non-circulating Shares which are publicly sold on stock exchange will not be less than RMB5 per share.

During the reporting period, New Northeast Electric Investment Co., Ltd has strictly fulfilled the above promises.

In addition, the Company has held 17.09% equity of New Northeast Electric Group Ultra High-Voltage Equipment Co., Ltd, and promised not to recover the Company's debt of RMB39,960,000 within two years.

## XII. External investments

There was no external investment during the reporting period.

## XIII. Holding of other listing companies' shares

During the reporting period, in the Company, there was no securities investment and income, no holding of other listing companies' shares or financial enterprises' equities, and no share participation in proposed listing companies.

## XIV. Independent directors' special representation and independent opinion on the fund occupation by connected parties and foreign guarantee of the Company

The independent directors, in accordance with the requirements of the Notice of Certain Issues in relation to the Regulation on Capital Flow between Listed Companies and its Connected Parties and External Guarantee of Listed Companies (Zheng Jian Hui [2003] No. 56), and the Notice of China Securities Regulatory Commission on Avoiding the Rebound of Fund Occupation through Intensifying Continuous Supervision (Listing Division Letter [2008] No. 118), issue the following special representation and independent opinion after investigation and verification to relevant personnel on the Company's funds occupied by controlling shareholders and other connected parties as well as on the Company's foreign guarantees based on the information provided by the Board:

(I) The Company complied with the provisions of relevant laws and regulations, and its controlling shareholders and other connected parties did not occupy the Company's funds during the reporting period.

(II) During the reporting period, the Company had no new guarantees.

As at the end of the reporting period, the actual bank loan of external guarantee provided by the Company totalled RMB99,800,000, so the real amount that the Company should assume responsibility for guarantee was RMB99,800,000. In addition, the guarantee of the Company for its holding subsidiaries amounted to RMB15,000,000. The above guarantee totalled RMB114,800,000, accounting for 36.24% of the audited net assets of the Company for 2010.

During the reporting period, the Company cautiously treated and handled the foreign guarantee matters and made complete information disclosure in accordance with relevant provisions of supervision departments, thus making full disclosure and effective control of foreign guarantee. It hasn't made any guarantee for its shareholders, effective controller as well as the parties concerned. From now on, the Company will continue to strictly execute the provisions of the Articles of Association to enhance management on external guarantee and to properly solve the problems of the guarantees provided.

*Independent Directors: Mr. Wu Qicheng, Mr. Xiang Yongchun and Mr. Wang Yunxiao*

## XV. The Supervisory Committee's audit opinion

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

## XVI. Purchase, sale and redemption of shares

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

## XVII. Report of corporate governance

### (I) Code of Corporate Governance Practice

The Company's directors confirm that the Company has fully complied with the provisions of Code of Corporation Governance Practices within six months as at the end of 30 June 2011, and disclosed result report in accordance with these provisions. The Code of Corporation Governance Practices includes the clauses set out in Appendix 14 to the Listing Rules of the Stock Exchange of Hong Kong Limited (the "Listing Rules").

### (II) Audit Committee

The Company has established the audit committee in accordance with the Rule 3.21 of Listing Rules.

The Audit Committee, together with the management, has reviewed the accounting principles, accounting standards and methods adopted by the Company, and studied matters relating to auditing, internal controls and financial reporting, including reviewed the unaudited semi-annual accounts for the period of six months ended 30 June 2011.

The Audit Committee has given its consent to the financial accounting principles, standards and methods adopted by the Company for the unaudited semi-annual records for the period of six months ended 30 June 2011.

At the meeting held on 12 August 2011, the audit committee review and approve the 2011 semi-annual financial records and results announcement.

### (III) Independent non-executive directors

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

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

During the reporting period, the Company has adopted a code of behavior on terms no less exacting than the required standard set out in the "Model Code" in connection with rules governing securities transactions of directors and supervisors. It was confirmed, upon specific enquires, that no director or superior of the Company has breached the standards as required by the "Model Code" as stated in Appendix 10 to the Listing Rules in relation to securities transactions by directors.

The Board of Directors has formulated a written guideline for transactions of securities of listed companies by "directors and related employees". The Board of Directors has given written notices in advance to insiders (including the Company's directors, supervisors, senior management and controlling shareholders, actual controllers as well as connected parties, as defined in the Listing Rules) stating that purchase and sales of shares of the Company shall comply with relevant regulations and forbidding the insider purchase or sales of shares with inside information: no transactions of the company securities shall be carried out during the price-sensitive time within one month prior to results announcement (the lock-up period is from 12 July to 12 August 2011).

All directors have confirmed that they and the connected person did not carry out transactions of company securities during reporting period and have complied with the guidelines.

## XVIII. Income tax

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

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

## XX. Reception to the activities of field survey, communication and interview during the reporting period

During the reporting period, the Company strictly complied with the Guidelines for Fair Information Disclosure of Listed Companies, and earnestly implemented Investor Reception and Promotion System. The Company and the person responsible for related information disclosure consistently followed the principle of fair information disclosure, without any implementation of discriminatory policies and any disclosure, revealment or divulgence of significant private information to special objects. During the reporting period, there were no institutional investors coming to the Company for field survey or interview.

### XXI. Announcement index on major matters in 2011

During the reporting period, all of the Company's announcements were published on Securities Times and information disclosure websites. Please visit www.cninfo.com.cn, www.hkexnews.hk and www.nee.com.cn for details. The major information is disclosed as follows:

| Publishing Date | Announcement matters |
|---|---|
| 2011-01-25 | Suggestive Announcement on Results of Performance 2010 |
| 2011-02-16 | Announcement on Progress of Litigation |
| 2011-03-21 | Annual Report 2010 |
| 2011-04-11 | Announcement on Resolutions of the Second Meeting of the Six Session of the Board of Directors |
| 2011-04-21 | The First Quarterly Report of 2011 |
| 2011-05-06 | Announcement on Resolutions of the Annual General Meeting of Shareholders of 2010 |
| 2011-05-12 | Announcement on Change of the Registered Address |
| 2011-07-13 | Preliminary Interim Results Announcement for 2011 |
| 2011-07-20 | Announcement on Progress of Litigation |

### XXII. Subsequent events

Nil.

## DOCUMENTS AVAILABLE FOR INSPECTION

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

1. The interim report as signed by the Chairman;

2. The financial report as signed and sealed by legal representative, person in charge of accounting function and person in charge of accounting department;

3. The originals of all of the documents and announcements of the Company which have been disclosed during the reporting period.

# FINANCIAL STATEMENT

## Financial report prepared under the PRC Accounting Standards (unaudited)

### Balance Sheet

At 30 June 2011

*Unit: RMB*

| | Balance at the end of the period | | Balance at the beginning of the year | |
|---|---|---|---|---|
| **Items** | **Consolidated** | **Parent Company** | **Consolidated** | **Parent Company** |
| Current Assets: | | | | |
| Cash and deposits | 34,809,366.36 | 47,300.93 | 74,789,999.34 | 38,486.92 |
| Settlement excess reserve | | | | |
| Funds offered in inter-bank markets | | | | |
| Tradable financial assets | | | | |
| Bills receivable | | | 840,000.00 | |
| Amounts receivable | 216,748,466.22 | | 225,803,047.65 | |
| Prepayment | 25,012,305.43 | | 25,262,242.01 | |
| Premium payable | | | | |
| Reinsurance receivable | | | | |
| Reserve of reinsurance arrangement receivable | | | | |
| Interest receivable | | | | |
| Dividends receivable | 7,978,955.40 | | 8,146,517.15 | |
| Other receivables | 21,187,216.99 | 430,919,925.89 | 15,254,369.48 | 432,929,459.41 |
| Purchase of buyback financial assets | | | | |
| Inventories | 72,662,637.66 | | 97,011,521.94 | |
| Non-current assets due within 1 year | | | | |
| Other current assets | | | | |
| Total current assets | 378,398,948.06 | 430,967,226.82 | 447,107,697.57 | 432,967,946.33 |

**Balance Sheet** *(Continued)*

At 30 June 2011

*Unit: RMB*

| | Balance at the end of the period | | Balance at the beginning of the year | |
|---|---|---|---|---|
| **Items** | **Consolidated** | **Parent Company** | **Consolidated** | **Parent Company** |
| Non-current assets: | | | | |
| Deposits and advances | | | | |
| Available-for-sale financial assets | | | | |
| Held-to-maturity investments | | | | |
| Long-term accounts receivable | | | | |
| Long-term equity investment | 267,186,767.42 | 157,637,418.63 | 297,145,797.61 | 157,637,418.63 |
| Invested real estate | | | | |
| Fixed assets | 72,180,847.07 | 510,385.08 | 75,010,292.04 | 564,689.27 |
| Construction in progress | 452,833.81 | | 445,633.81 | |
| Material of works | | | | |
| Liquidation of fixed assets | | | | |
| Producing bio-material assets | | | | |
| Assets of oil and gas | | | | |
| Intangible assets | 4,674,404.63 | | 4,742,149.69 | |
| Expenditures of development | | | | |
| Good will | | | | |
| Long-term deferred expenses | 5,585,327.64 | | 7,155,788.26 | |
| Deferred income tax assets | 13,442,804.47 | | 12,729,815.27 | |
| Other non-current assets | | | | |
| Total non-current assets | 363,522,985.04 | 158,147,803.71 | 397,229,476.68 | 158,202,107.90 |
| Total assets | 741,921,933.10 | 589,115,030.53 | 844,337,174.25 | 591,170,054.23 |
| Current liabilities: | | | | |
| Short-term borrowings | 22,000,000.00 | | 34,000,000.00 | |
| Borrowings from central bank | | | | |
| Deposits received & by inter-banks | | | | |

**Balance Sheet** *(Continued)*

At 30 June 2011

*Unit: RMB*

| | Balance at the end of the period | | Balance at the beginning of the year | |
|---|---|---|---|---|
| **Items** | **Consolidated** | **Parent Company** | **Consolidated** | **Parent Company** |
| Funds received from inter-bank markets | | | | |
| Transactional financial liabilities | | | | |
| Bills payable | | | | |
| Accounts payable | 132,591,349.77 | | 187,578,403.76 | |
| Advance | 12,026,120.10 | 665,000.00 | 69,358,377.40 | 665,000.00 |
| Buyback financial assets sold | | | | |
| Fees payable & commission | | | | |
| Employee compensation payable | 1,997,235.91 | 937.27 | 4,361,867.55 | 40,092.79 |
| Taxes payable | -6,645,042.25 | 11,349.34 | 2,349,683.53 | 37,099.07 |
| Interest payable | | | | |
| Dividends payable | 40,017.86 | | 40,017.86 | |
| Other payables | 89,188,222.82 | 80,958,362.23 | 74,715,315.30 | 80,921,500.61 |
| Reinsurance payable | | | | |
| Reserve of reinsurance arrangement | | | | |
| Payments of entrusted purchase & selling stocks | | | | |
| Payments of entrusted underwriting stocks | | | | |
| Non-current liabilities due within 1 year | | | | |
| Other current liabilities | 468,446.97 | | 468,446.97 | |
| Total current liabilities | 251,666,351.18 | 81,635,648.84 | 372,872,112.37 | 81,663,692.47 |
| Non-current liabilities: | | | | |
| Long-term borrowings | | | | |
| Bonds payable | | | | |
| Long-term accounts payable | | | | |
| Special payables | | | | |

**Balance Sheet** *(Continued)*

At 30 June 2011

*Unit: RMB*

| | Balance at the end of the period | | Balance at the beginning of the year | |
|---|---|---|---|---|
| Items | Consolidated | Parent Company | Consolidated | Parent Company |
| Estimated liabilities | 93,973,938.25 | 93,973,938.25 | 93,973,938.25 | 93,973,938.25 |
| Deferred income tax liabilities | | | | |
| Other non-current liabilities | 61,255,815.55 | 61,255,815.55 | 60,714,159.27 | 60,714,159.27 |
| Total non-current liabilities | 155,229,753.80 | 155,229,753.80 | 154,688,097.52 | 154,688,097.52 |
| Total liabilities | 406,896,104.98 | 236,865,402.64 | 527,560,209.89 | 236,351,789.99 |
| Owners' equity (or shareholders' equity): | | | | |
| Paid-up capital (or share capital) | 873,370,000.00 | 873,370,000.00 | 873,370,000.00 | 873,370,000.00 |
| Capital reserves | 883,422,403.92 | 979,214,788.45 | 883,422,403.92 | 979,214,788.45 |
| Less: shares in store | | | | |
| Special reserve | | | | |
| Reserve | 108,587,124.40 | 108,587,124.40 | 108,587,124.40 | 108,587,124.40 |
| Normal risk provision | | | | |
| Retained profit | -1,507,784,986.77 | -1,608,922,284.96 | -1,527,280,108.35 | -1,606,353,648.61 |
| Difference of exchange of foreign-currency report | -23,996,849.22 | | -23,119,814.00 | |
| Total interests attributable to parent company's owners | 333,597,692.33 | 352,249,627.89 | 314,979,605.97 | 354,818,264.24 |
| Minority interests | 1,428,135.79 | | 1,797,358.39 | |
| Total owners' equity | 335,025,828.12 | 352,249,627.89 | 316,776,964.36 | 354,818,264.24 |
| Total liabilities and owners' equity | 741,921,933.10 | 589,115,030.53 | 844,337,174.25 | 591,170,054.23 |

## Profit statement

January-June 2011

*Unit: RMB*

| Items | Balance of this period | | Balance of last period | |
|---|---|---|---|---|
| | Consolidated | Parent Company | Consolidated | Parent Company |
| I. Total operating revenue | 145,730,069.48 | | 146,383,998.47 | |
| Including: Operating income | 145,730,069.48 | | 146,383,998.47 | |
| Interest income | | | | |
| Earned premium | | | | |
| Charges and commissions | | | | |
| II. Total operating costs | 150,150,718.65 | 2,568,636.35 | 143,330,465.42 | 2,292,760.88 |
| Including: Operating costs | 103,033,400.84 | 2,568,636.35 | 107,346,587.08 | 2,292,760.88 |
| Interest expenses | | | | |
| Commission expenses | | | | |
| Surrender value | | | | |
| Net amount of payouts | | | | |
| Net provision drawn for insurance contract | | | | |
| Policy dividend expenses | | | | |
| Reinsurance expenses | | | | |
| Taxes and surcharges for operations | 1,715,693.64 | | | |
| Sales expenses | 18,920,401.10 | | 14,063,749.30 | |
| Administrative expenses | 21,829,381.06 | 2,567,931.25 | 20,664,020.13 | 2,295,866.71 |
| Financial expenses | 796,223.73 | 705.10 | 1,256,108.91 | -3,105.83 |
| Losses on assets depreciation | 3,855,618.28 | | | |
| Plus: Incomes from changes of fair value (“-” refers to loss) | | | | |
| Incomes from investment (“-” refers to loss) | 24,412,034.90 | | -500,459.42 | -11,593.68 |

**Profit statement** *(Continued)*

January-June 2011

*Unit: RMB*

| Items | Balance of this period | | Balance of last period | |
|---|---|---|---|---|
| | Consolidated | Parent Company | Consolidated | Parent Company |
| Including : investment income from associates and joint venture companies | | | | |
| Exchange gains ("-" refers to loss) | | | | |
| III. Operating profits ("-" refers to loss) | 19,991,385.73 | -2,568,636.35 | 2,553,073.63 | -2,304,354.56 |
| Plus: Non-operating incomes | 20,035.91 | | 93,770.43 | |
| Less: Non-operating expenses | 14,354.31 | | 112,581.48 | 2,522.73 |
| Including: Losses on disposal of non-current assets | | | | |
| IV. Total profits ("-" refers to loss) | 19,997,067.33 | -2,568,636.35 | 2,534,262.58 | -2,306,877.29 |
| Less: Income tax expense | 871,168.35 | | 2,091,118.34 | |
| V. Net profits ("-" refers to loss) | 19,125,898.98 | -2,568,636.35 | 443,144.24 | -2,306,877.29 |
| Net profit attributable to owners of the parent company | 19,495,121.58 | -2,568,636.35 | 527,972.20 | -2,306,877.29 |
| Minority interests | -369,222.60 | | -84,827.96 | |
| VI. Earnings per share: | | | | |
| (1) Basic earnings per share | 0.0223 | -0.0029 | 0.0006 | -0.0026 |
| (2) Diluted earnings per share | 0.0223 | -0.0029 | 0.0006 | -0.0026 |
| VII. Other comprehensive income | -877,035.22 | 0.00 | -1,049,445.24 | 0.00 |
| VIII. Total comprehensive income | 18,248,863.76 | -2,568,636.35 | -606,301.00 | -2,306,877.29 |
| Total comprehensive income attributable to owners of the parent company | 18,618,086.36 | -2,568,636.35 | -521,473.04 | -2,306,877.29 |
| Total comprehensive income attributable to minority shareholders | -369,222.60 | | -84,827.96 | |

## Cash Flow Statement

January-June 2011

*Unit: RMB*

| | Balance of this period | | Balance of last period | |
|---|---|---|---|---|
| **Items** | **Consolidated** | **Parent Company** | **Consolidated** | **Parent Company** |
| **I. Net cash flow from operating activities:** | | | | |
| Cash from sales of goods, services provided | 233,591,310.10 | | 205,655,121.32 | |
| Increase by deposits and inter-bank deposits | | | | |
| Increase of borrowings from central bank | | | | |
| Increase of funds received in the inter-bank markets | | | | |
| Cash received from premium under insurance contracts | | | | |
| Net amount received under re-insurance business | | | | |
| Net increase of insured funds and investment | | | | |
| Net increase of disposal of transactional financial assets | | | | |
| Cash of interest, fees and commission received | | | | |
| Net increase of funds received in inter-bank markets | | | | |
| Net increase of funds of buyback business | | | | |
| Taxes refunded received | | | | |
| Cash received relating to operations | 14,472,907.53 | 4,781,824.76 | 15,302,342.90 | 4,524,367.83 |
| Subtotal of cash inflows from operating activities | 248,064,217.63 | 4,781,824.76 | 220,957,464.22 | 4,524,367.83 |
| Cash paid to purchase goods, received labor | 199,635,080.67 | | 146,994,917.14 | |
| Net increase of customer loans | | | | |

## Cash Flow Statement *(Continued)*

January-June 2011

*Unit: RMB*

| | Balance of this period | | Balance of last period | |
|---|---|---|---|---|
| **Items** | **Consolidated** | **Parent Company** | **Consolidated** | **Parent Company** |
| Net increase of deposits with central bank and inter-bank | | | | |
| Cash of payout under insurance contracts | | | | |
| Cash paid over interest, fees and commission | | | | |
| Cash paid to premium | | | | |
| Cash paid to employees and for employees | 11,746,676.21 | 885,846.92 | 11,705,336.81 | 862,586.95 |
| Taxes paid | 26,901,305.68 | 54,891.19 | 17,834,583.82 | 86,396.17 |
| Cash paid relating to operations | 36,383,451.60 | 3,832,272.64 | 34,701,748.96 | 3,665,139.58 |
| Subtotal of cash outflows from operating activities | 274,666,514.16 | 4,773,010.75 | 211,236,586.73 | 4,614,122.70 |
| Net cash flow arising from operating activities | -26,602,296.53 | 8,814.01 | 9,720,877.49 | -89,754.87 |
| **II. Net cash flow arising from investment activities:** | | | | |
| Cash received by withdrawn investment | | | | |
| Cash of return on investment | | | | |
| 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 | | | 88,406.32 | 88,406.32 |
| Cash received from other investment-related activities | | | | |
| Subtotal of cash inflows from investment activities | | | 88,406.32 | 88,406.32 |

### **Cash Flow Statement** *(Continued)*

January-June 2011

*Unit: RMB*

| | Balance of this period | | Balance of last period | |
|---|---|---|---|---|
| Items | Consolidated | Parent Company | Consolidated | Parent Company |
| Cash paid in purchase/construction of fixed assets, intangible assets and other long-term assets | 40,456.43 | | 171,505.04 | |
| Cash paid to invest | | | | |
| Net increase of pledged loans | | | | |
| Net cash paid to subsidiaries and other operational units | | | | |
| Cash from other investment-related activities | | | | |
| Subtotal of cash outflows from investment activities | 40,456.43 | | 171,505.04 | |
| Net cash flow arising from investment activities | -40,456.43 | | -83,098.72 | 88,406.32 |
| **III. Net cash flow arising from financing activities:** | | | | |
| Cash received for new investment | | | | |
| Including: subsidiaries receive cash from minority shareholders | | | | |
| Cash received from borrowing | | | 20,000,000.00 | |
| Cash received by issuing bonds | | | | |
| Cash received from other financial-related activities | | | | |
| Subtotal of cash inflows from financing activities | | | 20,000,000.00 | |
| Cash paid to repay loans | 12,000,000.00 | | 13,850,000.00 | |
| Cash paid to dividends, profit or interests | 1,337,880.02 | | 961,572.10 | |
| Including: subsidiaries' dividends, profits paid to minority shareholder | | | | |

## **Cash Flow Statement** *(Continued)*

January-June 2011

*Unit: RMB*

| Items | Balance of this period | | Balance of last period | |
|---|---|---|---|---|
| | Consolidated | Parent Company | Consolidated | Parent Company |
| Cash paid to other financial-related activities | | | | |
| Subtotal of cash outflows from financing activities | 13,337,880.02 | | 14,811,572.10 | |
| Net cash flow arising from financing activities | -13,337,880.02 | | 5,188,427.90 | |
| **IV. Effect of change of foreign-currency rates on cash and cash equivalents** | | | | |
| **V. Net increase in cash and cash equivalents** | -39,980,632.98 | 8,814.01 | 14,826,206.67 | -1,348.55 |
| Plus: balance of cash and cash equivalents at beginning of period | 74,789,999.34 | 38,486.92 | 42,180,943.54 | 35,497.71 |
| **VI. Plus: balance of cash and cash equivalents at the end of period** | 34,809,366.36 | 47,300.93 | 57,007,150.21 | 34,149.16 |

# FINANCIAL STATEMENT

## Consolidated Financial statements prepared under the Hong Kong Financial Reporting Standards (unaudited)

### Condensed consolidated income statement

For the six months ended 30 June 2011

| | For the six months ended 30 June | |
|---|---|---|
| | **2011** | **2010** |
| | ***RMB'000*** | ***RMB'000*** |
| | *(Unaudited)* | *(Unaudited)* |
| **Turnover** | 145,730 | 146,384 |
| Cost of sales | (104,749) | (107,346) |
| Gross profit | 40,981 | 39,038 |
| Other income | 26,274 | 94 |
| Sales expenses | (18,920) | (14,064) |
| Administrative expenses | (25,699) | (20,641) |
| **Profit from operations** | 22,635 | 4,302 |
| Financial cost | (906) | (1,256) |
| Investment income from associates | (1,732) | (489) |
| **Profit before taxation** | 19,997 | 2,557 |
| Taxation | (871) | (2,091) |
| Profit after taxation | (19,126) | 466 |
| Minority interests | (369) | (85) |
| Net profit attributable to shareholders | 19,495 | 551 |
| **Earnings per share — basic** | 2.23 cent | 0.06 cent |

## Condensed Consolidated Comprehensive Income Statement

For the six months ended 30 June 2011

| | For the six months ended 30 June | |
|---|---|---|
| | **2011** | **2010** |
| | ***RMB'000*** | ***RMB'000*** |
| | *(Unaudited)* | *(Unaudited)* |
| Profit of current period | 19,126 | 466 |
| Exchange differences arising on translation of foreign operations other comprehensive loss during the reporting period | (877) | (1,049) |
| Total of comprehensive income | 18,249 | (583) |
| Of which: | | |
| Profit attributed to shareholders of the parent company | 18,618 | (498) |
| Minority interests | (369) | (85) |

## Condensed Consolidated Balance Sheet

As at 30 June 2011

| | At 30 June 2011 | At 31 December 2010 |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| | *(Unaudited)* | *(Audited)* |
| **Non-current assets** | | |
| Property, plant and equipment | 72,634 | 75,456 |
| Prepaid lease payments | 4,674 | 4,742 |
| Interests in associates | 55,220 | 55,226 |
| Available-for-sale investments | 211,967 | 213,538 |
| Other prepayments | 408 | 3,999 |
| Deferred tax assets | 13,443 | 12,730 |
| | 358,345 | 365,691 |
| **Current assets** | | |
| Inventories | 72,663 | 97,011 |
| Accounts receivables and other receivables | 276,105 | 278,463 |
| Non-current assets to be disposed | 0 | 0 |
| Pledged bank deposits | 19,034 | 20,096 |
| Bank balance and cash | 15,775 | 53,884 |
| | 383,577 | 478,646 |
| **Current liabilities** | | |
| Amounts due to associates | 665 | 9,670 |
| Accounts payable to the investees | 9,252 | 9,252 |
| Accounts payables and other payables | 225,926 | 317,355 |
| Bank borrowings | 22,000 | 34,000 |
| Provision for litigation losses | 9,252 | 9,252 |
| Financial guarantee contracts | 84,722 | 84,722 |
| Government grants | 468 | 468 |

## Condensed Consolidated Balance Sheet *(Continued)*

As at 30 June 2011

| | At 30 June 2011<br>*RMB'000*<br>*(Unaudited)* | At 31 December 2010<br>*RMB'000*<br>*(Audited)* |
|---|---|---|
| Tax payable | (6,645) | 2,127 |
| | 345,640 | 466,846 |
| **Net current assets** | 37,936 | 11,800 |
| **Total assets less current liabilities** | 396,282 | 377,491 |
| **Share capital and reserves** | | |
| Share capital | 873,370 | 873,370 |
| Reserves | (539,772) | (558,389) |
| Equity attributed to equity holders of the parent company | 333,598 | 314,981 |
| Minority interests | 1,428 | 1,796 |
| **Total equity** | 335,026 | 316,777 |
| Non-current liabilities | | |
| Amounts due to associates | - | - |
| Accounts payable to the investees | 39,964 | 39,964 |
| Financial guarantee contracts | 21,292 | 20,750 |
| | 61,256 | 60,714 |
| **Net assets** | 335,026 | 316,777 |

## Condensed Consolidated Statement of Changes in Equity

| | Equity attributed to equity holders of the company | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Share capital | | | Statutory | Statutory | Discretionary | | Accumulated | | Minority | |
| | Share capital | Capital reserves | Capital contribution | Reserves | Public welfare reserves | Reserves | Exchange reserves | losses | Total | Interests | Total |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| At 30 June 2011 | 873,370 | 511,060 | 186,419 | 81,631 | | 32,699 | (23,207) | (1,346,991) | 314,981 | 1,796 | 316,777 |
| Exchange gains and losses | - | - | - | - | - | - | (877) | - | | - | (877) |
| Net Profit of current period | - | - | - | - | - | - | - | 19,495 | 19,495 | (369) | 19,126 |
| Total comprehensive income | | | | | | | (877) | 19,495 | 18,618 | (369) | 18,249 |
| At 30 June 2011 | 873,370 | 511,060 | 186,419 | 81,631 | - | 32,699 | (24,084) | (1,327,496) | 333,599 | 1,427 | 335,026 |
| At 1 January 2010 | 873,370 | 511,060 | 186,419 | 81,631 | - | 32,699 | (17,922) | (1,348,720) | 318,537 | 2,451 | 320,988 |
| Exchange gains and losses | - | - | - | - | - | - | (1,049) | - | (1,049) | | (1,049) |
| Net Profit of current period | - | - | - | - | - | - | - | 551 | 551 | (85) | 466 |
| Total comprehensive income | | | | | | | (1,049) | 551 | (498) | (85) | (583) |
| Others | - | - | - | - | - | - | - | - | - | - | - |
| At 30 June 2010 | 873,370 | 511,060 | 186,419 | 81,631 | - | 32,699 | (18,971) | (1,348,169) | 318,039 | 2,366 | 303,534 |

**Condensed Consolidated Cash Flow Statement**

For the six months ended 30 June 2011

| | For the six months ended 30 June | |
|---|---|---|
| | **2011** | **2010** |
| | ***RMB'000*** | ***RMB'000*** |
| | *(Unaudited)* | *(Unaudited)* |
| Net cash outflows (inflows) from operating activities | (23,602) | 9,721 |
| Net cash outflows (inflows) from investing activities | (40) | (83) |
| Net cash outflows (inflows) from financing activities | (13,338) | 5,188 |
| Increase (decrease) of cash and cash equivalents | (36,980) | 14,826 |
| Cash and cash equivalents at the beginning of the period | 53,884 | 42,181 |
| Effects of exchange rate changes | (1,129) | |
| Cash and cash equivalents at the end of the period | | |
| Bank balance and cash | 15,775 | 57,007 |

## II. Notes to the condensed financial statements

The condensed interim financial statements for the six months ended 30 June 2011 of the Company and its subsidiaries (the "Group") are not audited, but have been reviewed and approved by the audit committee.

## (I) Bases of preparation:

Bases of preparation:

The unaudited condensed consolidated financial statements of the Group are prepared under the Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited ("Listing Rules"), together with the relevant disclosure requirements of the Hong Kong Accounting Standard No.34 "Interim Financial Reporting" (HKAS 34).

## (II) Principal accounting policies

The condensed financial statements have been prepared under the historical cost convention.

The accounting policies adopted in preparing interim financial information for the six months ended 30 ended 30 June 2011 are consistent with those followed in preparing the financial statements for the year ended 31 December 2010.

During the reporting period, the Group has applied the following standards, amendments and interpretations (new HKFRSs) issued by the Hong Kong Institute of Certified Public Accountants (HKICPA) which are or have become effective in the accounting periods beginning on 1 January 2011.

**New standards, amendments and interpretations to standards are mandatory for the first time for the financial year beginning 1 January 2011, which were not related to the Group at present and had no material impact on the results and the financial position of the Group.**

| | |
|---|---|
| Disclosure under the HKAS 1 (Revised) | and HKFRS 7, and there were some exemption for its first application. |
| HKAS 24 (Revised) | Connected person Disclosures |
| HKAS 31 (Revised) | Classification of allotment |
| HK (IFRIC) - Int 14 | Prepayments of a minimum funding requirement |
| HK (IFRIC) - Int 19 | Offset of Financial Liabilities with Equity Instruments |

In addition, the HKICPA issued amendments to the existing standards according to the annual improved items. Such amendments are expected to have no material impact on the results and the financial position of the Group, except for the amendment of HKAS 34 Interim Financial Report.

**As for the amendments, new standards and interpretations that have been issued but not yet effective during the accounting period by the end of 30 June 2011, the Directors of the Company anticipate that the application of these new standards, amendment and interpretations will have no material impact on the results and the financial position of the Group.**

**Effective for accounting periods beginning on or after the following date**

| | |
|---|---|
| HKFRS 12 (Revised) Deferred income tax: recovery of related assets | Effective on or after 1 July 2012 |
| HKFRS 1 (Revised) Disclosures-Financial assets and exemption of requirements on the fixed date for the first adoption. | Effective on or after 1 July 2011 |
| HKFRS 7 (Revised) Disclosures-Transfer of Financial Assets | Effective on or after 1 July 2011 |
| HKFRS 9 Financial Instruments | Effective on or after 1 July 2013 |
| HKFRS 10 Consolidated Financial Statements | Effective on or after 1 July 2013 |
| HKFRS 11 Joint Arrangements | Effective on or after 1 July 2013 |
| HKFRS 12 Disclosure on Equity of Other Entities | Effective on or after 1 July 2013 |
| HKFRS 13 Fair Value Calculation | Effective on or after 1 July 2013 |

## (III) Segment information

The Group mainly does business in China through its subsidiaries and associates. According to its internal organization and structure, the Group is mainly engaged in one segment, that is, the production and sale of transmission equipment in China, so it has no segment information presented. Most of the Group's assets and liabilities are in China.

## (IV) Operating profits

| | **The Group** | |
|---|---|---|
| | **For the six months ended 30 June** | |
| | **2011** | **2010** |
| | ***RMB'000*** | ***RMB'000*** |
| | *(Unaudited)* | *(Unaudited)* |
| Operating profits after deducting the following items: | | |
| Depreciation and amortization | 5,817 | 3,567 |
| Recorded as: | | |
| Interest income on bank deposits | 110 | 187 |

## (V) Taxation

Great Talent Technology Co., Ltd is a company wholly owned by the Group, registered in the British Virgin Islands. No domestic income tax is imposed on it. Northeast Electric (HK) Co., Ltd is another wholly owned subsidiary, registered in Hong Kong, with an income rate of 16.5%. Other subsidiaries of the Group are subject to income tax at the statutory rate of 25%.

The Company had no taxable profit for the period (2010: Nil). The charge for the period mainly represents provision for income tax rate calculated upon the assessable income the assessable income of certain PRC subsidiaries.

The Company and its subsidiaries had no taxable profit in Hong Kong; therefore there was no provision for the income tax (2010: Nil).

As at 30 June 2011, the Company and the Group had no significant deferred tax (2010: Nil).

## (VI) Interim dividend

No dividends were paid during the period. The directors did not recommend the payment of any interim dividend for the six months ended 30 June 2011.

## (VII) Earnings per share

The calculation of earnings per share is based on the net profit attributable to shareholders of RMB 19,495,000 (2010: RMB551,000) and the total number of shares in issue amounting to 873,370,000 shares (2010: 873,370,000 shares) at the end of the period.

## (VIII) Accounts receivable and other accounts receivable

1. Accounts and bills receivable

| | As at 30 June [2011] | As at 31 December [2010] |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| Accounts and bills receivable | 244,319 | 251,303 |
| Less: Impairment loss | (27,571) | (24,660) |
| Net accounts and bills receivable | 216,748 | 226,643 |
| | | |
| Amounts due from Bengang Group | 76,090 | 76,090 |
| Other receivables | 56,284 | 43,819 |
| Less: Impairment loss | (105,600) | (104,655) |
| Other receivables, net | 26,774 | 15,254 |
| | | |
| Prepayment | 25,012 | 32,418 |
| Less: Prepayment over 1 year | (408) | (3,999) |
| | | |
| Dividends receivable | 7,979 | 8,147 |
| | 32,583 | 36,566 |
| Accounts receivable and other Accounts receivable, net | 276,105 | 278,463 |

The directors considered that the book values of account receivable and other receivables were close to their fair values. The Group does not hold any collateral over all the receivable balances.

The credit terms given to the customers vary depending on the sales contracts signed with individual customers and are generally based on their financial strengths. The following are the ages of receivable account and bills:

| | The Group | |
|---|---|---|
| | **As at 30 June 2011** | **As at 31 December 2010** |
| | ***RMB'000*** | ***RMB'000*** |
| Within one year | 197,678 | 194,810 |
| 1 to 2 years | 8,384 | 19,701 |
| 2 to 3 years | 14,047 | 12,261 |
| Over three years | 24,210 | 24,531 |
| | 244,319 | 251,303 |

The amounts within 1 year presented in the aging analysis above represented accounts and bills receivable that are neither past due nor impaired.

There is no account receivable that is overdue or necessary for impairment. The credit quality is determined by the past collection records and the rate of customer's bad account. The existing customers have no significant default in payment.

On 30 June 2011, the impairment provision of total account receivable and other accounts receivable is RMB133,171,000 (2010: RMB129,315,000). The individually impaired receivables mainly related to debtors, which are in unexpectedly difficult economic situations. It was assessed by the directors that only few parts of the receivables is expected to be collected. The analysis of the age of these receivables is as follows:

| | The Group | |
|---|---|---|
| | **As at 30 June 2011** | **As at 31 December 2010** |
| | ***RMB'000*** | ***RMB'000*** |
| Within one year | - | |
| 1 to 2 years | 95 | 3,479 |
| 2 to 3 years | 8,273 | 24,171 |
| Over three years | 124,803 | 101,665 |
| | 133,171 | 129,315 |

**The changes in the impairment loss are as follows:**

| | As at 30 June 2011 | As at 31 December 2010 |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| As at 1 January | 129,315 | 121,447 |
| Impairment loss recognized | 3,856 | 7,868 |
| Accounts unrecoverable repealed | - | |
| At the end of the period | 133,171 | 129,315 |

## (IX) Accounts payable and other accounts payable

| | As at 30 June 2011 | As at 31 December 2010 |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| Accounts and bills payable | 132,591 | 187,578 |
| Other accounts payable | 93,335 | 129,777 |
| Total accounts payable and other accounts payable | 225,926 | 317,355 |

**The analysis of the age of accounts and bills payable is as follows:**

| | As at 30 June 2011 | As at 31 December 2010 |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| Within one year | 118,948 | 169,725 |
| 1 to 2 years | 8,427 | 3,386 |
| 2 to 3 years | 860 | 10,103 |
| Over three years | 4,356 | 4,364 |
| Total | 132,591 | 187,578 |

The directors considered that the book values of account payable and other receivables were close to their fair values.

The average credit term for purchases of goods is six months. The Group has proper financial risk management policies to ensure that all of the accounts payable can be paid within the credit term.

98% of accounts payable and other accounts payable of the Group are denominated in RMB.

## (X) Share capital

Changes in share capital structure are as below from 31 December 2010 to 30 June 2011:

*Unite: RMB*

| Items | Amount at the beginning of the period | Increase/decrease during the period (+, -) | | | | | Amount at the end of the period |
|---|---|---|---|---|---|---|---|
| | | Allotment | Bonus | Capitalization of surplus reserve | Others | Subtotal | |
| I. Shares subject to trading moratorium | | | | | | | |
| 1. State-owned legal-person shares | - | - | - | - | - | - | - |
| 2. Other domestic shares | 218,255,650.00 | - | - | - | -212,025,650.00 | -212,025,650.00 | 6,230,000.00 |
| Including : domestic legal person share | 218,255,650.00 | - | - | - | -212,025,650.00 | -212,025,650.00 | 6,230,000.00 |
| Total of shares subject to trading moratorium | 218,255,650.00 | - | - | - | -212,025,650.00 | -212,025,650.00 | 6,230,000.00 |
| II. Shares not subject to trading moratorium | | | | | - | - | |
| 1. Common shares in RMB (A shares) | 397,164,350.00 | - | - | - | 212,025,650.00 | 212,025,650.00 | 609,190,000.00 |
| 2. Foreign shares listed overseas (H shares) | 257,950,000.00 | - | - | - | - | - | 257,950,000.00 |
| Total shares not subject to trading moratorium | 655,114,350.00 | - | - | - | 212,025,650.00 | 212,025,650.00 | 867,140,000.00 |
| III. Total shares | 873,370,000.00 | - | - | - | - | - | 873,370,000.00 |

## (XI) Post balance sheet events and contingencies

1. Post balance sheet events

   Nil.

2. Contingencies

   (1) Contingent liabilities due to unsettled litigation and arbitration and impact to financial reports

   China Great Wall Asset Management Corp Shenyang Rep. Office (the "Great Wall Asset") sued Shenyang High-voltage Switchgears Limited (hereinafter referred to as 'Shenyang High-Voltage') for infringement of loan contract.

   Shenyang High-Voltage has signed 41 loan contracts during the period 1986 to 2003 with ICBC Liaoning Province Branch Shenyang Shifudalu Sub-branch and other financial institutions, totaling loans of RMB351.75 million. On 15 July 2005, ICBC Liaoning Province Branch signed Transfer of Creditor's Rights with Great Wall Asset, transferring the relative rights. Shenyang High-Voltage started up joint ventures with tangible assets and land use rights in 2003 and 2004 respectively, which were New Northeast Electric Group Ultra High-voltage Isolators Switchgears Limited (the "New Shen High"), New Northeast Electric (Shenyang) High-voltage Isolators Switchgears Limited Co Ltd ("NNE Isolators"), Shenyang Suntime Storage and Logistics Co Ltd (the "Suntime Storage") and Shenyang Chengtai Energy Co Ltd.(the "Chengtai Energy"). The Company has acquired shares of NNE (Isolators), Suntime Storage and Chengtai Energy in 2004. Great Wall Asset sued Shenyang High-Voltage to Liaoning Provincial High Court (hereinafter referred to as "Liao High Court") for repayment of RMB351.75 million on 24 February 2009, and again on 18 May 2009 applied to charge the Company for Related Party Transaction and Apparent inappropriate consideration of equity swap, demanding the Company undertake joint liability for Shenyang High-Voltage loans. The Company has received subpoena for court appearance (Ref. (2009) Liao Min Er Chu Zi No.12) from Liao High Court on 21 July 2009. On 15 December 2010, Liaoning Higher Court issued the civil written order ((2009) Liao Min Er Chu Zi No.12) and rejected Great Wall Asset's appeal. If Great Wall Asset objected to this order, they may appeal for retrial by providing facts, evidence and relative ground. On 11 February 2011, Great Wall Asset appealed to the Supreme Court of the People.

   On 20 July 2011, the Company received from its lawyer the civil judgment ((2011) Min Er Zhong Zi No.44). The court quashed the civil judgment ((2009) Liao Min Er Chu Zi No.12) issued by Liaoning High People's Court and remanded the case to Liaoning High People's Court for retrial.

According to the legal advice of Liaoning Wang, Wu, Yang and Ma Law Office, Chinese legal adviser of the Company, Great Wall's claim against the Company to bear joint liability has no facts and legal basis.

The Company's judgment of the case: on the basis of the economic ties between the Company and Shenyang High-voltage as well as the legal advice of the lawyer, the Company shall not become a defendant of the Shenyang High-voltage litigation, and shall not bear joint liability for the compensation, and the litigation will not have an impact on the Company's financial situation and its current profits.

(2) Contingent Liability by providing guarantee and impact on financial reports

(1) As at 30 June 2011, the Company has provided guarantee for New Northeast Electric Group Ultra High-voltage Equipment Co Ltd, and the actual amount occupied by the borrower was RMB22,745,000.

(2) It was estimated that the contingent liabilities by providing guarantee for other units was RMB84,722,000.

(3) Other contingent liabilities and impact on financial reports:

(1) As at 30 June 2011, RMB2,815,000 of undue bank accepted bills has been endorsed by the Company.

(2) As at 30 June 2011, the Company has issued Performance Bonds of RMB19,034,000.

## (XII) Related transactions

1. Controlling shareholders of the Group:

| Name of related party | Place of registration | Principal activities | Relationship | Nature | Shareholding ratio |
|---|---|---|---|---|---|
| New Northeast Electric Investment Co., Ltd | Yingkou, the PRC | Equity investment, etc. | Single top1 shareholder | Limited company | 24.06% |

2. Associates with transactions:

| | | | | | |
|---|---|---|---|---|---|
| Great Power Technology Limited | British Virgin Islands | Investment | Associate | Limited company | 20.8% |

3. Creditors' rights and debts between the Group, its associates and subsidiaries during the period:

*Unit: RMB'000*

| | As at 30 June 2011 | | As at 31 December 2010 | |
|---|---|---|---|---|
| **Name of related party** | **Amount** | **Percentage** | **Amount** | **Percentage** |
| **Dividends receivable:** | | | | |
| Great Power Technology Limited | 7,209 | 90.34% | 7,562 | 90.56% |
| **Other payables:** | | | | |
| Great Power Technology Limited | 665 | 0.71% | 698 | 0.54% |

## (XIII) Other Significant events

On 15 November 2010, the Company and Sunyork International Limited entered into an equity transfer agreement to transfer 25.6% equity interest in New Northeast Electric (Shenyang) High-Voltage Isolators Switchgears Limited at the consideration of RMB52,800,000. The transaction was completed during the reporting period and realized gains of RMB26,140,000.