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Overview of the Company

Harbin Electric Company Limited (the "Company") was formed through the restructuring of Harbin Electric Corporation (formerly known as Harbin Power Plant Equipment Group Corporation), which is the oldest large-scale power plant equipment manufacturer in the People's Republic of China (the "PRC") and its three affiliates: Harbin Electrical Machinery Works, Harbin Boiler Works and Harbin Turbine Works (the "three major power factories"). These three major power factories were founded in the 1950s. The Company was established in Harbin, PRC on 6 October 1994. The shares of the Company were listed on the

Overview of the Company (continued)

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The Group possesses a pool of top talents in scientific research, technology and management, as well as a comprehensive range of advanced production and research facilities. Its capabilities in research and development, production and manufacturing and power station construction are among the best in the power plant equipment manufacturing industry in the PRC.

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The Group is located in Harbin, the PRC, which is known as the “City of the Power”.

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Overview of the Company (continued)

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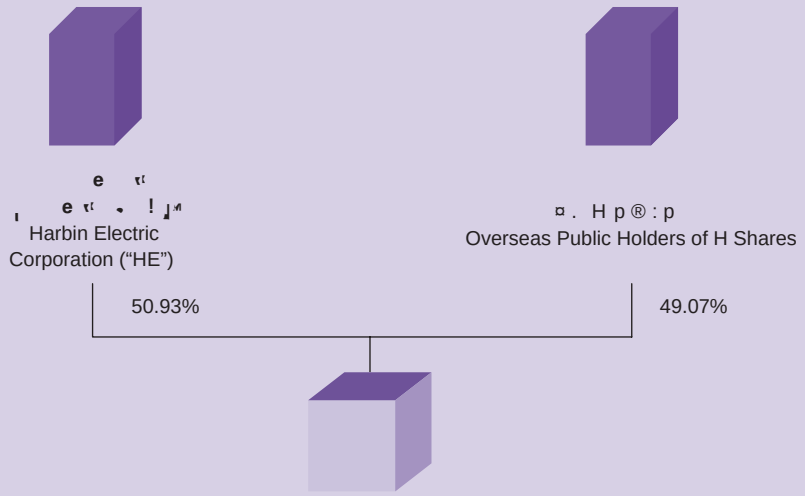
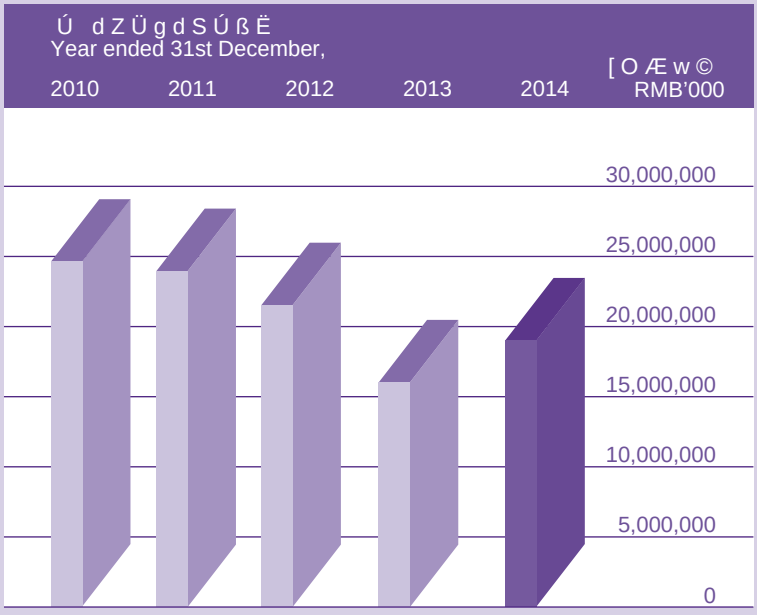
CORPORATE STRUCTURE AND MAIN BUSINESS LINE

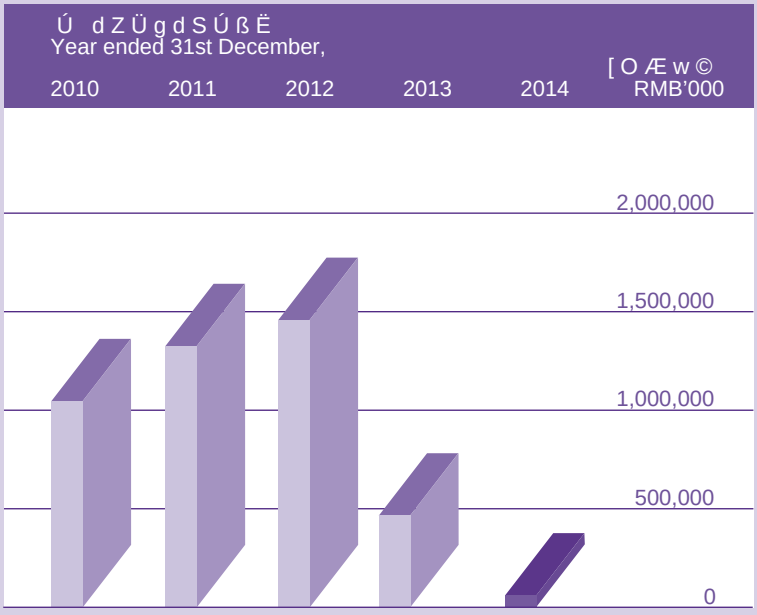


Financial Highlights

8 X **Turnover**



P ; Profit before taxation



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Financial Highlights (continued)

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	Unit	Year ended 31 December, 2014	2013	2012 € •• (restated)	2011 € •• (restated)	2010
8 X Turnover	[O Æ w © RMB'000	**23,794,457**	20,500,705	25,995,186	28,487,782	29,172,224
ð ü Ã P ; Profit before taxation	[O Æ w © RMB'000	**364,879**	778,094	1,770,826	1,663,931	1,361,901
I ® ! p … 5 Þ [Ð & P ; Profit attributable to equity shareholders of the Company	[O Æ w © RMB'000	**566,410**	705,813	1,420,947	1,241,325	1,001,108
* < = Total assets	[O Æ w © RMB'000	**62,193,960**	60,361,132	54,946,449	50,917,052	50,756,109
À < = Total liabilities	[O Æ w © RMB'000	**48,213,844**	46,066,883	41,080,265	38,206,974	39,592,267
¢ › p Æ B Non-controlling interests	[O Æ w © RMB'000	**1,329,180**	1,767,166	1,842,189	1,951,072	1,462,394
I ® ! p … 5 Þ [Ð & Æ B Equity attributable to equity shareholders of the Company	[O Æ w © RMB'000	**12,650,936**	12,527,083	12,023,995	10,759,006	9,701,448
Ê p * Net assets per share	[O Æ © RMB	**9.19**	9.10	8.73	7.81	7.05
Ê p ® ; Earnings per share	[O Æ © RMB	**0.411**	0.513	1.032	0.902	0.727

2ô *Ü±ó 8X¿;—Í **Turnover and contribution to operating profit by major product categories**	Ú **2014** ¸ **12** ì **31** ¸ **Year ended 31 December 2014** 8X **Turnover** [OÆw© RMB'000	8;—Í **Contribution to operating profit** [OÆw© RMB'000	2013 Ë12 Ü31 Ú ß Ë Year ended 31 December 2013 8X Turnover [OÆw© RMB'000	8;—Í Contribution to operating profit [OÆw© RMB'000
æeôÚ£ê Main thermal power equipment	**12,310,169**	**1,817,320**	12,447,960	2,521,737
åeôÚ£ê Main hydro power equipment	**2,906,874**	**388,715**	2,703,922	694,637
egˆû Engineering services for power stations	**3,894,369**	**300,605**	1,811,299	408,642
eg¾Ú¿ã•£ê Ancillary equipment for power stations	**1,556,343**	**360,615**	733,215	209,066
t\teÚ¿lü*Ü~ AC/DC motors and other products and services	**3,126,702**	**273,461**	2,804,309	486,800
	23,794,457	**3,140,716**	20,500,705	4,320,882
lü8 ×B Profit from other activities		**415,423**		330,243
J±ãQô *Ü˜l\ Expenses not allocated to major products		**(3,191,260)**		(3,873,031)
ðüÃP; Profit before taxation		**364,879**		778,094

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Chairman's Statement

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Chairman

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Dear shareholders,

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On behalf of the Board, I hereby present the 2014 annual report of Harbin Electric Company Limited and its subsidiaries (hereinafter referred to as the "Group").

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19.75% i Õ À › ¿ $ – 136.43 © [O Æ d
• â # — 14.99% f

In 2014, the Group faced the challenging market environment head-on with its hardworking spirit and pragmatic attitude, and secured a smooth production and operation. During the year, the Group realized revenue of RMB23.794 billion, an increase of 16.07% over the previous year, while the profit attributable to equity shareholders of the Company amounted to RMB566 million, a decrease of 19.75% over the previous year. The Group also recorded the bank deposits and cash of RMB13.643 billion, an increase of 14.99% over the previous year.

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During the reporting period, the Group strived to secure contracts from the market and signed new contracts of RMB40.472 billion, of which international contracts amounted to RMB14.87 billion. The Group continued to maintain its competitive edge in the segment of large-scale hydropower generators. Meanwhile, the competitiveness of our nuclear power generators was further enhanced. The Group maintained its share in the market of heavy fuel-fired generators in the PRC.

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During the reporting period, the Group continued to promote the development of new products and innovation of technology. The Group completed the construction work of China's first AP1000 evaporator. The modification to the 800MW supercritical generating units was highly recognized by its users, while the highly efficient ultra-supercritical boilers broke the record of the number of operating generators in the world. The latest manufacturing service business realized a significant growth over the previous year. During the year, the Group received 2 national technology enhancement awards.

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Chairman's Statement (continued)

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The year 2015 is a critical year to deepen reforms and implement transformation. The PRC's economy entered a new normal stage. The slowdown in the growth of the power market became a long-term trend. In light of over-production and fierce homogeneous competition, the profitability of the industry has thus shrunken. On the other hand, the PRC Government put more efforts into the revitalization of historical industrial bases in the Northeast Regions as well as the development of strategic emerging industries and environmental energy-saving products, with a view to moving ahead the development of the latest manufacturing service industry. The aforesaid measures provided the Group with favorable policies and market opportunities amid an environment full of challenges and chances.

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In 2015, the Group will strive to attain subsisting healthy development through implementing stringent management measures, innovative reforms and full compliance with laws. With our market-oriented approach, we will keep abreast of the market development so as to enhance the satisfactory level of users; with our performance-oriented approach, we will devote more efforts to provide return for all shareholders by achieving better results in a pragmatic attitude; with our problem-solving approach, we will deepen reforms to realize breakthrough in terms of industry development and optimized resource allocation, in turn further strengthening our overall competitive edge.

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I would like to express my gratitude to our shareholders for their trust and support, to my colleagues on the Board of Directors and Board of Supervisors for their assistance and contribution, and to all of our staff members for their efforts and dedication.

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Zou Lei
Chairman

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Harbin, the PRC, 20 March 2015

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Management Discussion and Analysis

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

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MACRO ECONOMY AND INDUSTRY DEVELOPMENT

In 2014, the global economy made little headway in recovery and major economies developed in diversified ways. The general economic performance and social development of the PRC remained stable. The international power market was still facing various uncertainties amid fierce competitions. The growing pace of power consumption in the PRC slowed down with a growth of 3.8% across the nation. As at the end of 2014, installed capacity of power generating units reached 1,360,000 MW, representing an increase of 8.7% over the previous year. Installed capacity of non-fossil fuel generating units reached 450,000 MW, representing 33.3% of the total installed capacity of power generating units. Newly installed capacity of generating units reached 103,500 MW for the year, increasing by 1,280 MW over the previous year, of which installed capacity of non-fossil fuel generating units amounted to 57,020 MW.

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NEW CONTRACTS

Facing with a complex and volatile environment in both the PRC and the rest of the world during the year 2014, Harbin Electric Company Limited and its subsidiaries (hereinafter as the “Group”) leveraged on the thorough understanding of the latest development of the market so as to attain efficient resource allocation and enlarge the market share of the Group, realizing RMB40.472 billion worth of duly signed contracts, of which RMB16.391 billion (or 40.50% of total contract value) for thermal power equipment, RMB2.894 billion (or 7.15% of total contract value) for hydropower equipment, RMB3.765 billion (or 9.30% of total contract value) for nuclear power equipment, RMB1.979 billion (or 4.89% of total contract value) for hybrid equipment, RMB9.750 billion (or 24.09% of total contract value) for power engineering, and RMB5.693 billion (or 14.07% of total contract value) for other products.

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The Group actively exploited the market of conventional products by entering into supply contracts for the phase 3 of Hubei Energy in Ezhou and Guodian in Fang Jia Zhuang for four 1,000MW ultra-supercritical boilers equipment in aggregate. Besides, the Group also entered into supply contracts in relation to reconstruction work in Fengman, Jilin for six 200 MW mixed-flow water turbine generators equipment.

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In addition, the Group devoted more efforts to the marketing of the nuclear power equipment segment by entering into contracts with China National Nuclear Corporation in relation to the projects in Fuqing and Karachi, Pakistan for six main reactor coolant pumps "Hualong 1" respectively. The Group also entered into contracts in relation to nuclear construction work in Zhangzhou, Fujian for four AP1000 evaporators and renewed the contracts with China National Nuclear Corporation in relation to the Sanmen project for two AP1000 steam turbine generators.

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The hybrid equipment segment attained relatively satisfactory development. The Group entered into supply contracts with Yudean Xinhui (½ e - 6) and Luoyang Wanzhong (~ ¢ ¬8) for two sets of 9FB gas-steam combined-cycle cogeneration power unit island equipment.

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The Group achieved a breakthrough in developing international markets. The Group entered into contracts with India in connection with the turnkey project of the phase two of SALAYA for two 660 MW supercritical coal-fired power plants. The Group also entered into supply contracts with the Nestor Kirchner Hydropower Station in Argentina for six 190 MW mixed-flow water turbine generators equipment.

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PRODUCTION AND SERVICES

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Facing the adverse impact arising from frequent changes of projects, the Group addressed the situation by continuously strengthening the process control of projects, optimizing production flow, stepping up assurance measures and promoting punctual delivery measures, so as to meet the needs of customers and accomplish the production target for the year.

2014 Ë d l « ï e £ ê * Ž ‰ 2,262.8 ¬ w Y d • â # — 13.59% d l • å C ï e Ú \ 642.8 ¬ w Y d • â # — 12.05% i Û C ï e Ú 1,618.2 ¬ w Y€ ^ è e 126.6 ¬ w Y d • â # — 91.82% d • â # — 15.29% f e g Û C Ú * Ž 1,757.9 ¬ w Y d • â # — 72.59% f e g ¢ * Ž 1,405 ¬ w Y d • â # — 0.18% f

In 2014, the total output of the Group's power equipment reached 22,628MW, representing an increase of 13.59% over the previous year, of which the capacity of water turbine generators amounted to 6,428MW, increasing by 12.05% over the previous year; the capacity of steam turbine generators amounted to 16,182MW (including nuclear power of 1,266MW, increasing by 91.82% over the previous year), increasing by 15.29% over the previous year; the capacity of steam turbine for power stations amounted to 17,579MW, increasing by 72.59% over the previous year; the capacity of boilers for power stations amounted to 14,050MW, increasing by 0.18% over the previous year.

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R&D AND TECHNOLOGY INTRODUCTION

In 2014, the Group received 22 awards for technology achievements, 2 of which were at national level. The Group was granted 303 patent authorizations, 41 of which were related to inventions. It also hosted the formulation of 1 international standard, 5 national standards and 9 industry standards.

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The world-leading 350MW supercritical boiler technology running on Zhundong coal passed the evaluation by the Ministry of Industry and Information Technology (MIIT). The highly efficient 660MW ultra-supercritical boiler of Changxin Power Plant (— 3 e @) created the highest record of the number of operating generators in the world. China's first 30MW compression-ignition generator passed the evaluation for national new product at an advanced level meeting international standard. The world's first large-scale water-lubricating thrust bearing trial platform was built and the technological development of the 700 meters head range pumped storage project was completed. The Group mastered the techniques of shielded motor pumps and shaft sealing pumps design and products, and obtained the certificate for designing pressure vessels at the 2nd and 3rd level. The Group also attained fruitful achievement in the core technology of designing and manufacturing large-scale nuclear-powered half-speed steam turbines generators, marking further enhancement of our nuclear power technology. The Group successfully developed the reaction type and fine-tuned enthalpy drop techniques applicable to steam turbine generators, effectively enhancing performance of both 1,000MW and 600MW steam turbine generators.

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REFORM AND MANAGEMENT

The Group carried out specific research on the management and reform models to formulate the preliminary plan for enhancing control. Significant modification was made to the evaluation system for operating performance of executives, highlighting the performance-oriented and strategy leading approach of the Group. Comprehensive risk management was implemented by organizing risk inspection on and promoting risk prevention of external projects.

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The Group also applied stringent management and control on trade receivables and inventory while actively implemented the debt collection policy and stock clearance policy. The turnover rates of trade receivables and inventory were increased by 0.38 and 0.17 respectively. Energy-saving and emission reduction measures were further carried out, resulting in a year-on-year decrease in the aggregate consumption per ten thousand yuan output value by 21%, while emission of SO_2 and COD a drop of 12% and 14% respectively.

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Bills rediscounting for the Finance Company and the business licenses for the interbank lending business together improved the financial service function of the Group.

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PROFIT

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p * = ‰ 9.19 © d â Ë ‹ # 0.09 © f

In 2014, net profit attributable to the shareholders of the Company was RMB566.41 million, a decrease of 19.75% over the previous year; earnings per share were RMB0.41, a decrease of RMB0.10 over the previous year; net asset as at the end of the period attributable to the shareholders of the Company was RMB12,650.94 million, an increase of RMB123.85 million compared to the beginning of the year; net asset per share was RMB9.19, an increase of RMB0.09 compared to the beginning of the year.

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During the period, the decrease in profit of the Group was mainly attributable to the significant drop in gross profit and the increase in provision.

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TURNOVER

In 2014, the Group recorded a turnover from principal business activities of RMB23,794.46 million, an increase of 16.07% over the previous year. In particular, turnover of the main thermal power equipment business was RMB12,310.17 million, representing 51.73% of the turnover of the principal business activities, a decrease of 1.11% over the previous year. Turnover from main hydropower equipment was RMB2,906.88 million, representing 12.22% of the turnover of the principal business activities, an increase of 7.51% over the previous year. Turnover of engineering services for power stations was RMB3,894.37 million, representing 16.37% of the turnover from the principal business activities, an increase of 115% over the previous year. Turnover of ancillary equipment for power stations was RMB1,556.34 million, representing 6.54% of the turnover from the principal business activities, an increase of 112.26% over the previous year. Turnover of AC/DC motors and other products and services was RMB3,126.70 million, representing 13.14% of the turnover of the principal business activities, an increase of 11.50% over the previous year.

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In 2014, the Group recorded a turnover of export of RMB4,334.61 million, accounted for 18.22% of the turnover of the principal business activities, representing an increase of RMB2,157.34 million over the previous year. The export was dominated by Asia and South America.

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COST

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In 2014, the cost of the principal business activities of the Group was RMB20,653.74 million, an increase of 27.65% over the previous year, which was mainly attributable to the expansion of scale.

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GROSS PROFIT AND GROSS PROFIT MARGIN

In 2014, the gross profit from the principal business activities of the Group was RMB3,140.72 million, a decrease of 27.31% over the previous year. The gross profit margin was 13.20%, a drop of 7.88 percentage points over the previous year. Among them the gross profit from main thermal power equipment was RMB1,817.32 million, a decrease of RMB704.42 million over the previous year. The gross profit margin for main thermal power equipment was 14.76%, a drop of 5.5 percentage points over the previous year. The gross profit from main hydropower equipment was RMB388.72 million, a decrease of RMB305.92 million over the previous year. The gross profit margin for main hydropower equipment was 13.37%, a drop of 12.32 percentage points over the previous year. The gross profit from engineering services for power stations was RMB300.60 million, a decrease of RMB108.04 million over the previous year. The gross profit margin for engineering services for power stations was 7.72%, a decrease of 14.84 percentage points over the previous year. The gross profit from ancillary equipment for power stations was RMB360.62 million, an increase of RMB151.55 million over the previous year. The gross profit margin for ancillary equipment for power stations was 23.17%, a decrease of 5.34 percentage points over the previous year. The gross profit from the AC/DC motors and other products and services was RMB273.46 million, a decrease of RMB213.34 million over the previous year. The gross profit margin for the AC/DC motors and other products and services was 8.75%, a decrease of 8.61 percentage points over the previous year.

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EXPENSES DURING THE PERIOD

In 2014, the Group's distribution expenses amounted to RMB572.05 million, an increase of RMB43.63 million or 8.26% over the previous year. Administrative expenses amounted to RMB3,296.59 million, an increase of RMB229.84 million or 7.49% over the previous year.

The increase in expenses during the year was mainly due to the increase in provision for the year.

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FINANCE EXPENSE

In 2014, the Group incurred finance expense of RMB300.01 million, representing a year-on-year increase of RMB71.53 million, which was principally attributable to the increased interest provision for entrusted loans during the year.

FUNDING SOURCES AND BORROWINGS

The Group financed its operation and development with four major funding sources, namely shareholder's funds, trade receivables from customers, bank borrowings and corporate bonds. The Group arranges borrowings on project basis. Except for special situations, loans will be raised individually by the Group's subsidiaries in general while prior approval from the parent company is required in respect of borrowings for capital investments. As the number of orders and advance receipts increased significantly during the past two years, the Group had sufficient working capital and thus repaid substantially all of the loans for working capital. As of 31 December 2014, the total of the Group's borrowings was RMB1,180.15 million (31 December 2013: RMB1,123.92 million). The Group's borrowings were made up of loans from various commercial banks and the State's policy banks with interest rates stipulated by the state, among which the borrowings repayable within one year were RMB1,105.70 million, an increase of RMB421.79 million as compared to the beginning of the year, and the borrowings repayable after one year were RMB74.45 million, a decrease of RMB365.55 million as compared to the beginning of the year.

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DEPOSITS AND CASH FLOW

As at 31 December 2014, bank deposits and cash of the Group amounted to RMB13,643.42 million, an increase of RMB1,778.34 million as compared to the beginning of the year. During the period, net cash inflow from operating activities of the Group amounted to RMB1,735.11 million, net cash outflow from investment activities amounted to RMB655.96 million and net cash outflow from financing activities amounted to RMB54.18 million.

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ASSET STRUCTURE AND MOVEMENTS

As at 31 December 2014, total assets of the Group amounted to RMB62,193.96 million, an increase of RMB1,832.83 million (or 3.04%) as compared to the beginning of the year, among which current assets were RMB54,135.73 million, representing 87.04% of the total assets, and non-current assets were RMB8,058.23 million, representing 12.96% of the total assets.

LIABILITIES

As at 31 December 2014, total liabilities of the Group amounted to RMB48,213.84 million, an increase of RMB2,146.96 million as compared to the beginning of the year, among which current liabilities were RMB33,728.58 million, representing 69.96% of the total liabilities, and non-current liabilities were RMB14,485.27 million, representing 30.04% of the total liabilities. As at 31 December 2014, the gearing ratio of the Group was 77.52%.

SHAREHOLDERS' EQUITY

As at 31 December 2014, the total equity attributable to the shareholders of the Company amounted to RMB12,650.94 million, an increase of RMB123.85 million as compared to the beginning of the year; the net asset per share was RMB9.19. During the period, the net asset return rate of the Group was 4.50%.

GEARING RATIO

As at 31 December 2014, gearing ratio of the Group (non-current liabilities over total shareholders' equity) was 1.14:1 as compared to that of 0.85:1 at the beginning of the year.

CONTINGENT LIABILITIES AND PLEDGE OF ASSETS

As at 31 December 2014, the Group pledged its assets in an amount of RMB477.52 million to secure loans for liquidity.

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CAPITAL EXPENDITURES AND MAJOR INVESTMENTS

In 2014, the Group had a total capital expenditure of RMB608 million invested in major construction projects and technological upgrades. The particulars of those projects are as follows:

As regards Phase I of the technology research base, the construction of the main building was completed; the construction work of the "three chambers (g)" for Harbin Boiler Company Limited was substantially completed; the construction work of the combustion trial center for Harbin Boiler Company Limited was fully completed; the construction work of the newly-constructed branch factory project for Harbin Electrical Machinery Company Limited was completed; and the projects under the nuclear island main equipment manufacturing automation was substantially completed.

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In 2015, the Group intends to commit an investment of RMB771 million, which will mainly finance Phase I of the technology research base, the construction of informatization foundation for the technology research base, the power system upgrades for Harbin Electrical Machinery Company Limited and HE International Trade Tower (Þ e 7 q }) G P) S S C1JPOX F5SF D I O P M Þ S HZ E G D

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As at 31 December 2014, the listed securities held by the Company were as follows:

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117 million A shares of Datang International Power Generation Co., Ltd.;

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142 million A shares of GD Power Development Co., Ltd.;

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98 million A shares of Inner Mongolia MengDian HuaNeng Thermal Power Corporation Limited.

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EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES AND RELATED HEDGES

Some of the deposit of the Group are denominated in foreign currencies. As at 31 December 2014, the amount of the Group's deposits in foreign currencies was equivalent to RMB436.53 million. The export business and foreign currencies settled businesses expose the Group to exchange risk.

USE OF FUND-RAISING PROCEEDS

Proceeds from equity fund-raising of the Company was fully utilized.

In March 2013, the Company issued the domestic corporate bonds (first tranche) of RMB3.0 billion, of which RMB370 million (2013: RMB2.63 billion) was applied to replenish working capital for production in 2014. Proceeds from issuance of bonds was fully utilized.

STAFF AND REMUNERATION

As at 31 December 2014, the Group had a workforce of 19,356 employees and the total remuneration for 2014 amounted to RMB2,057 million. According to the development strategies and actual circumstances of our human resources, the Group provided practical guidance and training on professional knowledge based on practicality and level and position of staff, so as to enhance the professionalism and working capability of its teams. A total of 15,188 employees completed our training programs.

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PROSPECT

For 2015, the global economy will be characterized by in-depth consolidation and feeble recovery amid increasing uncertainties. Boosting growth, increasing employment and restructuring will become a dominant theme among the international community. The Chinese economy will face growing downward pressure and deep-rooted conflicts will propel the economic development and settle into a new normal economy. GDP is expected to grow at around 7%. Adhering to its basic principle of progressing amid stability, the PRC government will aim at enhancing quality and effectiveness when it comes to economic development. More emphasis will be placed in transformation in terms of implementation and structure, stepping up the development of emerging industries with strategic values and eco-friendly products with highly-efficient energy conservation features, further advancing the development of up-to-date manufacturing and service industries and capitalizing the new opportunities afforded to the power generating equipment manufacturing enterprises. Reform is such a challenging task for the Group that it must strengthen its management, facilitate comprehensive reform, ensure law-abiding corporate governance and materialize a healthy development so as to reward the shareholders with better operating results.

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The Group will address the following areas in 2015:

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Eyeing market development while strengthening marketing capabilities.

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We will enhance the marketing network establishment and perfect the running mechanism and management system to generate greater synergy in overall marketing programme. We will come up with more well-thought marketing plans, visit our major customers and senior management in major regions more frequently and actively promote working relations with core customers. We will also explore new operation model to cater the latest market trend and customers' requirements.

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With customers' requirements in mind, we will enhance our core manufacturing capabilities and take step-up measures to undertake major projects. We will address the most pressing issues arising in the course of market development and solve the problems encountered in feature projects to enhance customer satisfaction.

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Technological innovation as a driver to speed up transformation and upgrading.

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We will take steps to further perfect our technological innovation system, optimize allocation of technological resources, commit more U F D I O P M enhance self-initiated innovation. We will also deepen international cooperation and exchange to initiate a concerted effort for breakthroughs.

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Efforts will be made to materialize new development in reaction turbines, Zhundong coal combustion, high-efficiency ultra supercritical technologies, double reheat, etc. Besides, we will proceed to obtain accreditation for the design of Class I nuclear equipment and raise the design and manufacturing standards of nuclear power equipment so as to build up our capabilities to supply turnkey projects and foster home-grown technologies for heavy duty as well as small-to-medium size combustion engines.

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8 F X J M W F S Z Q I T H B M D F D P N Q M B T % J O J U J B U P S W F T the newly developed steam turbines with a capacity of 1,000 MW, optimize the supercritical w-flame boilers, and expand our capabilities to develop and accumulate technological transformation expertise. 3 % G P S B S H F I Z E B S P F Q P X E S S B U P E S J B Q W N Q F E storage water turbines with variable speed will be accomplished. Introduction and absorption of nuclear power technology as well as research and development of products are actively promoted. Development of such sectors as environmental integration, distributable energy and ocean energy will be pursued at a quicker pace.

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Reform in management to secure a foundation for sustainable development.

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Higher degree of innovation in management, constant optimization of asset allocation and tightened control on centralized procurement and capital management will strengthen coordination among different divisions. We introduced incentive and disciplinary measures to fully realize the positiveness, initiative and creativity of our staff.

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We will deepen the reform in three systems, tighten control on staff costs, enhance management in labour utilization and closely monitor performance by taking a problem-solving and result-oriented approach to facilitate self-initiation of the enterprise.

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For the active promotion of law-abiding corporate governance, we regulate the decision making process with a set of sophisticated constitutions. To run a legitimate business in compliance with regulatory requirements, we make timely disclosures of important information pursuant to the Listing Rules. We strengthen our precautions for legal risks and perform legal review on our constitutions and major decisions with greater care. We will increase our capabilities in enforcing financial discipline and improve deployment of funds to eliminate the weakest links. Audit and researches on engineering projects undertaken overseas will be enhanced.

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We will prevent loss of effectiveness by closely monitoring major areas and plugging loopholes in management. Performance tracking and spot check on major tasks and important decisions are in place to ensure their successful implementation.

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Harbin, PRC
20 March 2015

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Directors, Supervisors and Senior Management

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DIRECTORS

Non-executive Directors

Mr. Gong Jing-kun, born in July 1958, a senior engineer with a doctor's degree, now the vice president of the Chinese People's Political Consultative Conference of Heilongjiang Province. Mr. Gong graduated from Shenyang Institute of Machinery and Electronics in 1982. Later on, he obtained a doctor degree from Harbin Institute of Technology. Mr. Gong joined HE in 1982. He has been deputy director of production division, deputy manager of production department, manager of hydropower workshop in the former Harbin Electric Machinery Works of the Group, and general manager assistant and deputy general manager of the Electric Machinery Company of the Group. Mr. Gong was appointed as chairman of Archeng Relay Group Company and Archeng Relay Company Limited since 1999. Since August 2000, he was appointed as deputy chairman and general manager of HE and since September 2000, Mr. Gong was appointed as deputy chairman of the Company. Since May 2006, he was appointed as chairman and party secretary of HE and in September of the same year, chairman and party secretary of the Company. Mr. Gong resigned in March 2015.

Mr. Zou Lei, born in June 1966, a senior economist with a doctor's degree, now the chairman and party secretary of HE, and chairman and party secretary of the Company. Mr. Zou graduated from Jiamusi Technical College in July 1988, and then he obtained a doctorate degree from Harbin Institute of Technology. Mr. Zou joined HE in 1988 and was the dispatcher, Party office secretary, league deputy secretary, secretary in dispatching room of production division in the former Harbin Boiler Works, Party branch secretary of pipe first branch factory, factory director of heavy vessel workshop, factory director of Pingshan branch factory, production director, deputy general manager, chairman, general manager and Party committee deputy secretary of Harbin Boiler Company Limited. Since December 2008, Mr. Zou was elected as standing committee member of the Party Committee, director and general manager of HE. He has been a director of the Company since February 2009 and the deputy chairman of the Company since December 2009. He has been the chairman and party secretary of HE since February 2015 and chairman and party secretary of the Company since March 2015.

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Mr. Zhang Ying-jian, born in November 1964, a master's degree holder and senior engineer, is currently the deputy general manager of HE, an executive director and a senior Vice-president of the Company, and a director of Jiamusi Electric Machine Company Limited. Mr. Zhang graduated from the Department of Thermal Engineering at Tsinghua University with a bachelor's degree in gas turbines in July 1988 and subsequently obtained a master's degree from Harbin Institute of Technology. Mr. Zhang joined HE in 1991. He was formerly a project engineer, project manager, business representative, deputy controller of Harbin Power Station Equipment Import and Export Company, deputy chief engineer, deputy manager of financial planning division and deputy general manager of Harbin Power Engineering Company Limited. He became the deputy general manager of HE since September 2007, and a non-executive director of the Company since January 2013, and an executive director and the senior Vice-president of the Company since March 2013.

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Mr. Song Shi-qi, born in December 1958, a senior engineer, is currently the deputy general manager of HE, an executive director and senior Vice-president of the Company. Mr. Song graduated from Harbin Electrical Machinery Plant Technical School in 1980 and subsequently attained post-graduate qualification in economic management from Heilongjiang Provincial Committee Party School. Mr. Song joined HE in 1980. He was formerly a youth league committee member, deputy secretary, secretary of Harbin Electrical Machinery Works and a secretary of the party sub-division at the specialized equipment factory, a party standing committee member of both Harbin Power Plant Equipment Group Corporation and the Company, the head of the Company's Organization Department, as well as an assistant to the general manager of the Company. He has been the deputy party secretary and a secretary of the disciplinary committee, director, deputy managing director, party secretary and deputy chairman of the machinery division of the Group since 1998. He became the deputy general manager of HE since August 2009 and has been a non-executive director of the Company since January 2013, and an executive director and the senior Vice-president of the Company since March 2013.

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Mr. Shang Zhong-fu, born in March 1961, is a senior engineer at researcher level with an MBA degree. He now serves as an assistant to the general manager of HE, an executive director and Vice-president of the Company. Majoring in steam turbine, Mr. Shang graduated from Harbin Institute of Technology in 1982 and joined HE in the same year. He has been an assistant section head and deputy head of the Design Research Institute, deputy chief economist and deputy chief engineer of the former Turbine Works of the Group. He was appointed as a deputy general manager of the Turbine Company of the Group since October 1998 and then the chairman and general manager since November 1999 respectively. In September 2000, he was appointed as an executive director of the Company and in February 2002, as a deputy general manager of the Company. He was appointed as the Vice-President of the Company since March 2013.

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Independent Directors

Mr. Sun Chang-ji, born in August 1942, a senior engineer at researcher level, is a special advisor to China Machinery Industry Federation, and deputy head of the advisory committee for State Nuclear Power Technology Corporation. Mr. Sun graduated from Tsinghua University in September 1966, and started his career in 1968. He worked in Sichuan Oriental Turbine Factory, serving as Section Head, Workshop Director, Deputy Factory Manager and Factory Manager. In January 1991, he was appointed as Deputy Director-general of the production department of the Ministry of Machinery Industry of the PRC, and later he became Vice Minister of the Ministry of Machinery Industry of the PRC in April 1993. In April 1998, he became First Deputy Director-general of the State Administration of Machinery Industry of the PRC (deputy ministerial level). He became Deputy Party Secretary and Vice President (deputy ministerial level) of Bank of China in January 1999, and served concurrently as President of China Orient Asset Management Corporation for the period from September 1999 to August 2001. He became Vice Chairman of Bank of China in November 2000, Vice Chairman of Bank of China (Hong Kong) Limited in September 2001 and Secretary of Commission for Discipline Inspection of Bank of China in June 2003 concurrently. From August 2004, he has been appointed as Vice Chairman of Bank of China (Hong Kong) Limited and Vice Chairman of China Machinery Industry Federation concurrently. He was elected as a member of the 10th CPPCC National Committee in January 2003, and deputy head of the Preparatory Team for State Nuclear Power Technology Corporation in October 2004 concurrently. Since December 2009, he has been an independent director of the Company. He resigned in September 2014.

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Mr. Fan Fu-chun, born in June 1948, a master of business administration degree holder, is currently an honorary president and chairman of the board of strategy of Shanghai Futures and Derivatives Research Institute, a member of Shenzhen-Hong Kong Cooperation Advisory Committee in Qianhai, a visiting professor of Hunan University and an independent supervisor of PetroChina Company Limited. Mr. Fan was previously a director of business management office of / ˆ H @ (Beijing Tooling Factory), a director of system reform office of / S À ... (Beijing No.1 Light Industry Bureau) and a vice director of economic department of Œ 7 ˆ L (All-China Federation of Industry $ P N N F S D S F ' B O X B T B E J S F D P U G P H % F Q B S U P N G F J O T U F E Company Supervision of China Securities Regulation Commission in 1993, a vice chairman and party committee member of China Securities Regulation Commission in 1997, a vice party secretary and vice chairman of China Securities Regulation Commission in 2002 and a member of the Economic Committee of the 11th Chinese People's Political Consultative Conference in 2008. He has been appointed as an independent director of the Company since June 2013 and he resigned in May 2014.

Mr. Jia Cheng-bing, born in July 1942, a senior engineer with a bachelor's degree, is a special advisor to China Machinery Industry Federation, and president of China Foundry Association. He graduated from Hefei University of Technology in Foundry in 1965, and started his career in July of the same year. He served as chief and deputy chief at Ministry of Machinery Electronics Industry and Ministry of Machine Building Industry, director of Personnel and Labor Division, head of office and Party Commissioner at Ministry of Machine Building Industry. From March 2001, he served as chairman of the Supervisory Committee for various large State Council organizations (China National Materials Industry Group, China State Shipbuilding Corporation, The State Development and Investment Corp.). In February 2006, he was appointed as deputy managing directors and special advisor to China Machinery Industry Federation and president of China Foundry Association. He has been an independent director of the Company since September 2006 and he resigned in September 2014.

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Mr. Yu Wen-xing, born in October 1953, is a retired senior engineer at professor level with a bachelor's degree. Mr. Yu graduated from North China University of Water Resources and Electric Power, majoring in water resources and hydropower engineering and construction. Mr. Yu started his career in 1971. He has worked at "Wu-qi" Youth Farm (˜ ž V ™ ¡ Ë 5) in Jiegou, Boai County, Henan Province, studied geology at Changsha Metallurgy Industry College (— Í 7 – ˆ 8 ª ç) under the Ministry of Metallurgical Industry and worked at Handan-Xingtai Administrative Bureau for Metallurgy and Mine (R 7 – $ † M # …)under the Ministry of Metallurgical Industry. He has also been a cadre of academic exchange division of the China Water Resources Association (• 7 å ; X 6 ª ” t t \ ), secretary of the secretariat and engineer of general office at the Ministry of Water Resources and Electric Power (å e Å), deputy secretary at division grade of general office at the Ministry of Energy (• U Å), deputy director and director of comprehensive office at the Agriculture and Electricity Department (5 e !) and chief secretary at division grade of Water Resources and Electric Power Department of Ministry of Energy and Industry (e b ˆ 8 Å å e !). He has served as a deputy director of Beijing representative office of China Three Gorges Corporation since 1993, and has subsequently been head of international cooperation department, head of general management department, head of construction department at Xiangjiaba Dam and assistant to the general manager. He has also served as a party committee member and head of discipline department of China Three Gorges Corporation since March 2006 and party committee member, head of discipline department and director of China Three Gorges Corporation since December 2010, and retired in June 2014. He has been an independent director of China XD Electric Co., Ltd. since December 2014. He has been appointed as an independent director of the Company since March 2015.

SUPERVISORS

Supervisors representing shareholders

Mr. Feng Yong-qiang, born in September 1963, is a senior policy advisor with a master degree. He is currently the vice secretary of the Party Committee of HE and the Company and the Chairman of the Supervisory Committee of the Company. He graduated from Harbin Institute of Electrical Engineering specializing in Electric Machinery in 1985, and later obtained a master degree in Business Administration from Harbin Institute of Technology. Mr. Feng joined HE in 1985, and has worked as a technician of the machinery department of the Boiler Company of the Group, the secretary of the Party Committee office, the vice secretary of the Communist Youth League, secretary, director

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Mr. Bai Shao-tong, born in February 1963, is a senior engineer with a bachelor's degree in engineering. He is now a standing committee member of the Party Committee and a secretary of the disciplinary committee of HE and the Company. Mr. Bai graduated from Northeast China Institute of Electric Power. He was the deputy head and head of the power station department of the Electric Machinery Bureau under the Ministry of Electric Power Industry, manager of the power station equipment department of • 7 6 e e g ê ˆ û€ « ≮ ® ! (China Huadian Power Station Equipment Engineering Group Corporation), deputy general manager and general manager of • 7 6 e e g ê ˆ û€ « ≮ ® ! (China Huadian Power Station Equipment Engineering Group Corporation), and general manager of Jiangsu branch of China Huadian Corporation. Mr. Bai has been a standing committee member and a secretary of the disciplinary committee of HE since December 2011, and a standing committee member of the Party Committee and a secretary of the disciplinary committee of the Company since April 2012. He has been the chairman of the Supervisory Committee of the Company since May 2012 and he resigned in November 2014.

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Mr. Chen Guang, born in August 1964, a senior engineer with a postgraduate degree, is a supervisor representing shareholders of the Company and director of the Corporate Management and Development Department of the Boiler Company of the Group. Mr. Chen graduated from Xi'an Jiaotong University in 1986 and joined HE in the same year. He was appointed as a designer of the Design Department of the Boiler Company of the Group, secretary of factory office, deputy manager of the spare parts company, deputy secretary and chairman of Labor Union of No. 2 Pipe Workshop, secretary and head of Drum Workshop, head, director of Security Department and secretary of No.1 Pipe Workshop. He has been appointed as the director of the Corporate Management and Development Department of the Boiler Company since August 2009. He has been a supervisor representing shareholders of the Company since December 2009.

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Supervisors representing staff and workers

Ms. Lu Chun-lian, born in March 1959, a retired senior engineer with bachelor's degree. Ms. Lu studied Insulation Material in Harbin Institute of Electrical Engineering and graduated in 1982. She joined HE in the same year and was appointed as an engineer and deputy director of Insulation Material Research Office under Electrical Machinery Research Institute and head of coil factory in the Electric Machinery Company. She has been the head of coil workshop in the Electric Machinery Company since 2002, deputy chief engineer of the Electric Machinery Company since March 2008, and deputy director of the Electric Machinery Institute under the Electric Machinery Company since April 2009. She has been a supervisor representing staff and workers of the Company since September 2003 and she resigned in November 2014.

Mr. Zhang Wen-ming, born in September 1974, a senior engineer with a master degree, now a supervisor representing staff and workers of the Company and the head of Organization Department of the Party Committee of the Turbine Company of the Group. Mr. Zhang graduated from Anshan Institute of Iron and Steel Technology, majoring in metal press processing. Then he obtained a master degree in engineering from Harbin Institute of Technology. Mr. Zhang started his career in July 2000. He was the engineer of the material research center, secretary to the general manager, deputy director of the technology and management division and deputy director and director of the corporate development center of the Turbine Company of the Group. He has been the head of Organization Department of the Party Committee of the Turbine Company of the Group since January 2013 and has been a supervisor representing staff and workers of the Company since January 2013.

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Mr. Zhang Jun-quan, born in February 1964, is a senior engineer with a bachelor degree. He is currently a supervisor representing staff and workers of the Company and the head of the Party Committee of the Organization Department of Electric Machinery Company of the Group. Mr. Zhang graduated from Shenyang Architectural and Civil Engineering Institute specializing in Machinery Engineering and Equipment. Mr. Zhang joined HE in 1986, and has worked as a technician, the deputy head of technical room, deputy director and director of the Coil Factory of Electric Machinery Company of the Group and head of equipment department of Electric Machinery Company. He has been the head of the Organization Department of Party Committee of Electric Machinery Company since March 2013 and a supervisor representing staff and workers of the Company since November 2014.

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Independent Supervisor

Mr. Xu Er-ming, born in December 1949, a professor and supervisor of Ph.D. candidates with a doctorate degree, is an independent supervisor of the Company and Deputy Dean of the Graduate School of the Renmin University of China. Mr. Xu graduated from the Department of Industrial Economics of Renmin University of China in 1978 and stayed at the university after his graduation, where he worked as a tutor, lecturer, associate professor and professor. He was appointed as the director of office for Canada-China Management Education Program of the Renmin University of China in 1991, and later the deputy director of the Department of Industrial Economics, the deputy director of the Center for Business Administration Education and the deputy director of Institute of Foreign Economic Management of the Renmin University of China at the same time. He was appointed as the Deputy Dean of Business Administration School of the Renmin University of China in 1996 and the Dean in 1997. He has been appointed as the Deputy Dean of the Graduate School of the Renmin University of China since June 2006. He is now Deputy Secretary-General of the Tenth Session of the Academic Committee, and a member of the Third Session of the University Affairs Committee of the Renmin University of China, a member of the Sixth Session of the Business Administration Academic Appraisal Group of the Academic Degree Committee of the State Council, Vice Chairman of the Chinese Enterprise Management Research Association, and Chairman of Beijing Contemporary Enterprise Research Association, independent non-executive director of China Telecom Corporation Limited. He is entitled to the State Council's special government allowances. He has also been appointed as Associate Convener of the Fifth Session of the Business Administration Academic Appraisal Group of the Academic Degree Committee of the State Council, a member of the Advisory Committee of National MBA Education, and a director of the Advisory Committee for University Business Administration Education led by Ministry of Education. Professor Xu is an adjunct professor at over 10 universities in China including Zhejiang University, and has been teaching at New York State University at Buffalo, the University of Scranton, the University of Technology, Sydney, Australia, the Kyushu University, Japan and Hong Kong Polytechnic University. He has been an independent supervisor of the Company since December 2009.

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SENIOR MANAGEMENT

Mr. Miao Li-jie, born in June 1956, holds a doctorate degree and the title of researcher-grade senior engineer. He is now a director, a deputy general manager and a standing committee member of the Party Committee of HE, and the senior Vice-president and a standing committee member of the Party Committee of the Company. Mr. Miao graduated from the Automatic Control Engineering Department of Harbin University of Science and Technology (Þ ' õ Å ¦ } ª › S Y 8) in 1982, and obtained a master degree from Shenyang University of Technology and a doctorate degree from Tsinghua University. He obtained a post-doctorate diploma from the post-doctorate research centre of Harbin University of Engineering. Mr. Miao joined HE in 1985, and worked as the engineer, senior engineer, department supervisor, manager of operation department, assistant to general manager and deputy chief engineer of Harbin Electrical Machinery of the Group, and general manager and chairman of Harbin National Engineering Research Center Co., Ltd (Þ ' õ 7 • ˆ û ¼ ú • Ð Þ " ® !), as well as assistant to general manager, deputy general manager and a standing committee member of the Party Committee of the Company. He has been a director, a deputy general manager and a standing committee member of the Party Committee of HE since 2009, and a Senior Vice-President of the Company since March 2013.

Mr. Liu Zhi-quan, born in July 1968, is a senior accountant and certified public accountant in China with a doctor's degree. He now serves as the chief accountant of HE and Senior Vice-President of the Company. Mr. Liu graduated from Harbin Institute of Technology, majoring in industrial accounting with a bachelor's degree. He subsequently obtained a doctorate degree from the same university. Mr. Liu joined the Group in 1991. He has been an assistant to the director of finance department of the Boiler Company of the Group, the deputy director and the director, and the deputy chief accountant and head of finance department of the Group. He was appointed as the deputy general manager of the Harbin Boiler Company Limited in April 2001. Mr. Liu has been serving as deputy general manager of the Company since September 2006, Vice-President of the Company since March 2013 and Senior Vice-President of the Company since November 2014. He assumed the post as the company secretary of the Company from January 2012 to January 2013.

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Mr. Zhang Hai-quan, born in September 1961, is a senior engineer with an MBA degree. He now serves as an assistant to the general manager of HE and Vice-president of the Company. Mr. Zhang graduated from Harbin Institute of Electrical Engineering in 1984 and joined HE in the same year. He has been an engineer of the enginery repairing workshop, the secretary and an assistant to the director of the Communist Party Committee Office of the former Boiler Works of the Group. In 1994, Mr. Zhang participated in the reorganization of HE to be a shareholding enterprise and the issuance and listing of the Company's shares. Since November 1994, he has been appointed as the deputy director of the general manager office, the deputy director of the planning department and director of the enterprise management department, and the director of the auditing and law department of the Boiler Company of the Group. Since 1998, he was a member of the HE's and the Company's Standing Communist Party Committee and director of the organization department. Since 1999, Mr. Zhang was appointed as the secretary of the Communist Party Committee and vice chairman of Archeng Relay Group Company and Archeng Relay Company Limited. He has been serving as the deputy general manager of the Company since October 2000 and the Vice-President of the Company since March 2013.

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Mr. Han Jian-wei, born in June 1955, is a senior engineer at researcher level with a bachelor's degree. He now serves as an assistant to the general manager of HE and the Vice-president of the Company. Mr. Han started his career in October 1973.He graduated from Harbin Institute of Technology in 1982 with a bachelor's degree. He has been a designer of the design division, an installation worker and the deputy director of the customer service division and the head and director of the production division of Harbin Boiler Company Limited of the Group. He has also served as the deputy chief economist, the deputy general manager, the chairman and the general manager of Harbin Boiler Company Limited. He has been serving as the deputy general manager of the Company since December 2007 and the Vice-President of the Company since March 2013.

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Report of the Directors

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SUBSIDIARIES (continued)

As at 31 December 2014, details of the Company's principal subsidiaries are set out in Note 49 to the financial statements in the annual report.

RESULTS

The results of the Group for the year ended 31 December 2014 are set out in the consolidated statement of profit or loss on page 70 of the annual report.

DIVIDEND

A dividend of RMB0.04 per share (appropriate tax included) for 2014 was proposed by the board of directors.

Dividends payable to shareholders of H share will be paid in Hong Kong dollar at the average of the exchange rates quoted by the People's Bank of China for the five days preceding 20 March 2015, which is RMB1 for HK$1.2610. The dividend for every H share will be HK$0.0504.

CLOSURE OF REGISTER

The Register of members of the Company will be closed from 22 May 2015 to 28 May 2015 (both dates inclusive). Final dividend for 2014 will be distributed on 23 July 2015 to shareholders whose names appear in the Register of members of the Company on 22 May 2015. In order to qualify for the final dividend for 2014, all completed transfers accompanied with the relevant share certificates must be lodged with the Company's Registrar, namely Hong Kong Registrars Limited at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong no later than 4:30 p.m. on 21 May 2015.

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DIVIDEND TAX

Pursuant to the “PRC Individual Income Tax Law” (• • 6 [O • q 7 H [Ô { ü , ‘), the “PRC Implementation Regulations of the Individual Income Tax Law” (• • 6 [O • q 7 H [Ô { ü , ¼ D â 7 ‘), the “Notice of the State Administration of Taxation in relation to the Administrative Measures on Preferential Treatment Entitled by Nonresidents under Tax Treaties (Tentative)” (• 7 • ü < ... ë õ ™ ï ” ¢ ¢ O . a ü × X D > M # l ,€) •Y ·] ‘ , the Company will withhold and pay the individual income tax in respect of the dividend (bonus) received by the individual H Shareholders from the Company. The individual H Shareholders of the Company may be entitled to certain tax preferential treatments pursuant to the tax treaties between the PRC and the countries in which the individual H Shareholders are domiciled and the tax arrangements between Mainland China and Hong Kong (Macau). The Company will determine the capacity of the individual H Shareholders based on the registered address as recorded in the register of shareholders of the Company on the book closure date, i.e. 22 May 2015. The detailed arrangement will be as follows:

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For individual H Shareholders who are Hong Kong or Macau residents, and those whose country of domicile has entered into a tax treaty with the PRC stipulating a dividend tax rate of 10%, the Company will withhold and pay individual income tax at the rate of 10% on behalf of the individual H Shareholders;

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For individual H Shareholders whose country of domicile has entered into a tax treaty with the PRC stipulating a dividend tax rate of less than 10%, the Company will withhold and pay individual income tax at the rate of 10% on behalf of the individual H Shareholders. The individual H Shareholders may apply for refund of excess amount of individual income tax withheld by providing relevant information for approval by taxation authority;

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For individual H Shareholders whose country of domicile has entered into a tax treaty with the PRC stipulating a dividend tax rate of over 10% but less than 20%, the Company will withhold and pay individual income tax at the actual rate stipulated by the relevant tax treaty on behalf of the individual H Shareholders;

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Report of the Directors

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DIRECTORS' AND SUPERVISORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

During the year, none of the Directors or Supervisors has any interest, whether directly or indirectly, in the contracts of significance, to which the Company or any of its subsidiaries is a party.

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REMUNERATION OF DIRECTORS AND SUPERVISORS

Details of the remuneration of the Directors and Supervisors of the Company for the year ended 31 December 2014 are set out in note 8 to the financial statements in the annual report.

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FIVE HIGHEST PAID PERSONNEL

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STAFF RETIREMENT AND BENEFIT SCHEME

Details of the staff retirement and benefit scheme are set out in Note 35 to the financial statements in the annual report.

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FIXED ASSETS

Details of the movements in fixed assets of the Group are set out in Note 12 to the financial statements in the annual report.

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RESERVES

As at 31 December 2014, the Company's reserves available for distribution are RMB1,317.39 million. Movements in the reserves of the Group during the year are set out in the consolidated statement of changes in equity to the financial statements.

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FINANCIAL HIGHLIGHTS

The financial highlights of the Group for the last five years are set out in the section headed "Financial Highlights" in the annual report.

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BORROWINGS

Details of bank loans and other borrowings of the Group are set out in Note 33 to the financial statements in the annual report.

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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 PRC Law, which would require the Company to issue new shares to the existing shareholders according to their respective proportions of shareholding.

MAJOR LITIGATION

In 2014, Harbin Power Equipment National Engineering Research Center Co., Ltd, a subsidiary of the Company, received a notice of arbitration served by Daqing Arbitration Commission. A customer filed a claim for an aggregate amount of RMB192,057,000 against Harbin Power Equipment National Engineering Research Center Co., Ltd to Daqing Arbitration Commission. Harbin Power Equipment National Engineering Research Center Co., Ltd has appealed to Supreme People's Court of Heilongjiang Province in relation to disputing jurisdiction and no judgment has been delivered by Supreme People's Court of Heilongjiang Province yet. The case has not been heard yet and the results of the arbitration remain uncertain.

MATERIAL CONTRACTS

Details of the material contracts entered into by the Group during the year are set out in the sections respectively headed "Management Discussion and Analysis" and "Disclosure of Significant Events" in the annual report.

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MAJOR SUPPLIERS AND CUSTOMERS

1. During the period, the Group's five largest suppliers attributable 14.60% of the Group's total purchases. Among which China First Heavy Industries was the largest supplier, representing 3.95% of the total purchases.

2. During the period, the Group's five largest customers attributable 28.54% of the Group's total turnover. Among which China Huaneng Group was the largest customer, representing 10.69 % 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 more than 5% of the Company's share capital) has any interest in the above-mentioned suppliers or customers.

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USE OF PROCEEDS

The use of proceeds raised by the Company during the period is detailed in the section headed "Management Discussion and Analysis" in the annual report.

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TAX POLICIES

According to the provisions of Administrative Measures with regard to the Recognition of High and New Technology Enterprises (• ÷ - ¦ " † 8 © › M # l , ') jointly issued by the Ministry of Science and Technology, the Ministry of Finance and the State Administration for Taxation of the PRC on 14 April 2008 and the Administrative Guidance with Regard to the Recognition of High and New Technology Enterprises (• ÷ - ¦ " † 8 © › M # ˆ * 8 Ï ') jointly issued by the Ministry of Science and Technology, the Ministry of Finance and the State Administration of Taxation on 8 July 2008, corporations including the Company and five of its subsidiaries, namely Harbin Electrical Machinery Company Limited, Harbin Boiler Company Limited, Harbin Turbine Company Limited, Harbin Electric Power Equipment Company Limited and HE Harbin Power Plant Valve Company Limited were re-recognised as High and New Technology Enterprises, which entitles the companies to a 15% preferential income tax rate and this is significant to their long-term development.

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TAX POLICIES (continued)

In accordance with regulations of the State Administration of Taxation, the rate for tax rebate applicable to the Group's new export products contracts is 13% with effective from 15 October 2003.

Pursuant to the Implementation Measures of the Provisional Regulations of the PRC on Value-added Tax•(• 6 [O • q 7 # = ü r â 7 ¼ D Z Æ '), the Group is included in the general framework of the value-added tax system reform, which allows the Group to deduct the value-added tax incurred for the purchase of equipment.

Under 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 (• • • • / e 7 ë ë õ ¼ D ® ü ˆ 8 ? ® È 3 · + Y ð • '), the Group will continue to enjoy the relevant favorable policies in supporting such revitalization for historical industrial bases of the northeast regions.

CONNECTED TRANSACTIONS

For details of the related party transactions, please see Note 45 to the financial statements in the annual report.

The Group carried out the following connected transactions (other than connected transactions that are exempted under Rule 14A.33 of the Listing Rules) during the year ended 31 December 2014:

1. The Framework Agreement with Harbin Electric Corporation (HE)

On 31 December 2013, the Group entered into the continuing connected transaction — the Framework Agreement with HE, pursuant to which, (1) the Group and HE (together with its subsidiaries excluding the Group, "the Parent Group") will supply multiple benefits and support services to each other; (2) the Group and the Parent Group will purchase certain materials and parts from each other during the three financial years from 1 January 2014 to 31 December 2016.

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CONNECTED TRANSACTIONS (continued)

1. The Framework Agreement with Harbin Electric Corporation (HE) (continued)

During the year from 1 January 2014 to 31 December 2014, the transaction cap for providing services and sales of material and parts by the Company to the Parent Group was RMB70.30 million and the actual transaction amount was RMB29.829 million. The transaction cap for receiving services and purchasing material and parts by the Company from the Parent Group was RMB343.52 million and the actual transaction amount was RMB252.622 million. The amounts of such transaction did not exceed the cap.

2. the Financial Service Framework Agreement between HE Finance Company Limited (the Finance Company), a subsidiary of the Company, and Harbin Electric Corporation (HE)

On 31 December 2013, the Finance Company and HE entered into continuing connected transaction — the Financial Service Framework Agreement, pursuant to which, the Finance Company will provide financial services to HE (together with its subsidiaries excluding the Group, “the Parent Group”), including deposit services, loan services, clearance services and other financial services from 31 December 2013 to 30 December 2016.

During the year from 1 January 2014 to 31 December 2014, the transaction cap of loan services provided by the Finance Company to the Parent Group was RMB250.00 million and the actual transaction amount was RMB20.00 million. The transaction amount of such transaction did not exceed the cap.

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CONNECTED TRANSACTIONS (continued)

3. the Management Entrustment Agreement with Harbin Electric Corporation (HE)

On 23 March 2013, the Company entered into the Management Entrustment Agreement with HE, pursuant to which, the Company will provide management services to Harbin Electric, including but not limited to administration management, human resources and compensation management (including external affairs management), technology and quality control, assets and financial management, integrated organization management, statistic and economic operations management, auditing and internal control management, investments management, strategic developments management, legal affairs management, communications management, marketing management, projects management, production safety management, procedure monitoring management, political affairs and other affairs management. HE will pay an annual management entrustment fee of RMB3.28 million to the Company, and such fee was paid in full in 2014.

CONFIRMATION ON CONNECTED TRANSACTIONS

The Independent Directors of the Company have reviewed the related party transactions (as defined in the Listing Rules) referred to in Note 45 to the financial statements and confirmed that:

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

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

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 those available to third parties.

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CONFIRMATION ON CONNECTED TRANSACTIONS (continued)

The auditor of the Company were engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor have issued their unqualified letter containing their findings and conclusions in respect of the continuing connected transactions disclosed above by the Group in accordance with Rule 14A.56 of the Listing Rules. A copy of the auditors' letter has been provided by the Company to the Stock Exchange.

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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.

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Ú 2014 Ë 12 Ü 31 Ú d I ® ! < p I ‰ 1,376,806,000 p d I • ï Î [5 Þ 701,235,000 p d & < p I Y 50.93% d ¤ . H p p 5 Þ 675,571,000 p d & < p I Y 49.07% f

SHAREHOLDING STRUCTURE

As at 31 December 2014, the share capital of the Company comprised of 1,376,806,000 shares, of which 701,235,000 shares were held by the promoter (representing 50.93% of the entire share capital) and 675,571,000 shares were held by overseas holders of H shares (representing 49.07% of the entire share capital).

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NUMBER OF SHAREHOLDERS

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As at 31 December 2014, the top ten registered shareholders who hold the largest quantity of shares were as follows:

• î Number	p H Name of Shareholders	p p Number of Shares	5 p • Percentage of Shares Held	W Remarks
1 e	Þ ' õ e « ®! Harbin Electric Corporation	701,235,000	50.93%	7 Þ , [p state owned equity interest shares
2 e	HKSCC NOMINEES LIMITED	629,488,597	45.72%	H p shares
3 e	TANG KEUNG LAM	21,000,000	1.53%	H p shares
4 e	TANG §s INVESTMENTS LIMITED	17,000,000	1.23%	H p shares
5 e	HIGH SUMMIT GROUP LIMITED	5,000,000	0.36%	H p shares
6 e	YIP CHOK CHIU	360,000	0.03%	H p shares
7 e	LU NIM KWOK ALBERT	250,000	0.02%	H p shares
8 e	CHEUNG YUM TIN	200,000	0.01%	H p shares
9 e	HO YUN HUNG	200,000	0.01%	H p shares
10 e	LAM MAN LAI	200,000	0.01%	H p shares

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ANALYSIS FOR SHAREHOLDING OF HOLDERS OF H SHARES (AS RECORDED IN REGISTER OF MEMBERS AS AT 31 DECEMBER 2014)

Range	[p Number of Shareholders	5 p p Number of Shares Held	& H p • Percentage to Issued H Shares
1–1,000	5	403	0.00%
1,001–5,000	58	160,000	0.02%
5,001–10,000	51	426,000	0.06%
10,001–100,000	38	1,176,000	0.17%
100,001– ø j	10	673,808,597	99.74%
µ]€ « Æ •	Rounded down		0.01%
¥	Total	162	675,571,000	100%

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MODEL CODE

The Company, having made specific enquiry, confirms that all members of the Board complied with the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 of the Listing Rules throughout the period.

CORPORATE GOVERNANCE CODE

The Company has complied throughout the year of 2014 with the Corporate Governance Code and Corporate Governance Report contained in Appendix 14 of the Listing Rules of the Stock Exchange.

AUDIT COMMITTEE

The Audit Committee had reviewed the audited financial statements and connected transactions of the Group for the year ended 31 December 2014, and discussed with the Board the financial reporting procedures as well as the internal control system of the Group.

THE ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The 2014 Environmental, Social and Governance Report of the Company will be disclosed separately in 2015.

AUDITORS

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Report of the Supervisory Committee

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To all shareholders:

For the year ended 31 December 2014 ("the Year"), all members of the Supervisory Committee ("the Supervisory Committee") of Harbin Electric Company Limited ("the Company") duly performed their Supervisory Committee functions in the best interests of the Company and minority shareholders as a whole in accordance with the relevant regulations of the PRC Company Law, the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and the Articles of Association of the Company. The Supervisory Committee has carried out an all-round supervision on areas including assets allocation, operation management, financial conditions and senior management's performance of the Company. In addition, the Supervisory Committee actively participated in significant events of the Company, such as the Company's production and operation etc., which pushed forward the Company's work in a smooth manner.

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For the Company's work during the Year, the Supervisory Committee presents the following independent opinions:

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1. During the year, the Company strictly complied with the nation's laws and regulations, operated in accordance with the procedures regulating listing companies, and duly executed various resolutions passed at the general meetings. The Company achieved satisfying results from all works during the year, resulting in a strong and excellent company which laid a solid foundation for the smooth and faster development.

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2. The Supervisory Committee is aware that the directors and its senior management of the Company have duly and actively carried out their duties and protected the best interests of the shareholders. They have seriously carried out the resolutions and decisions passed at the general meetings and meetings of the Board. In addition, no violation against the nation's laws and rules and the Articles of Association of the Company or acts against the interests of the Company, the shareholders and the employees were reported.

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3. The Supervisory Committee has reviewed the Company's financial system and conditions and concludes that the Company's financial system has an integrated structure and a sound system, and the financial works have been operated orderly according to the internal control system and risk management. Relevant information such as the annual financial report and the dividend payment scheme proposed by the Board of Directors for approval at the Annual General Meeting, has objectively and comprehensively reflected the financial position and operating results of the Company. The dividend payment scheme has taken into account both the interests of the shareholders and the Company's long-term development. Statutory surplus reserve fund provided in the year have observed the provisions of the laws and regulations and the Articles of Association of the Company.

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4. The Supervisory Committee has reviewed the Report of the Directors and concludes that the report gives an objective and true picture of the works performed by the Company during the Year.

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The Supervisory Committee sincerely appreciates the trust and support from every colleague and the shareholders of the Company. While continue to explore new supervisory approaches and methods, the Supervisory Committee will further consolidate resources for supervision so as to enhance our management, helping and ensuring the realization of the Company's targets for all works in 2015.

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By order of the Supervisory Committee
Feng Yong-qiang
Chairman

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Harbin, the PRC
20 March 2015

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Corporate Governance Report

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The Company has been actively perfected the Company's corporate governing structure and standardized the Company's operation through strictly complying with the Company Law of the People's Republic of China, the Securities Law of the People's Republic of China and the relevant provisions of China Securities Regulatory Commission.

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During the year 2014, the Company fully complied with all code provisions set out in the Corporate Governance Code and Corporate Governance Report contained in the Appendix 14 of the Listing Rules of the Stock Exchange.

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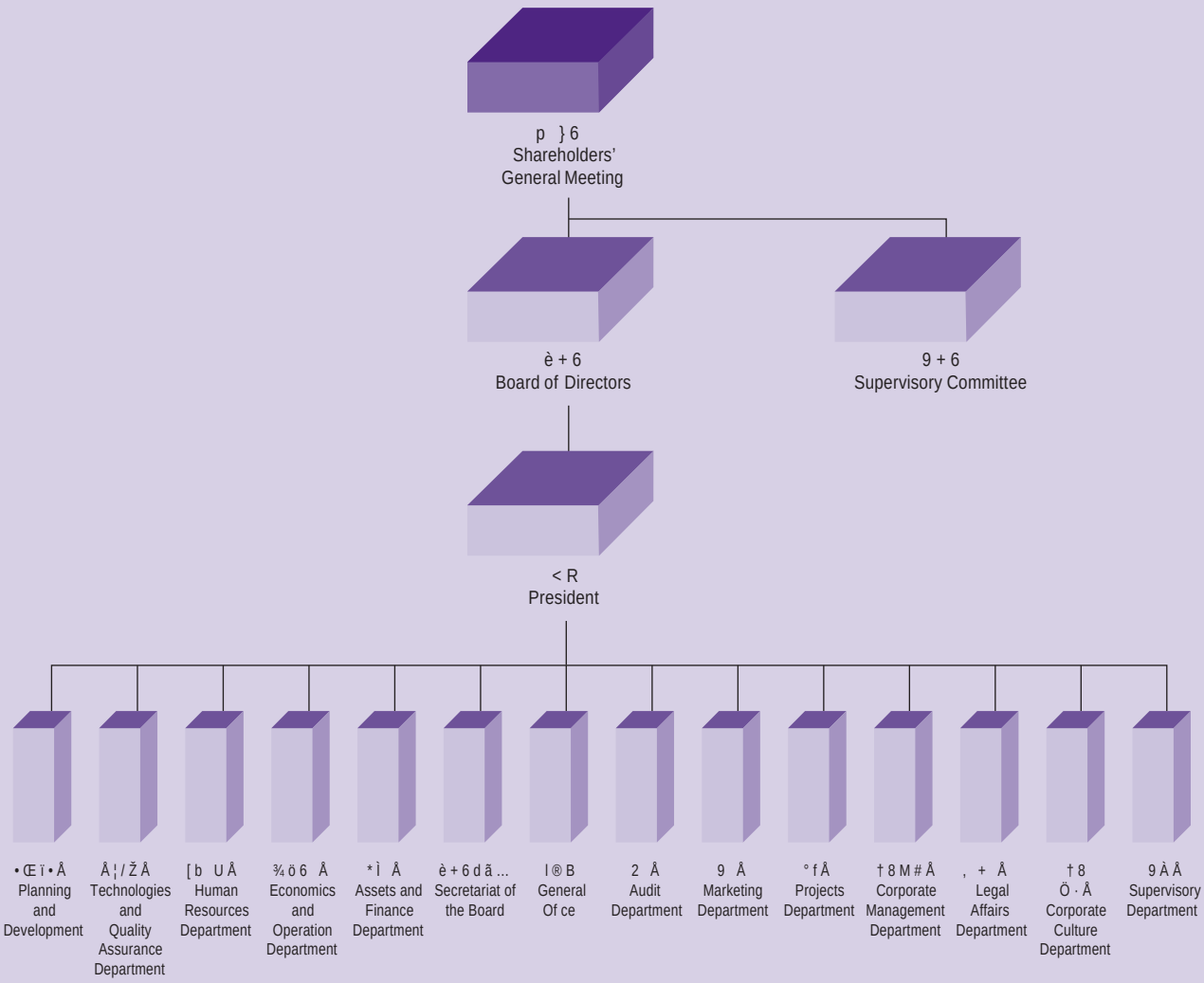
ORGANIZATION STRUCTURE

The Company's organization structure is as follows:



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SHAREHOLDERS AND SHAREHOLDERS' GENERAL MEETING

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The Company safeguards shareholders' interests, treats all shareholders equally, and initiates active participation of shareholders in corporate governance and management. As the stakeholders of the Company, shareholders enjoy the rights provided by laws and regulations and undertake commensurate obligations. The shareholders enjoy rights to information and rights to decision-making for the Company's important matters. Shareholders may put forward their enquiries on any relevant matters to the Board. The Board shall provide sufficient information to enable these enquiries to be properly directed. The general meeting of Shareholders is the organ of authority of the Company, and it exercises its functions and power according to laws.

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Harbin Electric Corporation, a state-owned company registered in the People's Republic of China, is the controlling shareholder of the Company.

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In 2014, the Company held one Annual General Meeting, one H shares class meeting, one domestic shares class meeting and one Extraordinary General Meeting.

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BOARD OF DIRECTORS

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The major duties of the Board of Directors are to exercise the discretion in management decision according to the authorization by the general meeting with respect to the development strategies, management structure, investment and financing, planning and management and financial control, which are set out in details in the Articles of Association.

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1. Composition

In 2014, the Board of Directors of the Company is the seventh session Board since its establishment, which is comprised of eleven Directors, five of whom are independent Directors. During the period, 3 independent non-executive Directors resigned pursuant to relevant requirements of state cadre management, of which, Mr. Fan Fu-chun resigned on 16 May 2014, while Mr. Sun Chang-ji and Mr. Jia Cheng-bing resigned on 29 September 2014. As at 31 December 2014, the Board is comprised of 8 Directors, including 4 executive directors, 2 non-executive directors and 2 independent non-executive directors. Due to the resignation of Mr. Fan, Mr. Sun and Mr. Jia, the number of independent non-executive directors of the Company has fallen below the requirement under Rule 3.10(1) and Rule 3.10A of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), which stipulated that the board of a listed issuer must include at least three independent non-executive directors and the independent non-executive directors must represent at least one-third of the board. The Company has filed a description regarding the number of directors and applied for a waiver from compliance with the Listing Rules to the Stock Exchange, and has issued announcements regarding the relevant matters on 25 September 2014 and 29 December 2014 respectively. On 18 March 2015, Mr. Yu Wen-xing was appointed as an independent non-executive director of the Company at the 15th Board meeting of the seventh session of Board of Directors.

In January 2015, the Company issued an announcement, stating that Mr. Gong Jing-kun, the chairman and non-executive director of the Company tendered to the Company his resignation from the position of chairman, non-executive director and chairperson of nomination committee of the Company. The resignation becomes effective once the new chairman is appointed. On 18 March 2015, Mr. Zou Lei was elected as the chairman of the Company at the 15th Board meeting of the seventh session of Board of Directors.

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Positions of the Chairperson of the Board of Directors and the President are held by different individuals with distinct responsibility. The Chairperson of the Board of Directors presides over meetings of the Board of Directors and reviews on the implementation of matters resolved by the Board of Directors. The President is responsible for management and coordination of the operation of the Company, implementation of the resolutions passed by the Board of Directors and making decisions on a daily basis.

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Biographies of the members of the Board of Directors are included in the section headed “Directors, Supervisors and Senior Management” in the annual report.

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2. Independent non-executive Directors

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The seventh session of the Company’s Board of Directors has five Independent non-executive Directors. All the Independent non-executive Directors are familiar with the rights and responsibilities of the directors and independent non-executive directors of a listed company. During 2014, 3 independent non-executive Directors resigned pursuant to relevant requirements of state cadre management, of which, Mr. Fan Fu-chun resigned on 16 May 2014, while Mr. Sun Chang-ji and Mr. Jia Cheng-bing resigned on 29 September 2014. On 18 March 2015, Mr. Yu Wen-xing was appointed as an independent non-executive director of the Company at the 15th Board meeting of the seventh session of Board of Directors. The Board is comprised of 3 independent non-executive directors. During the reporting period, all the Independent non-executive Directors attended the meetings of the Board of Directors with prudent and responsible attitude. They fully utilized their experiences and expertise, made enormous contribution towards the improvement and perfection of the corporate governance mechanism, the important decision making process and the review of connected transactions. They also provided balanced and objective advices with regard to important decisions and connected transactions of the Company, further standardized the decision making process of the Board of Directors and made this process more scientific, thereby protecting the interests of the Company and the shareholders as a whole.

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The Company has received annual confirmation from each Independent non-executive Directors about his/her independence.

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3. Term of services

The Directors of the Company serve a term of three years.

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4. Meetings of the Board of Directors

During the year, seven Board of Directors' meetings were held to discuss the overall strategies, investment plans, operation and financial performance of the Company. The Independent Directors of the Company have no dissenting opinions regarding any of the Company's resolutions. Attendances of the meetings are as follows:

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Attendances of the meetings of the Board of Directors during the year of 2014

+ ‘	**Name of Director**	**+ 6 D p Number of Attendance Required**	**K , p Number of Attendance in Person**	**, Attendance Rate**
— z@Ñ ‹ [	Mr. Gong Jing-kun	7	7	100%
E ¾ ‹ [	Mr. Zou Lei	7	6	86%
N Ý ‹ [	Mr. Wu Wei-zhang	7	6	86%
u õ ‹ [	Mr. Zhang Ying-jian	7	7	100%
, ð ‹ [	Mr. Song Shi-qi	7	5	71%
• E ‹ [	Mr. Shang Zhong-fu	7	7	100%
‘ ù ? ‹ [	Mr. Sun Chang-ji	5	5	100%
ê E F ‹ [	Mr. Fan Fu-chun	2	2	100%
Ó Š ‹ [	Mr. Jia Cheng-bing	5	5	100%
r ² ‹ [	Mr. Yu Bo	7	6	86%
î ö ‹ [	Mr. Liu Deng-qing	7	7	100%

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The relevant information and current development of the statutory, regulatory and other continuous responsibilities of the Company's Board of Directors can be obtained by all Directors through the Company Secretary in a timely manner, so as to ensure all Directors understand his/her duties, and the procedures of the Board of Directors are consistently followed and applicable laws and regulations are properly complied with. The Directors and the Board of Directors' special committees of the Company have the right to engage independent professional organizations for their service according to the requirement of their duties; the reasonable costs incurred in those occasions are born by the Company.

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5. Model Code for Securities Transactions by Directors

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited as a model code for Directors of the Company. Specific enquiries have been made to all Directors, who have confirmed their compliance with the Model Code for Securities Transactions by Directors of Listed Issuers during the reporting period.

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6. Board Diversity

The Company recognizes that diversity in Board members would be beneficial to the improvement of performance of the Company. The composition of the Board will be based on a range of diversified perspectives, including but not limited to age, educational background, professional experience, knowledge and skills.

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SPECIAL COMMITTEES UNDER THE BOARD

The Board of the Company has established four special committees, namely the audit committee, the nomination committee, the remuneration committee and the strategy development committee, whose members are all Directors.

The main responsibilities of the Audit committee under the Board of the Company are: to monitor the Company's compliance with accounting standards and rules of stock exchanges, to audit the interim and annual results of the Company, and to discuss any issues with the internal and external auditors. The members of the Audit Committee of the seventh session of the Board of Directors included Mr. Fan Fu-chun, Mr. Yu Bo, Mr. Liu Deng-qing and Mr. Zhang Ying-jian and Independent non-executive Director Mr. Fan Fu-chun was the chairperson of the committee. Following the resignation of Mr. Fan Fu-chun as a director of the Company, the members of the Audit Committee were Mr. Liu Deng-qing, Mr. Yu Bo and Mr. Zhang Ying-jian, and Independent non-executive Director Mr. Liu Deng-qing was the chairperson of the committee. During the year, the Audit Committee held 4 meetings and had reviewed the Group's annual and half-yearly reports and financial statements. At the 15th Board meeting of the seventh session of Board of Directors convened on 18 March 2015, re-designation of members of the Audit Committee was made. Following the re-designation, the members of the Audit Committee include Mr. Liu Deng-qing, Mr. Yu Bo and Mr. Yu Wen-xing. All members of the Audit Committee are independent non-executive directors and Mr. Liu Deng-qing is the chairperson of the committee, which is in compliance with the Listing Rules.

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The main responsibilities of the Nomination Committee under the Board of the Company are: to make recommendations to the board on the its structure and composition according to the operation of the Company, and to make recommendations on the election of directors and the appointments of senior management. The members of the Nomination Committee of the seventh session of the Board of the Company included Mr. Jia Cheng-bing, Mr. Fan Fu-chun, Mr. Liu Deng-qing and Mr. Shang Zhong-fu and Independent non-executive director Mr. Jia Cheng-bing was the chairperson of the committee. Following the resignation of Mr. Jia Cheng-bing and Mr. Fan Fu-chun as directors of the Company, the members of the Nomination Committee were Mr. Gong Jing-kun, Mr. Liu Deng-qing and Mr. Shang Zhong-fu, and Mr. Gong Jing-kun, the former Chairman of the Company, was the chairperson of the committee. At the 15th Board meeting of the seventh session of Board of Directors convened on 18 March 2015, re-designation of members of the Nomination Committee was made. Following the re-designation, the members of the Nomination Committee include Mr. Zou Lei, Mr. Liu Deng-qing and Mr. Yu Bo. Two-thirds of the Nomination Committee are independent non-executive directors and Mr. Zou Lei, Chairman of the Company, is the chairperson of the committee.

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The main responsibilities of the Remuneration Committer under the Board of the Company are: to review the remuneration system and remuneration policies of the Company, to determine, access and evaluate the remuneration packages of the directors and senior management of the Company. The members of the Remuneration Committee of the seventh session of the Board of the Company included Mr. Sun Chang-ji, Mr. Yu Bo and Mr. Song Shi-qi and Independent non-executive Mr. Sun Chang-ji was the chairperson of the committee. Following the resignation of Mr. Sun Chang-ji as a director of the Company, the members of the Remuneration Committee were Mr. Yu Bo, Mr. Liu Deng-qing and Mr. Song Shi-qi and Independent non-executive director Mr. Yu Bo was the chairperson of the committee. At the 15th Board meeting of the seventh session of Board of Directors convened on 18 March 2015, re-designation of members of the Remuneration Committee was made. Following the re-designation, the members of the Remuneration Committee include Mr. Yu Wen-xing, Mr. Song Shi-qi, Mr. Yu Bo and Mr. Liu Deng-qing. Three-fourths of the Remuneration Committee are Independent non-executive directors and Independent non-executive director Mr. Yu Wen-xing is the chairperson of the committee.

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The main responsibilities of the Strategy Development Committee under the Board of the Company are: to conduct research on the Company's strategic development plans, significant investment and financing plans that require the approval of the Board, capital operation and asset operation, and to advise and make recommendations on the above matters. The members of the Strategy Development Committee of the seventh session of the Board of the Company included Mr. Sun Chang-ji, Mr. Zou Lei, Mr. Wu Wei-zhang and Mr. Shang Zhong-fu, and Mr. Zou Lei was the chairperson of the committee. Following the resignation of Mr. Sun Chang-ji as a director of the Company, the members of the Strategy Development Committee were Mr. Zou Lei, Mr. Wu Wei-zhang and Mr. Shang Zhong-fu, and Mr. Zou Lei was the chairperson of the committee. At the 15th Board meeting of the seventh session of Board of Directors convened on 18 March 2015, re-designation of members of the Strategy Development Committee was made. Following the re-designation, the members of the Strategy Development Committee include Mr. Wu Wei-zhang, Mr. Zhang Ying-jian, Mr. Shang Zhong-fu and Mr. Yu Wen-xing, and Mr. Wu Wei-zhang is the chairperson of the committee.

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SUPERVISORY COMMITTEE

The Company's Supervisory Committee consists of 5 supervisors, of which two supervisors are representing staff and workers.

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1. The Supervisory Committee Meetings

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The Supervisory Committee held 4 meetings in the period, the main contents of which were as follows:

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The Supervisory Committee held a meeting on 3 January 2014 to pass the report of the President of 2013, general planning of 2014 and other matters.

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The Supervisory Committee held a meeting on 21 March 2014 to

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The Implementation of the Resolutions Passed at General Meetings

The members of the Supervisory Committee attended the Board Meetings and the General Meetings. The Supervisory Committee supervised the implementation of the resolutions passed at General Meetings and considered that the Board of Directors could seriously carry out the General Meeting decisions.

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3. The Implementation of Supervisory Duties by the Supervisory Committee

The Supervisory Committee supervised the Directors and senior management of the Company in accordance with the related laws and the Articles of Association, and considered that the Directors and senior management of the Company carried out their duties lawfully, without any violation against the related laws and regulations and the Articles of Association or the interests of the Company.

INTERNAL CONTROL AND INTERNAL AUDIT

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The Board of Directors is responsible for establishing and maintaining the internal control system of the Company, and for establishing the Audit Committee. The Company monitors and supervises the disclosure of financial information by the Company, as well as operation and internal control activities regularly or where necessary, so as to ensure the transparency of information disclosure and effectiveness of its corporate control mechanisms. The Company fully implements the relevant requirements of the Internal Control Guideline and continues to optimize the internal control systems and proceeds with self-assessments and continuous improvements. Through incentive measures and the guidance of corporate culture, the complete internal control system of the Company and its effective implementation are ensured.

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During 2014, the Company reviewed the internal control system and the exposure of risks. The self-assessment report on internal control and risk management was prepared by the Company and then approved by the Audit Committee and the Board of Directors.

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AUDITORS AND THEIR REMUNERATION

The financial statements included in the annual report of the Company were prepared according to PRC Accounting Standards and Hong Kong Financial Reporting Standards, and were audited by Ruihua Certified Public Accountants, the PRC auditor, and Crowe Horwath (HK) CPA Limited, the international auditor.

During 2014, the remuneration of Ruihua Certified Public Accountants, the PRC auditor, amounted to RMB2.365 million, and the remuneration of Crowe Horwath (HK) CPA Limited, the international auditor, amounted to RMB0.745 million.

Information Disclosure and Supervision

The Company continuously improves information disclosure management and enhances the investor relations management. The Company discloses information on an open, fair, true, accurate, complete and timely ground and strictly follows the related disclosure requirements of relative laws and regulations, Listing Rules and the Articles of Association of the Company. In our effort to improve the management of investor relations, the Company issues its Interim Reports and Annual Reports and discloses matters such as rotation and change of directors and supervisors, and profitability of the Company in a timely manner. The Company serves to visiting investors in good faith, receiving in aggregate over 30 visits from investors for the whole year. The Company also convenes over 100 telephone conferences, organizing activities such as press conferences, performance presentations and road shows, with a view to updating the investors on the Company's latest development and prospects, and in turn strengthening the relationship with the investors and enhancing the transparency of the Company.

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The secretariat of the Board of the Company is responsible for the information disclosure and investor relations management. The Company will perform its duties, continuously enhance its governance structure and improve its management standard by strictly following the requirements of the related laws and regulations of the local and overseas securities regulatory organizations.

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Independent Auditor’s Report

Crowe Horwath™

國富浩華 (香港) 會計

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We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

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We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

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In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2014, and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

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Crowe Horwath (HK) CPA Limited
Certified Public Accountants
Hong Kong, 20 March 2015

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Lau Kwok Hung
Practising Certificate No.: P04169

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Consolidated Statement of Pro t or Loss

Ú Z g S , Ë d Z Ü g d S Ú ß Ë
For the year ended 31 December 2014

		• W Note	**2014** [O Æ w © **RMB'000**	2013 [O Æ w © RMB'000
×]	Revenue	4	**23,794,457**	20,500,705
Ó l	Cost of sales		**(20,653,741)**	(16,179,823)
ã ;	Gross profit		**3,140,716**	4,320,882
l ü ×] ¿ ×] Æ f & •	Other revenue and net income/(loss)	5	**1,851,931**	463,345
8 l \	Distribution expenses		**(572,051)**	(528,425)
M # l \	Administrative expenses		**(3,296,586)**	(3,066,749)
l ü 8 Õ	Other operating expenses		**(490,338)**	(211,461)
Ì Õ	Finance costs	6(a)	**(300,010)**	(228,478)
Ð & L ® ! P ; ¯ f &	Share of profits less losses of associates	17	**31,217**	28,980
ð ü Ã P ;	Profit before taxation	6	**364,879**	778,094
ü °	Income tax	7(a)	**(230,713)**	(152,488)
l Ë P ;	Profit for the year		**134,166**	625,606
Ð & ® ; j	**Attributable to:**			
l ® ! p … 5 Þ [	Equity shareholders of the Company		**566,410**	705,813
¢ › p Æ B	Non-controlling interests		**(432,244)**	(80,207)
			134,166	625,606
			[O Æ **RMB**	[O Æ RMB
Ê p ® ;	**Earnings per share**			
Ñ ? l ¿ Å [	— Basic and diluted	9	**41.1 ₊ cents**	51.3 ± cents

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The annexed notes form part of these financial statements. Details of dividends payable to equity shareholders of the Company attributable to the profit for the year are set out in note 40(b).

Consolidated Statement of Pro t or Loss and Other Comprehensive Income

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For the year ended 31 December 2014

		2014 [O Æ w © **RMB'000**	2013 [O Æ w © RMB'000
I Ë P ;	Profit for the year	**134,166**	625,606
I Ë I ü Œ &€ f & ❡ × B d {	**Other comprehensive (loss)/income for the year, net of income tax**		
, - • & B ¦ f j	Items that may be reclassified subsequently to profit or loss:		
$ – t Ž • , j	Cash flow hedges:		
I Ë € f & ❡ × B	(Losses)/gains arising during the year	**(371,309)**	115,292
¯ j - ± ó Æ 7 a & B ˜ – X	Less: Reclassification adjustments for amounts transferred to profit or loss	**(24,332)**	–
, - ± ó & B Y ° f Y ´ ë Ô { ü	Income tax relating to items that may be reclassified subsequently to profit or loss	**59,346**	(17,294)
I Ë I ü Œ &€ f & ❡ × B d c Ô ð Ô { ü	Other comprehensive (loss)/income for the year, net of income tax	**(336,295)**	97,998
I Ë Œ &€ f & ❡ × B < X	**Total comprehensive (loss)/income for the year**	**(202,129)**	723,604
Ð & ® ; j	**Attributable to:**		
I ® ! p … 5 Þ [	Equity shareholders of the Company	**230,115**	803,811
¢ › p Æ B	Non-controlling interests	**(432,244)**	(80,207)
		(202,129)	723,604

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Consolidated Statement of Financial Position

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At 31 December 2014

		• W Note	2014 [O Æ w © RMB'000	2013 [O Æ w © RMB'000
¢ t *	**Non-current assets**			
³ J 8	Investment properties	11	**21,701**	4,448
J 8 e @ Ò ¿ £ ê	Property, plant and equipment	12	**6,701,041**	6,633,287
k ù z ® a # ›	Prepaid lease payments	13	**493,517**	492,512
Ì – *	Intangible assets	14	**200,333**	218,357
È · ü ° *	Deferred tax assets	15	**349,580**	297,354
õ L ® ! ˜ Æ B	Interests in associates	17	**242,769**	234,614
I ü ¢ t *	Other non-current assets	18	**49,292**	70,538
I ü – D *	Other financial assets	19	_	51,095
			8,058,233	8,002,205
t *	**Current assets**			
À ¬	Inventories	20	**15,471,226**	14,346,742
Ð × * ›	Trade receivables	21	**12,567,552**	14,452,023
Ð × C ½	Bills receivable	21	**2,144,792**	1,997,282
h $ C ½ ¿ Ð × r ›	Discounted bills and loans receivable	22	**19,550**	21,855
I ü Ð × › e 2 – ¿ k ù › °	Other receivables, deposits and prepayments	23	**5,627,510**	5,673,638
k ù z ® a # ›	Prepaid lease payments	13	**14,009**	14,286
¿ ¥ • Ð × ›	Amounts due from customers for contract work	24	**1,263,968**	970,378
Ð × • û • n ® ! › °	Amounts due from fellow subsidiaries	25	**336,530**	175,206
I ü – D *	Other financial assets	19	_	528,040
t ø Ì Ç N	Trading securities	26	**1,909,300**	1,532,390
× « ü °	Tax recoverable	36	**87,548**	43,402
a " S ¿ Š ê å Õ À ›	Restricted and pledged bank deposits	27	**339,540**	219,456
• / Õ À ›	Deposits with central bank	27	**710,781**	519,145
Õ À ›	Bank deposits	28	**2,086,312**	1,326,913
$ – ¿ $ – J	Cash and cash equivalents	28	**11,557,109**	10,538,171
			54,135,727	52,358,927
t À	**Current liabilities**			
¿ ¥ • Ð ù ›	Amounts due to customers for contract work	24	**2,219,009**	1,128,844
[– D ˆ H	Derivative financial instruments	37	**139,410**	–
Ð ù * ›	Trade payables	29	**13,997,053**	15,071,799
Ð ù C ½	Bills payable	29	**4,162,470**	4,018,619
I ü Ð ù › e Ð I \ ¿ a ê	Other payables, accruals and provisions	29	**1,304,964**	1,619,281
Š × 2 –	Deposits received	30	**7,701,437**	10,331,026
Ð ù • û • n ® ! › °	Amounts due to fellow subsidiaries	25	**57,734**	65,336
Þ › p ® ! › °	Advance from holding company	31	**1,854,550**	1,768,182
Ò À ›	Customers' deposits	32	**796,680**	454,236
Õ > ›	Bank borrowings	33	**1,105,704**	683,918
Ð ù ü °	Tax payables	36	**347,831**	254,009
² õ S Ë « µ " ˜ D a # Õ Ä	Obligations under finance leases — due within one year	34	**41,733**	39,289
			33,728,575	35,434,539

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Consolidated Statement of Financial Position (continued)

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At 31 December 2014

		• W Note	2014 [O Æ w © RMB'000	2013 [O Æ w © RMB'000
t * =	**Net current assets**		**20,407,152**	16,924,388
Ô ð t À Y < *	**Total assets less current liabilities**		**28,465,385**	24,926,593
¢ t À	**Non-current liabilities**			
[– D ˆ H	Derivative financial instruments	37	**153,889**	–
Š × 2 –	Deposits received	30	**10,527,167**	6,533,021
Þ › p ® ! › °	Advance from holding company	31	**3,500**	3,500
Õ > ›	Bank borrowings	33	**74,450**	440,000
² õ S Ë µ ” ˜ D	Obligations under finance leases			
a # Õ Ä	— due after one year	34	**55,597**	97,245
® ! À N	Corporate bonds	38	**2,994,443**	2,992,688
I ü ¢ t À	Other non-current liabilities	39	**676,223**	548,200
È · ü ° À	Deferred tax liabilities	15	_	17,690
			14,485,269	10,632,344
* =	**NET ASSETS**		**13,980,116**	14,294,249
p I ¿ · ê	**CAPITAL AND RESERVES**	40		
p I	Share capital		**1,376,806**	1,376,806
· ê	Reserves		**11,274,130**	11,150,277
I ® ! p … 5 Þ [Đ & < Æ B	Total equity attributable to equity shareholders of the Company		**12,650,936**	12,527,083
¢ › p Æ B	Non-controlling interests		**1,329,180**	1,767,166
Æ B < X	**TOTAL EQUITY**		**13,980,116**	14,294,249

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Approved and authorised for issue by the board of directors on 20 March 2015.

N Ý
Wu Wei-zhang
+
Director

• E
Shang Zhong-fu
+
Director

• W ô Ó ä Ì Œ Y S Å ± f

The annexed notes form part of these financial statements.

Ì K 1 Œ
Statement of Financial Position

õ Z g S , Ë d Z Ü g d S Ú
At 31 December 2014

			2014	2013
		• W	[O Æ w ©	[O Æ w ©
		Note	**RMB'000**	RMB'000
¢ t *	**Non-current assets**			
J 8 e @ Ò ¿ £ ê	Property, plant and equipment	12	**1,435,456**	1,410,571
k ù z ® a # ›	Prepaid lease payments	13	**108,172**	111,274
õ • n ® ! ˜ ³	Investments in subsidiaries	16	**4,556,044**	4,556,044
õ L ® ! ˜ Æ B	Interests in associates	17	**17,740**	17,740
l ü ¢ t *	Other non-current assets	18	_	21,246
			6,117,412	6,116,875
t *	**Current assets**			
À ¬	Inventories	20	**1,579,589**	1,699,598
Ð × * ›	Trade receivables	21	**570,143**	484,446
Ð × C ½	Bills receivable	21	**72,037**	5,000
l ü Ð × › e 2 – ¿ k ù › °	Other receivables, deposits and prepayments	23	**189,333**	226,470
k ù z ® a # ›	Prepaid lease payments	13	**2,414**	1,726
Ð × • n ® ! › °	Amounts due from subsidiaries	16	**2,915,189**	1,997,122
t ø Ì Ç N	Trading securities	26	**1,909,300**	1,532,390
× « ü °	Tax recoverable	36	**47,461**	21,930
Õ À ›	Bank deposits	28	**509,507**	–
$ – ¿ $ – J	Cash and cash equivalents	28	**1,451,254**	1,769,877
			9,246,227	7,738,559
t À	**Current liabilities**			
Ð ù * ›	Trade payables	29	**330,374**	314,965
l ü Ð ù › e Ð l \ ¿ a ê	Other payables, accruals and provisions	29	**153,969**	165,169
Š × 2 –	Deposits received	30	**565,486**	1,769,616
Ð ù • n ® ! › °	Amounts due to subsidiaries	16	**2,441,199**	2,867,801
Þ › p ® ! › °	Advance from holding company	31	**398,730**	398,730
Ð ù ü °	Tax payables	36	**4,482**	8,188
			3,894,240	5,524,469
t * =	**Net current assets**		**5,351,987**	2,214,090

Ì K 1 Œ €ƒ•
Statement of Financial Position (continued)

õ Z g S , Ë d Z Ü g d S Ú
At 31 December 2014

		Note	**2014** [O Æ w © **RMB'000**	2013 [O Æ w © RMB'000
Ô ð t À Y < *	**Total assets less current liabilities**		**11,469,399**	8,330,965
¢ t À	**Non-current liabilities**			
Š × 2 –	Deposits received	30	**2,421,072**	497,073
® ! À N	Corporate bonds	38	**2,994,443**	2,992,688
I ü ¢ t À	Other non-current liabilities	39	**52,271**	52,271
			5,467,786	3,542,032
* =	**NET ASSETS**		**6,001,613**	4,788,933
p l ¿ · ê	**CAPITAL AND RESERVES**	40		
p l	Share capital		**1,376,806**	1,376,806
· ê	Reserves		**4,624,807**	3,412,127
Æ B < X	**TOTAL EQUITY**		**6,001,613**	4,788,933

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Approved and authorised for issue by the board of directors on 20 March 2015.

N Ý
Wu Wei-zhang
+
Director

• E
Shang Zhong-fu
+
Director

• W ô Ó ä Ì Œ Y S Å ± f

The annexed notes form part of these financial statements.

] ¥ Æ B Œ
Consolidated Statement of Changes in Equity

Ú ZgS,ËdZÜgdSÚßË
For the year ended 31 December 2014

		Attributable to equity shareholders of the Company										
		Share capital	Share premium	Statutory capital reserve	Statutory surplus reserve	Special reserve	Other reserves	Hedging reserve	Retained profits	Total	Non-controlling interests	Total equity
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
õZgSgËSÜSÚÆ½‹ÃÔ S•	**At 1 January 2013 as previously reported**	1,376,806	1,980,295	703,229	621,998	–	66,911	2,245	7,102,433	11,853,917	1,810,284	13,664,201
¥;6 , •	Merger accounting restatement	–	–	–	–	–	138,000	–	32,078	170,078	31,905	201,983
õZgSgËSÜSÚ˜¾ • q	**Restated balance at 1 January 2013**	1,376,806	1,980,295	703,229	621,998	–	204,911	2,245	7,134,511	12,023,995	1,842,189	13,866,184
lË P;	Profit for the year	–	–	–	–	–	–	–	705,813	705,813	(80,207)	625,606
lË lüŒ&×Bj	Other comprehensive income for the year:											
$–tŽ•,dÔðÔ{ü	Cash flow hedges, net of income tax	–	–	–	–	–	–	97,998	–	97,998	–	97,998
lË Œ&×B<X	Total comprehensive income for the year	–	–	–	–	–	–	97,998	705,813	803,811	(80,207)	723,604
±|š¢›pp Yp¹	Dividends distributed to non-controlling shareholders	–	–	–	–	–	–	–	–	–	(25,080)	(25,080)
••›ShY8 ¥;B¤	Arising from business combination under common control	–	–	–	–	–	(149,890)	–	–	(149,890)	–	(149,890)
×...•n®Æ•W 42(b)•	Acquisition of subsidiary (note 42(b))	–	–	–	–	–	–	–	–	–	20,801	20,801
õ•n®!YX.ÆB€•W 42(c) (d)•	Additional interests in subsidiaries (note 42(c)-(d))	–	–	–	–	–	13,822	–	–	13,822	(98,666)	(84,844)
¢›pÆB˜!	Capital injection by non-controlling interests	–	–	–	–	–	–	–	–	–	108,000	108,000
Ì ®!¥;Ã£Þ'õe « ®! €Þe« ®!™Ôù˜p¹	Dividend paid to Harbin Electric Corporation ("HE Corporation") before combination of Finance Company	–	–	–	–	–	–	–	(31,459)	(31,459)	–	(31,459)
·êœ˜7a	Transfer between reserves	–	–	–	25,742	–	–	–	(25,742)	–	–	–
p€ •W40(b)•	Dividends (note 40(b))	–	–	–	–	–	–	–	(137,681)	(137,681)	–	(137,681)
lË $9·ê# X	Net increase in special reserve for the year	–	–	–	–	4,485	–	–	–	4,485	129	4,614
õZgSgËdZÜgdSÚ	**At 31 December 2013**	1,376,806	1,980,295*	703,229*	647,740*	4,485*	68,843*	100,243*	7,645,442*	12,527,083	1,767,166	14,294,249
õZgS,ËSÜSÚ	**At 1 January 2014**	1,376,806	1,980,295*	703,229*	647,740*	4,485*	68,843*	100,243*	7,645,442*	12,527,083	1,767,166	14,294,249
lË P;	Profit for the year	–	–	–	–	–	–	–	566,410	566,410	(432,244)	134,166
lÈ lüŒ&f&¡	Other comprehensive (loss) for the year:											
$–tŽ•,dÔðÔ{ü	Cash flow hedges, net of income tax	–	–	–	–	–	–	(336,295)	–	(336,295)	–	(336,295)
lË Œ&f&<X	Total comprehensive loss for the year	–	–	–	–	–	–	(336,295)	566,410	230,115	(432,244)	(202,129)
±|š¢›pp Yp¹	Dividends distributed to non-controlling shareholders	–	–	–	–	–	–	–	–	–	(12,625)	(12,625)

] ¥ Æ B Œ € ƒ •
Consolidated Statement of Changes in Equity (continued)

Ú Z g S , Ë d Z Ü g d S Ú ß Ë
For the year ended 31 December 2014

ì ½ • 6 [O • q ₹ € • 7 ™ ® ! , d ð ü P
; ˜ ± ã ± • ½ h j

In accordance with the People's Republic of China (the "PRC") Company Law, the profit after taxation is applied in the following order:

(1) Î þ f & i

(1) making up of losses;

(2) d _ , › ® q ® – i ¿

(2) allocation to statutory surplus reserve; and

(3) | ï w · p ˜ p ¹ f

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

Þ ë j ° f (3) ¯ , Ë ˜ ± ã p X Z _ è +
ì ½ I ® ! ¿ I • n ® ! Y ¾ ‹ 1 ¿ ï • ê
* D d (² õ p } 6 d p - X f

The amount of appropriation in respect of item (3) 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.

ì ½ • 7 ® ! , ¿ ´ ë ® ! Ý û d I ® ! ¿ I •
n ® ! i ² d _ 10% ð ü P ‚€ ì ½ • 7 6
_ Æ > › d a] I , › ® q ® – * « f

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 statutory surplus reserve.

p I P * Y Ð \ W a • 7 ® ! , 9 M f

The application of the share premium account is governed by PRC Company Law.

, › ® q ® – ‰ I ® ! p ... 5 Þ [Ð & Æ B Y
S Å ± d ... I q X : Q ® ! W I ˜ 50% Û d
" ² Ž d _ f ì ½ • 7 ® ! , d , › ® q ®
– \ ø Î þ @ » f & e Ò [* ¿ 8 ¾ e
Ð · @ 7 I Y Ù Ì a I f Í þ d ... I ® ! ˜
, › ® q ® – 7 ‰ I Û d * « J 7
I ˜ – X " { Ç õ W I 25% f

Statutory surplus reserve is part of equity attributable to equity shareholders of the Company 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.

, › I · ê ‰ Þ e « ® ! £ I « 7 + ô
¾ 8 * Y ® ª = d ~ ¯ I ® ! Ó m Û
I ï š Þ e « ® ! Y p ... & = G k ˜ œ Y ¨
X ® q f

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 HE Corporation to the Group and the nominal value of the shares issued to HE Corporation by the Company when the Company was formed.

] ¥ Æ B Œ € ƒ •
Consolidated Statement of Changes in Equity (continued)

Ú Z g S , Ë d Z Ü g d S Ú ß Ë
For the year ended 31 December 2014

$ 9 · ê 8 I « ì ½ • 7 Ä Œ [* ,] Y Ä Œ ? – f , 7 • › I « À @ 2 I Œ Ë × B Y ð • õ ± â Z I q ; S Å ± a] $ 9 · ê d ø 1 I • 7 ¡ ¿ 8] Ä Œ ? – f õ Z g S , Ë d Z Ü g d S Ú d I « Y J \ ] $ 9 · ê ‰ [O Æ7,959,000 ©€ Z g S g Ë j [O Æ 4,485,000 © ƒ	Special reserve represents a safety fund accrued by the Group in accordance with the Production Safety Law of the PRC. The law requires the Group to accrue a safety fund for its manufacturing business in PRC by appropriating a portion of its net profit to the special reserve based on certain percentage of its annual revenue. As at 31 December 2014, the Group's special reserve accrued but not utilised, amounted to RMB7,959,000 (2013: RMB4,485,000).
I ü · ê ‰ 1 £ ¢ › p Æ B × … • n ® ! X . Æ B Ô ù þ ~ Ô … * ´ ë * & = G k œ Y ¨ X f ä . d ª × … • • › S ¼ þ * [I · ê ¿ Á ¥ ; 6 Y B ¤ ¿ I « ì ½ • 7 6 ¿ – D , • ½ © ˜ I ü ” ±	· ê u < ¯ « f	Other reserves represent the difference between the consideration paid to acquire additional interests in subsidiaries from non-controlling interest and the relevant carrying value of the net assets acquired. In addition, the capital reserve and effect on merger accounting arising from acquisition of a common control entity and other non-distributable reserves of the Group recognised in accordance with the accounting and financial regulations of the PRC were also included therein.
• , · ê < \ õ $ – t Ž • , Y • , ˆ H ® ª =] X Y Þ Ö Å ± d Ú ì ½ • W 2(ab) 1 $ – t Ž • , ® v Y 6 A ½ © ‰ • , $ – t Ž f	Hedging reserve comprises the effective portion of the cumulative net change in the fair value of hedging instruments used in cash flow hedges pending subsequent recognition of the hedged cash flow in accordance with the accounting policy adopted for cash flow hedges in note 2(ab).
¯ J Î þ f & ¿ d _ , › ® q ® – ˜ Ã d I ® ! ¿ I • n ® ! i ” {	ï p ¹ f	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.
ì ½ Ì A Å õ S X X ž Ë ^ Ü o 1 Þ ë P ; ± ã ˜ Ö • d ± ã š p ˜ – X ‰ ì ½ • 7 6 _ Æ Ô Q ˜ – X Ð ì ½ 0 ¥ ® © 6 _ Æ Ô Q ˜ – X d G k ø 0 - k ‰ X f õ Z g S , Ë d Z Ü g d S Ú d ± ã š I ® ! p … 5 Þ [˜ · ê < – X ‰ ì ½ 0 ¥ ® © 6 _ Æ Ô > › ˜ - 5 P ; [O Æ 1,317,389,000 ©€ Z g S g Ë j [O Æ 237,471,000 © ƒ ½ j Ö Ô d À Y , › ® q ® – õ ð • ‹ 1 h u | ï š p f	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 31 December 2014, the aggregate amount of reserves available for distribution to equity shareholders of the Company was RMB1,317,389,000 (2013: RMB237,471,000) 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.
I ® ! p … 5 Þ [Ð &] ¥ P ; < Š •] I ® ! Ì Œ Y P ; [O Æ 1,322,824,000 ©€ Z g S g Ë j P ; [O Æ 258,320,000 © € • W 40(a) ƒ	The consolidated profit attributable to equity shareholders of the Company includes a profit of RMB1,322,824,000 (2013: profit of RMB258,320,000) which has been dealt with in the financial statements of the Company (note 40(a)).
• W ô Ó ä Ì Œ Y S Å ± f	The annexed notes form part of these financial statements.

Consolidated Statement of Cash Flows

Ú ZgS,ËdZÜgdSÚßË
For the year ended 31 December 2014

	• W Note	2014 [O Æ w © RMB'000	2013 [O Æ w © RMB'000
¾ 8 ˜ $ – t Ž	**Cash flows from operating activities**		
ð ü Ã P ;	Profit before taxation	**364,879**	778,094
Æ j	Adjustments for:		
L * a ê	Allowance for doubtful debts	6(c) **642,242**	486,258
I ü Ð × › ¯ =	Impairment of other receivables	6(c) **17,911**	15,471
À ¬ a ê	Allowance for inventories	6(c) **462,619**	156,751
k ù z ® a # › Å V	Amortisation of prepaid lease payments	6(c) **14,009**	13,186
Ì – * Å V	Amortisation of intangible assets	6(c) **28,121**	27,575
t ø Ì Ç N p ¹ ×]	Dividend income from trading securities	5 **(67,300)**	(51,800)
V / Ì ³ p ¹ ×]	Dividend income from available-for-sale investments	5 **(998)**	(2,331)
J 8 e @ Ò ¿ £ ê ±	Depreciation for property, plant and equipment	6(c) **693,073**	666,407
³ J 8 ±	Depreciation for investment properties	6(c) **1,256**	181
Ì Õ	Finance costs	6(a) **291,476**	227,124
/ J 8 e @ Ò ¿ £ ê f & Æ × B •	Loss/(gain) on disposal of property, plant and equipment	5 **145**	(3,771)
/ k ù z ® a # › × B	Gain on disposal of prepaid lease payments	5 **(4,875)**	–
/ V / Ì ³ × B	Gain on disposal of available-for-sale investments	5 **(23,803)**	(5,216)
/ L ® ! × B	Gain on disposal of associates	5 _	(2,123)
” ¥ • , â • ˜ [– D ˆ H ® ª = × B	Fair value gains on derivative financial instruments not qualifying as hedges	5 _	(12,930)
] & B ˜ [– D ˆ H ® ª = f & X	Net fair value loss from derivative financial instruments charged to profit or loss	**15,591**	–
; ¹ ×]	Interest income	5 **(152,739)**	(200,435)
£ Õ …] # Ì * Ü ˜ ³ ×]	Investment income on wealth management products purchased from banks	5 **(23,181)**	–
Ì ® ! j	Finance Company:		
8 Õ ¿ I ü Ì Ú ô ˜ ; ¹ ×]	Interest income from banks and other financial institutions	5 **(211,616)**	(99,369)
h $ C ½ ¿ Ð × r › ˜ ; ¹ ×]	Interest income on discounted bills and loans receivables	5 **(19,851)**	(1,459)
Ò À › ˜ ; ¹ š Õ	Interest expense on customers' deposits	6(a) **8,534**	1,354
t ø Ì Ç N Š $ ¿ J $ € × B ❡ f & X	Net realised and unrealised (gains)/losses on trading securities	5 **(1,155,300)**	121,660
Ð & L ® ! P ; ¯ f &	Share of profits less losses of associates	**(31,217)**	(28,980)
Ò 3 f &	Foreign exchange loss	**6,034**	42,603
		855,010	2,128,250
6 –	**Movements in working capital**		
À ¬€ # •	(Increase) in inventories	**(1,587,103)**	(2,128,224)
Ð × * › ¯ Ç	Decrease in trade receivables	**1,245,518**	364,082
Ð × C ½€ # •	(Increase) in bills receivable	**(147,510)**	(718,934)
I ü Ð × › e 2 – ¿ k ù › ° € # •	(Increase) in other receivables, deposits and prepayments	**(174,793)**	(862,555)
¿ ¥ • Ð × € # ❡ ¯ Ç	(Increase)/decrease in amounts due from customers for contract work	**(293,590)**	1,108,989
Ð × • û • n ® ! › ₹ # •	(Increase) in amounts due from fellow subsidiaries	**(161,324)**	(63,375)

] ¥ $ – t Ž Œ € ƒ •
Consolidated Statement of Cash Flows (continued)

Ú Z g S , Ë d Z Ü g d S Ú ß Ë
For the year ended 31 December 2014

	• W Note	2014 [O Æ w © RMB'000	2013 [O Æ w © RMB'000
¿ ¥ • Đ ù › # Æ ¯ Ç •			
Increase/(decrease) in amounts due to customers for contract work		**1,090,165**	(434,534)
Đ ù * € ¯ Ç •			
(Decrease) in trade payables		**(1,075,195)**	(2,197,420)
Đ ù C ½ #			
Increase in bills payable		**143,851**	462,977
l ü Đ ù › e Đ l \ ¿ a ê € ¯ Ç •			
(Decrease) in other payables, accruals and provisions		**(102,561)**	(341,028)
Š × 2 – #			
Increase in deposits received		**1,363,977**	4,969,793
Đ ù • û • n ® ! › ₹ ¯ Ç ❥ #			
(Decrease)/increase in amounts due to fellow subsidiaries		**(7,602)**	16,343
t ø Ì Ç N ¯ Ç Æ # •			
Decrease/(increase) in trading securities		**778,390**	(52,250)
Đ ù # = ü ¿ l ü Đ ù ü ° # Æ ¯ Ç •			
Increase/(decrease) in value added tax and other taxes payable		**77,738**	(313,430)
¾ 8 * [˜ $ –			
Cash generated from operations		**2,004,971**	1,938,684
Š ® • 7 Ô { ü			
PRC income taxes paid		**(269,858)**	(542,854)
¾ 8 * [˜ $ – X			
Net cash generated from operating activities		**1,735,113**	1,395,830
³ 8 ˜ $ – t Ž			
Cash flows from investing activities			
× … • n ® ! ˜ $ – t]			
Net cash inflow from acquisition of the subsidiary	42	**46**	6,849
Õ À € # •			
(Increase) in bank deposits		**(759,399)**	(854,000)
Š × ; ¹			
Interest received		**372,569**	286,692
£ Õ …] # Ì * Ü ˜ Š × ³ ×]			
Investment income received on wealth management products purchased from banks		**4,619**	–
/ L ® ! Ô { ›			
Proceed from disposal of associates	17	**205,146**	50
/ V / Ì ³ Ô { ›			
Proceeds from disposal of available-for-sale investments		**45,049**	–
h $ C ½ ¿ Đ × r › ¯ Ç			
Decrease in discounted bills and loans receivable		**2,439**	97
/ J 8 e @ Ò ¿ £ ê Ô { ›			
Proceeds from disposal of property, plant and equipment		**29,782**	6,540
/ k ù z ® a # › Ô { ›			
Proceeds from disposal of prepaid lease payments		**9,350**	–
/ 5 Þ Q , ³ Ô { › °			
Proceeds from disposal of held-to-maturity investments		**1,022,535**	–
Š × t ø Ì Ç N p ¹			
Dividend received from trading securities		**67,300**	51,800
Š × L ® ! p ¹			
Dividend received from associates		**22,397**	18,288
Š × V / Ì ³ p ¹			
Dividend received from available-for-sale investments		**998**	2,254
• / Õ À € # •			
(Increase) in deposit with central bank		**(191,636)**	(385,500)
… Ä 5 Þ Q , ³			
Purchases of held-to-maturity investments		**(550,000)**	(200,000)
… Ä J 8 e @ Ò ¿ £ ê			
Purchases of property, plant and equipment		**(806,322)**	(859,412)
k ù z ® a # › #			
Additions to prepaid lease payments		**(19,212)**	(78,011)
… Ä Ì – *			
Purchases of intangible assets		**(10,097)**	(11,661)
" ¥ • , â • ˜ [– D ˆ H ¼ $ ® ª = ×]			
Realised fair value gains on derivative financial instruments not qualifying as hedges		–	25,711
a " S ¿ Š ê å Õ À › € # ❥ ¯ Ç			
(Increase)/decrease in restricted and pledged bank deposits		**(120,084)**	126,621

] ¥ $ – t Ž Œ € ƒ •
Consolidated Statement of Cash Flows (continued)

Ú Z g S , Ë d Z Ü g d S Ú ß Ë
For the year ended 31 December 2014

		• W Note	2014 [O Æ w © RMB'000	2013 [O Æ w © RMB'000
£ L ® ! ! / # Ì * Ü Ô { ›	Capital injected to an associate		_	(2,679)
	Proceeds from disposal of wealth management products		**869,397**	–
£ Õ ...] # Ì * Ü	Purchases of wealth management products from banks		**(850,835)**	–
³ 8 € Ô \ • ˜ $ – X	**Net cash (used in) investing activities**		**(655,958)**	(1,866,361)
D 8 ˜ $ – t Ž	**Cash flows from financing activities**			
• • › S ˜ 8 ¥ ;	Business combinations under common control		_	(149,890)
× ... õ • n ® ! ˜ X . Æ B	Acquisition of additional interest in subsidiaries	42(c)	**(84,844)**	–
- # Õ r ›	New bank loans raised		**740,153**	671,918
l ü r › #	Increase in other loans		**3,570**	205,737
® ! À N Ô { ›	Proceeds from corporate bonds		_	2,991,225
Þ › p ® ! › °	Advance from holding company		**86,769**	1,188,878
£ › p ® ! " ›	Repayment to holding company		**(401)**	(1,176,182)
µ " Õ r ›	Repayment of bank loans		**(683,918)**	(1,114,142)
Ò À › #	Increase in customers' deposits		**342,444**	298,686
Õ e l ü > › ¿ Ò À › ; ¹	Interest on bank, other borrowings and customers' deposits		**(141,547)**	(93,792)
® ! À N ; ¹	Interest on corporate bonds		**(147,000)**	–
µ " l ü r ›	Repayment of other loans		_	(126,761)
D a # Õ Ä " › ª ,	Repayment of obligations under finance leases		**(39,204)**	(36,845)
D a # Õ Ä Ì l \	Finance charge on obligations under finance leases		**(7,436)**	(9,513)
¢ › p Æ B !	Capital injection by non-controlling interests		_	108,000
Š ù l ® ! p ... 5 Þ [p ¹	Dividends paid to equity shareholders of the Company		**(110,144)**	(137,681)
¥ ; Ã Š ù Ã p p ¹	Dividends paid to former shareholder before combination		_	(31,459)
Š ù ¢ › p Æ B Y p ¹	Dividends paid to non-controlling interests		**(12,625)**	(25,036)
D 8 € Ô \ ❡ J * [˜ $ – X	**Net cash (used in)/generated from financing activities**		**(54,183)**	2,563,143
$ – ¿ $ – J # X	**Net increase in cash and cash equivalents**		**1,024,972**	2,092,612
Ë ‹ $ – ¿ $ – J	**Cash and cash equivalents at the beginning of the year**		**10,538,171**	8,488,162
Ò B ¤ X	**Effect of foreign exchange rate changes, net**		**(6,034)**	(42,603)
Ë K $ – ¿ $ – J	**Cash and cash equivalents at the end of the year**	28	**11,557,109**	10,538,171

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The annexed notes form part of these financial statements.

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1. GENERAL INFORMATION

The Company was established as a joint stock 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 parent and ultimate parent company is Harbin Electric Corporation ("HE Corporation"), a state-owned enterprise established in the PRC. HE Corporation has not produced financial statements available for public use. 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"), rounded to the nearest thousand unless otherwise indicated. RMB is the Company's functional and presentation currency.

The principal activities of the Company and its subsidiaries are mainly engaged in manufacturing and sales of various kinds of power equipments and provision of power station engineering services. The principal activities of its principal subsidiaries and associates are set out in notes 49 and 17 respectively.

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2. SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and accounting principles generally accepted in Hong Kong. These financial statements also comply with the applicable disclosure requirements of the Hong Kong Companies Ordinance, which for this financial year and the comparative period continue to be those of the predecessor Hong Kong Companies Ordinance (Cap. 32), in accordance with transitional and saving arrangements for Part 9 of the new Hong Kong Companies Ordinance (Cap. 622), "Accounts and Audit", which are set out in sections 76 to 87 of Schedule 11 to that Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. A summary of the significant accounting policies adopted by the Group is set out below.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group and the Company. Note 3 provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

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2. SIGNIFICANT ACCOUNTING POLICIES
(continued)

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2014 comprise the Company and its subsidiaries (together referred to as the “Group”) and the Group’s interests in associates.

The measurement basis used in the preparation of the financial statements is the historical cost basis except that the following assets and liabilities are stated at their fair value as explained in the accounting policies set out below:

— financial instruments classified as trading securities (see note 2(g)), and

— derivative financial instruments (see note 2(h)).

Disposal groups held for sale are stated at the lower of carrying amount and fair value less costs to sell.

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

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2. SIGNIFICANT ACCOUNTING POLICIES

(continued)

(b) Basis of preparation of the financial statements
(continued)

Judgements made by management in the application of HKFRSs that have a significant effect on the financial statements and major sources of estimation uncertainty are discussed in note 47.

(c) Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair values, except that:

t BE F G F SUSBBYE T PSM J B CBJSMJTGIZRUN B T T F U T acquired and liabilities assumed in a business combination and the potential tax effects of temporary differences and carryforwards of an acquiree that exist at the acquisition date or arise as a result of the acquisition are recognised and measured in accordance with HKAS 12, "Income Taxes";

t B T T PUSMTC B M JSUFJNFGUF N Q MFPCZF OUF G J arrangements are recognised and measured in accordance with HKAS 19, "Employee Benefits";

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2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Business combinations (continued)

t M J B C Þ N F R V J R O Z T U S V N F M B U O H B S F C B T F E payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with HKFRS 2 Share-based Payment at the acquisition date; and

t B T T F P U E J T Q H T S P W Q I T B U S D F M B T T B J G F J M E for sale in accordance with HKFRS 5, Non-current Assets Held for Sale and Discontinued Operations are measured in accordance with that Standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after re-assessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

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2. SIGNIFICANT ACCOUNTING POLICIES

(continued)

(c) Business combinations (continued)

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at their fair value or, when applicable, on the basis specified in another HKFRS.

Where the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with the corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the "measurement period" (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

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2. SIGNIFICANT ACCOUNTING POLICIES

(continued)

(c) Business combinations (continued)

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with HKAS 39 Financial Instruments: Recognition and Measurement, or HKAS 37 Provisions, Contingent Liabilities and Contingent Assets, as appropriate, with the corresponding gain or loss being recognised in profit or loss.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to its acquisition date fair value and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognised at that date.

2. SIGNIFICANT ACCOUNTING POLICIES

(continued)

(c) Business combinations (continued)

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2. SIGNIFICANT ACCOUNTING POLICIES
(continued)

(d) Subsidiaries and non-controlling interests

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Group has power, only substantive rights (held by the Group and other parties) are considered.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances, transactions and cash flows and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the Company, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability.

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to the equity shareholders of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated statement of profit or loss and the consolidated statement of profit or loss and other comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the equity shareholders of the Company.

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2. SIGNIFICANT ACCOUNTING POLICIES
(continued)

(d) Subsidiaries and non-controlling interests (continued)

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see note 2(g)) or, when appropriate, the cost on initial recognition of investments in associates (see note 2(e)) or joint venture.

In the Company's statement of financial position, investments in subsidiaries are stated at cost less impairment losses (see note 2(m)), unless the investment is classified as held for sale (or included in a disposal group that is classified as held for sale).

(e) Associates

An associate is an entity in which the Group or the Company has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

2. SIGNIFICANT ACCOUNTING POLICIES
(continued)

(e) Associates (continued)

An investment in an associate is accounted for in the consolidated financial statements under the equity method, unless it is classified as held for sale (or included in a disposal group that is classified as held for sale). Under the equity method, the investment is initially recorded at cost, adjusted for any excess of the Group's share of the acquisition-date fair values of the investee's identifiable net assets over the cost of the investment (if any). Thereafter, the investment is adjusted for the post-acquisition change in the Group's share of the investee's net assets and any impairment loss relating to the investment (see notes 2(m)). Any acquisition-date excess over cost, the Group's share of the post-acquisition, post-tax results of the investees and any impairment losses for the year are recognised in the consolidated statement of profit or loss, whereas the Group's share of the post-acquisition post-tax items of the investee's other comprehensive income is recognised in the consolidated statement of profit or loss and other comprehensive income.

When the Group's share of losses exceeds its interest in the associate, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the investee. For this purpose, the Group's interest is the carrying amount of the investment under the equity method together with the Group's long-term interestsrete4]TJ 0.007 Tc 0.0

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2. SIGNIFICANT ACCOUNTING POLICIES
(continued)

(e) **Associates** (continued)

If an investment in an associate becomes an investment in a joint venture or vice versa, retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method.

In all other cases, when the Group ceases to have significant influence over an associate, it is accounted for as a disposal of the entire interest in that investee, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former investee at the date when significant influence is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset.

In the Company's statement of financial position, investments in associates are stated at cost less impairment losses (see note 2(m)), unless classified as held for sale (or included in a disposal group that is classified as held for sale) (see note 2(m)).

(f) **Goodwill**

Goodwill is stated at cost less accumulated impairment losses. Goodwill arising on a business combination is allocated to each cash-generating unit, or groups of cash generating units, that is expected to benefit from the synergies of the combination and is tested annually for impairment (see note 2(m)).

On disposal of the relevant cash generating unit, the attributable amount of purchased goodwill is included in the determination of the profit or loss on disposal.

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2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Investments in debt and equity securities

The Group's and the Company's policies for investments in debt and equity securities, other than investments in subsidiaries and associates, are as follows:

Investments in debt and equity securities are initially stated at fair value, which is their transaction price unless it is determined that the fair value at initial recognition differs from the transaction price and that fair value is evidenced by a quoted price in an active market for an identical asset or liability or based on a valuation technique that uses only data from observable markets. Cost includes attributable transaction costs, except where indicated otherwise below. These investments are subsequently accounted for as follows, depending on their classification:

Investments in securities held for trading are classified as current assets. Any attributable transaction costs are recognised in profit or loss as incurred. At the end of each reporting period the fair value is remeasured, with any resultant gain or loss being recognised in profit or loss. The net gain or loss recognised in profit or loss does not include any dividends or interest earned on these investments as these are recognised in accordance with the policies set out in note 2(w)(v) and 2(w)(vi).

Dated debt securities that the Group and/or the Company have the positive ability and intention to hold to maturity are classified as held-to-maturity securities. Held-to-maturity securities are stated at amortised cost less impairment losses (see note 2(m)).

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2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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(g) **Investments in debt and equity securities** (continued)

Investments in securities which do not fall into any of the above categories are classified as available-for-sale securities. At the end of each reporting period the fair value is remeasured, with any resultant gain or loss being recognised in other comprehensive income and accumulated separately in equity in the fair value reserve. As an exception to this, investments in equity securities that do not have a quoted price in an active market for an identical instrument and whose fair value cannot otherwise be reliably measured are recognised in the statement of financial position at cost less impairment losses (see note 2(m)). Dividend income from equity securities is recognised in profit or loss in accordance with the policy set out in note 2(w)(v).

When the investments are derecognised or impaired, the cumulative gain or loss recognised in equity is reclassified to profit or loss. Investments are recognised/derecognised on the date the Group commits to purchase/sell the investments or they expire.

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(h) **Derivative financial instruments**

Derivative financial instruments are recognised initially at fair value. At the end of each reporting period, the fair value is remeasured. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss, except where the derivatives qualify for cash flow hedge accounting, in which case recognition of any resultant gain or loss depends on the nature of the item being hedged (see note 2(ab)).

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2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Investment properties

Investment properties are land and/or buildings which are owned or held under a leasehold interest (see note 2(l)) to earn rental income and/or for capital appreciation. These include land held for a currently undetermined future use and property that is being constructed or developed for future use as investment property.

Investment properties are initially 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 (see note 2(m)). Depreciation is recognised so as to write off the cost of investment properties over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method. The accounting policy for rental income from leasing of investment properties is set out in note 2(w)(iii).

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 the disposal. Any gain or loss arising on derecognition of the property (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.

Depreciation is calculated on the straight-line basis to write off the cost of each item of investment properties to its residual value over its estimated useful life. The principle useful lives for this purpose are 30 years.

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2. SIGNIFICANT ACCOUNTING POLICIES
(continued)

(j) Property, plant and equipment

Items of property, plant and equipment, other than construction in progress, are stated at cost less any accumulated depreciation and any accumulated impairment losses (see note 2(m)).

The cost of self-constructed items of property, plant and equipment includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads and borrowing costs (see note 2(y)).

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight-line method over their estimated useful lives as follows:

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%

Where parts of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

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2. SIGNIFICANT ACCOUNTING POLICIES
(continued)

(j) Property, plant and equipment (continued)

Construction in progress comprises direct costs of construction during the period of construction and installation, which are carried at cost, less any identified impairment losses. Capitalisation of these costs ceases and the construction in progress is transferred to the relevant class of property, plant and equipment when substantially all of the activities necessary to prepare the assets for their intended use are completed. No depreciation is provided in respect of construction in progress until it is substantially completed and ready for its intended use.

(k) Intangible assets (other than goodwill)

(i) Intangible assets acquired separately

Intangible assets, comprising patents and rights, with finite useful lives that are acquired separately are carried at cost less accumulated amortisation and accumulated impairment losses (see note 2(m)). Amortisation is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses.

Patents and rights with finite useful lives are amortised on a straight-line basis over 5 to 15 years.

2. SIGNIFICANT ACCOUNTING POLICIES
(continued)

(k) Intangible assets (other than goodwill) (continued)

(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 asset arising from development (or from the development phase of an internal project) is recognised if, and only if, all of 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.

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2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) Intangible assets (other than goodwill) (continued)

(ii) Research and development expenditure (continued)

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

Subsequent to initial recognition, internally-generated intangible assets are reported at cost less accumulated amortisation and accumulated impairment losses (see note 2(m)), on the same basis as intangible assets that are acquired separately.

(iii) Intangible assets acquired in a business combination

Intangible assets that are acquired in a business combination and are 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 reported at cost less accumulated amortisation and accumulated impairment losses (see note 2(m)), on the same basis as intangible assets that are acquired separately.

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2. SIGNIFICANT ACCOUNTING POLICIES
(continued)

(k) Intangible assets (other than goodwill) (continued)

(iv) Derecognition of intangible assets

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from its use or disposal. Gains and losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

(l) Leased assets

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

(i) Classification of assets leased to the Group

Assets that are held by the Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases.

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2. SIGNIFICANT ACCOUNTING POLICIES

(continued)

(I) **Leased assets** (continued)

(ii) Assets acquired under finance leases

Where the Group acquires the use of assets under finance leases, the amounts representing the fair value of the leased asset or, if lower, the present value of the minimum lease payments of such assets are included in property, plant and equipment and the corresponding liabilities, net of finance charges, are recorded as obligations under finance leases. Depreciation is provided at rates which write off the cost of the assets over the term of the relevant lease or, where it is likely the Group will obtain ownership of the asset, the life of the asset, as set out in note 2(j). Impairment losses are accounted for in accordance with the accounting policy as set out in note 2(m). Finance charges implicit in the lease payments are charged to profit or loss over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

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2. SIGNIFICANT ACCOUNTING POLICIES
(continued)

(m) Impairment of assets

(i) Impairment of investments in debt and equity securities and other receivables

Investments in debt and equity securities and other current and non-current receivables that are stated at cost or amortised cost or are classified as available-for-sale securities are reviewed at the end of each reporting period to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

— significant financial difficulty of the debtor;

— a breach of contract, such as a default or delinquency in interest or principal payments;

— it becoming probable that the debtor will enter bankruptcy or other financial reorganisation;

— significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and

— significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

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2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(m) Impairment of assets (continued)

(i) Impairment of investments in debt and equity securities and other receivables (continued)

If any such evidence exists, any impairment loss is determined and recognised as follows:

— For investments in associates accounted for under the equity method in the consolidated financial statements (see note 2(e)), the impairment loss is measured by comparing the recoverable amount of the investment with its carrying amount in accordance with note 2(m)(ii). The impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount in accordance with note 2(m)(ii).

— For unquoted equity securities carried at cost, the impairment loss is measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material. Impairment losses for equity securities carried at cost are not reversed.

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2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(m) Impairment of assets (continued)

(i) Impairment of investments in debt and equity securities and other receivables (continued)

— For trade and other current receivables and other financial assets carried at amortised cost, the impairment loss is measured as 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 (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where financial assets carried at amortised cost share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

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2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(m) Impairment of assets (continued)

(i) Impairment of investments in debt and equity securities and other receivables (continued)

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade receivables, bills receivable and other receivables, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade receivables, bills receivable and other receivables directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

(ii) Impairment of other assets

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased:

— property, plant and equipment;

— prepaid lease payments;

— intangible assets;

— investment properties;

— investments in subsidiaries in the Company's statement of financial position; and

— interests in associates in the consolidated and Company's statements of financial position.

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2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(m) Impairment of assets (continued)

(ii) Impairment of other assets (continued)

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, intangible assets that are not yet available for use and intangible assets that have indefinite useful lives, the recoverable amount is estimated annually whether or not there is any indication of impairment.

— Calculation of recoverable amount

The recoverable amount of an asset is the greater of its fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

— Recognition of impairment losses

An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs of disposal (if measurable) or value in use (if determinable).

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2. SIGNIFICANT ACCOUNTING POLICIES
(continued)

(m) Impairment of assets (continued)

(ii) Impairment of other assets (continued)

— Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

(n) Inventories

Inventories are carried at the lower of cost and net realisable value.

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

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2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(o) Construction contracts

Construction contracts are contracts specifically negotiated with a customer for the construction of an asset or a group of assets, where the customer is able to specify the major structural elements of the design. The accounting policy for contract revenue is set out in note 2(w)(ii). When the outcome of a construction contract can be estimated reliably, contract costs are recognised as an expense by reference to the stage of completion of the contract at the end of the reporting period. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately. When the outcome of a construction contract cannot be estimated reliably, contract costs are recognised as an expense in the period in which they are incurred.

Construction contracts in progress at the end of the reporting period are recorded at the net amount of costs incurred plus recognised profit less recognised losses and progress billings, and are presented in the statement of financial position as the “Amounts due from customers for contract work” (as an asset) or the “Amounts due to customers for contract work” (as a liability), as applicable. Progress billings not yet paid by the customers and retentions are included under “Trade receivables”. Amounts received before the related work is performed are presented as “Deposits received”. Provision is made for foreseeable losses as soon as they are anticipated by management.

(p) Trade and other receivables

Trade and other receivables including the amounts receivable from banks for the wealth management products purchased with determinable returns are initially recognised at fair value and thereafter stated at amortised cost using the effective interest method, less allowance for impairment of doubtful debts (see note 2(m)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment of doubtful debts.

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2. SIGNIFICANT ACCOUNTING POLICIES
(continued)

(q) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

(r) Trade and other payables

Trade and other payables are initially recognised at fair value. Except for financial guarantee liabilities measured in accordance with note 2(v)(i), trade and other payables are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(s) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated statement of cash flows.

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2. SIGNIFICANT ACCOUNTING POLICIES

(continued)

(t) Employee benefits

Short-term employee benefits and contributions to defined contribution retirement plans

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(u) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

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2. SIGNIFICANT ACCOUNTING POLICIES
(continued)

(u) Income tax (continued)

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

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2. SIGNIFICANT ACCOUNTING POLICIES

(continued)

(u) Income tax (continued)

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

— in the case of current tax assets and liabilities, the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

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2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(u) Income tax (continued)

— in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

— the same taxable entity; or

— different taxable entities which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(v) Financial guarantees issued, provisions and contingent liabilities

(i) Financial guarantees issued

Financial guarantees are contracts that require the issuer (i.e. the guarantor) to make specified payments to reimburse the beneficiary of the guarantee (the “holder”) for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

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2. SIGNIFICANT ACCOUNTING POLICIES

(continued)

(v) Financial guarantees issued, provisions and contingent liabilities (continued)

(i) Financial guarantees issued (continued)

Where the Group issues a financial guarantee, the fair value of the guarantee is initially recognised as deferred income within other payables. The fair value of financial guarantees issued at the time of issuance is determined by reference to fees charged in an arm's length transaction for similar services, when such information is obtainable, or is otherwise estimated by reference to interest rate differentials, by comparing the actual rates charged by lenders when the guarantee is made available with the estimated rates that lenders would have charged, had the guarantees not been available, where reliable estimates of such information can be made. Where consideration is received or receivable for the issuance of the guarantee, the consideration is recognised in accordance with the Group's policies applicable to that category of asset. Where no such consideration is received or receivable, an immediate expense is recognised in profit or loss on initial recognition of any deferred income.

The amount of the guarantee initially recognised as deferred income is amortised in profit or loss over the term of the guarantee as income from financial guarantees issued. In addition, provisions are recognised in accordance with note 2(v)(iii) if and when (i) it becomes probable that the holder of the guarantee will call upon the Group under the guarantee, and (ii) the amount of that claim on the Group is expected to exceed the amount currently carried in other payables in respect of that guarantee, that is, the amount initially recognised, less accumulated amortisation.

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2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(v) Financial guarantees issued, provisions and contingent liabilities (continued)

(ii) Contingent liabilities assumed in business combinations

Contingent liabilities assumed in a business combination which are present obligations at the date of acquisition are initially recognised at fair value, provided the fair value can be reliably measured. After their initial recognition at fair value, such contingent liabilities are recognised at the higher of the amount initially recognised, less accumulated amortisation where appropriate, and the amount that would be determined in accordance with note 2(v)(iii). Contingent liabilities assumed in a business combination that cannot be reliably fair valued or were not present obligations at the date of acquisition are disclosed in accordance with note 2(v)(iii).

(iii) Other provisions and contingent liabilities

Provisions are recognised for other liabilities of uncertain timing or amount when the Group or the Company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

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2. SIGNIFICANT ACCOUNTING POLICIES

(continued)

(w) Revenue

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2. SIGNIFICANT ACCOUNTING POLICIES
(continued)

(w) **Revenue** (continued)

(iii) Rental income from operating leases

Rental income receivable under operating leases is recognised in profit or loss in equal instalments over the periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased asset. Lease incentives granted are recognised in profit or loss as an integral part of the aggregate net lease payments receivable. Contingent rentals are recognised as income in the accounting period in which they are earned.

(iv) Service income

Service income is recognised when services are provided.

(v) Dividends

— Dividend income from unlisted investments is recognised when the shareholder's right to receive payment is established.

— Dividend income from listed investments is recognised when the share price of the investment goes ex-dividend.

(vi) Interest income

Interest income is recognised as it accrues using the effective interest method.

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2. SIGNIFICANT ACCOUNTING POLICIES

(continued)

(w) Revenue (continued)

(vii) Government grants

Government grants are recognised in the statement of financial position initially when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognised as revenue in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are deducted from the carrying amount of the asset and consequently are effectively recognised in profit or loss over the useful life of the asset by way of reduced depreciation expense.

(x) Translation of foreign currencies

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was measured.

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2. SIGNIFICANT ACCOUNTING POLICIES
(continued)

(y) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

(z) Related parties

(a) A person, or a close member of that person's family, is related to the Group if that person:

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or the Group's parent.

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2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(z) Related parties (continued)

(b) An entity is related to the Group if any of the following conditions applies:

(i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.

(vi) The entity is controlled or jointly controlled by a person identified in (a).

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

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2. SIGNIFICANT ACCOUNTING POLICIES
(continued)

(aa) Segment reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Group's chief operating decision maker for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

(ab) Hedging accounting

Cash flow hedges

The Group designates certain derivatives as hedging instruments for cash flow hedges.

At the inception of the hedge relationship, the entity documents the relationship between the hedging instruments and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instruments is highly effective in offsetting changes in fair values or cash flows of the hedged item attributable to the hedged risk.

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2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(ab) Hedging accounting (continued)

Cash flow hedges (continued)

When a hedging instrument expires or is sold, terminated or exercised, or the entity revokes designation of the hedge relationship but the hedged forecast transaction is still expected to occur, the cumulative gain or loss at that point remains in equity until the transaction occurs and it is recognised in accordance with the above policy. If the hedged transaction is no longer expected to take place, the cumulative unrealised gain or loss is reclassified from equity to profit or loss immediately.

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

In the current year, the Group has applied the following new and revised HKFRSs issued by the HKICPA.

Amendments to HKFRS 10, HKFRS 12 and HKAS 27 (2011)	Investment Entities
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities
Amendments to HKAS 36	Recoverable Amount Disclosures for Non-Financial Assets
Amendments to HKAS 39	Novation of Derivatives and Continuation of Hedge Accounting
HK(IFRIC)-21	Levies

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3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (HKFRSs) (continued)

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period. Impacts of the adoption of the new or amended HKFRSs are discussed below:

Amendments to HKFRS 10, HKFRS 12 and HKAS 27 (2011) Investment entities

The amendments provide consolidation relief to those parents which qualify to be an investment entity as defined in the amended HKFRS 10. Investment entities are required to measure their subsidiaries at fair value through profit or loss. These amendments do not have an impact on these financial statements as no group entity qualifies as an investment entity.

Amendments to HKAS 32 Offsetting Financial Assets and Financial Liabilities

The amendments to HKAS 32 clarify the offsetting criteria in HKAS 32. The amendments do not have an impact on these financial statements as they are consistent with the policies already adopted by the Group.

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3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (HKFRSs) (continued)

Amendments to HKAS 36 Recoverable Amount Disclosures for Non-Financial Assets

The amendments to HKAS 36 modify the disclosure requirements for impaired non-financial assets. Among them, the amendments expand the disclosures required for an impaired asset or CGU whose recoverable amount is based on fair value less costs of disposal.

The application of these amendments has had no material impact on the disclosures in the Group's consolidated financial statements.

Amendments to HKAS 39 Novation of Derivatives and Continuation of Hedge Accounting

The amendments to HKAS 39 provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. The amendments do not have an impact on these financial statements as the Group has not novated any of its derivatives.

HK (IFRIC)-Int 21 Levies

The Interpretation provides guidance on when a liability to pay a levy imposed by a government should be recognised. The amendments do not have an impact on these financial statements as the guidance is consistent with the Group's existing accounting policies.

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4. REVENUE

Revenue, which is also the Group's turnover, represents the amounts received and receivable for goods sold and services rendered by the Group to customers during the year, net of taxes and sales returns, and an analysis of the Group's revenue for the year as follows:

		2014	2013
		[O Æ w ©	[O Æ w ©
		RMB'000	RMB'000
V / ¬ Ü	Sales of goods	**16,862,413**	17,043,671
¿ ¥ • ×]	Revenue from construction contracts	**6,932,044**	3,457,034
		23,794,457	20,500,705

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5. OTHER REVENUE AND NET INCOME/(LOSS)

		2014 [OÆw© RMB'000	2013 [OÆw© RMB'000
Iü×]	**Other revenue**		
5 Q¸Y {;▬]	Interest income from held-to-maturity investments	**11,333**	19,504
Õ ¿Iü;¹×]	Bank and other interest income	**141,406**	180,931
Ì ®!j	Finance company:		
8 Õ ¿Iü Ì Úô˜ ;¹×]	Interest income from banks and other financial institutions	**211,616**	99,369
h$C½¿Ð×r›˜ ;¹×]	Interest income on discounted bills and loans receivables	**19,851**	1,459
¢ø®ª =]&B˜–D *˜ <;¹×]	Total interest income on financial assets not at fair value through profit or loss	**384,206**	301,263
£Õ ...]#Ì*Ü˜³ ×]	Investment income on wealth management products purchased from banks	**23,181**	–
þµ×]	Compensation income	**337**	1,525
tøÌÇN˜p¹×]	Dividend income from trading securities	**67,300**	51,800
V/Ì³ ˜ p¹×]	Dividend income from available-for-sale investments	**998**	2,331
•7A´þ?€•W i•	PRC government subsidies (note i)	**92,918**	139,632
a–×]	Rental income	**10,640**	4,552
Ò3×B	Exchange gain	**9,096**	–
Iü×]	Other income	**53,236**	59,862
		641,912	560,965
Iü ×]Æf&• O /J8e@ ¿	**Other net income/(loss)**		
€f&•J×B	Net (loss)/gain on disposal of property, plant and equipment	**(145)**	3,771
/kùz®a#›×B	Gain on disposal of prepaid lease payments	**4,875**	–
;Ø V/ ×B	Net gain from sale of scrap materials and others	**1,854**	–
tøÌÇNŠ $¿J $ ×BÆf&•X	Net realised and unrealised gains/(losses) on trading securities	**1,155,300**	(121,660)
/ V/Ì³ ×B	Gain on disposal of available-for-sale investments	**23,803**	5,216
/L ®!×B	Gain on disposal of associate	_	2,123
"¥•,â•˜ [–DˆH˜ ®ª =×B	Fair value gains on derivative financial instruments not qualifying as hedges	_	12,930
®ª =×B — $–tŽ•, €7a ÆB•	Fair value gain — cash flow hedge (transfer from equity)	**24,332**	–
		1,210,019	(97,620)
		1,851,931	463,345

5. I] ¿] J¸ f & ¸ 5. OTHER REVENUE AND NET INCOME/ (LOSS) (continued)

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Note (i): Breakdown of PRC government subsidies is as follow:

		2014 [O Æ w © RMB'000	2013 [O Æ w © RMB'000
Ì þ ? ˜ ×]	Income of financial subsidies	**21,631**	82,363
¼ ú þ ?	Research subsidies	**51,253**	34,638
I ü	Others	**20,034**	22,631
		92,918	139,632

6. P ; 6. PROFIT BEFORE TAXATION

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Profit before taxation is arrived at after charging/(crediting):

		2014 [O Æ w © RMB'000	2013 [O Æ w © RMB'000
(a)	(a) **Finance costs**		
¿ I > ;• j			
— ² õ ž Ë « Œ Å µ ”	Interest on bank and other borrowings:		
— ² õ ž Ë Œ Å µ ”	— wholly repayable within five years	**135,540**	96,744
Ì ® ! j	— not wholly repayable within five years	–	–
Ò À › ˜ ; ¹ Õ	Finance Company:		
	Interest expense on customers' deposits	**8,534**	1,354
® ! À N ˜ ; ¹	Interest on corporate bonds	**148,755**	120,867
D a # Õ Ä ˜ D I \	Finance charges on obligations under finance leases	**7,436**	9,513
¢ ø ® ª =] & B ˜	Total interest expenses on financial liabilities not at fair value through profit or loss	**300,265**	228,478
c – D À ˜ < ; ¹ Õ			
¯ j õ ¯ ˆ û « I · ˜	Less: interest expense capitalised into construction in progress	**(255)**	–
c c c ; ¹ Õ			
		300,010	228,478

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Borrowing costs had been capitalised at a rate of 5.4% in 2014 (2013: nil).

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6. PROFIT BEFORE TAXATION (continued)

		2014 [O Æ w © RMB'000	2013 [O Æ w © RMB'000
(b)	p l#	(b) **Staff costs#**	
	p l¡ < + ¿ 9 + Z G € • W 8 • × ~ E ; Œ 6 ›	Staff costs including directors' and supervisors' emoluments (note 8)	**2,056,830**	1,692,556
		Post-employment benefit scheme contributions	**403,068**	398,357
	p ˆ < Ó l	Total staff costs	**2,459,898**	2,090,913
(c)	l ¦ f	(c) **Other items**		
	L * a	Allowance for doubtful debts	**642,242**	486,258
	l ü Ð × › ¯ =	Impairment of other receivables	**17,911**	15,471
	À ¬ a ê	Allowance for inventories	**462,619**	156,751
	k ù z ® a # › Å V #	Amortisation of prepaid lease payments#	**14,009**	13,186
	Ì – * Å V #	Amortisation of intangible assets#	**28,121**	27,575
	è p ª G –	Auditors' remuneration	**3,110**	3,110
	À ¬ Ó l #	Cost of inventories#	**20,653,741**	16,179,823
	³ J 8 ±	Depreciation for investment properties	**1,256**	181
	J 8 e @ Ò ¿ £ ê ± #	Depreciation for property, plant and equipment#	**693,073**	666,407
	Ò 3 € × B ₰ f &	Net foreign exchange (gain)/loss	**(9,096)**	60,826
	, › È ¥ Ò a ê ##	Provision for onerous contracts##	**226,803**	61,687
	* Ü / Ž - Ç a ê ##	Provision for product warranty##	**164,485**	82,592
	¼ ú š ï l \	Research and development costs	**370,136**	350,373

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Cost of inventories includes RMB2,102,615,000 (2013: RMB1,782,343,000) relating to staff costs, depreciation and amortisation expenses, which amount is also included in the respective total amounts disclosed separately above or in note 6(b) for each of these types of expenses.

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These items are included in "other operating expenses" on the face of the consolidated statement of profit or loss.

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7. INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS

(a)] & B) ¦ 8 j

(a) Taxation in the consolidated statement of profit or loss represents:

		2014	2013
		[O Æ w ©	[O Æ w ©
		RMB'000	RMB'000
C,ü°	**Current tax**		
7 8 {	PRC Enterprise Income Tax		
— I Ë aê	— provision for the year	**174,886**	151,754
— ø » Ë aê"	— under-provision in respect of prior years	**66,384**	9,158
		241,270	160,912
È·ü°	**Deferred tax**		
r X * [¿ a	Origination and reversal of temporary		
€•W 15•	differences (note 15)	**(10,557)**	(8,424)
		230,713	152,488

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On 21 November 2008, the Company was named as one of the High and New Technology Enterprise (÷-¦"†8). According to the PRC Law on Enterprise Income Tax promulgated on 16 March 2007, the Company is entitled to a concessionary rate of enterprise income tax at 15% over

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		2014 [O Æ w © RMB'000	2013 [O Æ w © RMB'000
ð ü Ã P ;	Profit before taxation	**364,879**	778,094
2 ü ! , Æ P ; G \ ü Q ˜ ð ü Ã P ; ˜ ¤ È ü °	Notional tax on profit before taxation, calculated at the rates applicable to profits in the tax jurisdictions	**52,909**	119,068
Ð & L ® ! P ; ¯ f & Á ü Y B ¤	Tax effect of share of profits less losses of associates	**(4,683)**	(4,347)
" ² ü ×] Á ü Y B ¤	Tax effect of non-taxable income	**(202,143)**	(72,291)
" Ô ü Õ Á ü Y B ¤	Tax effect of non-deductible expenses	**74,896**	59,964
4 \ @ » J ½ © ü ° f & Á ü Y B ¤	Tax effect of utilisation of tax losses not previously recognised	**(6,799)**	(21,952)
J ½ © ü ° f & ¿ Ô ü r Û ¨ X Á ü Y B ¤	Tax effect of tax losses and deductible temporary differences not recognised	**249,759**	62,888
@ » Ë a ê "	Under-provision in prior years	**66,384**	9,158
I ü	Others	**390**	–
¼ ç ü ° Õ	Actual tax expense	**230,713**	152,488

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8. DIRECTORS' AND SUPERVISORS' EMOLUMENTS

Directors' and supervisors' emoluments for the year, disclosed pursuant to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and Section 78 of Schedule 11 to the new Hong Kong Companies Ordinance (Cap. 622), with reference to section 161 of the predecessor Hong Kong Companies Ordinance (Cap. 32), is as follows:

		Š – Fees [O w , RMB'000	I E ; Salaries and other benefits [O w , RMB'000	E ;) 6 Contributions to retirement benefits schemes [O w , RMB'000	< X Total [O w , RMB'000
Z g S , Ë	**2014**				
B +	**Executive directors**				
N Ý ‹ [	Mr. Wu Wei-zhang	_	**704**	**136**	**840**
• E ‹ [	Mr. Shang Zhong-fu	_	**728**	**119**	**847**
u õ ‹ [	Mr. Zhang Ying-jian	_	**722**	**126**	**848**
, ð ‹ [	Mr. Song Shi-qi	_	**722**	**137**	**859**
		_	**2,876**	**518**	**3,394**
' **B +**	**Non-executive directors**				
— z@Ñ ‹ [€ õ Z g S ž Ë g Ü d ^ Ú Ø , •	Mr. Gong Jing-kun (resigned on 18 March 2015)	_	_	_	_
E ¾ ‹ [	Mr. Zou Lei	_	_	_	_
		_	_	_	_
m ' B +	**Independent non-executive directors**				
' ù ? ‹ [€ õ Z g S , Ë X Ü Z d X Ú Ø , •	Mr. Sun Chang-ji (resigned on 29 September 2014)	_	_	_	_
ê E F ‹ [€ õ Z g S , Ë ž Ü d ¬ Ú × , •	Mr. Fan Fu-chun (retired on 16 May 2014)	_	_	_	_
r ² ‹ [	Mr. Yu Bo	_	_	_	_
Ó Š ‹ [€ õ Z g S , Ë X Ü Z d X Ú Ø , •	Mr. Jia Cheng-bing (resigned on 29 September 2014)	_	_	_	_
Î ö ‹ [	Mr. Liu Deng-qing	_	_	_	_
		_	_	_	_

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8. DIRECTORS' AND SUPERVISORS' EMOLUMENTS (continued)

		Fees [O w, RMB'000	I E; Salaries and other benefits [O w, RMB'000	E; 6 Contributions to retirement benefits schemes [O w, RMB'000	< X Total [O w, RMB'000
9 +	**Supervisors**				
Ó ^ ‹ [	Mr. Chen Guang	_	**274**	**49**	**323**
c W ö ‹ ₣€ õ Z g S , Ë d S Ü d ^ Ú Ø , •	Mr. Bai Shao-tong (resigned on 18 November 2014)	_	_	_	_
F ó ~ ₣€ õ Z g S , Ë d S Ü d ^ Ú Ø , •	Ms. Lu Chun-lian (resigned on 18 November 2014)	_	**70**	**6**	**76**
± Z ü ‹ [	Mr. Xu-Er-ming	_	_	_	_
u p ‹ ₣€ õ Z g S , Ë d S Ü d ^ Ú ‰ , •	Mr. Zhang Jun-quan (appointed on 18 November 2014)	_	**67**	**3**	**70**
¹ Q v ‹ ₣€ õ Z g S , Ë d S Ü d ^ Ú ‰ , •	Mr. Feng Yong-qiang (appointed on 18 November 2014)	_	**370**	**17**	**387**
u Ö ü ‹ [	Mr. Zhang Wen-ming	_	**202**	**41**	**243**
		_	**983**	**116**	**1,099**
		_	**3,859**	**634**	**4,493**

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8. DIRECTORS' AND SUPERVISORS' EMOLUMENTS (continued)

		š– Fees [Ow, RMB'000	I E; Salaries and other benefits [Ow, RMB'000	E; j 6 Contributions to retirement benefits schemes [Ow, RMB'000	<X Total [Ow, RMB'000
ZgSgË	**2013**				
B +	**Executive directors**				
NÝ‹[	Mr. Wu Wei-zhang	–	684	141	825
•E‹[	Mr. Shang Zhong-fu	–	594	127	721
uõ‹[€ õZgSgË SÜžÚ‰,‰¢B è+d(õZgSgË žÜdÚ,‰B è+•	Mr. Zhang Ying-jian (appointed as a non-executive director on 5 January 2013 and re-designated as an executive director on 10 May 2013)	–	633	151	784
,ð‹[€ õZgSgË SÜžÚ‰,‰¢B è+d(õZgSgË žÜdÚ,‰B è+•	Mr. Song Shi-qi (appointed as a non-executive director on 5 January 2013 and re-designated as an executive director on 10 May 2013)	–	683	151	834
		–	2,594	570	3,164
¢B è+	**Non-executive directors**				
—z@Ñ‹[€õZgSžË gÜd^ÚØ,•	Mr. Gong Jing-kun (resigned on 18 March 2015)	–	–	–	–
E¾‹[	Mr. Zou Lei	–	–	–	–
lsÈ‹[€ õZgSgË SÜžÚØ,•	Mr. Duan Hong-yi (resigned on 5 January 2013)	–	–	–	–
uõ‹[€ õZgSgË SÜžÚ‰,‰¢B è+d(õZgSgË žÜdÚ,‰B è+•	Mr. Zhang Ying-jian (appointed as a non-executive director on 5 January 2013 and re-designated as an executive director on 10 May 2013)	–	–	–	–
,ð‹[€ õZgSgË SÜžÚ‰,‰¢B è+d(õõZgSgË žÜdÚ,‰B è+•	Mr. Song Shi-qi (appointed as a non-executive director on 5 January 2013 and re-designated as an executive director on 10 May 2013)	–	–	–	–
		–	–	–	–

		š– Fees [Ow, RMB'000	I E; Salaries and other benefits [Ow, RMB'000	E; 6 Contributions to retirement benefits schemes [Ow, RMB'000	< X Total [Ow, RMB'000
ùm¢B è+	**Independent non-executive directors**				

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8. DIRECTORS' AND SUPERVISORS' EMOLUMENTS (continued)

Of the 5 individuals with the highest emoluments, 1 (2013: 2) is also director of the Company whose emoluments are disclosed above. The aggregate of the emoluments in respect of the remaining 4 (2013: 3) individuals are as follows:

		2014 [O Æ w © **RMB'000**	2013 [O Æ w © RMB'000
^ ~ l ü E ;	Salaries and other benefits	**3,023**	2,187
× ~ E ; Œ 6 ›	Contributions to post-employment benefit schemes	**629**	153
		3,652	2,340

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10. SEGMENT REPORTING

The Group manages its businesses by divisions, which are organised by business lines (products and services). In a manner consistent with the way in which information is reported internally to the directors of the Company, the Group's chief operating decision maker, for the purposes of resources allocation and performance assessment, the Group has presented the following five reportable segments. No operating segments have been aggregated to form the following reportable segments.

t Main thermal power equipment	— manufacturing of main thermal power equipment.
t Main hydro power equipment	— manufacturing of main hydro power equipment.
t Engineering services	— provision of engineering services for power stations.
t Ancillary equipment	— manufacturing of ancillary equipment for power stations.
t AC/DC motors and others	— manufacturing of AC/DC motor and others.

(a) Segment results, assets and liabilities

For the purposes of assessing segment performance and allocating resources between segments, the Company's directors monitor the results, assets and liabilities attributable to each reportable segment on the following bases:

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10. SEGMENT REPORTING (continued)

(a) **Segment results, assets and liabilities** (continued)

Segment assets include all tangible, intangible assets and current assets with the exception of interests in associates, other non-current assets, other financial assets, trading securities, deferred tax assets, restricted and pledged bank deposits, bank deposits, deposits with central bank, cash and cash equivalents and other head office and corporate assets. Segment liabilities include trade payables, bills payable, other payables and accruals, amounts due to fellow subsidiaries, customers' deposits, deposits received and amounts due to customers for contract work attributable to the manufacturing and sales activities of the individual segments.

Revenue and expenses are allocated to the reportable segments with reference to sales generated by those segments and the expenses incurred by those segments or which otherwise arise from the depreciation or amortisation of assets attributable to those segments.

The measure used for reporting segment profit is "adjusted operating profit/(loss)". To arrive at "adjusted operating profit/(loss)", the Group's profit/(loss) are further adjusted for items not specifically attributed to individual segments, such as share of profits less losses of associates, interest income, PRC government subsidies, net realised and unrealised gains/(losses) on trading securities, fair value gain-cash flow hedge (transfer from equity), provision for onerous contracts, finance costs, unallocated other revenue and net income/(loss) and other head office and corporate expenses. Taxation charge is not allocated to reporting segments. Inter-segment sales are charged at terms agreed between the relevant parties. In addition to receiving segment information concerning "adjusted operating profit/(loss)", management is provided with segment information concerning revenue (including inter-segment sales), interest income and expense, depreciation, amortisation and impairment losses and additions to non-current segment assets used by the segments in their operations.

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10. SEGMENT REPORTING (continued)

(a) Segment results, assets and liabilities (continued)

The accounting policies of the reporting segments are the same as the Group's accounting policies described in note 2.

Information regarding the Group's reportable segments as provided to the Company's directors for the purposes of resources allocation and assessment of segment performance for the years ended 31 December 2014 and 2013 is set out below.

2014

		æeôÚ £ê Main thermal power equipment [0w, RMB'000	ße Main hydro power equipment [0w, RMB'000	eg Engineering services for power stations [0w, RMB'000	eg q Ancillary equipment for power stations [0w, RMB'000	t\te ¿l AC/DC motor and others [0w, RMB'000	< Total [0w, RMB'000
8.Å Ò˜x]	Revenue from external customers	12,310,169	2,906,874	3,894,369	1,556,343	3,126,702	23,794,457
•]	Inter-segment revenue	1,900,380	_	189,297	_	_	2,089,677
S•]	Reportable segment revenue	14,210,549	2,906,874	4,083,666	1,556,343	3,126,702	25,884,134
S• P;	Reportable segment profit	1,761,147	388,715	318,493	360,615	273,461	3,102,431
O J8e@ ¿ •	Depreciation of property, plant and equipment	439,152	113,832	11,794	19,675	108,620	693,073
J8•	Depreciation of investment properties	274	_	709	_	273	1,256
_ * V	Amortisation of intangible assets	17,554	142	_	1,974	8,451	28,121
k z• a# V	Amortisation of prepaid lease payments	8,861	2,945	44	603	1,556	14,009
l €a«Ð¯=	(Reversal)/impairment of other receivables	(251)	2,804	(2,309)	(435)	18,102	17,911
L*a	Allowances for doubtful debts	426,068	58,820	49,029	60,673	47,652	642,242
;•]	Interest income	(92,345)	(6,310)	(41,603)	(4,483)	(239,465)	(384,206)
;•	Interest expenses	246,480	8,167	14,400	3,306	27,657	300,010
S• *	Reportable segment assets	31,971,154	5,226,341	2,710,586	3,050,889	5,534,629	48,493,599
I¡ ´t• * # *	Additions to non-current segment assets during the year*	479,920	143,580	74,815	39,498	100,759	838,572
S• A	Reportable segment liabilities	27,755,381	4,298,796	4,317,490	2,919,926	4,408,274	43,699,867

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		e Main thermal power equipment [O Æ w © RMB'000	å e ô Ú £ ê Main hydro power equipment [O Æ w © RMB'000	e g ˆ û Engineering services for power stations [O Æ w © RMB'000	e g ¾ Ú q ã • £ ê Ancillary equipment for power stations [O Æ w © RMB'000	t \ t e Ú ¿ l ü AC/DC motor and others [O Æ w © RMB'000	< Total [O Æ w © RMB'000
8 .Å Ò˜×]	Revenue from external customers	12,447,960	2,703,922	1,811,299	733,215	2,804,309	20,500,705
±Åœ×]	Inter-segment revenue	2,112,317	–	–	–	–	2,112,317
S±Å×]	Reportable segment revenue	14,560,277	2,703,922	1,811,299	733,215	2,804,309	22,613,022
S±ÅP;	**Reportable segment profit**	2,573,079	694,637	408,642	209,066	486,800	4,372,224
J8e@Ò¿£ê±	Depreciation of property, plant and equipment	423,265	110,163	9,943	16,848	106,188	666,407
³ J8±	Depreciation of investment properties	–	–	–	–	181	181
Ì– *ÅV	Amortisation of intangible assets	13,287	133	–	853	13,302	27,575
kùz®a#›ÅV	Amortisation of prepaid lease payments	8,502	2,763	44	390	1,487	13,186
lüÐx›¯=	Impairment of other receivables	7,857	7,282	–	332	–	15,471
L*aê	Allowances for doubtful debts	332,649	37,006	37,863	23,077	55,663	486,258
;¹×]	Interest income	(97,824)	(12,204)	(71,666)	(5,889)	(113,680)	(301,263)
;¹Õ	Interest expenses	183,655	2,292	24,372	2,946	15,213	228,478
S±Å *	**Reportable segment assets**	32,944,701	5,285,817	2,685,710	1,735,796	5,623,076	48,275,100
lË ¢t ±Å * # *	Additions to non-current segment assets during						

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10. SEGMENT REPORTING (continued)

(b) S•]e & Be *¿ ‚A ‘ *

(b) Reconciliation of reportable segment revenue, profit or loss, assets and liabilities

		2014 [O Æ w © RMB'000	2013 [O Æ w © RMB'000
×]	**Revenue**		
S•]	Reportable segment revenue	**25,884,134**	22,613,022
Á V ± Å œ ×]	Elimination of inter-segment revenue	**(2,089,677)**	(2,112,317)
]¥ 8X	Consolidated turnover	**23,794,457**	20,500,705
P;	**Profit**		
S• P;	Reportable segment profit	**3,102,431**	4,372,224
Á V ± Å œ f & Æ P; •	Elimination of inter-segment losses/(profits)	**38,285**	(51,342)
8 I« .Å Ò˜ S ± Å P;	Reportable segment profit derived from Group's external customers	**3,140,716**	4,320,882
Ð & L ®!P; ¯f &	Share of profits less losses of associates	**31,217**	28,980
;¹×]	Interest income	**384,206**	301,263
• 7 A´þ?	PRC government subsidies	**92,918**	139,632
tø Ì Ç N Š $¿J $ × B Æ f & • X	Net realised and unrealised gains/(losses) on trading securities	**1,155,300**	(121,660)
®ª =×B — $–tŽ•, €7a Æ B•	Fair value gain — cash flow hedge (transfer from equity)	**24,332**	–
,›È ¥Òaê	Provision for onerous contracts	**(226,803)**	(61,687)
Ì Õ	Finance costs	**(300,010)**	(228,478)
J ± ã l ü × B ¿ ×] Æ f & • X	Unallocated other revenue and net income/(loss)	**195,175**	144,110
J ± ã < Å ¿ † 8 l \	Unallocated head office and corporate expenses	**(4,132,172)**	(3,744,948)
]¥ ð ü Ã P;	Consolidated profit before taxation	**364,879**	778,094

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10. SEGMENT REPORTING (continued)

(b) S•]e & Be *¿ ‚A

(b) Reconciliation of reportable segment revenue, profit or loss, assets and liabilities (continued)

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		2014 [O Æ w © RMB'000	2013 [O Æ w © RMB'000
* S• *	**Assets** Reportable segment assets	**48,493,599**	48,275,100
Á V ± Å œ Ð × ›	Elimination of inter-segment receivables	**(5,020,546)**	(4,073,577)
		43,473,053	44,201,523
õ L ®!˜ Æ B	Interests in associates	**242,769**	234,614
È · ü ° *	Deferred tax assets	**349,580**	297,354
I ü ¢ t *	Other non-current assets	**49,292**	70,538
I ü – D *	Other financial assets	**–**	579,135
t ø Ì Ç N	Trading securities	**1,909,300**	1,532,390
a " S ¿ Š ê å Õ À ›	Restricted and pledged bank deposits	**339,540**	219,456
Õ À ›	Bank deposits	**2,086,312**	1,326,913
• / Õ À ›	Deposits with central bank	**710,781**	519,145
$ – ¿ $ – J	Cash and cash equivalents	**11,557,109**	10,538,171
J ± ã < Å ¿ † 8 *	Unallocated head office and corporate assets	**1,476,224**	841,893
] ¥ < *	Consolidated total assets	**62,193,960**	60,361,132
À S• ‚A	**Liabilities** Reportable segment liabilities	**43,699,867**	41,250,228
Á V ± Å œ Ð ù ›	Elimination of inter-segment payables	**(5,020,546)**	(4,073,577)
		38,679,321	37,176,651
Ð ù Ô { ü	Income tax payables	**108,423**	136,490
[– D ˆ H	Derivative financial instruments	**293,299**	–
Þ › p ®!› °	Advance from holding company	**1,858,050**	1,771,682
Õ > ›	Bank borrowings	**1,180,154**	1,123,918
I ü ¢ t À	Other non-current liabilities	**676,223**	548,200
D a # Õ Ä	Obligations under finance leases	**97,330**	136,534
È · ü ° À	Deferred tax liabilities	**–**	17,690
®! À N	Corporate bonds	**2,994,443**	2,992,688
J ± ã < Å ¿ † 8 À	Unallocated head office and corporate liabilities	**2,326,601**	2,163,030
] ¥ < À	Consolidated total liabilities	**48,213,844**	46,066,883

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10. SEGMENT REPORTING (continued)

(c) Geographical information

The following is an analysis of geographical location of (i) the Group's revenue from external customers and (ii) the Group's property, plant and equipment, investment properties, prepaid lease payments, intangible assets and interests in associates. The geographical location of customers refers to the location at which the services were provided or the goods delivered. The geographical location of property, plant and equipment, investment properties and prepaid lease payments are based on the physical location of the asset under consideration. In the case of intangible assets, it is based on the location of the operation to which these intangibles are allocated. In the case of interests in associates, it is the location of operations of such associates.

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		Revenues from external customers		Non-current assets	
		2014 [O Æ w © **RMB'000**	2013 [O Æ w © RMB'000	**2014** [O Æ w © **RMB'000**	2013 [O Æ w © RMB'000
• 7 ¤ «€ Ô ¯ ® •	PRC (place of domicile)	**19,459,852**	18,323,443	**7,659,361**	7,583,218
. j	Overseas:				
— ™ • q 7	— Republic of India	**137,800**	354,943	_	–
— Ë ? v ~ z v † • q 7	— Islamic Republic of Pakistan	**208,166**	573,935	_	–
— ½ X µ ' • q 7	— The Republic of Ecuador	**1,210,258**	613,166	_	–
— z l • q 7	— The Republic of Turkey	**795,238**	–	_	–
— ™ 5 • q 7	— The Republic of Indonesia	**1,204,588**	89,571	_	–
— l ü 7 •	— Other countries	**778,555**	545,647	_	–
		4,334,605	2,177,262	_	–
		23,794,457	20,500,705	**7,659,361**	7,583,218

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In 2014, revenue of approximately RMB2,544,790,000 are derived from a single external customer. These revenue are attributable to the main thermal power equipment and main hydro power equipment segments.

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No single customer contributed 10% or more to the Group's total revenue in 2013.

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11. INVESTMENT PROPERTIES

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		[O w, RMB'000
Ó I	**Cost**	
ZgSg, Si S eZgSg, dZÜgdSÚ¿ZgS,ËSÜSÚ	At 1 January 2013, 31 December 2013 and 1 January 2014	5,715
7a J8 e@Ò¿£€•W 12•	Transfer from property, plant and equipment (note 12)	34,906
õZgS,ËdZÜgdSÚ	**At 31 December 2014**	40,621
]±¿¯=f&	**Accumulated depreciation and impairment losses**	
ZgSg, Si S	At 1 January 2013	1,086
IË Õ	Charge for the year	181
õZgSgËdZÜgdSÚ	At 31 December 2013	1,267
õZgS,ËSÜSÚ	At 1 January 2014	1,267
IË Õ	Charge for the year	1,256
7a J8e@Ò¿£€•W 12•	Transfer from property, plant and equipment (note 12)	16,397
õZgS,ËdZÜgdSÚ	**At 31 December 2014**	**18,920**
*& =	**Carrying amount**	
ZgS,, dZi gdS	**At 31 December 2014**	**21,701**
õZgSgËdZÜgdSÚ	At 31 December 2013	4,448

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(a) The directors consider that the carrying amounts of the investment properties approximate their fair value at the end of the reporting period.

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(b) J 8 * & =• ¾ h j

11. INVESTMENT PROPERTIES (continued)

(b) The analysis of carrying amount of investment properties is as follows:

		2014 [O Æ w © **RMB'000**	2013 [O Æ w © RMB'000
ì ½ ø h a Ò ¯ • 7 5 Þ z ® j	Land situated in the PRC held under:		
• , a Ò	Medium-term leases	**21,701**	4,448
õ , a Ò	Short-term leases	_	–
		21,701	4,448

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(c) Investment properties leased out under operating leases

The Group leased out investment properties under operating leases. The leases typically run for an initial period of 1 to 3 years, with an option to renew the lease after that date at which time all terms are re-negotiated. None of the leases includes contingent rentals.

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12. PROPERTY, PLANT AND EQUIPMENT (continued)

I. !

The Company

		Buildings [O w, RMB'000	O @ ¿ Plant and machinery [O w, RMB'000	I e ¿ Furniture, fixtures and equipment [O w, RMB'000	6 i H Motor vehicles [O w, RMB'000	Construction in progress [O w, RMB'000	< Total [O w, RMB'000
Ó I	**Cost**						
ZgSg, Sí S	At 1 January 2013	979,716	280,775	42,045	7,857	157,970	1,468,363
ôÄ	Additions	–	2,548	347	448	216,611	219,954
7a	Transfer	143,759	(135,803)	–	–	(7,956)	–
/	Disposals	–	–	(95)	–	–	(95)
õZgSgËdZÜgdSÚ	At 31 December 2013	1,123,475	147,520	42,297	8,305	366,625	1,688,222
õZgS,ËSÜSÚ	At 1 January 2014	1,123,475	147,520	42,297	8,305	366,625	1,688,222
ôÄ	Additions	–	–	5,919	–	82,541	88,460
7a	Transfer	(102,915)	102,244	2,016	–	(1,345)	–
/	Disposals	–	(2,548)	(38)	–	–	(2,586)
õZgS,ËdZÜgdSÚ	**At 31 December 2014**	**1,020,560**	**247,216**	**50,194**	**8,305**	**447,821**	**1,774,096**
]±¿¯=f&	**Accumulated depreciation and impairment loss**						
ZgSg, Sí S	At 1 January 2013	126,705	70,824	13,026	4,988	–	215,543
IË Õ	Charge for the year	32,928	25,814	2,591	867	–	62,200
/Ûa«	Write back on disposals	–	–	(92)	–	–	(92)
õZgSgËdZÜgdSÚ	At 31 December 2013	159,633	96,638	15,525	5,855	–	277,651
õZgS,ËSÜSÚ	At 1 January 2014	159,633	96,638	15,525	5,855	–	277,651
IË Õ	Charge for the year	33,954	21,783	4,683	853	–	61,273
/Ûa«	Write back on disposals	–	(247)	(37)	–	–	(284)
õZgS,ËdZÜgdSÚ	**At 31 December 2014**	**193,587**	**118,174**	**20,171**	**6,708**	_	**338,640**
*&=	**Carrying amount**						
ZgS,, dZí gdS	**At 31 December 2014**	**826,973**	**129,042**	**30,023**	**1,597**	**447,821**	**1,435,456**
õZgSgËdZÜgdSÚ	At 31 December 2013	963,842	50,882	26,772	2,450	366,625	1,410,571

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The Group's and the Company's buildings are situated in the PRC.

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19,038,000 © Y ð • } Á ø ¿ @ Ò ¿ Ú œ
€ Z g S g Ë j [O Æ 3,143,000 © Y } Á
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12. PROPERTY, PLANT AND EQUIPMENT (continued)

As at 31 December 2014, certain buildings and plant and machinery of the Group with carrying amounts of approximately RMB97,482,000 and RMB19,038,000 respectively (2013: building of RMB3,143,000, plant and machinery of RMB19,298,000) were pledged to secure general banking facilities granted to the Group. Details of which are set out in note 33.

At the end of the reporting period, the net carrying amount of plant and machinery held under finance lease in the form of sale and leaseback arrangements of the Group was RMB232,122,000 (2013: RMB204,007,000) (see note 34). There was no disposal gain or loss recognised for the transactions.

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13. PREPAID LEASE PAYMENTS

I ‹

The Group

		[O w, RMB'000
Ó I	**Cost**	
Z g S g ¸ S i S	At 1 January 2013	607,762
À @ × ... • n ® ! ô Ä€ • W 42(b) •	Additions through acquisition of subsidiaries (note 42(b))	8,727
ô Ä	Additions	78,011
õ Z g S g Ë d Z Ü g d S Ú	At 31 December 2013	694,500
õ Z g S , Ë S Ü S Ú	At 1 January 2014	694,500
ô Ä	Additions	19,212
/	Disposals	(4,993)
õ Z g S , Ë d Z Ü g d S Ú	**At 31 December 2014**	**708,719**
] Å V	**Accumulated amortisation**	
Z g S g ¸ S i S	At 1 January 2013	174,516
I Ë Å V	Amortisation for the year	13,186
õ Z g S g Ë d Z Ü g d S Ú	At 31 December 2013	187,702
õ Z g S , Ë S Ü S Ú	At 1 January 2014	187,702
I Ë Å V	Amortisation for the year	14,009
/ Û a «	Written back on disposals	(518)
õ Z g S , Ë d Z Ü g d S Ú	**At 31 December 2014**	**201,193**
* & =	**Carrying amount**	
Z g S , ¸ d Z i g d S	**At 31 December 2014**	**507,526**
õ Z g S g Ë d Z Ü g d S Ú	At 31 December 2013	506,798

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13. PREPAID LEASE PAYMENTS (continued)

The Group's prepaid lease payments represent land use rights held under medium-term lease in the PRC. They are analysed for reporting purpose as follows:

		2014	2013
		[O Æ w ©	[O Æ w ©
		RMB'000	RMB'000
t Å ±	Current portion	**14,009**	14,286
¢ t Å ±	Non-current portion	**493,517**	492,512
		507,526	506,798

As at 31 December 2014, certain prepaid lease payments of the Group with carrying amount of approximately RMB30,581,000 (2013: RMB31,243,000) were pledged to secure general banking facilities granted to the Group. Details of which are set out in note 33.

13. PREPAID LEASE PAYMENTS (continued)

The Company

The Company's prepaid lease payments represent land use rights

14. _ *

14. INTANGIBLE ASSETS

I ‹

The Group

		Y ; ¿ $ ´ Patents and rights [O w , RMB'000
Ó I	**Cost**	
Z g S g ¸ S I S	At 1 January 2013	402,818
ô Ä	Additions	11,661
À @ × ... • n ® ! ô Ä€ • W 42(b) •	Additions through acquisition of subsidiaries (note 42(b))	878
õ Z g S g Ë d Z Ü g d S Ú	At 31 December 2013	415,357
õ Z g S , Ë S Ü S Ú	At 1 January 2014	415,357
ô Ä	Additions	10,097
õ Z g S , Ë d Z Ü g d S Ú	**At 31 December 2014**	**425,454**
] Å V ¿ ¯ = f &	**Accumulated amortisation and impairment loss**	
Z g S g ¸ S I S	At 1 January 2013	169,425
I Ë Å V	Amortisation for the year	27,575
õ Z g S g Ë d Z Ü g d S Ú	At 31 December 2013	197,000
õ Z g S , Ë S Ü S Ú	At 1 January 2014	197,000
I Ë Å V	Amortisation for the year	28,121
õ Z g S , Ë d Z Ü g d S Ú	**At 31 December 2014**	**225,121**
* & =	**Carrying amount**	
Z g S , ¸ d Z I g d S	**At 31 December 2014**	**200,333**
õ Z g S g Ë d Z Ü g d S Ú	At 31 December 2013	218,357

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The amortisation charge for the year is included in "administrative expenses" in the consolidated statement of profit or loss.

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15. DEFERRED TAXATION

The components of deferred tax assets/(liabilities) recognised in the consolidated statement of financial position and the movements during the year are as follows:

The Group

		Impairment of trade and other receivables and inventories	Provisions	Hedging instruments	Others	Total
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	Deferred tax arising from:					
	At 1 January 2013	209,846	73,844	(396)	4,852	288,146
7 •	Credited/(charged) to profit or loss (note 7)	28,271	(19,841)	–	(6)	8,424
	Charged to other comprehensive income	–	–	(17,294)	–	(17,294)
42(b) •	Acquisition of subsidiaries (note 42(b))	388	–	–	–	388
	At 31 December 2013	238,505	54,003	(17,690)	4,846	279,664
	At 1 January 2014	238,505	54,003	(17,690)	4,846	279,664
7 •	Credited to profit or loss (note 7)	9,740	817	–	–	10,557
	Credited to other comprehensive income	–	–	59,346	–	59,346
42(a) •	Acquisition of subsidiaries (note 42(a))	13	–	–	–	13
	At 31 December 2014	**248,258**	**54,820**	**41,656**	**4,846**	**349,580**

15. DEFERRED TAXATION (continued)

The Company

		Provisions	Total
		RMB'000	RMB'000
È·ü°*[j	**Deferred tax arising from:**		
ZgSg¸ Sí S	At 1 January 2013	10,696	10,696
õ&BÔð	Charged to profit or loss	(10,696)	(10,696)
õZgSgËdZÜgdSÚ¿ ZgS,ËSÜSÚ	At 31 December 2013 and 1 January 2014	–	–
õ&BÔð	Charged to profit or loss	–	–
õZgS,ËdZÜgdSÚ	**At 31 December 2014**	–	–

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For the purpose of presentation in the consolidated statement of financial position, certain deferred tax assets and liabilities have been offset in the table above. The following is the analysis of the deferred tax balances for financial reporting purposes:

The Group

		2013
		RMB'000
È·ü°*	Deferred tax assets	297,354
È·ü°À	Deferred tax liabilities	(17,690)
		279,664

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15. DEFERRED TAXATION (continued)

At 31 December 2014, deferred tax assets were not recognised in relation to certain unused tax losses and other deductible temporary differences. The unrecognised unused tax losses and other deductible temporary differences are analysed as follows:

		l ¡ The Group		l . ! The Company	
			2013 [O Æ w © RMB'000		2013 [O Æ w © RMB'000
ü ° f & l ü Ô ü r Û ¨ X	Tax losses				4,951
	Other deductible temporary differences				4,535
					9,486

(i) _ õ Ì , k » Ú P ; t d (Ì 1 l ® ! ¿ l ð • • n ® ! * [˜ ü ° f & ¿ Ô ü r Û ¨ X ½ © È · ü ° * f

(i) Deferred tax assets for the tax losses and deductible temporary differences arising from the Company and certain of its subsidiaries have not been recognised due to the unpredictability of future profit streams.

(ii) • 7 ü ° f & ð µ õ ž Ë « 7 ø 6 ê V J 8 Ð ü ×] d C õ Z g S ž Ë Z g S X Ë , œ £ f

(ii) Tax losses in the PRC can be carried forward to set off future assessable income for a maximum period of five years which expires in the period from 2015 to 2019.

õ Z g S , Ë d Z Ü g d S Ú d 1 l « • n ® ! ¿ L ® ! ˜ J Ò ® ; * [˜ Ð ù ü ° þ d _ õ › X Ò Û d l « (Ì X . ˜ ü ° À d B (Ì ´ ë } J ½ © È · ü ° À€ Z g S g Ë j [O Æ g © ƒ

At 31 December 2014, there was no significant unrecognised deferred tax liability (2013: RMBnil) for taxes that would be payable on the unremitted earnings of the Group's subsidiaries and associates as the Group has no liability to additional tax should such amounts be remitted.

16. n . !

16. INVESTMENTS IN SUBSIDIARIES

I . !

The Company

		2013 [O Æ w © RMB'000
• 7 ¢ j 9 ³ € 2 Ó I •	Unlisted investments in the PRC, at cost	4,556,044
Ð × • n ® ! › °	Amounts due from subsidiaries	1,997,122
Ð ù • n ® ! › °	Amounts due to subsidiaries	(2,867,801)

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The amounts due are unsecured, non-interest-bearing and repayable on demand.

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Details of principal subsidiaries are set out in note 49 to the financial statements.

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17. INTERESTS IN ASSOCIATES

		I ¢ The Group		I . ! The Company	
		2014 [O Æ w © **RMB'000**	2013 [O Æ w © RMB'000	**2014** [O Æ w © **RMB'000**	2013 [O Æ w © RMB'000
• 7 ¢ j 9 ³ € 2 Ó I •	Unlisted investments in the PRC, at cost	**88,772**	88,772	**17,740**	17,740
Ð & × … P ; € Ô ð Š × p ¹ •	Share of post-acquisition profits, net of dividends received	**153,997**	145,842	_	–
		242,769	234,614	**17,740**	17,740

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Z g S g ‹ d l ‹' / G L • ! d • 9 . \ e , ' "• ! ¿ 7 _ "• ! d . • 9 [O 205,014,000 © ¿ [O Æ 182,000 © d * [/ × B [O Æ 2,123,000 © d Þ ë × B Š õ l « Z g S g Ë Y & B • À H f / · \ Þ e , •€ è ¢ •Þ " ® ! ˜ þ Š õ Z g S , Ë S Ü × Æ d Ð × < þ [O Æ205,146,000 © 8 S ° ¢ $ – t ø d (Ì õ Ú Z g S g Ë d Z Ü g d S Ú ß Ë ˜] ¥ $ – t Ž Œ • À H f

h Œ Ã 1 • S œ } L ® ! ˜ ‹ d l ‰ ¢ j 9 † 8 ¼ d (Ì 9 j

17. INTERESTS IN ASSOCIATES (continued)

During the year 2013, the Group disposed of two associates namely, General Electric HE Windpower (Shenyang) Company Limited (· \ Þ e , •€ è ¢ •Þ " ® !) and Harbin International Travel Agency Company Limited (Þ ' õ 7 ç Ú _ Þ " ® !), at an amount of RMB205,014,000 and RMB182,000, respectively and resulting gain on disposal of RMB2,123,000 which is reflected in the Group's profit or loss for the year 2013. The consideration for the disposal of General Electric HE Windpower (Shenyang) Company Limited (· \ Þ e , •€ è ¢ •Þ " ® !) was received in January 2014 and the aggregate consideration receivable of RMB205,146,000 represents a non-cash transaction which is not reflected in the consolidated statement of cash flows for the year ended 31 December 2013.

The following list contains only the particulars of a material associate, which is an unlisted corporate entity whose quoted market price is not available:

Name of company • ! H	Place of establishment and business m ¿ 8 •	Particulars of issued and paid up capital ¿ • p l	Proportion of ownership interest • B 7 Group's and Company's effective interest l ‹' ¿ l • ! B	Principal activity 8
General Electric — Harbin Power — Nan Steam Turbine Energy Services (Qinhuangdao) Company Limited ("General Electric") · \ e Ñ Þ b Ñ Ì Û C • U €b ¬ ¥ • Þ " ® ! (¨ · \ e ©)	PRC	US$6,000,000 6,000,000 Õ ©	41%	Provision of repair and maintenance services for generators (Note 1) ‰ ï e Ú d 6 j L ¿ - n € • W 1 •

• W 1 j · \ e } + ‰ ï e Ú d 6 j L ¿ - n ø ¿ ‰ l « ð • Ò d 6 / f

Note 1: General Electric, engages in the provision of repair and maintenance services for generators, provides after sales services to some of the Group's customers.

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The above associate is accounted for using the equity method in the consolidated financial statements.

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17. INTERESTS IN ASSOCIATES (continued)

Summarised financial information of the material associate, adjusted for any differences in accounting policies, and reconciled to the carrying amounts in the consolidated financial statements, are disclosed below:

		2013 [O Æ w © RMB'000
L ®! < – X	Gross amounts of the associate's	
t *	Current assets	273,938
¢t *	Non-current assets	95,838
t À	Current liabilities	(64,488)
¢t À	Non-current liabilities	–
Æ B	Equity	305,288
×]	Revenue	278,507
P ; ¿ l ü Œ & × B < X	Total profits and other comprehensive income	54,319
Š × L ®! p ¹	Dividend received from the associate	15,058
~ l « õ L ®! Æ B ˜ Á * j	Reconciled to the Group §s interests in the associate:	
L ®! * =	Net assets of the associate	305,288
l « õ L ®! ˜ Ô Þ Æ Æ B â 7	Proportion of the Group §s ownership interest in the associate	41%
l « õ L ®! Æ B ˜ * & =	Carrying amount of the Group §s interest in the associate	125,168

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17. INTERESTS IN ASSOCIATES (continued)

Aggregate information of associates that are not individually material:

		2013 [O Æ w © RMB'000
H 9 " } L ® ! õ] ¥ Ì Œ ~ < * & =	Aggregate carrying amount of individually immaterial associates in the consolidated financial statements	109,446
I « Ð & L ® ! ~ < – X	Aggregate amounts of the Group's share of those associates'	
5 ƒ ¾ 8 ~ P ;	Profit from continuing operations	6,709
Š ^ ß 8 ~ ü P ; Ð f &	Post-tax profit or loss from discontinued operations	–
I ü Œ & × B	Other comprehensive income	–
Œ & × B < X	Total comprehensive income	6,709

18. I ´ t *

18. OTHER NON-CURRENT ASSETS

			I ‹ The Group		I . ! The Company	
			2014	2013	**2014**	2013
		• W	[O Æ w ©	[O Æ w ©	[O Æ w ©	[O Æ w ©
		Note	**RMB'000**	RMB'000	**RMB'000**	RMB'000
V / Ì ³	**Available-for-sale investments**					
— ¢ j 9 Æ B Ç N Ñ 2 Ó I Ô ð ¯ =	— Unlisted equity securities at cost less impairment	(i)	**31,292**	52,538	_	21,246
D a # - Ç –	Guarantee monies for finance lease	(ii)	**18,000**	18,000	_	–
			49,292	70,538	_	21,246

• W j

(i) ¢ j 9 Æ B Ç N J 8 _ ¯ • 7 W Ó m Y ¢ j 9 ® ! ï Y ¢ j 9 Æ B Ç N f Ç N ¯ Ê H S , K 2 Ó I ¯ ¯ = Ž d a ª J ¥ # ® ª = Í Ä } d I ® ! è + © ‰ I ® ª = " • f Ž f Ë « d * & = ‰ [O Æ 21,246,000 €Z g S g Ë j [O Æ 39,099,000 © • ˜ ð • ¢ j 9 Æ B Ç N Š _ ½ © d (Š õ ® f • ½ © / V / Ì ³ × B [O Æ 23,803,000 © € Z g S g Ë j [O Æ 5,216,000 © ƒ

(ii) D a # - Ç – Z \ * õ a # , • Ã ö µ D a # Õ Ä€ • W 34 ƒ

Notes:

(i) The unlisted equity securities represent investments in unlisted equity securities issued by private entities incorporated in the PRC. They are measured at cost less impairment at the end of each reporting period because the range of reasonable fair value estimates is so wide that the directors of the Company are of the opinion that their fair values cannot be measured reliably. During the year, certain unlisted equity securities with a carrying amount of RMB21,246,000 (2013: RMB39,099,000) was derecognised and a gain on disposal of available-for-sale investments of RMB23,803,000 (2013: RMB5,216,000) was recognised in profit or loss.

(ii) Guarantee monies for finance lease will be used to settle the finance lease obligations before the end of the lease term (note 34).

19. I _ D *

19. OTHER FINANCIAL ASSETS

		I ‹ The Group	
		2014 [O Æ w © **RMB'000**	2013 [O Æ w © RMB'000
[– D * 5 * $ _ t , H Y Ã , . Ò ¥ Ò€ • W 37 •	**Derivative financial assets** Foreign currency forward contracts held as cash flow hedging instruments (note 37)	_	117,933
± j	Analysed as:		
t *	Current assets	_	66,838
¢ t *	Non-current assets	_	51,095
		_	117,933
¢ [– D * 5 Q , , W(i) •	**Non-derivative financial assets** Held-to-maturity investments (note (i))	_	461,202
		_	461,202
± j	Analysed as:		
t *	Current assets	_	461,202
		_	461,202

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21. * ¿ C 21. TRADE AND BILLS RECEIVABLE

		The Group		The Company	
		2014	2013	**2014**	2013
		[O Æ w ©	[O Æ w ©	[O Æ w ©	[O Æ w ©
		RMB'000	RMB'000	**RMB'000**	RMB'000
Đ × * ›	Trade receivables	**17,267,807**	18,509,731	**717,332**	561,941
¯j L * a ê	Less: allowance for doubtful				
€ • W 21(b) •	debts (note 21(b))	**(4,700,255)**	(4,057,708)	**(147,189)**	(77,495)
		12,567,552	14,452,023	**570,143**	484,446
Đ × C ½	Bills receivable	**2,144,792**	1,997,282	**72,037**	5,000
		14,712,344	16,449,305	**642,180**	489,446

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Retention money receivables are settled in accordance with the terms of the respective contracts.

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The credit terms given to the customers vary and are generally based on the financial strengths of individual customers. In order to effectively manage the credit risks associated with trade receivables, credit evaluations of customers are performed periodically.

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21. TRADE AND BILLS RECEIVABLE (continued)

(a) **Ageing analysis**

The following is an analysis of trade and bills receivables by age, presented based on the invoice date, which approximates the respective revenue recognition dates (net of allowance for doubtful debts) as of the end of the reporting period:

		I ‹ The Group		I • ! The Company	
			2013 [O Æ w © RMB'000		2013 [O Æ w © RMB'000
1 Ë ø «	Within 1 year		9,872,023		242,650
1 2 Ë	Between 1 to 2 years		3,175,794		234,710
2 3 Ë	Between 2 to 3 years		1,607,802		630
3 Ë ø j	Over 3 years		1,793,686		11,456
			16,449,305		489,446

21. * ¿ C

(b) * ¿ C =

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_ X Y . d
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Ë « L * a ê Y € < H 9 ¿ ¥
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21. TRADE AND BILLS RECEIVABLE (continued)

(b) Impairment of trade receivables and bills receivable

Impairment losses in respect of trade receivables and bills receivable are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade receivables and bills receivable directly (see note 2(m)(i)).

The movement in allowance for doubtful debts during the year, including both specific and collective loss components, is as follows:

		I « The Group		I • ! The Company	
			2013 [O Æ w © RMB'000		2013 [O Æ w © RMB'000
õ S Ü S Ú	At 1 January		3,572,034		65,524
Š ½ © ¯ = f &	Impairment losses recognised		485,674		11,971
× … S œ • n ® !	Acquisition of a subsidiary		–		–
¯ = f & a «	Impairment losses reversed		–		–
õ d Z Ü g d S Ú	At 31 December		4,057,708		77,495

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846,669,000 ©€ Z g S g Ë j [O Æ
1,056,329,000 © •¿ [O Æ 45,000 ©
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(c) (J V H 9 = Y * ¿ C * g h j

21. TRADE AND BILLS RECEIVABLE (continued)

(b) Impairment of trade receivables and bills receivable (continued)

At 31 December 2014, the Group's and the Company's trade receivables of RMB846,669,000 (2013: RMB1,056,329,000) and RMB45,000 (2013: RMB114,000) respectively were individually determined to be impaired. The individually impaired receivables related to customers that were in financial difficulties and management assessed that only a portion of the receivables is expected to be recovered. Consequently, specific allowances for doubtful debts of RMB197,106,000 (2013: RMB147,998,000) were recognised for the Group. The Company has not recognised any specific allowances for doubtful debts (2013: RMBnil).

(c) Age of trade and bills receivables that are neither individually nor collectively considered to be impaired are as follows:

		I ¤ The Group		I • ! The Company	
			2013 [O Æ w © RMB'000		2013 [O Æ w © RMB'000
J C , ò J ¯ =	Neither past due nor impaired		14,086,214		489,446
Š C , (J ¯ =	Past due but not impaired				
1 Ë ø «	Within 1 year		1,653,010		–
1 3 Ë	Between 1 to 3 years		604,174		–
3 Ë ø j	Over 3 years		105,907		–
			16,449,305		489,446

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21. TRADE AND BILLS RECEIVABLE (continued)

(c) **Age of trade and bills receivables that are neither individually nor collectively considered to be impaired are as follows:** (continued)

Receivables that were neither past due nor impaired relate to a wide range of customers and many of them are with good credit history.

Receivables that were past due but not impaired relate to a number of customers. Ongoing credit evaluation is

		The Group	
		2014	2013
		[O Æ w ©	[O Æ w ©
		RMB'000	RMB'000
h $ C ½ ¿ Ð × r ›	Discounted bills and loans receivables	**20,000**	22,439
¯ j L * a ê	Less: allowance for doubtful debts	**(450)**	(584)
		19,550	21,855

22. h $ C ½ ¿ r ¡

(a) h $ C ½ ¿ Ð × r › ˜ Q , Ú Ø ½ h j

		l « The Group 2013 [O Æ w © RMB'000
1 Ë ø «	Within 1 year	21,855
1 Ë ø j (5 Ë ø «	Over 1 year but within 5 years	–
		21,855

(b) Ë « ˜ L * a ê ½ h j

		l « The Group 2013 [O Æ w © RMB'000
õ S Ü S Ú	At 1 January	–
¯ = f & a «	Reversal of impairment loss	–
Š ½ © ¯ = f &	Recognised impairment loss	584
õ d Z Ü g d S Ú	At 31 December	584

22. DISCOUNTED BILLS AND LOANS RECEIVABLES (continued)

(a) A maturity profile of discounted bills and loans receivables is as follows:

		l « The Group 2013 [O Æ w © RMB'000
1 Ë ø «	Within 1 year	21,855
1 Ë ø j (5 Ë ø «	Over 1 year but within 5 years	–
		21,855

(b) The movements in allowance for doubtful debts during the year are as follows:

		l « The Group 2013 [O Æ w © RMB'000
õ S Ü S Ú	At 1 January	–
¯ = f & a «	Reversal of impairment loss	–
Š ½ © ¯ = f &	Recognised impairment loss	584
õ d Z Ü g d S Ú	At 31 December	584

22. h $ C ¿ r

(c) Ð × ë L Ù ˜ h $ C ½ ¿ Ð × r › ± ½ h j

22. DISCOUNTED BILLS AND LOANS RECEIVABLES (continued)

(c) Discounted bills and loans receivables due from related parties are analysed as follows:

		The Group	
		2013	
		[O Æ w ©	
		RMB'000	
Ð × • û • n ® !	Due from Fellow subsidiaries		20,000

Ú ZgS,ËdZÜgdSÚßË d £ ë L Ù d 6 ˜ h $ ¿ r › ˜ Ë ; ± 9 ‰ § ÷ 4.32% 7.65% ¿ 6%€ Z g S g Ë j4.8% 8.25% ¿ 3% 6% ƒ

The annual interest rates of discounting and loans provided to related parties are ranging from 4.32% to 7.65% and 6% for the year ended 31 December 2014 (2013: 4.8% to 8.25% and 3% to 6%) respectively.

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Discounted bills receivable relate to discounting services provided by Harbin Electric Corporate Finance Company ("Finance Company"). For those bills endorsed by banks, the banks have an irrevocable liability to effect payment when the bills fall due. With regard to commercial acceptance bills, all of them are with recourse to the issuers and endorsers.

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		I « The Group		I . ! The Company	
		2014 [O Æ w © **RMB'000**	2013 [O Æ w © RMB'000	**2014** [O Æ w © **RMB'000**	2013 [O Æ w © RMB'000
I ü Ð × ›	Other receivables	**1,109,828**	787,411	**22,484**	20,565
¯ j I ü Ð × › ¯ =	Less: Impairment of other receivables	**(203,420)**	(185,509)	**(2,357)**	(2,357)
		906,408	601,902	**20,127**	18,208
Ð × L ® ! › °	Amounts due from associates	**22,643**	15,124	_	–
2 – ¿ k ù › °	Deposits and prepayments	**4,698,459**	5,056,612	**169,206**	208,262
		5,627,510	5,673,638	**189,333**	226,470

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		I « The Group		I . ! The Company	
		[redacted]	2013 [O Æ w © RMB'000	[redacted]	2013 [O Æ w © RMB'000
õ S Ü S Ú	At 1 January		170,038		2,357
Š ½ © ¯ = f &	Impairment losses recognised		17,818		–
¯ = f & a «	Impairment losses reversed				

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25. AMOUNTS DUE FROM/(TO) FELLOW SUBSIDIARIES

The Group

The balance of the amounts due from fellow subsidiaries comprises of non-interest-bearing and interest-bearing balances amounting to RMB126,530,000 (2013: RMB175,206,000) and RMB210,000,000 (2013: nil) respectively with effective interest rate of 5.7% per annum. The amounts are unsecured and repayable within one year.

The balance of the amounts due to fellow subsidiaries are unsecured, non-interest-bearing and repayable on demand.

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26. TRADING SECURITIES

		I ᵛ ¿ I。 ! The Group and the Company	
		2014	2013
		[O Æ w ©	[O Æ w ©
		RMB'000	RMB'000
j 9 Æ B ³ d 2 ® ª = — 0 ¥ ¤ .	Listed equity investments, at fair value — outside Hong Kong	**1,909,300**	1,532,390

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The fair value of all equity securities is based on their current bid prices in an active market.

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1.62%€ Z g S g Ë j1.62% ƒ

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330,422,000 ©€ Z g S g Ë j [O Æ
212,156,000 ©€ • W 33 ƒ ä . d l «
˜ Õ À › Ò [O Æ 9,118,000 ©€ Z g
S g Ë j [O Æ 7,300,000 © •a Þ ë l «
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27. RESTRICTED AND PLEDGED BANK DEPOSITS/DEPOSITS WITH CENTRAL BANK

As at 31 December 2014, the Group had deposits of approximately RMB710,781,000 (2013: RMB519,145,000) placed with central bank which represent statutory deposit reserves with the People's Bank of China by Finance Company. The statutory deposit reserve ratio for deposits of Finance Company is 14.5% (2013: 15%).

The weighted average effective interest rate on deposits with central bank was 1.62% (2013: 1.62%) per annum.

As at 31 December 2014, the Group had restricted and pledged bank deposits of approximately RMB330,422,000 (2013: RMB212,156,000) in respect of the issue of trade bills to certain suppliers and performance guarantees (see note 33). In addition, the Group had bank deposits of approximately RMB9,118,000 (2013: RMB7,300,000) which were under freezing orders in relation to the legal dispute between the Group and its customers and suppliers and restricted to use.

The interest rates of the Group's restricted and pledged bank deposits are disclosed in note 41(c)(i).

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28. BANK DEPOSITS AND CASH AND CASH EQUIVALENTS

			I ‹ The Group		I ‚ ! The Company	
			2014 [O Æ w © **RMB'000**	2013 [O Æ w © RMB'000	**2014** [O Æ w © **RMB'000**	2013 [O Æ w © RMB'000
Õ ¿ Ó ˜ $ –		Cash at bank and in hand	**592,802**	4,230,216	**1,351,254**	1,239,877
Õ • 8 À € • W	(ii) •	Deposit with interbank (note (ii))	**10,864,307**	6,093,919	_	–
1 …] # Ì * Ü þ Ð × Õ › ° € • W	(iii) •	Amounts receivable from banks for wealth management products purchased (note (iii))	**100,000**	–	**100,000**	–
3 H Ü « Q , ˜ Õ À ›		Bank deposits, matured within 3 months	_	214,036	_	530,000
Ì K 1 Œ ¿] ¥ $ – t Ž Œ ˜ $ – ¿ $ – J		Cash and cash equivalents in the statement of financial position and the consolidated statement of cash flows	**11,557,109**	10,538,171	**1,451,254**	1,769,877
3 H Ü ø Q , ˜ Õ À ›		Bank deposits, matured over 3 months	**2,086,312**	1,326,913	**509,507**	–

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S g Ë j [O Æ 10,245,890,000 © •Y
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ç ; ‰ 2.72%€ Z g S g Ë j2.6% f

$ – ¿ Õ q [O Æ 1,046,253,000
©€ Z g S g Ë j [O Æ 915,077,000
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28. BANK DEPOSITS AND CASH AND CASH EQUIVALENTS (continued)

Note:

(i) As at 31 December 2014, the Group's cash and bank balances and bank deposits which are denominated in Renminbi amounted to RMB13,206,894,000 (2013: RMB10,245,890,000). The conversion of these Renminbi denominated balances into foreign currencies is subject to the rules and regulations of foreign exchange control promulgated by the PRC government.

The weighted average effective interest rates on bank deposits and cash and cash equivalents as at 31 December 2014 were 2.72% (2013: 2.6%).

Included in the Company's year-end balance of cash and cash equivalents are cash and bank balances of RMB1,046,253,000 (2013:RMB915,077,000) which were deposited with Finance Company according to the prevailing market conditions.

(ii) Deposits with interbank represents bank deposits reserves with other domestic banks by Finance Company.

(iii) This represents the RMB wealth management products purchased by the Group from Bank of Jinzhou and China Guangfa Bank during the year ended 31 December 2014 and not yet due as at 31 December 2014 with aggregate principal amounts of RMB100,000,000. These wealth management products are readily convertible into known amounts of cash and which are subject to an insignificant risk of change in fair value and are within three months of the maturities from acquisition. As a result, the Group has recorded the amounts as cash equivalents.

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29. TRADE PAYABLES/BILLS PAYABLE/OTHER PAYABLES, ACCRUALS AND PROVISIONS

I ¥ The Group		I . The Company	
2014	2013	**2014**	2013
[O Æ w ©	[O Æ w ©	[O Æ w ©	[O Æ w ©
RMB'000	RMB'000	**RMB'000**	RMB'000

The amounts due to associates are unsecured, non-interest-bearing and repayable within one year.

The ageing analysis of trade and bills payables as of the end of the reporting period is as follows:

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29. TRADE PAYABLES/BILLS PAYABLE/OTHER PAYABLES, ACCRUALS AND PROVISIONS (continued)

Product warranty provision

The Group provides warranties ranging from one to two years to its customers on certain products and undertakes to repair or replace items that fail to perform satisfactorily. The amount of the provision for warranties is estimated based on the sales volume and past experience on the level of repairs and returns. The estimation basis is reviewed on an ongoing basis and revised where appropriate.

Onerous contracts provision

The Group has entered into several contracts to be executed in the coming one to two years in respect of the sales of power equipment and nuclear power equipment. Under these contracts, the unavoidable costs of meeting the obligations have exceeded the economic benefits expected to be received as at 31 December 2014. Provision has been made for such onerous contracts based on the estimated minimum net cost of exiting from the contracts.

Other provision

During the year, the Group's subsidiary, Harbin Power Equipment National Engineering Research Centre Co., Ltd (Þ e ï e £ ê 7 • ˆ û ¼ ú • Ð Þ " ® !) ("Research Centre"), was involved in a legal dispute with one of its customers. Provision for loss has been made which is based on the best estimation of probable liabilities relating to the dispute (note 44(b)(iv)).

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30. DEPOSITS RECEIVED

		The Group		The Company	
		2014	2013	**2014**	2013
		[O Æ w ©	[O Æ w ©	[O Æ w ©	[O Æ w ©
		RMB'000	RMB'000	**RMB'000**	RMB'000
t Å ±	Current portion	**7,701,437**	10,331,026	**565,486**	1,769,616
¢t Å ±	Non-current portion	**10,527,167**	6,533,021	**2,421,072**	497,073
		18,228,604	16,864,047	**2,986,558**	2,266,689

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The amount represents the advance payments received from customers. Included in deposits received for the Group and the Company of approximately RMB10,527,167,000 and RMB2,421,072,000 respectively (2013: RMB6,533,021,000 and RMB497,073,000 respectively) were the advance payments received in respect of contract work to be commenced after twelve months from the end of the reporting period and which were classified in the consolidated statement of financial position and statement of financial position respectively as non-current. The remaining balance represents deposits received for contract work to be commenced within one year and which were classified as current liabilities. The deposits received will be used to offset progress billings of the contract work.

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31. ADVANCE FROM HOLDING COMPANY

			I ‹ The Group		I • ! The Company	
			2014	2013	**2014**	2013
		• W	[O Æ w ©	[O Æ w ©	[O Æ w ©	[O Æ w ©
		Note	**RMB'000**	RMB'000	**RMB'000**	RMB'000
t Å ±	Current portion	(i)	**1,854,550**	1,768,182	**398,730**	398,730
¢t Å ±	Non-current portion	(ii)	**3,500**	3,500	_	–
			1,858,050	1,771,682	**398,730**	398,730

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(i) I « Þ › p ® ! › ° q < " ¹ ¿ ¹ r › d ± 9 ‰ [O Æ 13,811,000 ©€ Z g S g Ë j [O Æ 9,784,000 © • ¿ [O Æ 1,840,739,000 ©€ Z g S g Ë j [O Æ 1,758,398,000 © ◂d ¼ ç Ë ; § ÷ 5.04% 5.4%€ Z g S g Ë j 5.4% ◂ä › ° ‰ Ì ê å ¿ ² õ S Ë « µ " f

I « ˜ Þ › p ® ! › ° q < › p ® ! À @ Ì ® ! ¬ š I « ˜ ¦ Ä r › [O Æ 1,840,739,000 ©€ Z g S g Ë j [O Æ 1,758,398,000 © ◂d ¼ ç Ë ; § ÷ 5.04% 5.4%€ Z g S g Ë j 5.4% ◂Þ ë › ° ‰ Ì ê å ¿ ² õ S Ë « µ " f

I ® ! Þ › p ® ! › ° q < ¹ r › [O Æ 398,730,000 ©€ Z g S g Ë j [O Æ 398,730,000 © ◂d ¼ ç Ë ; § ÷ 5.04% 5.4%€ Z g S g Ë j 5.4% ◂ä › ° ‰ Ì ê å ¿ ² õ S Ë « µ " f

(ii) I « Þ › p ® ! › ° q < " ¹ r › [O Æ 3,500,000 ©€ Z g S g Ë j [O Æ 3,500,000 © ◂f

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Note:

(i) The balance of the advance from the holding company of the Group comprises of non-interest-bearing and interest-bearing loans amounting to RMB13,811,000 (2013: RMB9,784,000) and RMB1,840,739,000 (2013: RMB1,758,398,000) respectively with effective interest rates ranging from 5.04% to 5.4% (2013: 5.4%) per annum. The amounts are unsecured and repayable within one year.

The balance of the advance from the holding company of the Group comprises of entrustment loans granted from the holding company to the Group amounting to RMB1,840,739,000 (2013: RMB1,758,398,000) through Finance Company with an effective interest rate of 5.04% to 5.4% (2013: 5.4%) per annum. The amounts are unsecured and repayable within one year.

The balance of the advance from the holding company of the Company comprises of interest-bearing loans amounting to RMB398,730,000 (2013: RMB398,730,000) with effective interest rates ranging from 5.04% to 5.4% (2013: 5.4%) per annum. The amount is unsecured and repayable within one year.

(ii) The balance of the advance from the holding company of the Group comprises of non-interest-bearing loans amounting to RMB3,500,000 (2013: RMB3,500,000).

The amounts are unsecured and will not be demanded for repayment in the next five years from the end of the reporting period and, accordingly, the amounts have been classified as non-current liabilities.

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32. CUSTOMERS' DEPOSITS

Customers' deposits represent deposits maintained by customers with Finance Company as detailed below:

		I ‹‹ The Group 2013 [O Æ w © RMB'000
ð ^ › p ® ! ˜ À ›	Deposits from the ultimate holding company	385,728
• û • n ® ! ˜ À ›	Deposits from fellow subsidiaries	65,721
S œ L ® ! ˜ À ›	Deposits from an associate	2,784
S ¤ Ì ë L Ù ˜ À ›	Deposits from a non-related party	3
		454,236

		I « The Group 2013 [O Æ w © RMB'000
Ð µ " j	Repayable:	
2 Ë	On demand	437,190
3 H Ü «	Within 3 months	1,550
3 H Ü ø j (1 Ë «	Over 3 months but within 1 year	15,496
		454,236

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The annual interest rates of customers' deposits provided to related parties range from 0.385% to 4.8% (2013: 0.385% to 3.3%).

33. > 33. BANK BORROWINGS

		The Group	
		2014	2013
		[O Æ w ©	[O Æ w ©
		RMB'000	RMB'000
Þ ê å Õ r ›	Bank loans, secured	**1,180,154**	1,123,918
± j	Analysed into:		
Ð ù Õ r › j	Bank loans repayable:		
S Ë « Ð 2 Ë	Within one year or on demand	**1,105,704**	683,918
S Ë (G Ë «	After one year but within two years	**74,450**	440,000
G Ë (ž Ë «	After two years but within five years	**–**	–
ž Ë	After five years	**–**	–
		1,180,154	1,123,918
¯ j S Ë « Ð 2 Ë µ " ˜ t À	Less: repayable within one year or on demand classified under current liabilities	**(1,105,704)**	(683,918)
		74,450	440,000

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The carrying amounts of the borrowings are denominated in the following currencies:

		The Group	
		[redacted]	2013
		[redacted]	[O Æ w ©
		[redacted]	RMB'000
[O Æ	RMB	[redacted]	1,103,890
Õ ©	USD	[redacted]	20,028
		[redacted]	1,123,918

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All of the Group's bank borrowings carry interest at rates ranging from 3.51% to 7.80% per annum (2013: 3.10% to 7.80% per annum) as at 31 December 2014.

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(ii) k ù z ® a # › ‰ [O Æ 30,581,000 ©€ Z g S g Ë j [O Æ 31,243,000 ©€ • W 13 ƒ

(iii) Õ À › ‰ [O Æ 330,422,000 ©€ Z g S g Ë j [O Æ 212,156,000 © • € • W 27 ƒ

33. BANK BORROWINGS (continued)

At 31 December 2014, the Group had pledged or restricted the use of certain assets with the following carrying amounts to secure the banking facilities granted to the Group:

(i) property, plant and equipment of RMB116,520,000 (2013: RMB22,441,000) (note 12).

(ii) prepaid lease payments of RMB30,581,000 (2013: RMB31,243,000) (note 13).

(iii) bank deposits of RMB330,422,000 (2013: RMB212,156,000) (note 27).

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34. OBLIGATIONS UNDER FINANCE LEASES

		I ‹ The Group	
		2014	2013
		[O Æ w ©	[O Æ w ©
		RMB'000	RMB'000
D a # Õ Ä	Obligations under finance leases	**97,330**	136,534
D a # Õ Ä — C , Å ±	Current portion of obligations under finance leases	**(41,733)**	(39,289)
		55,597	97,245

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34. OBLIGATIONS UNDER FINANCE LEASES

(continued)

The Group leased certain of its machinery under a finance lease. The lease term is 5 years to March 2017 and the ownership of the machinery would be transferred to the Group at the end of the lease term at a nominal value.

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35. POST-EMPLOYMENT BENEFIT SCHEME

The Group is required to make contributions to a defined contribution retirement fund which is administered by the Harbin Social Insurance Administration Bureau of the local government. The Group is required to contribute 20% of the basic salary of its existing PRC staff, while employees contribute 8% of their basic salary.

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36. TAX PAYABLES/(RECOVERABLE)

		I ‹ The Group		I . ! The Company	
		2014 [O Æ w © **RMB'000**	2013 [O Æ w © RMB'000	**2014** [O Æ w © **RMB'000**	2013 [O Æ w © RMB'000
# = ü	Value added tax	**96,442**	(43,402)	**(28,269)**	(9,794)
† 8 Ô { ü	Enterprise income tax	**108,423**	136,490	**(19,192)**	(12,136)
Ð ù 8 ü	Business tax payable	**1,037**	2,653	_	699
Ð ù l ü ü °	Other taxes payable	**54,381**	114,866	**4,482**	7,489
		260,283	210,607	**(42,979)**	(13,742)
´ … õ j	Representing:				
× « ü °	Tax recoverable	**(87,548)**	(43,402)	**(47,461)**	(21,930)
Ð ù ü °	Tax payables	**347,831**	254,009	**4,482**	8,188
		260,283	210,607	**(42,979)**	(13,742)

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37. DERIVATIVE FINANCIAL INSTRUMENTS

		The Group	
		2014	2013
		[O Æ w ©	[O Æ w ©
		RMB'000	RMB'000
[– D À	**Derivative financial liabilities**		
5 * $ _ t , H Y	Foreign currency forward contracts held		
Ã , . Ò ¥ Ò	as cash flow hedging instruments	**(293,299)**	–
		(293,299)	–
± j	Analysed as:		
t À	Current liabilities	**(139,410)**	–
¢ t À	Non-current liabilities	**(153,889)**	–
		(293,299)	–

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The foreign currency forward contracts are carried at fair value.

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During the year, changes in the fair value of non-hedging currency derivatives represent a gain of RMBnil (2013: RMB12,930,000) which was included in profit or loss.

õ I Ë d • , ¬ Æ [ˆ H ® ª = 8 f & [O Æ 371,309,000 ©€ Z g S g Ë j × B [O Æ 115,292,000 © ‹d Þ ë f & Š õ I ü Œ &€ f & ‹J × B • ½ © d (õ • , · ê •] f

During the year, changes in fair value of hedging currency derivatives represent a loss of RMB371,309,000 (2013: gain of RMB115,292,000) which was recognised in other comprehensive (loss)/income and accumulated in the hedging reserve.

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37. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

At the end of the reporting period, the Group had 51 (2013: 39) outstanding foreign currency forward contracts designated as highly effective hedging instruments to manage the Group's foreign currency exposures in relation to committed foreign currency future sales. The terms of the foreign currency forward contracts have been negotiated to match the terms of the respective designated hedged items. Loss on fair value changes of RMB105,246,000 and RMB130,806,000 (2013: gain on fair values changes of RMB56,812,000 and RMB43,431,000) have been recognised in other comprehensive income and accumulated in the hedging reserve and are expected to be reclassified to profit or loss at various dates within the next twelve months and more than twelve months after the end of the reporting period respectively.

The movements of the hedging reserve during the year are as follows:

		2013 [O Æ w © RMB'000
] • , · ê ˜ ® ª ₹ f & ₫ × B < X	Total fair value (losses)/gains included in the hedging reserve	115,292
] & B ˜ – X - ± ó Æ	Reclassification adjustments for amounts to profit or loss	–
õ l ü Œ & × B] Æ Ô ð ˜ È · ü ° X	Net deferred tax credited/(charged) to other comprehensive income	(17,294)
Ë « • , · ê ˜	Net movement in the hedging reserve during the year	97,998

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The above transactions involving derivative financial instruments are F O U F S T O F B U I F # B O L T J O C E V T U S J B M Bank of China and the Export-Import Bank of China which has a A1, A1 and Aa3 credit rating respectively given by Moody's.

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40. CAPITAL, RESERVES AND DIVIDENDS

(a) Movements in components of equity

The Group

The reconciliation between the opening and closing balances of each components of the Group's consolidated equity is set out in the consolidated statement of changes in equity on pages 76 to 78 of the financial statements. Details of the changes in the Company's individual components of equity between the beginning and the end of the year are set out below:

The Company

		p l Share capital [O w, RMB'000	p P Share premium [O w, RMB'000	I . Statutory capital reserve [O w, RMB'000	. q . Statutory surplus reserve [O w, RMB'000	- 5 P ; Retained profits [O w, RMB'000	< Total [O RMB'000
õ Z g S g Ë S Ü S Ú ˜ q	Balance at 1 January 2013	1,376,806	1,980,295	709,849	458,770	142,574	4,668,294
I Ë P ; ¿ Œ & × B < X	Profit and total comprehensive income for the year	–	–	–	–	258,320	258,320
7 a · ê	Transfer to reserves	–	–	–	25,742	(25,742)	–
p ¹	Dividends	–	–	–	–	(137,681)	(137,681)
õ Z g S , Ë S Ü S Ú ˜ q	Balance at 1 January 2014	1,376,806	1,980,295	709,849	484,512	237,471	4,788,933
I Ë P ; ¿ Œ & × B < X	Profit and total comprehensive income for the year	–	–	–	–	1,322,824	1,322,824
7 a · ê	Transfer to reserves	–	–	–	132,762	(132,762)	–
p ¹	Dividends	–	–	–	–	(110,144)	(110,144)
õ Z g S , Ë d Z Ü c g d S Ú ˜ q	**Balance at 31 December 2014**	**1,376,806**	**1,980,295**	**709,849**	**617,274**	**1,317,389**	**6,001,613**

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		2013	
		p p f Number of shares	[O Æ w © RMB'000
1,376,806,000 p Š W e Š ï ¿ ® p … j 7 Þ , [p Ê p & = [O Æ 1 ©	1,376,806,000 shares, registered, issued and fully paid: State-owned equity interest shares of RMB1 each	701,235,000	701,235
H p Ê p & = [O Æ 1 ©	H Shares of RMB1 each	675,571,000	675,571
õ S Ü S Ú ¿ d Z Ü g d S Ú	At 1 January and 31 December	1,376,806,000	1,376,806

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40. CAPITAL, RESERVES AND DIVIDENDS (continued)

(c) Share capital

		2013	
		Number of shares	RMB'000
1,376,806,000	1,376,806,000 shares, registered, issued and fully paid:		
	State-owned equity interest shares of RMB1 each	701,235,000	701,235
	H Shares of RMB1 each	675,571,000	675,571
	At 1 January and 31 December	1,376,806,000	1,376,806

Except for the currency in which dividends are paid and restrictions as to whether the shareholders can be PRC investors or foreign investors, state-owned equity interest shares and H shares rank pari passu in all respects with each other.

(d) Capital management

The primary objective of the Group's capital management is to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the years ended 31 December 2014 and 2013.

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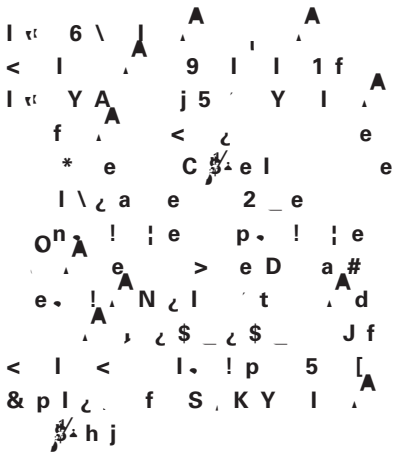

40. CAPITAL, RESERVES AND DIVIDENDS (continued)

(d) Capital management (continued)

The Group monitors capital using a gearing ratio, which is net debt divided by the total capital plus net debt. The Group's policy is to maintain a stable gearing ratio. Net debt includes amounts due to customers for contract work, trade payables, bills payable, other payables, accruals and provisions, deposits received, amounts due to fellow subsidiaries, advance from holding company, customers' deposits, bank borrowings, obligations under finance leases, corporate bonds and other non-current liabilities, less bank deposits and cash and cash equivalents. Total capital represents all capital and reserves attributable to equity shareholders of the Company. The gearing ratios as at the end of the reporting periods were as follows:

		2013 [O Æ w © RMB'000
< À	**Total debts**	
¿	Amounts due to customers for contract work	1,128,844
Ð ù * ›	Trade payables	15,071,799
Ð ù C ½	Bills payable	4,018,619
I ü Ð ù › e Ð I \ ¿ a ê	Other payables, accruals and provision	1,619,281
Š × 2 –	Deposits received	16,864,047
Ð ù • û • n ® ! › °	Amounts due to fellow subsidiaries	65,336
Þ › p ® ! › °	Advance from holding company	1,771,682
Ò À ›	Customers' deposits	454,236
Õ > ›	Bank borrowings	1,123,918
D a # Õ Ä	Obligations under finance leases	136,534
® ! À N	Corporate bonds	2,992,688
I ü ¢ t À	Other non-current liabilities	548,200
		45,795,184
¯ j Õ À › ø ¿ $ – ¿ $ – J	Less: Bank deposits and cash and cash equivalents	
a " S ¿ Š ê å Õ À ›	Restricted and pledged bank deposits	(219,456)
• / Õ À ›	Deposits with central bank	(519,145)
Õ À ›	Bank deposits	(1,326,913)
$ – ¿ $ – J	Cash and cash equivalents	(10,538,171)
		(12,603,685)
À	Net debt	33,191,499
< I	Total capital	12,527,083
I ~ À	Capital and net debt	45,718,582
I À â	Gearing ratio	73%

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41. FINANCIAL INSTRUMENT

Categories of financial instruments:

		I ‹ The Group	2013 [O Æ w © RMB'000	I • ! The Company	2013 [O Æ w © RMB'000
– D *	**Financial assets**				
2 • ? =] & B	Fair value through profit or loss (FVTPL)				
— 5 * t ø	— Held for trading		1,532,390		1,532,390
8 › • , 6 ë · • Y [^ H	Derivative instruments in designated hedge accounting relationships		117,933		–
5 Þ Q , ³	Held-to-maturity investments		461,202		–
r › ¿ Ð × ₹ < $ – ¿ $ – J •	Loans and receivables (including cash and cash equivalents)		29,867,077		4,274,653
V / Ì ³	Available-for-sale investments		52,538		21,246
– D À	**Financial liabilities**				
8 , 6 , . Y [^ H	Derivative instruments in designated hedge accounting relationships		–		–
Å V Ó I	Amortised cost		27,172,125		6,787,089

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Financial risk management and fair values

Exposure to credit, liquidity, interest rate and currency risk arises in the normal course of the Group's business. The Group is also exposed to equity price risk arising from its equity investments in other entities.

The Group's exposure to these risks and the financial risk management policies and practices used by the Group to manage these risks are described below.

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41. FINANCIAL INSTRUMENT (continued)

(a) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligation, and arises principally from:

— the carrying amount of the respective financial assets as stated in the consolidated statement of financial position; and

— the amount of contingent liabilities as disclosed in note 44.

In order to minimise the credit risk in relation to each class of recognised financial assets as stated in the consolidated financial statements, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow up actions are taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt and non-trade debt at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

Cash at banks and bank deposits are placed with banks and financial institutions with high credit ratings. The directors of the Company consider that the Group's credit risk on the cash at banks and bank deposits is low.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer rather than the industry or country in which the customers operate and therefore significant concentrations of credit risk primarily arise when the Group has significant exposure to individual customers. At 31 December 2013 and 2014, the Group does not have any significant concentration of credit risk from any single customer or any group of customers having similar characteristics.

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41. FINANCIAL INSTRUMENT (continued)

(a) **Credit risk** (continued)

The maximum exposure to credit risk without taking into account of any collateral held is represented by the carrying amount of each financial asset, including derivative financial instruments, in the consolidated statement of financial position after deducting any impairment allowance. The maximum exposure to credit risk in respect of the financial guarantees given by the Group at the end of the reporting period is disclosed in note 44.

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from held-to-maturity investments, trade and bills receivables and other receivables are set out in notes 19, 21 and 23 respectively.

In respect of amounts due from subsidiaries and fellow subsidiaries, the Group and the Company reviews the recoverable amounts of individual debts to ensure that adequate impairment losses are made for irrecoverable amounts.

The Company's concentration of credit risk is on the advances to fellow subsidiaries and subsidiaries respectively. The management of the Company has closely monitored and reviewed the recoverability of the amounts and the directors of the Company consider such risk is manageable.

For discounted bills and loans receivables, the main considerations for impairment assessment include whether any payments of principal or interest are overdue or whether there is any liquidity deterioration of borrowers, credit rating downgrades, or infringement of the original terms of the contract. The Group addresses impairment assessment individually and collectively.

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41. FINANCIAL INSTRUMENT (continued)

(b) Liquidity risk

The Group's policy is to regularly monitor its liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and readily realisable marketable securities and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

The following tables show the remaining contractual maturities at the end of the reporting period of the Group's and the Company's derivative and non-derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on current rates at the end of the reporting period) and the earliest date the Group and the Company can be required to pay:

The Group

2014

[redacted]

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[_ D A	**Non-derivative financial liabilities**
* ¿ C	Trade and bills payables
I ¿ I \	Other payables and accruals
n ! ¦	Amounts due to fellow subsidiaries
p ! ¦	Advance from holding company
O A N	Corporate bonds
	Customers' deposits
> ¿ I	Bank borrowings and
¢ t À	other non-current liabilities
D a #	Obligations under finance leases

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41. FINANCIAL INSTRUMENT (continued)

(b) **Liquidity risk** (continued)

The Group (continued)

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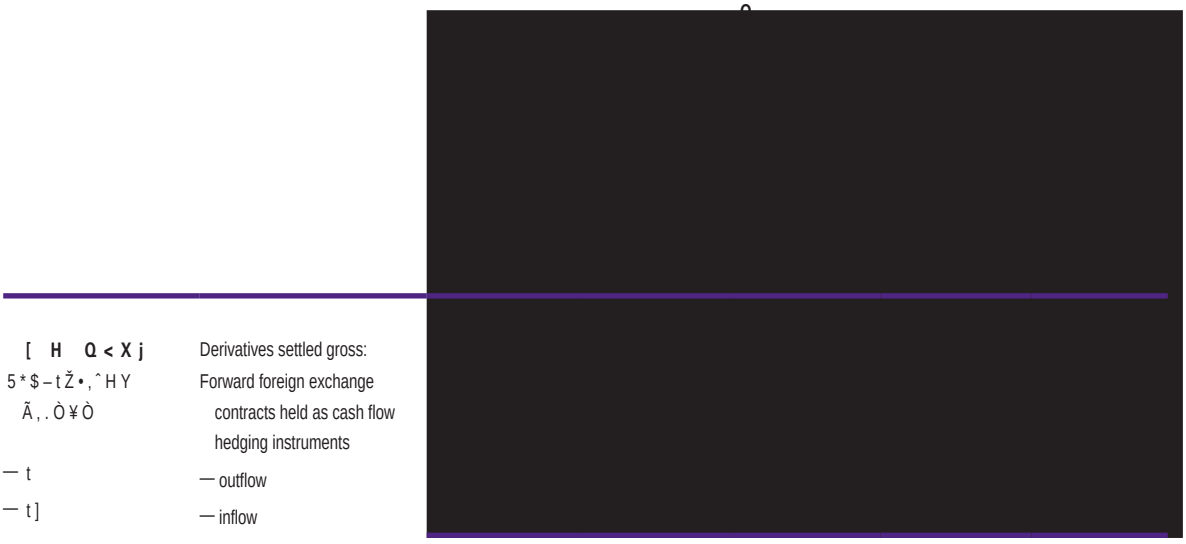

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Derivatives settled gross:
Forward foreign exchange contracts held as cash flow hedging instruments
— outflow
— inflow

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41. FINANCIAL INSTRUMENT (continued)

(b) **Liquidity risk** (continued)

The Group (continued)

2013

			O J h $ $ _ t Contractual undiscounted cash outflow			
		*&= Carrying amount [OÆw© RMB'000	< Total [OÆw© RMB'000	SË« ÐÐ Ë Within 1 year or on demand [OÆw© RMB'000	SËøj(GËø« More than 1 year but within 2 years [OÆw© RMB'000	GËøj(žËø« More than 2 years but within 5 years [OÆw© RMB'000	žËøj More than 5 years [OÆw© RMB'000
¢ [–D À	**Non-derivative financial liabilities**						
* ¿ C	Trade and bills payables	19,090,418	19,090,418	19,090,418	–	–	–
I üÐù›¿Ð I\	Other payables and accruals	989,113	989,113	989,113	–	–	–
Ðù•û•n®!›°	—	–	–	–			

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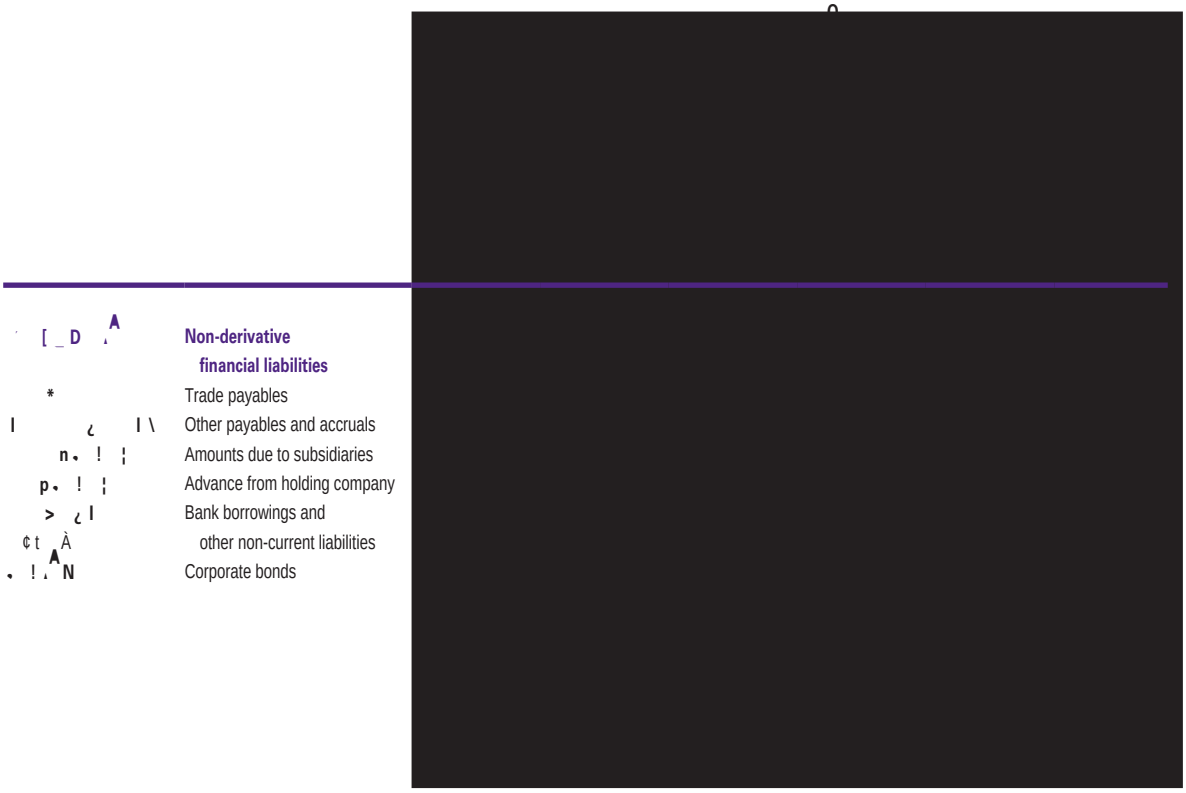

[_ D	**Non-derivative financial liabilities**
*	Trade payables
l ¿ l \	Other payables and accruals
n . ! ¦	Amounts due to subsidiaries
p . ! ¦	Advance from holding company
> ¿ l	Bank borrowings and other non-current liabilities
¢t À	
. ! N	Corporate bonds

41. _ D H

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41. FINANCIAL INSTRUMENT (continued)

(b) Liquidity risk (continued)

The Company (continued)

2013

			0 J h $ $ _ t Contractual undiscounted cash outflow				
		*&= Carrying amount [OÆw© RMB'000	< Total [OÆw© RMB'000	SË« ÐÐ Ë Within 1 year or on demand [OÆw© RMB'000	SËøj(GËø« More than 1 year but within 2 years [OÆw© RMB'000	GËøj(žËø« More than 2 years but within 5 years [OÆw© RMB'000	žËøj More than 5 years [OÆw© RMB'000
¢ [–D À	**Non-derivative financial liabilities**						
*	Trade payables	314,965	314,965	314,965	–	–	–
l üÐù›¿Ð l\	Other payables and accruals	160,634	160,634	160,634	–	–	–
Ðù•n®!›°	Amounts due to subsidiaries	2,867,801	2,867,801	2,867,801	–	–	–
Þ›p®!›°	Advance from holding company	398,730	420,261	420,261	–	–	–
Õ >›¿lü ¢t À	Bank borrowings and other non-current liabilities						
®!ÀN	Corporate bonds	2,992,688	3,735,000	147,000	147,000	3,441,000	–
		6,787,089	7,550,932	3,910,661	187,907	3,447,364	5,000
Šï Ì Ä-j ð÷Ä--Æ•W 44•	Financial guarantee issued: Maximum amount guaranteed (note 44)	–	2,875,026	2,875,026	–	–	–

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41. FINANCIAL INSTRUMENT (continued)

(c) Interest rate risk

(i) Exposure to interest rate risk

Cash at banks, bank deposits, discounted bills and loans receivable, borrowings, customers' deposits and obligations under finance leases issued at variable rates expose the Group and the Company to cash flow interest rate risk, and held-to-maturity investments, advance from holding company, borrowings and corporate bonds issued at fixed rates expose the Group and the Company to fair value interest rate risk. The Group and the Company does not carry out any hedging activities to manage its interest rate exposure.

The Group and the Company's interest rate risk arises primarily from discounted bills and loans receivable, borrowings, obligations under finance leases, cash at banks, customers' deposits and bank deposits. The annual interest rates for cash at banks and bank deposits have a range from 0.35% to 3.25% as at 31 December 2014 (2013: 0.35% to 2.6%). The interest rates for discounted bills and loans receivable ranging from 4.32% to 7.65% and 6% at 31 December 2014 (2013: 4.8% to 8.25% and 3% to 6%) respectively. The interest rates of the Group and the Company's borrowings, customers' deposit and obligations under finance leases are disclosed in notes 33, 32 and 34 respectively.

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41. FINANCIAL INSTRUMENT (continued)

(c) Interest rate risk (continued)

(ii) Sensitivity analysis

If interest rates had been 0.5% higher/lower and all other variables were held constant, the Group's profit after tax and retained profits for the year would increase/decrease by approximately RMB53,446,000 (2013: increase/decrease RMB48,748,000).

The sensitivity analysis above indicates the instantaneous change in the Group's profit after tax and retained profits that would arise assuming that the change in interest rates had occurred at the end of the reporting period. In respect of the exposure to cash flow interest rate risk arising from variable rate non-derivative instruments held by the Group at the end of the reporting period, the impact on the Group's profit after tax and retained profits is estimated as an annualised impact of such a change in interest rates. The analysis is performed on the same basis for 2013.

No sensitivity analysis is presented by the Company as the exposure is considered insignificant.

In management's opinion, the sensitivity analysis is unrepresentative of the inherent interest rate risk as the year end exposure does not reflect the exposure during the year.

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41. FINANCIAL INSTRUMENT (continued)

(d) Currency risk

RMB is not freely convertible into foreign currencies. All foreign exchange transactions involving RMB must take place through the People's Bank of China ("PBOC") or other financial institutions authorised to buy and sell foreign exchange. The exchange rate adopted for foreign exchange transactions are the rates of exchange quoted by the PBOC that would be subject to a managed float against an unspecified basket of currencies.

Foreign currency payments, including the remittance of earnings outside the PRC, are subject to the availability of foreign currency (which depends on the foreign currency denominated earnings of the Group) or must be arranged through the PBOC with government approval.

Certain cash at bank balances, trade and other receivables, trade and other payables and bank borrowings of the Group are denominated in foreign currencies. One of the activities of the Group is involved in overseas construction contracts, and these contracts are generally settled in US Dollars ("US$"). As at the end of the reporting period, the Group entered into foreign currency forward contracts with notional amounts of approximately RMB10,710,000,000 (2013: RMB6,280,000,000) to hedge its foreign currency risk in US$.

(i) Exposure to currency risk

The following table details the Group's exposure at the end of the reporting period to currency risk arising from recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate.

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		2013 [O Æ w © RMB'000
l «	**The Group**	
, . = _ D * j	Financial assets denominated in foreign currencies:	
Ð × * › ¿ l ü Ð × ›	Trade receivables and other receivable	1,267,441
Õ q ¿ $ –	Bank balances and cash	1,619,194
		2,886,635
– D * ø h • . Æ = j	The financial assets were denominated in the following foreign currencies:	
„ ©	EUR	6,554
Õ ©	USD	2,797,514
¥ ©	HKD	76
™ 5 ·	IDR	10,270
= — @	Sudanese pound	16,588
Ë ? v ~ â	PKR	54,319
l ü	Others	1,314
		2,886,635
ø . Æ = ˜ – D À j	Financial liabilities denominated in foreign currencies:	
Ð ù * › ¿ l ü Ð ù ›	Trade payables and other payables	276,107
Õ > ›	Bank borrowings	20,028
		296,135
– D À ø h • . Æ = j	The financial liabilities were denominated in the following foreign currencies:	
„ ©	EUR	221
Õ ©	USD	295,767
™ â	INR	147
		296,135

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41. FINANCIAL INSTRUMENT (continued)

(d) Currency risk (continued)

(ii) Sensitivity analysis

The following table indicates the instantaneous change in the Group's profit after tax and retained profits and the Group's other components of equity that would arise if foreign exchange rates to which the Group has significant exposure at the end of the reporting period had changed at that date, assuming all other risk variables remained constant.

			2013	
		Ò j º J € h { • **Increase/ (decrease) in foreign exchange rate**	**P ; ¿ - 5 P ; M & J & B** Positive/ (negative) effect on profit after tax and retained profits [O Æ w © RMB'000	Á l ü Æ B Å ± ˜ M & J € & •B ¤ Positive/ (negative) effect on other components of equity [O Æ w © RMB'000
„ ©	EUR	5%	269	–
		(5%)	(269)	–
Õ ©	USD	5%	106,324	(252,086)
		(5%)	(106,324)	252,086
¥ ©	HKD	5%	3	–
		(5%)	(3)	–
™ 5 ·	IDR	5%	436	–
		(5%)	(436)	–
= — @	Sudanese pound	5%	705	–
		(5%)	(705)	–
Ë ? v ~ â	PKR	5%	2,309	–
		(5%)	(2,309)	–
™ â	INR	5%	(6)	–
		(5%)	6	–

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41. FINANCIAL INSTRUMENT (continued)

(d) Currency risk (continued)

(ii) Sensitivity analysis (continued)

Results of the analysis as presented in the above table represent an aggregation of the instantaneous effects on each of the Group entities' profit after tax and equity measured in the respective functional currencies, translated into RMB at the exchange rate ruling at the end of the reporting period for presentation purposes.

The sensitivity analysis assumes that the change in foreign exchange rates had been applied to re-measure those financial instruments held by the Group which expose the Group to foreign currency risk at the end of the reporting period. The analysis is performed on the same basis for 2013.

No sensitivity analysis is presented by the Company as the exposure is considered insignificant.

In management's opinion, the sensitivity analysis is unrepresentative of the inherent foreign exchange risk as the year end exposure at the end of the reporting period does not reflect the exposure during the year.

(e) Equity price risk

The Group and the Company are exposed to equity price changes arising from equity investments classified as trading securities.

Trading securities held by the Group and the Company are listed on the Shanghai Stock Exchange. Decisions to buy or sell trading securities are based on daily monitoring of the performance of individual securities compared to that of the relevant stock market index and other industry indicators, as well as the Group's and the Company's liquidity needs.

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41. FINANCIAL INSTRUMENT (continued)

(e) Equity price risk (continued)

At 31 December 2014, it is estimated that an increase/(decrease) of 5% (2013: 5%) in the relevant stock market index with all other variables held constant, would have increased/decreased the Group's and the Company's profit after tax (and retained profits) as follows:

		2013 P ; ¿ - 5 P ; M & J & B Positive/ (negative) effect on profit after tax and retained profits [O Æ w © RMB'000	
´ ë p , ^ Ž j	**Change in the relevant equity price risk variable:**		
t , N	Trading securities		
#	Increase	5%	62,889
¯ Ç	Decrease	(5%)	(62,889)

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The sensitivity analysis indicates the instantaneous change in the Group's and the Company's profit after tax (and retained profits) that would arise assuming that the changes in the stock market index had occurred at the end of the reporting period and had been applied to re-measure those financial instruments held by the Group and the Company which expose the Group and the Company to equity price risk at the end of the reporting period. It is also assumed that the fair values of the Group's and the Company's trading securities would change in accordance with the historical correlation with the relevant stock market index, and that all other variables remain constant. The analysis is performed on the same basis for 2013.

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41. FINANCIAL INSTRUMENT (continued)

(e) Equity price risk (continued)

In management's opinion, the sensitivity analysis is unrepresentative of the inherent equity price risk as the year end exposure does not reflect the exposure during the year.

(f) Fair value measurements

(i) Financial assets and liabilities measured at fair value

Fair value hierarchy

The following table presents the fair value of the Group's and the Company's financial instruments measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in HKFRS 13, Fair Value Measurement. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

Level 1 valuations:	Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date
Level 2 valuations:	Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available
Level 3 valuations:	Fair value measured using significant unobservable inputs

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41. FINANCIAL INSTRUMENT (continued)

(f) Fair value measurements (continued)

(i) Financial assets and liabilities measured at fair value (continued)

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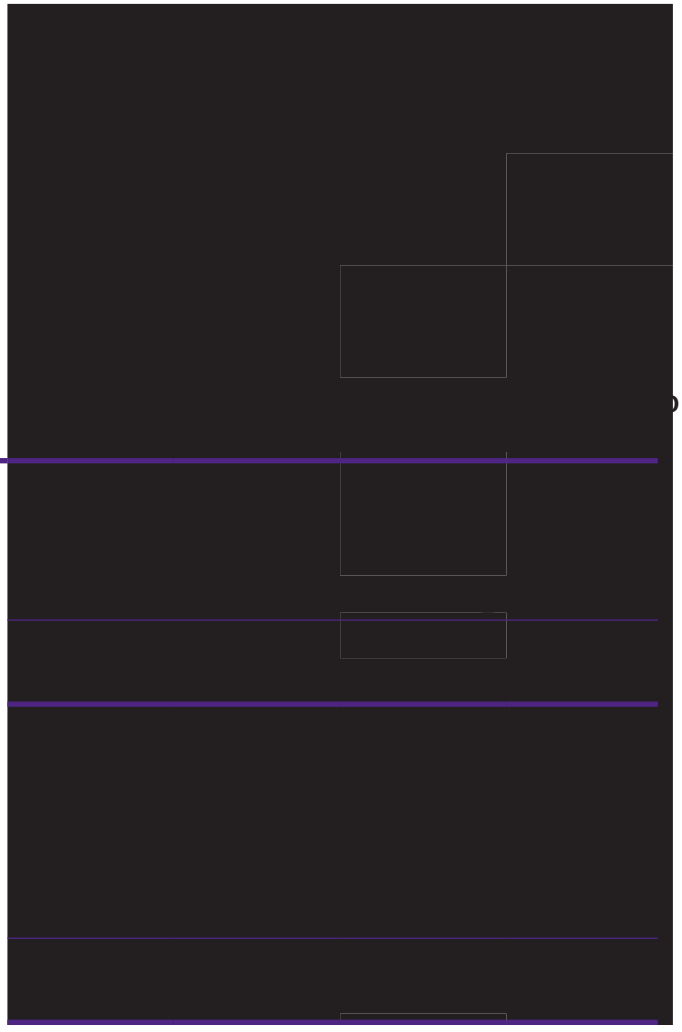

I .	Recurring fair value measurements
=	
t , N	Trading securities
A j	Liabilities:
[– D ˆ H	Derivative financial instruments
— Ã , . Ò	— foreign currency
¥ Ò	forward contracts

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41. FINANCIAL INSTRUMENT (continued)

(f) **Fair value measurements** (continued)

(i) Financial assets and liabilities measured at fair value (continued)

The Group (continued)

		Z g S g , d Z i g d S . , h t 9 . ✉ = Fair value measurements as at 31 December 2013 categorised into			
		õ Z g S g Ë d Z Ü g d S Ú ~ ® ª = Fair value at 31 December 2013 [O Æ w © RMB'000	K S t Level 1 [O Æ w © RMB'000	K Z t Level 2 [O Æ w © RMB'000	K g t Level 3 [O Æ w © RMB'000
¾ l Ì ® ª =	**Recurring fair value measurements**				
* j	Assets:				
[– D ˆ H	Derivative financial instruments				
— Ã , . Ò ¥ Ò	— foreign currency forward contracts	117,933	–	117,933	–
t ø Ì Ç N	Trading securities	1,532,390	1,532,390	–	–
		1,650,323	1,532,390	117,933	–

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41. FINANCIAL INSTRUMENT (continued)

(f) Fair value measurements (continued)

(i) Financial assets and liabilities measured at fair value (continued)

The Company

I . ⁄ =	Recurring fair value measurements	Z g S g , d Z Í g d S . , h t 9 . ⁄ = Fair value measurements as at 31 December 2013 categorised into			
* j t ø Ì Ç N		õ Z g S g Ë d Z Ü g d S Ú ~ ® ª = Fair value at 31 December 2013 [O Æ w © RMB'000	K S t Level 1 [O Æ w © RMB'000	K Z t Level 2 [O Æ w © RMB'000	K g t Level 3 [O Æ w © RMB'000
¾ I Ì ® ª = * j t ø Ì Ç N	**Recurring fair value measurements** Assets: Trading securities	1,532,390	1,532,390	–	–

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41. FINANCIAL INSTRUMENT (continued)

(f) Fair value measurements (continued)

(i) Financial assets and liabilities measured at fair value (continued)

During the years ended 31 December 2014 and 2013, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3.

Valuation techniques and inputs used in Level 2 fair value measurements.

The fair value of foreign currency forward contracts is determined using forward exchange rates at the end of the reporting period with the resulting value discounted back to present value.

(ii) Fair values of financial instruments carried at other than fair value

The carrying amounts of the Group's and the Company's financial instruments carried at cost or amortised cost are not materially different from their fair values as at 31 December 2014 and 2013.

42. ACQUISITION OF SUBSIDIARIES/ ADDITIONAL INTERESTS IN SUBSIDIARIES

(a) Acquisition of HE (Dalian) Electric Design Company Limited (e b " , • !) (Dalian Electric)

During the year ended 31 December 2014, one of the Group's subsidiaries, Harbin Electric International Company Limited (Þ ' õ e 7 ç ^ û Þ " ª , ® !) ("Engineering Company") acquired 51.06% of the equity interests of HE (Dalian) Electric Design Company Limited (Þ € } ¹ • e b £ Þ " ª , ® !) ("Dalian Electric"). The directors of the Company concluded that it has control over Dalian Electric as the Company has the power to cast the majority of votes at meetings of the board of directors of Dalian Electricand therefore has the ability to affect the returns of Dalian Electric Dalian Electricbecame a subsidiary of the Group.

Dalian Electricis principally engaged in the provision of electric power and construction engineering design and relevant consultancy services.

Dalian Electric was acquired so as for the expansion of the Group's business in the engineering services for power stations.

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J 8 e @ Ò ¿ £ ê	Property, plant and equipment	2,941
È · ü ° *	Deferred tax assets	13
Ð × * ›	Trade receivables	3,423
I ü Ð × › e 2 – ¿ k ù › °	Other receivables, deposits and prepayments	1,167
$ – ¿ $ – J	Cash and cash equivalents	6,096
Ð ù * ›	Trade payables	(450)
I ü Ð ù › e Ð I \ ¿ a ê	Other payables, accruals and provisions	(235)
Š × 2 –	Deposits received	(580)
Ð ù ü °	Tax payables	(527)
Æ 9 * ¿ À X	Net identifiable assets and liabilities	11,848
¢ › p Æ B	Non-controlling interests	(5,798)
		6,050
ø $ – µ ù ˜ þ	Consideration satisfied by Cash	6,050
× … + ° * [˜ $ – t] j	Net cash inflow arising on acquisition:	
ø $ – Õ ù ˜ þ	Consideration paid in cash	(6,050)
Š _ { Õ q ¿ $ –	Bank balances and cash acquired	6,096
Þ ë × … • n ® ! ˜ $ – ¿ $ – J ˜ $ – t]	Net cash inflow of cash and cash equivalents in respect of the acquisition of the subsidiary	46

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42. ACQUISITION OF SUBSIDIARIES/ ADDITIONAL INTERESTS IN SUBSIDIARIES (continued)

(a) **Acquisition of HE (Dalian) Electric Design Company Limited (e ¸ • e b " , • !) (Dalian Electric ¸)** (continued)

(i) The fair values of trade receivables and other receivables amounted to RMB3,423,000 and RMB959,000 respectively.

(ii) The Group recognized the non-controlling interests at the proportionate share of net assets of Dalian Electric.

(iii) Dalian Electric contributed approximately RMB20,000,000 to the Group's turnover for 2014. Included in the profit for the year 2014 was a profit of RMB1,130,000 contributed by Dalian Electric since acquisition. Had the acquisition been completed on 1 January 2014, there would have no significant impact on the Group's turnover and profit for the year ended 31 December 2014.

(b) **Acquisition of Chengdu Sanliya China Clay Company Limited (g ; - (" , • !)**

During the year ended 31 December 2013, one of the Group's available-for-sale investments Harbin Sanliya Holdings Company Limited ("Sanliya") had been liquidated. Assets of Sanliya were distributed to the equity owners of Sanliya in proportion to their ownership percentage. One of the assets of Sanliya distributed to the Group was 40.7% of equity interests of Chengdu Sanliya China Clay Company Limited ("Chengdu Sanliya"). The directors of the Company concluded that it has control over Chengdu Sanliya as the Company has the power to cast the majority of votes at meetings of the board of directors of Chengdu Sanliya and therefore has the ability to affect the returns of Chengdu Sanliya. Chengdu Sanliya became a subsidiary of the Group on 30 July 2013.

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42. ACQUISITION OF SUBSIDIARIES/ ADDITIONAL INTERESTS IN SUBSIDIARIES (continued)

(b) Acquisition of Chengdu Sanliya China Clay Company Limited (g ; - (" . • !) (continued)

Chengdu Sanliya is principally engaged in the development, production and sale of electrochemical surface ceramicised light alloy materials and relevant technology; manufacture, processing and trading of electricity products, relevant raw materials and accessories.

Assets acquired and liabilities recognised at the date of acquisition:

[redacted]

J 8 e @ Ò ¿ £ ê	Property, plant and equipment	26,919
k ù z ® a # ›	Prepaid lease payments	8,727
Ì – *	Intangible assets	878
È · ü ° *	Deferred tax assets	388
À ¬	Inventories	19,058
Ð × * ›	Trade receivables	14,967
I ü Ð × › e 2 – ¿ k ù › °	Other receivables, deposits and prepayments	5,221
$ – ¿ $ – J	Cash and cash equivalents	6,849
Ð ù * ›	Trade payables	(8,348)
I ü Ð ù › e Ð I \ ¿ a ê	Other payables, accruals and provisions	(28,064)
Š × 2 –	Deposits received	(1,040)
Þ Þ e « ® ! › °	Advance from HE Corporation	(1,400)
> ›	Borrowings	(10,000)
× « ü °	Tax recoverables	914
		35,069
¢ › p Æ B	Non-controlling interests	(20,801)
		14,268

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42. ACQUISITION OF SUBSIDIARIES/ ADDITIONAL INTERESTS IN SUBSIDIARIES (continued)

(b) Acquisition of Chengdu Sanliya China Clay Company Limited (g ; - ("Ø¸ • !) (continued)

The above assets obtained and liabilities assumed represent part of the consideration received upon liquidation of Sanliya which was de-recognised as the Group's available-for-sales investments during the year 2013. No cash consideration was paid by the Group for acquisition of Chengdu Sanliya.

× … + ° * [˜ $ – t] j ø $ – Õ ù ˜ þ Š _ { Õ q ¿ $ –	Net cash inflow arising on acquisition:	
	Consideration paid in cash	–
	Bank balances and cash acquired	6,849
Þ ë × … • n ® ! ˜ $ – ¿ $ – J ˜ $ – t]	Net cash inflow of cash and cash equivalents in respect of the acquisition of the subsidiary	6,849

(i) Ð × * › ¿ l ü Ð × › Y ® ª = ± 9 ‰ [O Æ 14,967,000 © ¿ [O Æ 3,645,000 © d ~ Ô × … Ð × * › ¿ l ü Ð × › Y ¥ Ò < X ´ • f ? Ì j – X Y ¥ Ò $ – t Ž ‰ ” × « f

(i) The fair values of trade receivables and other receivables amounted to RMB14,967,000 and RMB3,645,000 respectively which were same as the gross contractual amounts of these trade and other receivables acquired. None of the contractual cash flows of the above amounts were estimated to be uncollectible.

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(ii) The Group recognised the non-controlling interests at the proportionate share of net assets of Chengdu Sanliya.

(iii) õ Z g S g Ë d Ó Ç g ; - ‰ l « 8 X Í Ò [O Æ 21,900,000 © f † × … + ° ø 8 d 8 Ó Ç g ; - ˜ P ; [O Æ 1,900,000 © Š] Z g S g Ë P ; f J × … + ° Š õ Z g S g Ë S Ü S Ú • Ó d Z ” 6 Á l « Ú Z g S g Ë d Z Ü g d S Ú ß Ë 8 X ¿ P ; ¿ Ó } B ¤ f

(iii) Chengdu Sanliya contributed approximately RMB21,900,000 to the Group's turnover for 2013. Included in the year 2013 profit for the year was a profit of RMB1,900,000 by Chengdu Sanliya since its acquisition. Had the acquisition been completed on 1 January 2013, there would have no significant impact on the Group's turnover and profit for the year ended 31 December 2013.

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43. CAPITAL COMMITMENTS

The Group and the Company had the following capital commitments at the end of the reporting period:

		I ¤ The Group		I ¸ ! The Company	
			2013 [O Æ w © RMB'000		2013 [O Æ w © RMB'000
Š ¦ Ò (J 1 × ... h • ° f * a ê j — @ Ò ¿ Ú œ	Contracted, but not provided for In respect of the acquisition of: — plant and machinery		328,503		75,929
£ h • ® ! ! j — • n ® !	In respect of capital contribution to: — subsidiaries		–		528,376
õ d Z Ü g d S Ú	At 31 December		328,503		604,305

44. A

44. CONTINGENT LIABILITIES

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Æ2,875,026,000 © ƒ (Ì 1 Š
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(a) Financial guarantees issued

As at the end of the reporting period, the Company has given corporate guarantees to a bank in respect of banking facilities granted to a wholly-owned subsidiary. The maximum liability of the Company under the guarantees issued represents the amount drawn down by the subsidiary of approximately RMB3,695,625,000 (2013: RMB2,875,026,000) at the end of the reporting period. No deferred income in respect of these guarantees issued has been recognised as their fair values were considered immaterial.

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44. CONTINGENT LIABILITIES (continued)

(b) Litigation

(i) In 2013, a litigation was brought against the Group's subsidiary namely, Harbin Electrical Machinery Company Limited, by one of its suppliers (the "Plaintiff 1") in relation to a dispute in a purchase transaction and claiming for an amount of approximately RMB1,542,000 and default interest of approximately RMB2,864,000 in respect of the delayed payment.

Harbin Electrical Machinery Company Limited has filed a counter-claim for an amount of approximately RMB3,583,000 against Plaintiff 1 for the costs suffered due to the delay in the delivery of the goods and the repairs and maintenance costs incurred for the defected goods.

The Plaintiff 1 was granted a freezing order by Henan Intermediate People's Court over Harbin Electrical Machinery Company Limited's bank deposits of approximately RMB2,500,000.

During 2014, Henan Provincial Xinxiang City Hongqi District People's Court held that Harbin Electrical Machinery Company Limited was liable to pay the purchase amounts of an aggregate of RMB1,500,000 and the interests on overdue payments (calculated according to the bank's lending rate over the same period) to Plaintiff 1. Subsequently, Harbin Electrical Machinery Company Limited made an application to appeal against the decision.

The dispute has not been finalised and no opinion is possible at this time as to likelihood of the outcome of the case. The directors of the Company considered that no further provision is required.

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44. CONTINGENT LIABILITIES (continued)

(b) Litigation (continued)

(ii) In 2014, a litigation was brought against the Group's subsidiary namely, Harbin Electric Power Equipment Company Limited, by one of its suppliers (the "Plaintiff 2") in relation to a dispute in a purchase transaction claiming for an amount of approximately RMB1,571,000 and default interest of RMB10,000 in respect of the delayed payment. The purchase amount of RMB1,571,000 had been accrued by Harbin Electric Power Equipment Company Limited as at the end of the reporting period.

The dispute has not been finalised and no opinion is possible at this time as to likelihood of the outcome of the case. The directors of the Company considered that no further provision is required.

(iii) In 2014, 5 litigations were brought against the Group's subsidiary namely, Research Centre, by one of its suppliers (the "Plaintiff 3") in relation to disputes in several purchase transactions claiming for an aggregate amount of approximately RMB2,798,000 in respect of the delayed payment.

The Plaintiff 3 was granted freezing orders by the PRC Court over the bank deposit of Research Centre amount to approximately RMB2,797,000.

The purchase amounts of RMB2,094,000 had been accrued by Research Centre as at the end of the reporting period.

The dispute has not been finalised and no opinion is possible at this time as to likelihood of the outcome of the case. The directors of the Company considered that no further provision is required.

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44. CONTINGENT LIABILITIES (continued)

(b) Litigation (continued)

(iv) During the year 2014, the Group's subsidiary, Research Centre, was involved in a legal dispute with one of its customers regarding its sales transaction and being claimed for an amount of approximately RMB192,057,000. The subsidiary's bank account of amount approximately RMB2,781,000 was freezed by the PRC court.

The dispute is in progress and has not been finalised, the Company made provision for loss of RMB80,896,000 in the consolidated financial statements for the year ended 31 December 2014 which is based on the best estimation of possible liabilities relating to this dispute (note 29). The directors of the Company considered that no further provision is required.

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45. MATERIAL RELATED PARTY TRANSACTIONS

The Company is a subsidiary of HE Corporation, which is a state-owned enterprise subject to the control of the State Council of the PRC Government.

In addition to the transactions detailed elsewhere in these financial statements, the Group had the following material related party transactions with related parties during the year:

(a) Financing arrangement

			[redacted]	2013 [O Æ w © RMB'000
Þ › p ® ! › € • W	(i) •	Advance from holding company (note (i))		1,761,898
Þ ë ; ¹ Õ		Related interest expenses		23,431

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45. MATERIAL RELATED PARTY TRANSACTIONS (continued)

(a) Financing arrangement (continued)

Note:

(i) The balance of the advance from holding company comprises of non-interest-bearing loans amounting to RMB3,500,000 (2013: RMB3,500,000) and interest-bearing loans of RMB1,840,739,000 (2013: RMB1,758,398,000) with annual interest ranging from 5.04% to 5.4% (2013: 5.4%). Details of the terms and conditions of the loan from holding company are disclosed in note 31.

(b) Trading transactions

		2013 [O Æ w © RMB'000
V / * Ü	Sales of goods	
• û • n ® !	Fellow subsidiaries	22,125
® … * Ü	Purchases of goods	
• û • n ® !	Fellow subsidiaries	179,842
l ×]	Service fee income	
• û • n ® !	Fellow subsidiaries	24
› p ® !	Holding company	2,067
l š Õ	Service fee expenses	
• û • n ® !	Fellow subsidiaries	89,917

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The above transactions were also continuing connected transactions of the Group during the year and the details of the transactions have been set out in the announcement of the Company dated 3 January 2014 and 25 March 2013.

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		Ð × ë L Ù › ° Amounts due from related parties		, L ¦ Amounts due to related parties	
			2013 [O Æ w © RMB'000		2013 [O Æ w © RMB'000
› p ® !	Holding company		–		9,784
• û • n ® !	Fellow subsidiaries		175,206		65,336
L ® !	Associates		15,124		28,261

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45. MATERIAL RELATED PARTY TRANSACTIONS (continued)

(b) Trading transactions (continued)

In addition to the transactions detailed elsewhere in these financial statements, the Group had sales of goods to, purchases of goods from and service fee received from associates and interest income received from a fellow subsidiary for an amount of RMBnil, RMB19,488,000, RMB23,000 and RMB3,862,000 (2013: RMB29,000, RMB43,038,000, RMB28,000 and RMBnil) during the year respectively.

The sales and purchases, service income and expenses were conducted in accordance with mutually agreed terms.

The following balances arising from trading transactions were outstanding at the end of the year:

Note:

(i) Details of the terms are set out in notes 23, 25 and 31 respectively.

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45. MATERIAL RELATED PARTY TRANSACTIONS (continued)

(c) Deposits and loan services provided to related parties by Finance Company

		2013 [O Æ w © RMB'000
Ò À › ˜ ; ¹ š Õ j	Interest expenses for customers' deposits:	
— › p ® !	— Holding company	823
— • û • n ® !	— Fellow subsidiaries	487
— L ® !	— Associates	17
		1,327
r › ¿ h $ C ½ ˜ ; ¹ ×] j	Interest income for loans and bills discounting:	
— › p ® !	— Holding company	714
— • û • n ® !	— Fellow subsidiaries	10
		724
Ó ƒ l ¿) – ×] j	Handling charges and commission income:	
— › p ® !	— Holding company	353
— • û • n ® !	— Fellow subsidiaries	5
— L ® !	— Associates	4
		362

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Interest rates for customers' deposits, loans and bills discounting were determined with reference to the interest rates adopted by financial institutions as regulated by the People's Bank of China.

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Further details of deposits and loans with related parties are set out in notes 32 and 22 respectively.

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45. MATERIAL RELATED PARTY TRANSACTIONS (continued)

(d) The Group effected the following non-recurring transactions:

During the year 31 December 2013, the Group has acquired 42% and 4% equity interests in Finance Company from HE Corporation and its fellow subsidiary, Jiamusi Electric Machine Company Limited respectively, for an aggregate consideration of RMB149,890,000.

(e) Guarantees provided by related parties of the Group:

As at 31 December 2014, HE Corporation has provided an unconditional and irrevocable joint liability guarantee in respect of the Group's corporate bonds with a nominal value of RMB3 billion (note 38).

(f) Compensation of key management personnel of the Group:

Compensation for key management personnel, including amounts paid to the Company's directors as disclosed in note 8, is as follows:

		2013 [O Æ w © RMB'000
õ , ‡ p E ; × ~ E ; Œ 6 ›	Short-term employee benefits	3,185
	Contributions to post-employment benefits schemes	623
		3,808

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Further details of staff costs are included in note 6(b) to the financial statements.

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45. MATERIAL RELATED PARTY TRANSACTIONS (continued)

(g) Transactions and balances with other state-controlled entities in the PRC

The Group operates in an economic environment currently predominated by entities directly or indirectly owned or controlled by the PRC government ("state-controlled entities"). In addition, the Group itself is part of a larger group of companies under HE Corporation, which is controlled by the PRC government. Apart from the transactions with HE Corporation and fellow subsidiaries disclosed above, the Group also conducts business with other state-controlled entities. The directors consider those state-controlled entities are independent third parties so far as the Group's business transactions with them are concerned.

In establishing its pricing strategies and approval process for transactions with other state-controlled entities, the Group does not differentiate whether the counter-party is a state-controlled entity or not.

The Group has entered into various transactions, including sales and purchases, and maintained trade balances with state-controlled entities.

(h) The capital commitment at the end of the reporting period in respect of capital contribution from the Company to subsidiaries amounted to RMB528,376,000 (2013: RMB528,376,000).

46. NON-ADJUSTING EVENTS AFTER THE REPORTING PERIOD

After the end of the reporting period, the directors of the Company proposed a final dividend. Further details are disclosed in note 40(b).

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47. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements used in preparing the consolidated financial statements are evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will by definition, seldom equal the related actual results. The estimates and assumptions that may have a significant effect on the carry5 Tc262asequa0ircumsSable urcumsS6le urcumsS6le esullm T* s ntsn

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47. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

(a) Current taxation and deferred taxation (continued)

Deferred taxation relating to certain temporary deductible differences is recognised as management considers it is probable that future taxable profits will be available against which the temporary deductible differences or tax losses can be utilised. Where the expectation is different from the original estimate, such differences will impact the recognition of deferred taxation in the periods in which such estimate is changed. The carrying value of deferred tax assets and liabilities at 31 December 2014 were approximately RMB349,580,000 (2013: RMB297,354,000) and RMBnil (2013: RMB17,690,000) respectively. The amount of unrecognised unused tax losses and deductible temporary differences at 31 December 2014 was approximately RMB4,071,740,000 (2013: RMB2,017,173,000).

(b) Write-down of 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 net realisable value, i.e. the estimated selling price in the ordinary course of business, less estimated cost of completion and the estimated cost necessary to make the sale. A specific allowance for inventories is made if the estimated net realisable value of the inventories is lower than its carrying value. The carrying amount of inventories at 31 December 2014 was approximately RMB15,471,226,000 (2013: RMB14,346,742,000).

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47. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

(c) Construction contracts

As explained in policy notes 2(o) and 2(w)(ii), revenue and profit recognition on contract work is dependent on estimating the total outcome of the construction contract, as well as the work done to date. Based on the Group's recent experience and the nature of the construction activity undertaken by the Group, the Group makes estimates of the point at which it considers the work is sufficiently advanced such that the costs to complete and revenue can be reliably estimated. As a result, until this point is reached the amounts due from/(to) customers for contract work as disclosed in note 24 will not include profit which the Group may eventually realise from the work done to date. In addition, actual outcomes in terms of total cost or revenue may be higher or lower than estimated at the end of the reporting period, which would affect the revenue and profit recognised in future years as an adjustment to the amounts recorded to date.

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47. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

(d) Impairment of property, plant and equipment, prepaid lease payments and intangible assets

If circumstances indicate that the carrying amounts of property, plant and equipment, prepaid lease payments and intangible assets may not be recoverable, the asset may be considered "impaired", and an impairment loss is recognised in accordance with the accounting policy for impairment of property, plant and equipment, prepaid lease payments and intangible assets as described in note 2(m)(ii). The carrying amounts of property, plant and equipment, prepaid lease payments and intangible assets are reviewed periodically in order to assess whether the recoverable amounts have declined below the carrying amounts. These assets are tested for impairment whenever events or changes in circumstances indicate that their recorded carrying amounts may not be recoverable. When such a decline has occurred, the carrying amount is reduced to the recoverable amount. The recoverable amount is the greater of the fair value less costs of disposal and the value in use. In determining the value in use, expected cash flows generated by the asset are discounted to their present value, which requires significant judgement relating to the level of selling price and the amount of operating costs. The Group uses all readily available information in determining an amount that is a reasonable approximation of the recoverable amount, including estimates based on reasonable and supportable assumptions and projections of selling price and the amount of operating costs. Changes in these estimates could have a significant impact on the carrying amount of the assets and could result in additional impairment charge or reversal of impairment in future periods. As at 31 December 2014, the carrying amounts of property, plant and equipment, prepaid lease payments and intangible assets were approximately RMB6,701,041,000 (2013: RMB6,633,287,000), RMB507,526,000 (2013: RMB506,798,000) and RMB200,333,000 (2013: RMB218,357,000) respectively.

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47. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

(h) Provisions

The Group makes provisions for product warranty, onerous contracts and probable liabilities relating to legal dispute. Management estimates the provision based on contract terms, available knowledge and past experience. The Group recognises provisions to the extent that it has a present legal or constructive obligation as a result of a past event; it is more likely than not that an outflow of resources embodying economic benefits will be required to settle the obligation; and that the amount can be reliably estimated.

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48. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2014 (continued)

1 Effective for annual periods beginning on or after 1 January 2018
2 Effective for first annual HKFRS financial statements beginning on or after 1 January 2016
3 Effective for annual periods beginning on or after 1 January 2017
4 Effective for annual periods beginning on or after 1 July 2014
5 Effective for annual periods beginning on or after 1 January 2016
6 Effective for annual periods beginning on or after 1 July 2014, with limited exceptions

The Group is in the process of making an assessment of what the impact of these new and revised HKFRSs is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the consolidated financial statements.

In addition, the requirements of Part 9, "Accounts and Audit", of the new Hong Kong Companies Ordinance (Cap. 622) come into operation from the Company's first financial year commencing after 3 March 2014 (that is, the Company's financial year which began on 1 January 2015) in accordance with section 358 of that Ordinance. The Group is in the process of making an assessment of the expected impact of the changes in the Companies Ordinance on the consolidated financial statements in the period of initial application of Part 9. So far it has concluded that the impact is unlikely to be significant and will primarily only affect the presentation and disclosure of information in the consolidated financial statements.

49. l. ! n. !

49. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY

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The following list contains only the particulars of the Company's subsidiaries at 31 December 2014 which, in the opinion of the directors, principally affected the results, assets or liabilities of the Group. All of these subsidiaries are incorporated and operating in the PRC.

n. ! H Name of subsidiary	W p l Particulars of registered share capital [O w , RMB'000	l. ! 5 W l & = 7 Percentage of nominal value of registered capital held by the Company \ Directly %	 Indirectly %	z Principal activities
Harbin Boiler Company Limited* Þ ' õ ¢ @ Þ " ª , ® ! *	746,853	92.08	–	Manufacture of boilers [* ¢
Harbin Electrical Machinery Company Limited* Þ ' õ e Ú @ Þ " ª , ® ! *	709,237	89.63	–	Manufacture of steam turbines generator sets and hydro turbine generator sets [* ‹ Û ¶ C ï Ä q å ¶ C ï Ä
Harbin Electric International Company Limited* Þ ' õ e 7 ç ˆ û Þ " ª , ® ! *	500,000	100	–	Provision of engineering services for power stations ‰ e g d 6 ˆ û
) B S C1JPOX F5SF D I O P M P H Z Trade Inc.** Þ ' õ b Å ¦ q ø p … Þ " ® ! **	27,000	55.55	44.45	Trading q ø
Harbin Turbine Company Limited* Þ ' õ Û C Ú @ Þ " ª , ® ! *	859,723	70.91	–	Manufacture of steam turbines [* e g Û C Ú
HE Harbin Power Plant Valve Company Limited* Þ e « Þ ' õ e g ã ˜ Þ " ® ! *	80,000	100	–	Manufacture of valves [* ã ˜

49. l • ! n • ! ' 49. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY (continued)

• n ® ! ¤ H Name of subsidiary	W p l Particulars of registered share capital [O w , RMB'000	l • ! 5 W l & = 7 Percentage of nominal value of registered capital held by the Company \ Directly %	 Indirectly %	z Principal activities
Harbin Power Equipment National Engineering Research Centre Co., Ltd* Þ e ï e £ ê 7 • ^ û ¼ ú • Ð Þ " ® ! *	160,000	75	–	Research and development of power equipment engineerisation technology ¼ ú ¿ š ï ï e £ ê ^ û ¦ ”
Harbin Boiler Preheater Company Limited* Þ ' õ ¢ @ k œ Þ " ª , ® ! *	70,000	–	96.86	Manufacture of engineering equipment [* ^ û £ ê
Harbin Turbine Ancillary Equipment Engineering Company Limited* Þ ' õ Û C Ú @ ¾ Ú ^ û Þ " ® ! *	60,000	–	100	Provision of engineering service to turbines ‰ ¶ C d 6 ^ û
Harbin Electrical Machinery (Kunming) Company Limited* Þ ' õ e Ú @€ ú ü Þ " ª , ® ! *	87,550	–	55.64	Manufacture of small-scale hydro power equipment [* ƒ è å b ï e £ ê
Harbin Electric Power Equipment Company Limited* Þ ' õ e b ê Þ " ® ! *	687,207	100	–	Manufacture of medium-to-heavy-duty AC/DC motors and nuclear power main pump motors [* } • è t \ t e Ú ¿ è e ô • e Ú
Harbin Electric Corporation (QHD) Heavy Equipment Company Limited* Þ e « € b ¬ ¥ • è ê Þ " ® ! *	2,050,000	34.15	65.85	Manufacture and assembly of large-scale thermal power, nuclear power and gas turbine [* q ã } è æ e e è e ¿ ÷ C Ú

49. l • ! n • ! ' 49. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY (continued)

• n ® ! ¤ H **Name of subsidiary**	**W p l** **Particulars of registered share capital** **[O w ,** **RMB'000**	**l • ! 5 W l & = 7** **Percentage of nominal value of registered capital held by the Company** **** **Directly** %	 **Indirectly** %	**z** **Principal activities**
Harbin Electrical Machinery (Zhenjiang) Company Limited* Þ ' õ e Ú @€ D ê •Þ " ª , ® ! *	365,000	–	100	Manufacture of wind power generation systems and related raw materials and processing of hydro power equipment [* , b ï e £ ê ¿ ´ ë a ¿ Ø ø ¿ ^ å b ï e £ ê
Harbin Electric Corporation Finance Company Limited Þ ' õ e « Ì Þ " ª , ® ! *	1,500,000	55	36	Depository and financial advisory services À › ¿ Ì T
HE Modern Manufacturing Service Industry Company Limited* Þ e « $ þ ¡ ¿ *8 Þ " ª , ® ! *	30,000,000	100	–	Sale of products and provision of technical consultancy and reconstruction services * Ü V / e ¦ " T ¿ · ¿

* Þ " ª , ® !

* Limited liability company

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** Joint stock limited company

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None of the subsidiaries had issued any debt securities during the year.

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The Group had no subsidiaries which have material non-controlling interests for the years ended 31 December 2014 and 2013.

Disclosure of Signi cant Events

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Disclosure of Signi cant Events (continued)

(2) 2014 Ë 3 Ü 21 Ú d ® ! š V £ ^ ã è + 6 D d 2 D · @ Y ® ! 2013 Ë Ë 8 6 S ´ ë D Z e ¬ Æ ® ! è + 6 # ï ¿ « ... ® ! p ... e ® ! ó 9 p } 6 ·] + ° f

(2) On 21 March 2014, the seventh session of the Board of the Company convened its eighth meeting to consider and pass matters on the topics in relation to the 2013 annual results of the Company; the authorization to the Board of Directors of the Company for the issue of additional shares and repurchase of the shares of the Company; and the notice of class meetings of the Company.

(3) 2014 Ë 5 Ü 16 Ú d ® ! š V £ X ã è + 6 D d 2 D · @ Y Þ e 7 ç ® ! £ m 0 ¥ • ® ! e ˆ û • Ð ³ ê = . - • U ñ · å ï • Þ " ® ! + ° f

(3) On 16 May 2014, the seventh session of the Board of the Company convened its ninth meeting to consider and pass matters on the establishment of the subsidiary of HE International Company in Hong Kong and the investment of Engineering Centre in Jiangsu Fenghai New Energy Seawater Desalinization Development Company Limited (ê = . - • U ñ · å ï • Þ " ® !).

(4) 2014 Ë 6 Ü 11 Ú d ® ! š V £ d ã è + 6 D d 2 D · @ Y Þ e 7 ç ® ! ¾ # Ì * Ü + ° f

(4) On 11 June 2014, the seventh session of the Board of the Company convened its tenth meeting to consider and pass a matter on the financial products entered into by HE International Company.

(5) 2014 Ë 8 Ü 15 Ú d ® ! š V £ d S ã è + 6 D d 2 D · @ Y ® ! 2014 Ë • , 8 6 S e è + 6 S ã e Þ e 7 ç ® ! ³ Ë ? v ~ NBT , e ° f e Þ ¢ Þ " ª , ® ! £ Þ ¢ ¼ 8 ® ! d 6 ‰ Ä r › + ° f

(5) On 15 August 2014, the seventh session of the Board of the Company convened its eleventh meeting to consider and pass matters on the 2014 interim results and Report of Directors of the Company; the investment of HE International Company in the wind-powered project of Pakistan NBT; and the provision of entrusted loans for Harbin Boiler Industrial Company (Þ ¢ ¼ 8 ® !) by Harbin Boiler Company Limited.

(6) 2014 Ë 9 Ü 29 Ú d ® ! š V £ d Z ã è + 6 D d 2 D · @ Y Æ ® ! è + 6 ¢ Y 8 ‰ p 6 Ó p + ° f

(6) On 29 September 2014, the seventh session of the Board of the Company convened its twelfth meeting to consider and pass a matter on the adjustments to members of each special committee of the Board of Directors of the Company.

(7) 2014 Ë 11 Ü 18 Ú d ® ! š V £ d g ã è + 6 D d 2 D · @ Y ‰ , ® ! ÷ t < R e ¢ ô Õ ¬ ¦ X • , e ‰ Þ e 7 ç ® ! ¬ ¦ d ɢ ð ÷ X - Ç ¥ • ¿ Ë Ô n Å ± † 8 ® v V T l + ° f

(7) On 18 November 2014, the seventh session of the Board of the Company convened its thirteenth meeting to consider and pass matters on the appointment of senior Vice-President of the Company; the extension of credit limits granted by each major bank; the Maximum Guarantee Amount Contract (ð ÷ X - Ç ¥ •) for the credit granted to HE International Company; and the payment of the marketing advisory fee made by certain subsidiaries.

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2. SIGNIFICANT EVENTS AND MATERIAL CONTRACTS

1. Significant Events

(1) In 2014, the Company and its subsidiaries, namely Harbin Electrical Machinery Company Limited, Harbin Boiler Company Limited, Harbin Turbine Company Limited, Harbin Electric Power Equipment Company Limited and HE Harbin Power Plant Valve Company Limited were recognized as High and New Technology Enterprises, which continue to entitle a 15% preferential enterprise income tax rate.

(2) According to relevant provisions of the cadre management of the State, Mr. Fan Fu-chun, and Mr. Sun Chang-ji as well as Mr. Jia Cheng-bing, each of them being the former independent non-executive director of the Company, resigned as the independent non-executive director of the Company and their positions served in each special committee of the Board of Directors in May 2014 and September 2014 respectively.

(3) 2014 Ë 11 Ü d a ® ! 9 + 6 ô © c W ö ‹ [ì ½ 7 • Å M # ´ ë • › Ø , I ® ! p þ Œ 9 + ¿ 9 + 6 ô © d ˆ þ Œ 9 + F ó ~ { ª : Q , › × ~ Ë g Ø , I ® ! ˆ þ Œ 9 + d ¾ p } 6 - X d ¹ Q v ‹ [‰ , ‰ ® ! p þ Œ 9 + (¾ 9 + 6 o X ‰ 9 + 6 ô © d u p ‹ [‰ , ‰ ® ! ˆ þ Œ 9 + f

(3) In November 2014, according to relevant provisions of the cadre management of the State, Mr. Bai Shao-tong, former chairman of the Supervisory Committee of the Company, resigned as the supervisor representing Shareholders and the chairman of the Supervisory Committee of the Company while Ms. Lu Chun-lian has tendered her resignation from the position of the supervisor representing staff and workers of the Company owing to the attainment of statutory retirement age. Approved at the general meeting, Mr. Feng Yong-qiang was appointed as the supervisor representing Shareholders and elected as the chairman of the Supervisory Committee of the Company by the Supervisory Committee while Mr. Zhang Jun-quan was appointed as the supervisor representing staff and workers of the Company.

(4) 2014 Ë 5 Ü d ® ! Õ ¡ Y 7 * / (AP1000 ‹ Û ï [œ ± ; · @ å À d ¢ ° 8 z i : Q Ë dAP1000 ‹ Û ï [œ ¡ ¿ ¦ ” þ Œ Y ð ¢ è e £ ê ¡ ¿ Y ð ÷ å ; d 4 Y ¡ ¿ Ó z ¦ 9 ¢ 7 è e £ ê ¡ ¿ £ Ó ž f

(4) In May 2014, the first AP1000 evaporator manufactured in China, which was contracted by the Company, successfully passed the hydraulic test and reached every standard. The manufacture of the AP1000 evaporator not only raised the bar of manufacturing technology of nuclear-power equipment to the highest level in the world, but also successfully marked as a milestone in the advanced development of nuclear-power equipment in China.

(5) 2014 Ë 9 Ü d ® ! [* Y 7 * / (30MW ÷ À Ú \ · @ 7 • - * Ü á › d ¢ ° 8 z : Q 7 ç ‹ † å ; f

(5) In September 2014, the Company manufactured the first 30MW compression-ignition generator in the PRC, which passed the appraisal of national new products and satisfied international standards.

(6) 2014 Ë 9 Ü d ® ! Õ Ä Y 7 6 Â • e @ 2 î ¶ S 800MW Ú \˜ · • - # ™ 6] ¥ ¦ ” · ¿ ˆ û ™ ± ; · @ 168 ƒ Û 6 d å • Ó ð ¢ • û ð — e 7 « Ú ™ Ž ð } ¦ · ˆ û f

(6) In September 2014, the Russian-made 800MW unit of Guohua Suizhong Power Station II contracted by the Company under the “Integrated Technology Reformation of Heating Supply in terms of Energy-Saving and Capacity-Increasing” (· • - # ™ 6] ¥ ¦ ” · ¿ ˆ û) successfully passed the 168-hour pilot operation and accomplished the construction of technology reformation with the longest shafting in the world and the largest single-unit capacity in China.

(7) 2014 Ë 12 Ü d ® ! ô ¼ ï Y ð ¢ ð ÷ p Y 660MW ÷ Ö t t W ¢ ¢ Ó ³ 6 d z ¦ 9 ¢ 7 ¯ ÷ p e } ™ Ž e g ¢ £ ¡ ¿ • b j Š : Q 7 ç ï ‹ å ; f

(8) 2014 Ë d ® ! ô £ ¡ ¿ d H Þ • Œ ô] Æ * Æ Y c ~ ¨ å e g 6 (Ú \ e £ • å e g 4 (Ú \ Œ Å (c ï e f c ~ ¨ e g J ð ¢ K g } e • 7 K Z } å e g d Ú \ Ú ™ Ž 770MW i £ • e g J • 7 K g } å e g d Ú ™ Ž 812MW d J f Ã ð ¢ j Ú ™ Ž ð } Y å C ï e Ú \ f

(7) In December 2014, the Company developed the highly-efficient and ultra-supercritical boiler with the top specification of 660MW in the world and it has been successfully put into operation, setting a leading position in terms of China's manufacturing capability of power station boiler with advanced specifications and large capacity in the globe.

(8) In 2014, the 6 power generators at Xiluodu Hydroelectric Station and the 4 power generators at Xiangjiaba Hydroelectric Station, which enjoyed self-developed intellectual property rights, were all equipped with grid connection. The generators were self-developed, self-designed and locally-built by the Company. Xiluodu Hydroelectric Station, with single-unit capacity of 770MW, is the third largest hydroelectric station in the world and the second largest hydroelectric station in China; and Xiangjiaba Hydroelectric Station, with single-unit capacity of 812MW, is the third largest hydroelectric station in China, comprising the water turbine power generator with the world's largest capacity at present.

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812MW

2. Material Contracts

(1) In February 2014, the Company entered into a EPC contract and a WMSA contract for the wind-powered project with the largest installed capacity in Pakistan, which is currently the biggest wind-powered EPC turn-key project of the Company.

(2) In March 2014, the Company entered into a turn-key contract for 2×660MW supercritical coal-combustion power station in the phase two of SALAYA in India, which was the first time for the Company to achieve a turn-key project for the power station in the Indian market.

Disclosure of Signi cant Events (continued)

(3) 2014 Ë 3 Ü d ® ! ¦ Y E ö 5 e6 î ¿ I ê • ° f ô • 6 ¬ ¥ • d11 Ü d E ö 5 e6 î Ú \ — ½ › ‰˜ 6 ² S î ™7 « / H j Í ˆ û f

(3) In March 2014, the Company entered into a supply contract of main pumps for Fuqing No.5 and No.6 and its spare parts. In November, Fuqing No.5 and No.6 unit were recognized as the first domestic demonstration project of “Hualong I”.

(4) 2014 Ë 3 Ü d ® ! ¦ Y Ë ? v ~ Ö ƒ 2 e3 î Ú \ (ACP1000)6 (À Ð < ô 8 Í ’ • £ ê 6 ¬ ¥ • f

(4) In March 2014, the Company entered into a supply contract for 6 sets of major reactor-cooling agent pump equipment for the Karachi No.2 and No.3 unit (ACP1000) in Pakistan.

(5) 2014 Ë 5 Ü d ® ! ¦ Y › . ˆ û 6 Ò200MW ÿ t Ì å C ï e Ú \ £ ê 6 ¬ ¥ • f

(5) In May 2014, the Company entered into a supply contract for 6×200MW Francis turbine power generator equipment for Fengman redevelopment construction in Jilin.

(6) 2014 Ë 8 Ü d ® ! ¦ Y ½ e - 6 2 • 9FB ÷ — ‹ Û L ¥ C e g Ú ¥ £ ê 6 ¬ ¥ • f

(6) In August 2014, the Company entered into a supply contract for 2 sets of 9FB combined gas-and-steam cycle cogeneration power unit island equipment for Yudean Xinhui (½ e - 6).

(7) 2014 Ë 9 Ü d ® ! ¦ Y E È è e ˆ û 1 e2 î ‹ Û ï [œ £ ê 6 ¬ ¥ • f

(7) In September 2014, the Company entered into a supply contract for No.1 and No.2 evaporator equipment for Zhangzhou nuclear power construction in Fujian.

(8) 2014 Ë 9 Ü d ® ! ¦ Y ³ • U ˆ È g , 2 Ò1000MW t t W ¢ ¢ £ ê 6 ¬ ¥ • f

(8) In September 2014, the Company entered into a supply contract for 2×1000MW ultra-supercritical boiler equipment for the phase 3 of Hubei Energy in Ezhou.

(9) 2014 Ë 9 Ü d ® ! - ¦ Y • è « g ˜ 3 e4 î Ú \ Û C ï e Ú \ £ ê 6 ¬ ¥ • d ¥ • Í Þ Ô Ò } f

(9) In September 2014, the Company entered into a supply contract for No.3 and No.4 steam turbine generator equipment for China National Nuclear Corporation in Sanmen. The scope of contract was expanded.

(10) 2014 Ë 9 Ü d ® ! ¦ Y 7 e Ù • • 2 Ò1000MW t t W ¢ ¢ £ ê 6 ¬ ¥ • f

(10) In September 2014, the Company entered into a supply contract for 2×1000MW ultra-supercritical boiler equipment for Guodian in Fang Jia Zhuang.

Disclosure of Signi cant Events (continued)

(11) 2014 Ë 11 Ü d ® ! ¦ Y g × « † ƒ × E ; S e 3 Ò660MW t t W ¢ g } ô Ú £ ê 6 ¬ ¥ • f

(11) In November 2014, the Company entered into a supply contract for 3×660 MW three ultra-supercritical host facilities for Zouping No. 1 Power Plant of Shandong Hongqiao under Weiqiao Group.

(12) 2014 Ë 11 Ü d ® ! ¦ Y ™ 5 ¬ — Z , 670MW t W ¢ ÷ i e g < Õ ° f ê V X D f

(12) In November 2014, the Company entered into a framework agreement on the turn-key contract for 670MW supercritical coal-combustion power station in the phase 2 of Banten in Indonesia.

(13) 2014 Ë 11 Ü d ® ! ¦ Y › ì ' ? ¡ « ' å e g 6 Ò190MW ÿ t Ì å C ï e Ú \ £ ê 6 ¬ ¥ • f

(13) In November 2014, the Company entered into a supply contract for 6×190MW Francis turbine power generator equipment for the Kirchner Hydroelectric Station in Argentina.

(14) 2014 Ë 12 Ü d ® ! ¦ Y ~ ¢ ¬ : 2 • 9FB ÷ — ‹ Û L ¥ C e g Ú ¥ £ ê 6 ¬ ¥ • f

(14) In December 2014, the Company entered into a supply contract for 2 sets of 9FB combined gas-and-steam cycle cogeneration power unit island equipment for Luoyang Wanzhong (~ ¢ ¬ :).

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Save as disclosed above, the Company does not have any other discloseable matters which are not disclosed.

Information on the Company

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Harbin Electric Company Limited

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REGISTERED NAME OF THE COMPANY

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ENGLISH NAME OF THE COMPANY

Harbin Electric Company Limited

REGISTERED ADDRESS OF THE COMPANY

Block 3
Nangang District High Technology Production Base
Harbin
Heilongjiang Province
People's Republic of China
Registration No. 230100100004252(1–1)

OFFICE ADDRESS OF THE COMPANY

Block B, 39 Sandadongli Road
Xiangfang District
Harbin
Heilongjiang Province
People's Republic of China
Postcode: 150040
Tel: 86-451-82135717 or 82135727
Fax: 86-451-82135700
Website: www.hpec.com

PLACE OF BUSINESS IN HONG KONG

Room 1601, 16th Floor
LHT Tower
31 Queen's Road Central
Hong Kong

LEGAL REPRESENTATIVE

Mr. Zou Lei

AUTHORISED REPRESENTATIVES

Mr. Wu Wei-zhang

Mr. Liu Zhi-quan

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Õ 7 Ö À Ç N
22nd Floor West
110 Barclay Street
New York, NY 10286 USA

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DEPOSITARY

The Bank of New York
American Depositary Receipts
22nd Floor West
110 Barclay Street
New York, NY 10286 USA

SHARE REGISTRAR AND TRANSFER OFFICE

Hong Kong Registrars Limited
Shops 1712–1716, 17th Floor
Hopewell Centre
183 Queen's Road East
Wan Chai
Hong Kong

INFORMATION ON THE COMPANY

Available at the Secretariat of the Board of Directors of Harbin Electric Company Limited
Block B, 39 Sandadongli Road
Xiangfang District
Harbin
PRC

SHAREHOLDERS RECEPTION TIME

On 8th, 18th, and 28th (the following day in case a holiday)
From 9:00 a.m. to 11:00 a.m. and
From 2:00 p.m. to 4:00 p.m.
Tel: 86-451-82135717 or 82135727
Fax: 86-451-82135700

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Documents Available for Inspection

1. I ® ! Z g S , Ë S M I
2. I ® ! ¾ 2 è ˜ Ì Œ M I

1. The original copy of the 2014 Annual Report of the Company
2. The original copy of the Company's audited financial statements

Notice of Annual General Meeting

§ · S Þ ' õ e p ... Þ " ® ₺ I ® ! •+ › õ 2015 Ë 5 Ü 15 Ú € K , ž ¡ ¹ 9 Û ¯ • 6 [O • q 7 ½ ² ê ² Þ ' õ 9 0 e g } b) 39 î B - 17 } 6 D } B d X 2014 Ë p „ Ë } 6 d ø © ˆ # h • + ° j

NOTICE IS HEREBY GIVEN that the Annual General Meeting of Harbin Electric Company Limited (the "Company") for the year of 2014 will be held at Conference Room, 17th Floor, Block B, 39 Sandadongli Road, Xiangfang District, Harbin, Heilongjiang Province, the People's Republic of China on Friday, 15 May 2015 at 9:00 a.m. for the following purposes:

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AS ORDINARY BUSINESS

1. 2 D (- X ® ! Ú 2014 Ë 12 Ü 31 Ú ß Ë Y è + 6 S ã i

1. To consider and approve the Report of the Directors of the Company for the year ended 31 December 2014;

2. 2 D (- X ® ! Ú 2014 Ë 12 Ü 31 Ú ß Ë Y 9 + 6 S ã i

2. To consider and approve the Report of the Supervisory Committee of the Company for the year ended 31 December 2014;

3. 2 D (- X ® ! 2014 Ë 1 Ü 1 Ú 2014 Ë 12 Ü 31 Ú , œ ¾ 2 è n f q è p ª S i

3. To consider and approve the audited accounts and the auditor's report of the Company for the period from 1 January 2014 to 31 December 2014;

4. 1 | ï ® ! 2014 Ë Ë p ¹ Ê p [O Æ 0.04 © € ^ G Đ ü •d | ¹ Û œ ‰ 2015 Ë 7 Ü 23 Ú f

4. To declare the 2014 final dividend of the Company of RMB0.04 per share (appropriate tax included) to be paid on 23 July 2015.

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AS SPECIAL BUSINESS

5. ¬ Æ ® ! è + 6 Þ Æ ‰ , , [{ ì þ è + 6 W Û d y Đ # , ‰ è + d I , , ® ! h S ã p } 6 • Û ‰ ß i

5. To authorize the Board of Directors of the Company to appoint any person to fill in a casual vacancy in the Board of Directors or as an additional director, his term of office shall expire at the conclusion of the next general meeting of the Company;

6. ¬ Æ ® ! è + 6 Ì , è p ª (> › I G – i

6. To authorize the Board of Directors of the Company to appoint auditors and fix their remuneration;

7. ‰ , r Ö K ‹ [‰ ® ! ù m ¢ B è + d I , , è + 6 I £ Û ‰ ß d " ¯ I ® ! ï Z f

7. To appoint Mr. Yu Wen-xing as an independent non-executive director of the Company, his term of office shall expire upon the election of new session of the Board of Directors and he shall not receive any remuneration from the Company.

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By order of the Board
Gao Xu-guang
Company Secretary

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Harbin, PRC, 20 March 2015

Notice of Annual General Meeting (continued)

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