哈爾濱動力設備股份有限公司

Harbin Power Equipment Company Limited

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

(Stock Code: 1133)

RESULTS REPORT SUMMARY OF 2009

The Board of Directors of Harbin Power Equipment Company Limited is pleased to announce the audited annual results report and financial statements of the Company and its subsidiaries (the "Group") prepared in accordance with accounting principles generally accepted in Hong Kong for the year ended 31st December 2009 (Unless otherwise specified, the amounts are expressed in Renminbi).

RESULTS

As of 31st December 2009, the Group recorded revenues from principal operations of Rmb28,629.52 million, an decrease of 4.26% over the last year. Net profit amounted to Rmb606.21 million, a decrease of 41.81% over the last year. Earnings per share amounted to Rmb0.44, a decrease of Rmb0.32 over the same period of last year.

DIVIDEND

The Board of Directors recommended a dividend of Rmb0.068 per share (appropriate tax included) for the year 2009 (2008: Rmb0.075 per share). Dividend for the holders of H shares will be paid in Hong Kong dollars; the exchange rate used is based on average closing rate announced by the People's Bank of China during the five days preceding 9th April 2010. The final dividend will be HK$0.0773 per H share. The dividend will be distributed on or before the 6th August 2010 to shareholders whose names appear on the register of members on 3rd May 2010.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 3rd May 2010 to 2nd June 2010, both days inclusive, during which period no transfer of shares can be registered. Shareholders whose names appear on the register of members on 3rd May 2010 will be entitled to the dividend for the year 2009.

In order to qualify for the final dividend for 2009, all completed transfers documents, together with the relevant share certificates, must be lodged with the Company's share register and transfer office, Hong Kong Registrars Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong, for registration before 4:30 p.m., 30th April 2010.

MANAGEMENT DISCUSSION AND ANALYSIS

(Unless otherwise stated, all amounts are denominated in Renminbi)

This section must be read in conjunction with the financial statements and notes to the financial statements as set out in other sections of this annual report.

Macro-Economic and Industry Development

2009 was a most difficult year for economic growth of China since new century starts. Under its accurate judgment, firm decision and deliberate response, the Chinese government launched and continued to improve series of stimulus plans against the international financial crisis amid the worldwide recession. All these efforts have effectively controlled the significant decline of economic growth. As a result, the national economy demonstrated a general rebound and achieved the target of GDP growth of over 8%, laying down a solid foundation for the further development in 2010.

Entering the second half of 2009, national electricity output and consumption growth accelerated and investments in power construction increased. With the improvement and implementation of environmental protection policy and regulation in China, the construction of power plants was more focused on structural optimization. The robust demand for traditional power generation equipment with features of environmental friendly, energy-saving and efficient and new energy products such as nuclear power and wind power provides significant potential for power generation equipment manufacturer.

New Contract

Given the great pressures in domestic and international power generation equipment market in 2009, the Company placed all its efforts to develop domestic and international market, and the value of new-receiving contracts recorded a sound performance at Rmb41.677 billion, among which the contract value for thermal power equipment, hydro power equipment, engineering services, nuclear power equipment and others reached Rmb20.541 billion, Rmb1.7 billion, Rmb10.302 billion, Rmb6.236 billion and Rmb2.898 billion respectively, representing 49.29%, 4.08%, 24.72%, 14.96% and 6.95% of the total contracted value respectively.

An exceptional result was achieved for the development of the nuclear power products market with market shares continued to increase, highlighting by the new contracts of T&G for AP1000 nuclear power project in Xianning, Hubei and two 650MW nuclear power turbine units under Hainan Changjiang project. The market share of AP1000 conventional island turbine unit has reached 50% in terms of new contracts, enabling the Company to take the lead in the market. In respect of main equipment for nuclear island, the Company has secured the supply contracts for 4 steam power generators under Taohuajiang project, 2 steam power generators under Hubei Xianning project and 4 steam power generators under C3/C4 project in Chashma, representing 40% market share for AP1000 nuclear power steam power generator. The Company has acquired a series of contracts for nuclear power equipments, including the pressure stabilizers under Taohuajiang and Yangjiang projects, the main pump generators under C3/C4 project in Chashma as well as the core makeup tanks and passive residual heat removal heat exchanger under Sanmen project. All of these contracts not only significantly increased the market share of nuclear power products, but also expanded the supply scope of our nuclear power products, thus created the condition for the fast growth of the Company's nuclear business.

The Company has maintained its competitive edges in the thermal power market. In particular, the Company has entered traditional thermal power products contracts for two 600MW supercritical thermal power units under Luneng Heilongjiang Baoqing project, two 660MW supercritical steam turbines (Aircooling) under Shenhua Inner Mongolia Dianta project and generators. The Company has successfully won over 30% of the tenders for 300MW thermal power unit and 600MW steam turbines and generators. Facing the intense competition due to fewer tendering in large-scale hydropower market in 2009, the Company strived to win the contract for 3×44MW francis turbine unit under Guangdong Lechangxia project, and win the tenders for 2×90MW francis turbine unit under Sinkiang Liushugou project and 2×20MW flow-type turbine unit under Chongqing Yangtoupu project, and these reinforced the Company's leading position in traditional thermal power and hydropower market.

The value of new-receiving contracts scaled a new height at Rmb18.472 billion amid the tough situation in international market in 2009. The Company, on one hand, increased its efforts in main equipment export and has entered the supply contracts for 6×660MW two-cylinder supercritical steam turbine, generator and two 9F combined cycle ancillary 135MW steam turbine, generator with LANCO (India), and the supply contract of Indian SPCL Amarvati 2×660MW supercritical turbine unit jointly with SEPCOII Electric Power Construction Corporation, which marked our first entry in the Indian market with the 600MW supercritical steam turbine, generator. On the other hand, the Company also placed greater efforts in its development towards EPC project, and has acquired the contracts for power transmission and conversion project in Dongola, Sudan.

Production and Services

The total output for 2009 was up to 26,106.3MW, representing a decrease of 25.62% compared with the last year, among which 49 units of utility boiler with a total capacity of 22,185MW, a decrease of 13.49% over the last year; 56 steam turbines for power plant with a total capacity of 20,832MW, a decrease of 30.82% over the last year; 55 turbine generator units with a total capacity of 20,793MW, a decrease of 29.20% over the last year; 29 units of hydro power turbo-generator units with a total capacity of 5,313.3MW, a decrease of 7.33% over the last year; and 1 units of gas turbines with a total capacity of 255.6MW, a decrease of 66.67% over the last year, were completed.

While the project implementation in this year demonstrating characteristics like heavy workload, higher percentage of large capacity and new units, tight and centralized delivery schedule and high risk, the Company has overcame various difficulties and implemented the projects smoothly.

The Company adopted effective measures against current situation, during which the Company reinforced the dynamic management on projects, enhanced risk analysis, approved the payments according to projects and adjusted production schedule in a timely manner. The Company successfully completed the full-year production task by consolidating internal production resources effectively, setting schedule for each production phase accurately, boosting critical technologic breakthrough actively and enhancing production technological services continuously. All projects progressed smoothly, with the No.3 660MW ultra supercritical unit under Xuchang Yulong project commenced commercial operation, marking the shortest record in the same type units from completely launching to finishing trial operation of 168 hours. As the national-first lignite boiler supercritical unit (褐煤塔式鍋爐超臨界機組) project, the NO.1 660MW unit under phase one construction of Huaneng Jiutai Power Plant is difficult to implement and the task is heavy. With our continue efforts, all the indicators of the project have met the designed standards and the unit operated smoothly. The desulphurization project in Xuancheng was honored "National Best Project" and "National High Quality Electric Power Project".

R&D and Introduction of Technologies

RMB784 million in total was invested over the year in new research studies projects.

The capacity in self-innovation was improved. In 2009, totally 591 R&D projects were launched with 42 projects declared to the nation, the province and the municipality. Development of 154 new products was completed, including the World-first 350MW supercritical lignite boiler with independent intellectual property. The Company obtained patents in 45 products and acquired 13 national, provincial and municipal awards for scientific achievements as well as 10 other awards, among which the Special Prize of National Technological Improvement in Engineering Industry was granted for the "Production and Industrialization of 1000MW Ultra Supercritical Major Thermal Power Equipment" and the First Prize of National Science and Technology in Engineering Industry was awarded for the "Application of Bowed-Twisted Blade and Flow Field Performance Optimization in Large Steam Turbine". In addition, the Company also acquired important awards such as the First Prize of Heilongjiang Provincial Scientific Development, Award for Heilongjiang Provincial Science and Technology in Engineering Industry and First Prize of Haerbin Municipal Scientific Development.

Technology introduction and absorption was progressing steadily. The Company accelerated the introduction of AP1000 nuclear technology of Mitsubishi Corporation and completed the technical preparations of Sanmen project. The Pump-storage unit technology introduced from ALSTOM has entered the stage of re-innovation through Xiangshuijian project. A domestic proportion of 100% was achieved for 600MW super/ultra supercritical units, 100% for 1000MW ultra super critical boiler units, 85% for steam turbines and 92% for generators.

Energy conservation and emission reduction was in progress. The Company vigorously developed and utilized energy-saving, efficient and environment-friendly products, and tightened our control on the energy consumption indicator in such areas as product design and manufacturing organization. In 2009, the Company consumed less energy than in the past few years.

Reform and Management

The Company strives to improve the internal control system. In order to enhance the sense of risk management, the Company has appointed PricewaterhouseCoopers as its advisor and, together with its subsidiaries, carried out an internal control review program. This has effectively strengthened our management and risk control capabilities.

The Company continues to enhance cost management. Under the "lower cost and higher efficiency" principle, the Company continues to enhance the sense of cost and increases its efforts in cost management in areas including technology, manufacturing and transportation.

The Company continues to improve procurement management. In order to reduce procurement cost, the Company has established an internal bidding center. The Company has also set up a uniform bidding mechanism throughout the organization to further standardize the bidding and procurement process.

Profit

In the year of 2009, net profit of the Group was Rmb606.21 million, a decrease of 41.81% compared to the last year; earnings per share was Rmb0.44, a decrease of Rmb0.32 compared to the corresponding period of last year; net asset as at the end of the period was Rmb8,639.03 million, an increase of Rmb502.95 million compared to the beginning of the year; net asset per share was Rmb6.27, an increase of Rmb0.36 compared to the beginning of the year.

During the period, the decline in the profit of the Group was mainly attributable to the decrease in product revenue and gross profit, the recognition of provisions for the loss of nuclear power project as well as the increase in allowance.

DIVIDEND

A dividend of Rmb0.068 per share (appropriate tax included) for the year of 2009 (2008: Rmb0.075 per share) was proposed by the board of directors.

TURNOVER

In 2009, the Group recorded a turnover of principal business activities of Rmb28,629.52 million, a decrease of 4.26% compared to the last year. In particular, turnover of the thermal power main equipment business was Rmb19,220.79 million, representing a decrease of 6.21% over the last year and accounted for 67.14% of the turnover of the principal business activities. Turnover of hydropower main equipment was Rmb1,893.43 million, a decrease of 33.87% over the last year, representing 6.61% of the turnover of the principal business activities. Turnover of power plant engineering services was Rmb 4,299.67 million, an increase of 24.77% compared to the last year, representing 15.02% of the turnover of the principal business activities. Turnover of power plant accessories and parts was Rmb1,251.3 million, an increase of 7.78% over the last year, representing 4.37% of the turnover of the principal business activities. Turnover of AC/DC motors and other products and services was Rmb1,964.33 million, an increase of 1.25% over the last year, representing 6.86% of the turnover of the principal business activities.

During the period, the Group recorded a turnover of export of Rmb4,325.66 million, representing an increase of Rmb1,510.68 million over the last year and accounted for 15.11% of the turnover of the principal business activities. The export was mainly to areas such as Asia and Africa.

COST

During the year, the cost of the principal business activities of the Group was Rmb24,964.02 million, a decrease of 3.60% as compared to the last year. The decrease was mainly attributable to the decrease of turnover of main business activities in 2009.

GROSS PROFIT AND GROSS PROFIT MARGIN

During the period, the gross profit from the principal business activities of the Group was Rmb3,665.51 million, a decrease of 8.52% as compared to the last year. The gross profit margin was 12.80%, a decrease of 0.6 percentage points over the last year. The decrease in the gross profit margin was mainly attributable to an increase in the cost of products, which was due to the fact that the raw materials consumed to produce our products sold during the period were purchased in the fourth quarter of 2007 and the first half of 2008 when the prices were at their historic heights.

Among them the gross profit from thermal power main equipment was Rmb2,572.87 million, a decrease of Rmb470.11 million compared to the last year. The gross profit margin for thermal power main equipment was 13.39%, a decrease of 1.46 percentage points compared to the corresponding period last year. The gross profit from hydropower main equipment was Rmb437.99 million, a decrease of Rmb220.66 million compared to the corresponding period last year. The gross profit margin for hydropower main equipment was 23.13%, an increase of 0.13 percentage points compared to the corresponding period last year. The gross profit from power plant engineering services was Rmb-60.96 million, an increase of Rmb285.2 million compared to the corresponding period last year. The gross profit margin for power plant engineering services was -1.42%, an increase of 8.62 percentage points over the corresponding period last year. The gross profit from power plant accessories and parts was Rmb316.11 million, an increase of Rmb16.53 million compared to the corresponding period last year. The gross profit margin for power plant accessories and parts was 25.26%, a decrease of 0.54 percentage points over the last year. The gross profit from the AC/DC motors and other products and services was Rmb399.5million, an increase of Rmb47.47 million compared to the corresponding period last year. The gross profit margin for the AC/DC motors and other products and services was 20.34%, an increase of 2.19 percentage points over the last year.

EXPENSES DURING THE PERIOD

The Group's expenses for operation activities during the year of 2009 amounted to Rmb388.59 million, a decrease of Rmb36.69 million compared to the corresponding period last year, of which the main reason was the decrease in selling and transportation expenses of our products.

Expenses for administration activities during the year of 2009 amounted to Rmb2,325.71 million, an increase of Rmb171.91 million or 7.98% compared to the corresponding period last year, of which the main reason was the increase in asset impairment provisions.

INTEREST EXPENSE

In 2009, the Group has incurred financial expenses of Rmb180.38 million, a decrease of Rmb14.94 million compared to the corresponding period last year, which was mainly attributable to the decrease in loan interests.

FUNDING AND BORROWINGS

The Group has three major resources for operation and development funding, namely shareholder's capital, trade receivable from customers and bank borrowings. The Group arranges borrowings for each specific project. Except for some special situations, loans will be raised individually by the Group's subsidiaries. However, the advance approval from the parent company for capital investment borrowings is required. As the number of orders and the trade amount received in advance of the Group increased significantly during the past two years, the Group had abundant working capital and has thus repaid substantially all of the loans for working capital. As at 31st December 2009, the total sum of the Group's bank borrowings was Rmb3,995.68 million (31st December 2008: Rmb4,405.82 million). The Group's bank borrowings were loans from various commercial banks and the State's policy banks with interest rates stipulated by the state. Among the Group's borrowings, the amount due within one year was Rmb1,288.58 million, an increase of Rmb417.88 million compared to the beginning of the year. The amount of the Group's borrowings due after one year was Rmb2,707.1 million, a decrease of Rmb828.02 million compared to the beginning of the year.

DEPOSITS AND CASH FLOW

As at 31st December, 2009, bank deposits and cash of the Group amounted to Rmb14,165.73 million, an increase of Rmb3,864.13 million over the beginning of the year. During the period, net cash inflow from operating activities amounted to Rmb4,530.2 million. Net cash outflow from investment activities amounted to Rmb1,058.48 million and net cash outflow from financing activities was Rmb80.75million.

CAPITAL STRUCTURE AND CHANGES THEREOF

As at 31st December, 2009, total assets of the Group amounted to Rmb52,876.38 million, an increase of Rmb3,909.76 million (or 7.98%) compared to the beginning of the year, among which total current assets were Rmb47,585.42 million, representing 89.99 % of the total assets, and total non-current assets were Rmb5,290.96 million, representing 10.01% of the total assets.

LIABILITIES

As of 31st December, 2009, the Group's total liabilities amounted to Rmb42,659.12 million, an increase of Rmb3,260.42 million compared to the beginning of the year, among which total current liabilities were Rmb31,019.63 million, representing 72.72% of the total liabilities, and total non-current liabilities were Rmb11,639.49 million, representing 27.28% of the total liabilities. As at 31st December, 2009, the assets to liabilities ratio of the Group was 80.68%.

SHAREHOLDERS' EQUITY

As of 31st December, 2009, the total shareholders' equity of the Group amounted to Rmb8,639.03 million, an increase of Rmb502.95 million compared to the beginning of the year; the net asset per share was Rmb6.27. During the period, the net asset return rate of the Group was 7.23%.

GEARING RATIO

As of 31st December, 2009, gearing ratio of the Group (non-current liabilities over total shareholders' equity) was 1.35:1 as compared to that of 1.09:1 at the beginning of the year.

CONTINGENT LIABILITIES AND PLEDGE OF ASSET

As of 31st December, 2009, the Group pledged its assets in an amount of Rmb526.23 million to secure loans for liquidity.

CAPITAL EXPENDITURES AND MAJOR INVESTMENTS

In the year 2009, the Group has invested a total capital expenditure of Rmb788 million in infrastructure constructions and technological upgrades.

Nuclear power projects are undergoing steady development. The main equipments of the improvement project for domestic production at conventional islands have been put into use. The manufacturing and construction project of the main equipments for nuclear island has largely completed its civil engineering works, and the main equipments are putting into use one after another. The multi-factories expanded under the manufacturing self-reliance and improvement project of the main equipments for nuclear island are cold-sealed. The civil engineering works of the construction project of manufacturing base for main pump generators have entered the last stage, and certain equipments have been delivered for use. The multi-factories expanded under the manufacturing technology upgrade project for nuclear power reactor-cooling agent pump units are sealed. The technological upgrade project for 1000MW nuclear power auxiliary equipment has completed all works on its new factories. The equipments of all projects are being procured smoothly.

Meanwhile, the civil engineering works of the technological upgrade and construction project for power plant valve have entered the last stage. The technological upgrade project of the newly built hydro power model laboratory has completed the excavation of the factory foundation. The first stage of the technological upgrade project of large-scale coal engineering has completed all works at the factory foundation and part of the underground pipeline network.

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES AND RELATED HEDGES

The Group has certain amount of deposits that are denominated in foreign currencies. As at 31st December, 2009, the amount of the Group's deposits in foreign currencies amounted to RMB700.15 million. Export and foreign currencies settled businesses expose the Group to exchange risk.

USE OF FUND-RAISING PROCEEDS

In the year 2009, the Group has utilized a total of Rmb102 million of its fund-raising proceeds mainly for the Workshop Base Construction Project in relation to main equipment for nuclear islands, technological upgrade of nuclear power plant valves and nuclear power main pump generators.

As of 31st December, 2009, the Group has utilized a total of Rmb2,485 million of its H share listing proceeds, while the remaining balance of the listing proceeds of Rmb145 million was deposited with banks and will be used in the second stage of the Workshop Base Construction Project and other technological upgrade projects.

STAFF AND REMUNERATION

As at 31st December, 2009, the Group had a workforce of 18,895 employees and the total remuneration amounted to Rmb1,186 million. In order to enhance knowledge, skills and capabilities as well as promote the overall caliber of its staff, the Company has put additional efforts in staff training and adopted various training approaches emphasizing on-the-job training and targeting at senior management personnel while a number of training courses for academic qualifications were also provided. As a result, the Company's staffs have become more competent which helps build a solid foundation for a steady development of the Company.

PROSPECT

Looking into 2010, there are still many uncertainties in the world economy development, which is heading for a grim situation. As the basic situation and long-term uptrend of China's economy development did not change significantly, China's GDP is expected to grow 8.7% in 2010. As the rapid development in macro-economy will maintain a high level of market demand for power generating equipments, it is expected that the total power generating capacity in 2010 will increase to about 950 million KW. The national policy of the industry will encourage the transition towards energy-saving, environmental and new energy. Therefore, nuclear, wind and solar powers will see a large expansion in market demand.

The Company is facing unique challenges and opportunities in an external environment where economy conditions change rapidly and power generating equipment is frequently renewed. Under the leadership of the Board, we are determined to push forward to innovate and strive for a new era of stable and rapid growth, in order to achieve outstanding returns for our shareholders.

The Company will focus on accomplishing the following tasks in 2010:

1. **Collaborate both internally and externally to achieve breakthroughs in marketing.**

   Based on careful analysis of domestic and international market conditions, the Company mapped out its marketing plans and strategies for 2010. The goals of marketing include: consolidate the leading position of huge hydropower and AP1000 nuclear power, and expand the market share and distribution area of nuclear power products; participate more in international market and enhance the contract construction and complete set business of the engineering company, to achieve new breakthroughs in Russia and US market; maintain our position in the traditional market by securing over one third of the market share for our high capacity generators of 300MW and above; strive for breakthroughs in development of the large-scale thermal power generator market; expand the markets for supplementary machinery, deNox products, valves, gas boilers, parts and obsolete generator renovation; and expand our market share of new hi-tech power supply products.

   We will also take the initiative in developing new markets, such as IGCC and desalination and keep a close eye on market development of gas turbines and environmental friendly products.

2. **Actively promote customer satisfaction through scientific organization and reasonable arrangement.**

   The Company will face many tough challenges in 2010, including the launch of operation of nuclear power products, and imbalance in production tasks as a result of numerous new products and concentrated deliveries. Moreover, the limited amounts and volatile prices for key materials also sets barrier for production arrangements. Therefore, we will pay more attention to reasonable production arrangements, to prepare schedules that fulfill the requirement of our contracts while keeping a reasonable balance. We will coordinate all subsidiaries involved in the production process to provide full support to nuclear power business, in order to fully tap the production capacity of nuclear and conventional island bases.

With focus on our management of key projects, we will strengthen our organizational coordination. Quick-responsive and more effective precaution system will be established to strengthen the risk prevention in project implementation, and emphasize on timeliness of payment during project implementation to ensure financial security. We will work our best to secure the implementation of nuclear power project with active acquisition of raw materials, establishment of a sound project management system and improved management standards. As for gas turbines, we will pay more attention to on-site management and services.

3. Internal research and external imports with an creative approach to raise our own innovation ability.

The Company plans to spend RMB800 million on scientific research in 2010. Directed by the National Power Equipment Engineering Research Centre, we will integrate our internal research and development resources and enhance the overall technical innovation capacity through various methods, such as importing technologies, self-development and joint development.

The focuses of product development in 2010 are as follows: make every effort to ensure the development of nuclear power products; strengthen the development of large-scale hydropower and pumped storage units; accelerate the upgrade and replacement of coal power equipments; speed up the development for new energy products such as marine power; explore into the industries of coal chemical, large chemical container and IGCC products; develop environmentally friendly products and desalination equipments; maintain and consolidate the rapid development in electric driving force; develop power plant maintenance service and backup and spare parts business with modern manufacture service concepts; work on wind power equipments research and development.

With focus on the imported AP1000 nuclear technology, we will speed up our process for assimilating the imported technologies. The research and development of the AP1000 nuclear power steam equipment will start technology conversion and product manufacture work as planned. The domestication of design and manufacture technology of large scale half-speed gas turbines will also be accelerated. With the assimilation and renovation of the technologies in Sanmen and Haiyang projects, we will be able to develop AP1000 or nuclear power generators with higher capacity on our own.

We will strive to work on the research and development of products such as 600MW super critical W thermal boiler. The topic of Key Technology of AP1000 Nuclear Power Turbine (《AP1000核電汽輪機關鍵技術》課題) will be based at the Xianning Project in Hubei, and include self-reliance tasks such as the system design of main steam system and bypass system, layout design and strength calculation. We will also endeavor to accomplish the self-reliance design of ultra super critical generator units. The development focus of combined cycle units will be on 309E and 209FA straight condensing units.

We will continue to increase the proportion of energy-saving, environmental and efficient power equipments, actively apply for energy-saving and environmental projects and research on environmental products such as dust removal, deSO2, deNOx and power plant water treatment.

4. **Improve internal control, strengthen our solid foundation and enhance our management.**

The Company will continue to carry out the internal control program by fully implementing the internal control manual and forming an initial mechanism for continuously improving internal control. These will further enhance the Company's management and risk control capabilities.

The Company will continue to enhance cost management, increase its sense of costs and enhance its budget control on costs. The Company will also strengthen its quality management emphasizing quality costs.

The Company will vigorously implement information-based application. There will be an organic combination between our information-based work and the optimization of the internal procedure. Moreover, the Company will improve its management philosophy to enhance its management by reform.

5. **Bring out actual effect, make a steady progress and complete the technological upgrade plans in a high-quality and efficient manner.**

In 2010, the Company plans to invest a total of Rmb1,284 million in 15 items of property, plant and equipment. The objectives are as follows:

The improvement project of nuclear island in Qinhuangdao will complete its civil engineering on factory and auxiliary works, begin constructing the body of the laboratory building and deliver the main equipments for use, of which the total investment is expected to be Rmb228 million. In the Qinhuangdao base for the improvement project of nuclear power conventional island, the large-scale power generators laboratory and 110KV step-down substation will deliver the main equipments for use, of which the total investment is expected to be Rmb126 million. The manufacturing project of the main equipments of nuclear island will be fully put into operation with the total investment expecting to be Rmb60 million. The manufacturing base project of nuclear power main pump generators will complete its factory construction and auxiliary works and deliver the main equipments for use, of which the total investment is expected to be Rmb162 million. Other works in progress including the million-level turbine generator nuclear auxiliary equipment will be speeded up with the total investment expecting to be Rmb577 million.

In the construction projects of both flexible testing and research and protection for the key program of steam turbines, the Company expects to invest Rmb33 million and Rmb12 million respectively in equipments procurement. In addition, the Company will invest Rmb86 million in other new projects including the relocation and upgrade of the valve laboratory.

The Company will make sure these investments produce expected results by rigorously managing the schedule and quality of all projects.

DIRECTORS', SUPERVISORS' AND SENIOR MANAGERS' INTERESTS IN THE SHARE CAPITAL OF THE COMPANY

As at 31st December 2009, none of the directors, supervisors and senior management of the Company had any interests or short positions in the shares, underlying shares and/or debentures (as the case may be) of the Company and/or of any of its associated corporations (within the meaning of Part XV of the SFO) which was required to be notified to the Company and the HKSE pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which any such director, supervisor and senior management was taken or deemed to have under such provisions of the SFO) or which was required to be entered in the register kept by the Company pursuant to section 352 of the SFO or which was required to be notified to the Company and the HKSE pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules.

DIRECTORS' AND SUPERVISORS' SERVICE CONTRACTS

Each of the directors and supervisors has entered into a service contract with the Company which commenced on 11th December, 2009 with a term of three years. Otherwise, there are no existing or proposed service contracts between any director, supervisor and any member of the Group.

DIRECTORS' AND SUPERVISORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

None of the director or supervisor of the Company has any material interest, whether directly or indirectly, in any contracts of significance, to which the Company or any of its subsidiaries is a party during the year.

PURCHASE, SALE AND REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's articles of association or the laws of the PRC, which would require the Company to issue new shares to the existing shareholders according to their respective proportions of shareholding.

MAJOR LITIGATION

The Group was not involved in any material litigation during the year.

MAJOR SUPPLIERS AND CUSTOMERS

1. The aggregate amount of purchases during the period attributable to the Group's five largest suppliers accounted for 9.77% of the Group's total purchases, among which the largest supplier, 揚州誠德鋼管有限公司, accounted for 3.17% of the Group's total purchases.

2. 18.71% of the total turnover of the Group during the period was attributable to the Group's five largest customers, among which 華能南京金陵發電公司 was the largest customer accounting for 4.24% of the total turnover.

3. None of the directors, supervisors, their associates or any shareholders of the Company (which to the knowledge of the directors own 5% or more than 5% of the Company's share capital) has any interest in the abovementioned suppliers or customers.

ENTRUSTED DEPOSITS AND OVERDUE TIME DEPOSITS

As at 31st December 2009, the Group had no entrusted deposits in commercial banks or non-bank financial institutions and had no due deposits that had not been withdrawn.

TAX POLICIES

On 21 November 2008, the Company was named as one of the High and New Technical Enterprise (高新技術企業). According to the PRC Law on Enterprise Income Tax promulgated on 16 March 2007, the Company is entitled to a concessionary rate of income tax at 15% over 3 years, beginning on 1 January 2008. In 2007, the Company paid PRC enterprise income tax at a rate of 15%.

Except for certain subsidiaries which are subject to an enterprise income tax rate of 15%, other subsidiaries located in Mainland China are subject to the PRC enterprise income tax at a rate of 25% (2008: 25%) on its assessable profits.

In accordance with regulations of the State Administration of taxation, the rate for tax rebate of the Group's new export products contracts is 13 per cent since 15th October, 2003.

Pursuant to the Provisional Regulations of the PRC on Value-added Tax (《中華人民共和國增值稅暫行條例》) promulgated by the Ministry of Finance and the State Administration of Taxation on 18th December 2008, with effect from 1st January 2009, the Company and its principal subsidiaries will be included in the general framework of the value-added tax system reform and will start implementing the new Implementing Rules of the Provisional Regulations of the PRC on Value-added Tax (《中華人民共和國增值稅暫行條例實施細則》), which allows the Company to deduct the value-added tax incurred for the purchase of equipment. Other incentive policies promulgated by various divisions of the state to implement the Opinions of Central Committee of the Communist Party of China and the State Council on the Revitalization Strategies for Historical Industrial Bases of the Northeast Regions (《中共中央、國務院關於實施東北地區等老工業基地振興戰略的若干意見》) (Zhong Fa (2003) No.11) and support such revitalization will remain effective.

CONFIRMATION ON CONNECTED TRANSACTIONS

The Independent Directors of the Company have reviewed the connected transactions (as defined in the Listing Rules) referred to in Notes to the Financial Statements and confirmed that:

1. Such transactions have been entered into by the Company in its ordinary and usual course of business; and

2. Such transactions have been entered into either (I) on normal commercial terms (which shall be determined with reference to transactions of a similar nature and to be made by similar entities within the PRC) or (II) (where there is no comparison available) on terms that are fair and reasonable so far as the shareholders of the Company are concerned; and

3. Such transactions have been entered into either (I) in accordance with the terms of the relevant agreements governing such transactions or (II) (where there is no such agreement) on terms no less favorable than terms available to third parties.

CONFIRMATION OF INDEPENDENCE OF THE INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has already received annual confirmation from each independent non-executive director on his/her independence confirming that his/her independence was in compliance with all independence criteria set out in Rule 3.13 of the Listing Rules and he/she is an independent person.

SHAREHOLDING STRUCTURE

The share capital of the Company as of 31st December 2009 comprised 1,376,806,000 shares, of which 701,235,000 shares (representing 50.93% of the entire share capital) were held by the promoters and 675,571,000 shares (representing 49.07% of the entire share capital) were held by overseas H shares holders.

MODEL CODE

The Company, having made specific enquiry, confirms that all directors have complied with the Model Code set out in Appendix 10 of the Listing Rules throughout the period.

CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has complied with the Code on Corporate Governance Practices set out in Appendix 14 of the Listing Rules throughout 2009.

POST BALANCE SHEET EVENTS

The sixth session of the Board of the Company convened its third meeting on 5th February, 2010 to appoint Mr. Wu Wei-zhang as the General Manager of the Company.

AUDITORS

The current PRC auditor of the Company is China Rightson YueHua Certified Public Accountants Company Limited, and the Hong Kong auditor is Yuehua (Hong Kong) CPA Limited.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31ST DECEMBER, 2009

	Notes	**2009** **Rmb'000**	2008 *Rmb'000*
Revenue	*5*	**28,629,522**	29,903,544
Cost of sales		**(24,964,015)**	(25,896,464)
Gross profit		**3,665,507**	4,007,080
Other income	*7*	**568,962**	391,260
Distribution expenses		**(388,589)**	(425,281)
Administrative expenses		**(2,325,715)**	(2,153,807)
Other expenses		**(390,036)**	(74,000)
Finance costs	*8*	**(180,381)**	(195,325)
Share of results of associates		**34,764**	23,320
Profit before taxation		**984,512**	1,573,247
Income tax expense	*9*	**(226,871)**	(289,532)
Profit and total comprehensive income for the year	*10*	**757,641**	1,283,715
Attributable to:			
Equity holders of the Company		**606,206**	1,041,837
Minority interests		**151,435**	241,878
		757,641	1,283,715
Earnings per share-basic	*13*	**Rmb44.0cents**	Rmb75.7cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 31ST DECEMBER, 2009

	2009	2008
	Rmb'000	*Rmb'000*
Non-currents assets		
Property, plant and equipment	**4,261,254**	3,802,837
Investment properties	**248,724**	271,383
Prepaid lease payments	**342,018**	350,438
Patents	**98,881**	114,223
Deferred tax assets	**133,932**	133,837
Interests in associates	**179,079**	150,536
Available-for-sale investments	**27,074**	27,074
	5,290,962	4,850,328
Current assets		
Inventories	**14,230,160**	12,941,218
Trade debtors	**12,168,981**	12,354,226
Bills receivable	**600,844**	361,324
Other debtors, deposits and prepayments	**4,852,058**	6,537,067
Prepaid lease payments	**10,176**	9,710
Amounts due from customers for contract work	**947,326**	1,045,979
Amounts due from fellow subsidiaries	**76,908**	66,353
Restricted bank deposits	**7,006**	14,568
Pledged bank deposits	**526,229**	484,255
Bank deposits	**3,553,595**	3,079,921
Cash and cash equivalents	**10,612,136**	7,221,676
	47,585,419	44,116,297
Current liabilities		
Amounts due to customers for contract work	**509,964**	757,056
Trade creditors	**10,166,545**	7,715,110
Other creditors and accrued charges	**3,173,130**	2,055,636
Deposits received	**15,216,864**	18,656,591
Derivative financial instrument	**–**	3,133
Amounts due to fellow subsidiaries	**51,757**	50,069
Advance from holding company	**20,478**	13,470
Borrowings – due within one year	**1,288,579**	870,704
Tax payables	**592,313**	375,591
	31,019,630	30,497,360
Net current assets	**16,565,789**	13,618,937
Total assets less current liabilities	**21,856,751**	18,469,265

	2009	2008
	Rmb'000	*Rmb'000*
CAPITAL AND RESERVES		
Share capital	**1,376,806**	1,376,806
Reserves	**7,262,220**	6,759,274
Equity attributable to equity holders of the Company	**8,639,026**	8,136,080
Minority interests	**1,578,236**	1,431,845
TOTAL EQUITY	**10,217,262**	9,567,925
Non-current liabilities		
Deposits received	**8,118,370**	5,059,506
Advance from holding company	**814,020**	306,720
Borrowings-due after one year	**2,707,099**	3,535,114
	11,639,489	8,901,340
	21,856,751	18,469,265

STATEMENT OF FINANCIAL POSITION

AT 31ST DECEMBER, 2009

	2009 *Rmb'000*	2008 *Rmb'000*
Non-currents assets		
Property, plant and equipment	**1,039,374**	927,582
Prepaid lease payments	**38,024**	34,793
Interests in subsidiaries	**2,413,428**	2,413,428
Interests in associates	**85,105**	60,084
Available-for-sale investments	**17,879**	17,879
	3,593,810	3,453,766
Current assets		
Inventories	**594,751**	435,165
Trade debtors	**433,762**	309,603
Other debtors, deposits and prepayments	**393,716**	299,269
Prepaid lease payments	**1,252**	754
Amounts due from subsidiaries	**2,347,455**	1,347,351
Bank deposits	**–**	56,254
Cash and cash equivalents	**979,068**	453,387
	4,750,004	2,901,783
Current liabilities		
Trade creditors	**312,345**	272,010
Other creditors and accrued charges	**232,609**	136,355
Deposits received	**2,239,895**	662,023
Advance from holding company	**–**	567
Amounts due to subsidiaries	**310,674**	184,866
Borrowings – due within one year	**–**	97,500
Tax payables	**17,521**	26,428
	3,113,044	1,379,749
Net current assets	**1,636,960**	1,522,034
Total assets less current liabilities	**5,230,770**	4,975,800

	2009	2008
	Rmb'000	*Rmb'000*
CAPITAL AND RESERVES		
Share capital	**1,376,806**	1,376,806
Reserves	**3,527,720**	3,505,670
TOTAL EQUITY	**4,904,526**	4,882,476
Non-current liabilities		
Advance from holding company	**292,460**	60,540
Borrowings – due after one year	**33,784**	32,784
	326,244	93,324
	5,230,770	4,975,800

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31ST DECEMBER, 2009

	Attributable to equity holders of the Company								
	Share capital	Share premium	Statutory capital reserve	Statutory surplus reserve	Other reserve	Retained profits	Total	Minority interests	Total
	Rmb'000	*Rmb'000*	*Rmb'000*	*Rmb'000*	*Rmb'000*	*Rmb'000*	*Rmb'000*	*Rmb'000*	*Rmb'000*
At 1st January, 2008	1,376,806	1,980,295	709,850	531,614	–	2,614,428	7,212,993	1,199,417	8,412,410
Profit and total comprehensive income for the year	–	–	–	–	–	1,041,837	1,041,837	241,878	1,283,715
Purchase of addition interest in subsidiaries from minority shareholders	–	–	–	–	6,539	–	6,539	(9,460)	(2,921)
Transfers	–	–	–	28,413	–	(28,413)	–	–	–
Reserve released upon de-registration of subsidiaries	–	–	–	(2,844)	–	2,844	–	10	10
Dividends *(note 12)*	–	–	–	–	–	(125,289)	(125,289)	–	(125,289)
At 31st December, 2008	1,376,806	1,980,295	709,850	557,183	6,539	3,505,407	8,136,080	1,431,845	9,567,925
Profit and total comprehensive income for the year	–	–	–	–	–	606,206	606,206	151,435	757,641
Distribution to minority interest	–	–	–	–	–	–	–	(5,044)	(5,044)
Transfers	–	–	–	12,531	–	(12,531)	–	–	–
Dividends *(note 12)*	–	–	–	–	–	(103,260)	(103,260)	–	(103,260)
At 31st December, 2009	1,376,806	1,980,295	709,850	569,714	6,539	3,995,822	8,639,026	1,578,236	10,217,262

In accordance with the PRC Company Law, the profit after taxation is applied in the following order:

(1) making up of losses;

(2) allocation to statutory surplus reserve;

(3) allocation to discretionary surplus reserve; and

(4) payment of dividends in respect of ordinary shares.

In accordance with the PRC Company Law and the relevant Articles of Association, the Company and its subsidiaries are required to appropriate amounts equal to 10% of their profit after taxation as determined in accordance with the PRC accounting standards to each of the statutory surplus reserve.

Statutory surplus reserve is part of shareholders' equity and when its balance reaches an amount equal to 50% of the Company's registered capital, further appropriation needs not be made. According to the PRC Company Law, statutory surplus reserve may be used to make up past losses, to increase production and business operations or to increase capital by means of conversion. However when funds from statutory surplus reserve are converted to capital, the funds remaining in such reserve shall amount to not less than 25% of the registered capital.

The statutory capital reserve represents the surplus arising from the difference between the fair value of the net assets of the principal business undertakings transferred from Harbin Electric Corporation ("HE") to the Group and the nominal value of the State shares issued to HE by the Company when the Company was formed.

Other reserve represents the discount on acquisition arising from the acquisition of additional interests in subsidiaries from minority shareholders, which was credited to the other reserve.

The amount of appropriation in respect of items (3) and (4) above for any year shall be recommended by the directors in accordance with the operational conditions and development requirements of the Company and its subsidiaries and shall be submitted to the shareholders in general meeting for approval.

No dividends shall be paid by the Company and its subsidiaries before they have made up their losses and made allocations to the statutory surplus reserve.

Pursuant to a document issued by the Ministry of Finance in August 1995 in respect of profit appropriations, the amount available for distribution to shareholders is the lesser of the amount determined in accordance with the PRC accounting standards and the amount determined in accordance with accounting principles generally accepted in Hong Kong. At 31st December, 2009, the amount available for distribution to shareholders was Rmb431,090,000 (2008: Rmb421,571,000) representing the retained profits of the Company prepared under accounting principles generally accepted in Hong Kong. As also mentioned above, the balance of statutory surplus reserve can also be distributed to shareholders in certain situations.

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31ST DECEMBER, 2009

	2009	2008
	Rmb'000	*Rmb'000*
Cash flows from operating activities		
Profit before taxation	**984,512**	1,573,247
Adjustments for:		
Allowance for bad and doubtful debts	**548,874**	265,511
Allowance for inventories	**30,776**	52,519
Amortisation of prepaid lease payments	**10,707**	9,710
Amortisation of patents	**22,023**	17,160
Dividend income	**(1,298)**	(2,737)
Depreciation of property, plant and equipment	**374,589**	436,996
Depreciation of investment properties	**16,060**	16,222
Finance costs	**180,381**	195,325
Gain on disposal of property, plant and equipment	**(7,805)**	(3,117)
Gain on disposal of investment properties	**(510)**	–
Gain on disposal of prepaid lease payments	**(8,437)**	–
Impairment loss recognized in respect of property, plant and equipment	**–**	1,772
Interest income	**(266,543)**	(237,545)
Loss on fair value change of derivative financial instruments	**–**	3,133
Property, plant and equipment written off	**2,300**	19,803
Patent written off	**–**	4,613
Realised loss on disposal of derivative financial instruments	**1,659**	–
Reversal of impairment loss of property, plant and equipment	**(1,714)**	(6,482)
Share of results of associates	**(34,764)**	(23,320)
Operating profit before working capital changes	**1,850,810**	2,322,810
Increase in inventories	**(1,319,718)**	(2,826,448)
Increase in trade debtors	**(362,899)**	(3,620,639)
Increase in bills receivable	**(239,520)**	(152,614)
Decrease/(Increase) in other debtors, deposits and prepayments	**1,684,279**	(1,389,315)
Decrease in amounts due from customers for contract work	**98,653**	2,586,612
Increase in amounts due from associates	**(7)**	(2,829)
(Increase)/ Decrease in amounts due from fellow subsidiaries	**(10,555)**	974
Decrease in amounts due to customers for contract work	**(247,092)**	(1,259)
Increase in trade creditors	**2,451,435**	2,447,719
Increase/(Decrease) in other creditors and accrued charges	**1,117,494**	(607,971)
(Decrease)/ Increase in deposits received	**(380,863)**	4,912,109
Increase in amounts due to fellow subsidiaries	**1,688**	26,643
Increase/(Decrease) in value added tax and other taxes payable	**299,850**	(656,524)
Cash generated from operations	**4,943,555**	3,039,268
Dividends paid	**(103,260)**	(125,289)
Income tax paid	**(310,094)**	(361,375)
Net cash generated from operating activities	**4,530,201**	2,552,604

	2009	2008
	Rmb'000	*Rmb'000*
Cash flows from investing activities		
Proceeds from disposal of available-for-sale investments	**–**	1,000
Decrease in bank deposits	**(473,674)**	(2,139,921)
Interest received	**266,543**	237,545
Proceeds from disposal of property, plant and equipment	**21,521**	66,291
Proceeds from disposal of investment properties	**7,109**	–
Proceeds from disposal of prepaid lease payments	**11,197**	–
Dividend received from associates	**6,228**	3,714
Dividend received from available-for-sale investments	**1,298**	2,737
Increase in pledged bank deposits	**(41,974)**	(314,571)
Purchases of property, plant and equipment	**(847,308)**	(1,275,178)
Additions to prepaid lease payments	**(5,513)**	–
Purchases of patents	**(6,681)**	(9,794)
Decrease/(Increase) in restricted bank deposits	**7,562**	(7,938)
Payment on disposal of derivative instrument	**(4,792)**	–
Purchases of additional interests in subsidiaries	**–**	(2,921)
Net cash used in investing activities	**(1,058,484)**	(3,439,036)
Cash flows from financing activities		
New bank loans raised	**343,986**	733,226
Other loans raised	**99,354**	27,300
Advance from holding company	**514,308**	73,532
Repayment of bank loans	**(829,927)**	(1,180,059)
Interest paid	**(180,381)**	(195,325)
Repayment of other loans	**(23,050)**	(1,118)
Distributions to minority shareholders	**(5,044)**	–
Net cash used in financing activities	**(80,754)**	(542,444)
Net increase/(decrease) in cash and cash equivalents	**3,390,963**	(1,428,876)
Cash and cash equivalents at the beginning of the year	**7,221,676**	8,681,542
Effect of foreign exchange rate changes	**(503)**	(30,990)
Cash and cash equivalents at the end of the year	**10,612,136**	7,221,676
Analysis of cash and cash equivalents at the end of the year		
Bank balances and cash	**9,286,037**	6,827,252
Bank deposits	**1,326,099**	394,424
	10,612,136	7,221,676

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST DECEMBER, 2009

1. GENERAL INFORMATION

The Company was established as a joint stock limited company in the People's Republic of China (the "PRC") and its H shares are listed on The Stock Exchange of Hong Kong Limited. Its holding company is Harbin Electric Corporation ("HE"), a state-owned enterprise incorporated in the PRC. The addresses of the registered office and principal place of business of the Company are disclosed in the corporate information section of the annual report.

The consolidated financial statements are presented in Renminbi ("RMB"), which is the functional currency of the Company.

The principal activities of the Company and its subsidiaries (collectively referred to as the Group) are mainly engaged in manufacturing and sales of various kinds of power equipments and power station engineering services, which are set out in note 5.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

(a) Standards and amendments effective in 2009 which are relevant to and have been adopted by the Group

In the current year, the Group has applied the following new and revised Standards, Amendments and Interpretations ("new and revised HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

HKAS 1 (Revised 2007)	Presentation of Financial Statements
HKAS 23 (Revised 2007)	Borrowing Costs
HKAS 32 & 1 (Amendments)	Puttable Financial Instruments and Obligations Arising On Liquidation
HKFRS 1 & HKAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate
HKFRS 2 (Amendment)	Share-based payment – Vesting Conditions and Cancellations
HKFRS 7 (Amendment)	Improving Disclosure about Financial Instruments
HKFRS 8	Operating Segments
HK(IFRIC)-Int 9 & HKAS 39 (Amendments)	Embedded Derivatives
HK(IFRIC)-Int 13	Customer Loyalty Programmes
HK(IFRIC)-Int 15	Agreements for the Construction of Real Estate
HK(IFRIC)-Int 16	Hedges of a Net Investment in a Foreign Operation
HK(IFRIC)-Int 18	Transfers of Assets from Customers after 1 July 2009
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2008, except for the amendment to HKFRS 5 that is effective for annual periods beginning or
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2009 in relation to the amendment to paragraph 80 HKAS 39

Except as described below, the adoption of the new and revised HKFRSs has no material effect on the consolidated financial statements of the Group for the current and prior accounting periods.

HKAS 1 (Revised 2007) Presentation of Financial Statements

HKAS 1 (Revised 2007) has introduced terminology changes (including revised titles for the consolidated financial statements) and changes in the format and content of the consolidated financial statements.

HKFRS 8 Operating Segments

HKFRS 8 is a disclosure standard. The changes do not affect the Group's segment disclosure.

Improving Disclosures about Financial Instruments
(Amendments to HKFRS 7 Financial Instruments: Disclosures)

The amendments to HKFRS 7 expand the disclosures required in relation to fair value measurements in respect of financial instruments which are measured at fair value. The amendments also expand and amend the disclosures required in relation to liquidity risk. The Group has not provided comparative information for the expanded disclosures in relation to fair value measurements in accordance with the transitional provision set out in the amendments.

(b) *Standards, amendments and interpretations in issue but not yet effective and have not been early adopted by the Group*

The Group has not early applied the following new and revised Standards, Amendments and Interpretations that have been issued but are not yet effective.

HKFRSs (Amendments)	Amendment to HKFRS 5 as part of Improvements to HKFRSs 2008[1]
HKFRSs (Amendments)	Improvements to HKFRSs 2009[2]
HKAS 24 (Revised)	Related Party Disclosures[5]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements[1]
HKAS 32 (Amendment)	Classification of Rights Issues[4]
HKAS 39 (Amendment)	Eligible Hedged Items[1]
HKFRS 1 (Amendment)	Additional Exemptions for First-time Adopters[3]
HKFRS 2 (Amendment)	Group Cash-settled Share-based Payment Transactions[3]
HKFRS 3 (Revised)	Business Combinations[1]
HKFRS 9	Financial Instruments[7]
HK (IFRIC)-Int 14 (Amendment)	Prepayments of a Minimum Funding Requirement[5]
HK (IFRIC)-Int 17	Distributions of Non-cash Assets to Owners[1]
HK (IFRIC)-Int 19	Extinguishing Financial Liabilities with Equity Instruments[6]

1 Effective for annual periods beginning on or after 1 July 2009
2 Amendments that are effective for annual periods beginning on or after 1 July 2009 or 1 January 2010, as appropriate
3 Effective for annual periods beginning on or after 1 January 2010
4 Effective for annual periods beginning on or after 1 February 2010
5 Effective for annual periods beginning on or after 1 January 2011
6 Effective for annual periods beginning on or after 1 July 2010
7 Effective for annual periods beginning on or after 1 January 2013

The Group has commenced considering the potential impact of the new or revised standards, amendments or interpretations on how its results and financial position are prepared and presented.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis, except for certain financial instruments, that are measured at fair values, as explained in the accounting policies set out below.

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS") issued by the Hong Kong Institute of Certified Public Accountants. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities (including special purpose entities) controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Minority interests in the net assets of consolidated subsidiaries are presented separately from the Group's equity therein. Minority interests consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

Changes in the Group's ownership interest in a subsidiary that do not result in the Group losing control over the subsidiary are accounted for as equity transactions. The carrying amounts of the Group's interests and the minority interests are adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Group.

Business combinations

Acquisition of business was accounted for using the purchase method. The cost of the acquisition was measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that met the relevant conditions for recognition were generally recognised at their fair values at the acquisition date.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss.

The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognized.

Interests in associates

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in the consolidated financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated statement of financial position at cost as adjusted thereafter for post-acquisition changes in the Group's share of net assets of the associate, less any identified impairment loss. When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is not tested for impairment separately. Instead, the entire carrying amount of the investment is tested for impairment as a single asset. Any impairment loss recognised is not allocated to any asset, including goodwill, that forms part of the carrying amount of the investment in the associate. Any reversal of impairment loss is recognised to the extent that the recoverable amount of the investment subsequently increases.

Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

Where a group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold and services provided in the normal course of business, net of discounts and sales related taxes.

Sales of goods are recognised when goods are delivered and title has passed.

Revenue from construction contracts are recognized on the percentage of completion basis, as further explained in the accounting policy for "Construction contracts" below.

Revenue from sales of properties is recognized when the risks and rewards of properties are transferred to the purchasers, which is when the construction of relevant properties has been completed and the properties have been delivered to the purchasers and collectibility of related receivables is reasonably assured.

Rental income is recognized on a straight-line basis over the terms of the relevant lease.

Service income is recognised when services are provided.

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established.

Property, plant and equipment

Property, plant and equipment other than construction-in-progress are stated at cost less accumulated depreciation and accumulated impairment losses.

Construction in progress includes property, plant and equipment in the course of construction for production or for its own use purposes. Construction in progress is carried at cost, including borrowing costs capitalized, less any recognised impairment loss. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Depreciation is provided to write off the cost of items of property, plant and equipment other than construction-in-progress over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method, on the following bases:

Buildings	3.23% – 6.47%
Plant and machinery	6.47% – 13.86%
Furniture, fixtures and equipment	10.78% – 19.40%
Motor vehicles	16.17% – 19.40%

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in profit or loss in the period in which the item is derecognised.

Investment properties

Investment properties are properties held to earn and/or for capital appreciation.

On initial recognition, investment properties are measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are stated at cost less subsequent accumulated depreciation and any accumulated impairment losses. Depreciation is charged so as to write off the cost of investment properties over the lease term using the straight-line method.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposals. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognised.

Prepaid lease payments

Prepaid lease payments are stated at cost less accumulated amortization and any impairment losses. The prepaid lease payments are amortised on the straight-line basis over the unexpired period of the rights.

Construction contracts

Where the outcome of a construction contract can be estimated reliably, revenue and costs are recognised by reference to the stage of completion of the contract activity at the end of the reporting period, as measured by the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs, except where this would not be representative of the stage of completion. Variations in contract work, claims and incentive payments are included to the extent that they have been agreed with the customer.

Where the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred that it is probable will be recoverable. Contract costs are recognised as expenses in the period in which they are incurred.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is shown as amounts due from customers for contract work. For contracts where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is shown as amounts due to customers for contract work. Amounts received before the related work is performed are included in the statement of financial position, as a liability, as advances received. Amounts billed for work performed but not yet paid by the customer are included in the consolidated statement of financial position under trade and other receivables.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease.

The Group as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

Foreign currencies translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in Renminbi (RMB), which is the Company's functional and presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit or loss, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges.

Changes in the fair value of monetary securities denominated in foreign currency classified as available for sale are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in amortised cost are recognised in profit or loss, and other changes in carrying amount are recognised in equity.

Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gains or losses. Translation differences on non-monetary financial assets such as equities classified as available for sale are included in the available for sale reserve in equity.

(c) Group companies

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;

(ii) income and expenses for each statement of comprehensive income are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and

(iii) all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is partially disposed of or sold, exchange differences that were recorded in equity are recognised in the profit or loss as part of the gains or losses on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

Borrowing costs

Borrowing costs directly attributed to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised.

All other borrowing costs are recognised as an expense in the period in which they are incurred.

Government grants

Government grants are recognised as revenue over the periods necessary to match them with the costs for which they are intended to compensate, on a systematic basis. Government grants that are receivables as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

Retirement benefit costs

The employees of the Group which operate in mainland China are required to participate in a central pension scheme operated by the local government. The contributions are charged to the statement of comprehensive income as they become payable in accordance with the rules of the central pension scheme.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated statement of comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case, the deferred tax is also recognised in other comprehensive income or directly in equity respectively.

Intangible assets

(i) *Intangible assets acquired separately*

Intangible assets acquired separately and with finite useful lives are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is recognised on a straight-line basis over their estimated useful lives. Alternatively, intangible assets with indefinite useful lives are carried at cost less any subsequent accumulated impairment losses.

Gains or losses arising from derecognition of an intangible asset, are measured at the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss when the asset is derecognised.

(ii) *Research and development expenditure*

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible assets arising from development (or from the development phase of an internal project) is recognised if, and only if, all the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;

- the intention to complete the intangible asset and use or sell it;

- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally- generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria. Where no internally-generated intangible asset can be recognised, development expenditure is charged to profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally- generated intangible asset is measured at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

(iii) Intangible assets acquired in a business combination

Intangible assets acquired in a business combination are identified and recognised separately from goodwill are initially recognised at their fair value at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, intangible assets acquired in a business combination are measured at cost less accumulated amortisation and accumulated impairment losses (if any), on the same basis as intangible assets that are acquired separately.

(iv) Impairment

At the end of the reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

Intangible assets with finite useful lives are tested for impairment when there is an indication that an asset may be impaired.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average cost method.

Properties held for development for sale in the ordinary course of business are stated at cost less any identified impairment loss. Cost includes the cost of construction, financing and other direct costs attributable to the development of such properties. No depreciation is provided on properties under development.

Properties under development

Properties under development are investments in freehold land, leasehold land and buildings on which construction work and development have not been completed. Properties under development comprise prepayments for leasehold land and land use rights that are measured at amortised cost less accumulated impairment losses, and a component in respect of the building that is stated at cost less accumulated impairment losses. Cost comprises construction costs and amounts capitalised in respect of amortisation of leasehold land prepayments and borrowing costs incurred in the acquisition of qualifying assets during the construction. On completion, the properties are reclassified to investment properties, property, plant and equipment or completed properties held for sale at the then carrying amount. The prepayments for leasehold land and land use rights in relation to the property, plant and equipment are reclassified to leasehold land and land use rights and are accounted for as operating leases. Any difference between the fair value of the investment property and its carrying amount at the date of reclassification is recognised in the consolidated statement of comprehensive income. Properties under development are classified as non-current assets unless the construction period of the relevant property development project is expected to be completed within the normal operating cycle and are intended for sale.

Completed properties held for sale

Completed properties held for sale are initially measured at the carrying amount of the property at the date of reclassification from properties under development. Subsequently, the prepaid leasehold land component is measured at amortised cost less accumulated impairment losses; the building component is carried at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business less selling expenses.

Financial instruments

Financial assets and financial liabilities are recognized on the consolidated of financial position when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

The Group's financial assets are classified into loans and receivables and available-for-sale financial assets. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees points paid or received that from an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or where appropriate, a shorter period to the net carrying amount on initial recognition.

Income is recognised on an effective interest basis for debt instruments.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables (including trade debtors, bills receivable, other debtors and deposits, amounts due from customers for contract work, amounts due from fellow subsidiaries, amounts due from associates restricted bank deposits, pledged bank deposits, bank deposits and cash and cash equivalents) are measured at amortised cost using the effective interest method, less any impairment losses (see accounting policy in respect of impairment loss on financial assets below).

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as financial assets at fair value through profit or loss, loans and receivables or held-to-maturity investments.

Available-for-sale financial assets are measured at fair value at the end of the reporting period. Changes in fair value are recognised in other comprehensive income and accumulated in investment revaluation reserve, until the financial asset is disposed of or determined to be impaired, at which time, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss (see accounting policy in respect of impairment loss on financial assets below).

For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, they are measured at cost less any identified impairment losses at the end of the reporting period (see accounting policy in respect of impairment loss on financial assets below).

Impairment of financial assets

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at the end of the reporting period. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For an available-for-sale equity investment, a significant or prolonged decline in the fair value of that investment below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

– significant financial difficulty of the issuer or counterparty; or

– default or delinquency in interest or principal payments; or

– it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial asset, such as trade debtors, assets that are assessed not to be impaired individually are assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period and observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment loss is the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade debtors, where the carrying amount is reduced through the use of an allowance account. When a trade or other debtor is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Impairment losses on available-for-sale equity investment will not be reversed in profit or loss in subsequent periods. Any increase in fair value subsequent to impairment loss is recognised directly in equity.

Financial liabilities and equity

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. The Group's financial liabilities are generally classified into other financial liabilities.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis.

Other financial liabilities

Other financial liabilities including amounts due to customers for contract work, trade creditors, other creditors and accrued charges, amounts due to fellow subsidiaries, advance from holding company, borrowings, deposits received, are subsequently measured at amortised cost, using the effective interest rate method.

Equity instruments

Equity instruments issued by the Group are recorded at the proceeds received, net of direct issue costs.

Derivative financial instruments and hedging

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at the end of the reporting period. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

Derecognition

The Group derecognises a financial asset only when the contractual rights to receive the cash flows from the assets expire, or when a financial asset is transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle that obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect is material).

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying the Group's accounting policies, management makes various estimates based on past experiences, expectations of the future and other information. The key sources of estimation uncertainty that may significantly affect the amounts recognised in the consolidated financial statements are disclosed below:

Estimated impairment on loans and receivables (including amounts due from fellow subsidiaries, trade and other debtors)

Management regularly reviews the recoverability and aging of loans and trade receivables. Appropriate impairment for estimated irrecoverable amounts are recognised in profit and loss when there is objective evidence that the asset is impaired.

In determining whether impairment for bad and doubtful debts is required, the Group takes into consideration the aging status and likelihood of collection. Specific allowance is only made for receivables that are unlikely to be collected and is recognised on the difference between the estimated future cash flow expected to receive discounted using the original effective interest rate and its carrying value.

Allowance for inventories

Management reviews the net realisable values and aging of inventories and makes allowance for obsolete and slow moving inventory items identified with reference to existing market environment, the sales performance in previous years and estimated market value, i.e. the estimated selling price, less estimated costs of selling. A specific allowance for inventories is made if the estimated market value of the inventories is lower than its carrying value.

5. REVENUE

Revenue represents the amounts received and receivable for goods sold and services rendered by the Group to outside customers during the year, net of value added tax ("VAT") and sales returns, and is analysed as follows:

	2009	2008
	Rmb'000	*Rmb'000*
Sales of goods	**20,741,812**	22,976,686
Revenue from construction contracts	**7,629,850**	6,302,931
Sales of properties	**202,628**	46,443
Rental income	**40,801**	35,848
Services rendered	**14,431**	541,636
	28,629,522	29,903,544

6. BUSINESS AND GEOGRAPHICAL SEGMENTS

Business segments

The Group has adopted HKFRS 8 Operating Segments with effect from 1 January 2009. HKFRS 8 is a disclosure standard that requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker (the "CODM") for the purposes of allocating resources to segments and assessing their performance. In contrast, the predecessor standard HKAS 14 Segment Reporting required an entity to identify two sets of segments, business and geographical, using a risks and returns approach. The Directors consider that the adoption of HKFRS 8 has not resulted in a redesignation of the reportable segments for the Group compared with the primary reportable segments determined in accordance with HKAS 14, nor has the adoption of HKFRS 8 changed the basis of measurement of segment profit or loss.

Under HKFRS 8, reported segment information is based on internal management reporting information that is regularly reviewed by the Directors, being the CODM of the Group. The measurement policies the Group used for segment reporting under HKFRS 8 are the same as those used in its HKFRS financial statements. The Directors assess the performance of the operating segments based on a measure of segment profit or loss.

The Group operates in five major segments as follows-main thermal power equipment, main hydro power equipment, engineering services for power stations, ancillary equipment for power stations and AC/DC motors and others.

Principal activities are as follows:

Main thermal power equipment – manufacture of main thermal power equipment.

Main hydro power equipment – manufacture of main hydro power equipment.

Engineering services – providing engineering services for power stations.

Ancillary equipment – manufacture of ancillary equipment for power stations.

AC/DC motors and others – manufacture of AC/DC motor and others.

Segment information about these businesses is presented below:

2009

	Main thermal power equipment *Rmb'000*	Main hydro power equipment *Rmb'000*	Engineering services for power stations *Rmb'000*	Ancillary equipment for power stations *Rmb'000*	AC/DC motors and others *Rmb'000*	Eliminations *Rmb'000*	Consolidated *Rmb'000*
REVENUE							
External sales	19,220,791	1,893,429	4,299,673	1,251,301	1,964,328	–	28,629,522
Inter-segment sales	1,736,527	–	–	–	–	(1,736,527)	–
Total revenue	20,957,318	1,893,429	4,299,673	1,251,301	1,964,328	(1,736,527)	28,629,522
Inter-segment sales are charged at prevailing market rates.							
SEGMENT RESULTS	2,572,874	437,991	(60,962)	316,106	399,498	–	3,665,507
Unallocated corporate expenses							(2,535,378)
Finance costs							(180,381)
Share of results of associates							34,764
Profit before taxation							984,512
Income tax expense							(226,871)
Profit for the year							757,641
ASSETS							
Segment assets	28,354,652	2,438,448	4,576,856	1,498,732	3,133,281		40,001,969
Interests in associates							179,079
Unallocated corporate assets							12,695,333
Consolidated total assets							52,876,381
LIABILITIES							
Segment liabilities	29,811,273	2,692,148	3,036,218	1,675,755	1,728,146		38,943,540
Unallocated corporate liabilities							3,715,579
Consolidated total liabilities							42,659,119
OTHER INFORMATION							
Capital additions	563,920	99,329	8,094	16,245	171,914	–	859,502
Depreciation of property, plant and equipment	271,128	43,687	10,329	13,135	36,310	–	374,589
Depreciation of investment properties	–	–	–	–	16,060	–	16,060
Amortisation of patents	17,813	218	–	1,288	2,704	–	22,023
Amortisation of prepaid lease payments	8,490	1,296	40	385	496	–	10,707
Allowances for bad and doubtful debts	390,798	46,730	35,622	22,218	53,506	–	548,874

2008

	Main thermal power equipment *Rmb'000*	Main hydro power equipment *Rmb'000*	Engineering services for power stations *Rmb'000*	Ancillary equipment for power stations *Rmb'000*	AC/DC motors and others *Rmb'000*	Eliminations *Rmb'000*	Consolidated *Rmb'000*
REVENUE							
External sales	20,493,133	2,863,250	3,446,168	1,161,006	1,939,987	–	29,903,544
Inter-segment sales	1,201,875	–	–	–	–	(1,201,875)	–
Total revenue	21,695,008	2,863,250	3,446,168	1,161,006	1,939,987	(1,201,875)	29,903,544

Inter-segment sales are charged at prevailing market rates.

	Main thermal power equipment *Rmb'000*	Main hydro power equipment *Rmb'000*	Engineering services for power stations *Rmb'000*	Ancillary equipment for power stations *Rmb'000*	AC/DC motors and others *Rmb'000*	Eliminations *Rmb'000*	Consolidated *Rmb'000*
SEGMENT RESULTS	3,042,982	658,649	(346,162)	299,577	352,034	–	4,007,080
Unallocated corporate expenses							(2,258,695)
Finance costs							(195,325)
Share of results of associates							23,320
Loss on fair value change of foreign currency forward contracts							(3,133)
Profit before taxation							1,573,247
Income tax expense							(289,532)
Profit for the year							1,283,715
ASSETS							
Segment assets	26,896,743	2,551,123	5,414,333	1,438,544	2,866,305		39,167,048
Interests in associates							150,536
Unallocated corporate assets							9,649,041
Consolidated total assets							48,966,625
LIABILITIES							
Segment liabilities	26,613,834	2,694,706	2,838,118	1,137,670	2,100,603		35,384,931
Unallocated corporate liabilities							4,013,769
Consolidated total liabilities							39,398,700
OTHER INFORMATION							
Capital additions	1,184,707	176,905	12,303	26,213	71,718	–	1,471,846
Depreciation of property, plant and equipment	325,893	48,965	9,844	12,992	39,302	–	436,996
Depreciation of investment properties	–	–	–	–	16,222	–	16,222
Amortisation of patents	14,206	262	–	691	2,001	–	17,160
Amortisation of prepaid lease payments	7,252	1,559	41	324	534	–	9,710
Allowances for bad and doubtful debts	183,383	32,442	(388)	10,610	39,464	–	265,511

Geographical segments

The Group's operations are located mainly in the People's Republic of China ("PRC"). The following table provides an analysis of the Group's sales by geographical market, irrespective of the origin of the goods/services:

	2009	2008
	Rmb'000	*Rmb'000*
PRC	**24,303,858**	27,088,569
Overseas	**4,325,664**	2,814,975
Total revenue	**28,629,522**	29,903,544

The majority of the Group's assets and liabilities are located in the PRC. The assets and liabilities situated overseas account for less than 10% of the Group's assets and liabilities as at 31st December, 2009 and 2008.

7. OTHER INCOME

Included in other income are the following:

	2009	2008
	Rmb'000	*Rmb'000*
Dividend income	**1,298**	2,737
Gain on disposal of property, plant and equipment	**7,805**	3,117
Gain on disposal of investment properties	**510**	–
Gain on disposal of prepaid lease payments	**8,437**	–
Government subsidy	**252,253**	80,658
Interest income	**266,543**	237,545
Profit from sale of scrap materials	**20,522**	23,279
Reversal of impairment loss of property, plant and equipment	**1,714**	6,482
Other income	**9,880**	37,442
Total	**568,962**	391,260

8. FINANCE COSTS

	2009	2008
	Rmb'000	*Rmb'000*
Interest on borrowings:		
– wholly repayable within five years	**144,131**	126,657
– not wholly repayable within five years	**39,282**	68,668
	183,413	195,325
Less: Interest capitalised in construction in progress	**(3,032)**	–
	180,381	195,325

Borrowing costs capitalised during the year arose on the general borrowing pool and are calculated by applying a capitalisaiton rate of 4.86% (2008: Nil) to expenditure on qualifying assets.

9. INCOME TAX EXPENSE

	2009	2008
	Rmb'000	*Rmb'000*
PRC enterprise income tax		
– current year	**239,022**	351,325
– overprovision in prior years	**(12,056)**	(15,061)
	226,966	336,264
Deferred tax *(note 18)*	**(95)**	(46,732)
	226,871	289,532

On 21 November 2008, the Company was named as one of the High and New Technical Enterprise (高新技術企業). According to the PRC Law on Enterprise Income Tax promulgated on 16 March 2007, the Company is entitled to a concessionary rate of income tax at 15% over 3 years, beginning on 1 January 2008.

Except for certain subsidiaries which are subject to an enterprise income tax rate of 15%, other subsidiaries located in Mainland China are subject to the PRC corporate income tax at a rate of 25% (2008: 25%) on its assessable profits.

The tax charge for the year can be reconciled to the profit before taxation per the consolidated statement of comprehensive income as follows:

	2009	2008
	Rmb'000	*Rmb'000*
Profit before taxation	**984,512**	1,573,247
Tax charge at the enterprise income tax rate of 15%	**147,677**	235,987
Tax effect of share of results of associates	**(5,215)**	(3,498)
Additional enterprise income tax in respect of the income tax rate of 25% for certain subsidiaries	**(34,974)**	5,987
Tax effect of income not taxable for tax purpose	**(30,718)**	(59,654)
Tax effect of expenses not deductible for tax purpose	**98,333**	41,998
Effect of tax exemptions granted to a PRC subsidiary	**(39,962)**	(4,747)
Utilisation of tax losses not previous recognised	**(3,744)**	–
Tax effect of tax losses not recognized	**107,530**	88,520
Overprovision in respect of prior years	**(12,056)**	(15,061)
Tax charge for the year	**226,871**	289,532

10. PROFIT FOR THE YEAR

Profit for the year has been arrived at after charging:

	2009	2008
	Rmb'000	*Rmb'000*
Staff costs including directors' and supervisors' emoluments *(note 11)*	**1,172,907**	1,172,098
Retirement benefit scheme contributions	**22,448**	39,014
Total staff costs	**1,195,355**	1,211,112
Allowance for bad and doubtful debts	**548,874**	265,511
Allowance for inventories	**30,776**	52,519
Amortisation of patents	**22,023**	17,160
Amortisation of prepaid lease payments	**10,707**	9,710
Auditors' remuneration	**2,500**	2,500
Cost of inventory sold	**23,013,191**	19,642,081
Depreciation for investment properties	**16,060**	16,222
Depreciation for property, plant and equipment	**374,589**	436,996
Loss on fair value change of derivative financial instruments	**–**	3,133
Realised loss on disposal of derivative financial instruments	**1,659**	–
Impairment loss recognized in respect of property, plant and equipment	**–**	1,772
Net foreign exchange loss	**700**	138,656
Patent written off	**–**	4,613
Property, plant and equipment written off	**2,300**	19,803
Research and development expenses	**463,633**	472,192

11. DIRECTORS' AND SUPERVISORS' EMOLUMENTS

2009

The emoluments paid or payable to each of the 15 directors and supervisors were as follows:

	* Mr. Gong Jing-kun *Rmb'000*	* Mr. Zou Lei *Rmb'000*	* Mr. Duan Hong-Yi *Rmb'000*	* Mr. Shang Zhong-fu *Rmb'000*	* Mr. Wu Wei-zhang *Rmb'000*	** Mr. Sun Chang-ji *Rmb'000*	** Ms. Li He-jun *Rmb'000*	** Mr. Yu Bo *Rmb'000*	** Mr. Jia Cheng-bing *Rmb'000*	** Mr. Liu Deng-qing *Rmb'000*	*** Mr. Chen Guang *Rmb'000*	*** Mr. Wang Zhi-sen *Rmb'000*	*** Mr. Gao Xu-guang *Rmb'000*	*** Ms. Lu Chun-lian *Rmb'000*	*** Mr. Xu Er-ming *Rmb'000*	Total 2009 *Rmb'000*
Fees	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other emoluments																
Salaries and other benefits	-	-	-	464	519	-	-	-	-	-	151	-	129	234	-	1,497
Contributions to retirement benefits schemes	-	-	-	14	14	-	-	-	-	-	14	-	14	14	-	70
Total emoluments	-	-	-	478	533	-	-	-	-	-	165	-	143	248	-	1,567

2008

	* Mr. Gong Jing-kun Rmb'000	* Mr. Qu Da-zhuang Rmb'000	* Mr. Duan Hong-Yi Rmb'000	* Mr. Shang Zhong-fu Rmb'000	* Mr. Wu Wei-zhang Rmb'000	** Mr. Jiang Kui Rmb'000	** Ms. Li He-jun Rmb'000	** Mr. Zhou Dao-jiong Rmb'000	** Mr. Jia Cheng-bing Rmb'000	** Ms. Ding Xue-mei Rmb'000	*** Mr. Lang En-qi Rmb'000	*** Mr. Yang Xu Rmb'000	*** Mr. Gao Xu-guang Rmb'000	*** Ms. Lu Chun-lian Rmb'000	*** Mr. Chen Si Rmb'000	Total 2008 Rmb'000
Fees	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Other emoluments																
Salaries and other benefits	–	554	–	490	406	–	–	–	–	–	–	148	131	199	–	1,928
Contributions to retirement benefits schemes	–	13	–	13	13	–	–	–	–	–	–	13	13	13	–	78
Total emoluments	–	567	–	503	419	–	–	–	–	–	–	161	144	212	–	2,006

* *Being executive directors of the Group*
** *Being independent non-executive directors of the Group*
*** *Being supervisors of the Group*

None of the directors received more than Rmb 1,000,000 for any of these two years.
The five highest paid individuals in the Group in 2008 and 2009 were directors and supervisors of the Company and details of their emoluments are set out above.

12. DIVIDENDS

	2009 *Rmb'000*	2008 *Rmb'000*
Payment of 2008 final dividend of Rmb0.075 (2007: Rmb0.091) per share	**103,260**	125,289

The final dividend for 2009 of Rmb0.068 (2008: Rmb0.075) per share has been proposed by the board of directors of the Company and is subject to approval by the shareholders in the forthcoming annual general meeting.

13. EARNINGS PER SHARE

The calculation of the earnings per share is based on the profit for the year of approximately Rmb 606,206,000 (2008: Rmb1,041,837,000) and on the weighted average number of shares of 1,376,806,000 (2008: 1,376,806,000).

No diluting events existed as the Company did not have any potential shares for the two years or at each of the end of the reporting period. Accordingly, diluted earnings per share amounts for the two years ended 31st December 2009 and 2008 have not been disclosed.

By order of the Board
Gong Jing-kun
Chairman

Harbin, the PRC, 9th April, 2010

At the date of this announcement, the Executive Directors of the Company are Mr. Gong Jing-kun, Mr. Zou Lei, Mr. Duan Hong-yi, Mr. Wu Wei-zhang and Mr. Shang Zhong-fu; and the Independent non-executive Directors are Mr. Sun Chang-ji, Mr. Yu Bo, Mr. Liu Deng-qing, Mr. Jia Cheng-bing and Ms. Li He-jun.