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Group) prepared in accordance with accounting principles generally accepted in Hong Kong for the year ended 31st December 2008 (Unless otherwise specified, the amounts are expressed in Renminbi).

動力設備股份有限公司

MANAGEMENT DISCUSSION AND ANALYSIS

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

Macro-economic and Industry Development

The year of 2008 was an uncommon year in the history of the development of China. Albeit China's economic development was hit by the serious natural disasters such as the snowstorm in Southern China and the earthquake in Wenchuan, Sichuan and the slowdown of the global economy triggered by the international financial crisis, China was capable of achieving an outstanding performance underscored by the 9% growth in GDP with the proactive and yet prudent measures adopted by the central government. Throughout the year, in particular the first half of the year, the power generation equipment market prospered with its focus shifted to efficient and environmental friendly alternative energies.

Meanwhile, the Company's profitability and impetus of growth were adversely affected by the significant appreciation of Renminbi in the first half of the year and the oversupply of power in most of the regions as at the end of the year due to the gradual fall in monthly power consumption throughout the country ever since stepping into the second half of the year, and is further impacted by the slowdown in the construction of power plants, delay in the commencement of certain projects and the shortage in and the soaring prices of some of the raw materials required by the Company's products.

In face of the drastic changes in the external environment, the Company has managed to deliver satisfactory results through timely adjustment to its focus of work while overcoming the challenges emerged.

New Contract

The year of 2008 featured a flourishing market of power equipment and the value of new-receiving contracts scaled a new height at Rmb57.354 billion, among which the contract value for thermal power equipment, hydro power equipment, engineering services, nuclear power equipment and others reached Rmb31.786 billion (net of internal transaction), Rmb8.244 billion, Rmb10.5 billion, Rmb2.098 billion and Rmb4.726 billion (net of internal transaction) respectively, representing 55.42%, 14.37%, 18.31%, 3.66% and 8.24% of the total contracted value respectively. As at the end of the 2008, the Company had contracts on hand with a total value of Rmb91.5 billion.

A significant milestone was marked for the development of the nuclear market highlighted by the first contract for Generation II+ nuclear power steam equipment (二代加核電蒸發器) with the supply contract entered into for 3 sets of steam power generation equipment for Generation II+ CPR 1000 under Yangjiang project (二代加CPR 1000陽江項目). The Company has also secured the supply contract for 2 sets of steam power generation equipment for 2# unit of the AP 1000 Sanmen Nuclear Project in Zhejiang and the TG supply contract for conventional island in the Haiyang Project and has become an equipment supplier for AP1000 nuclear power and conventional islands. The supply contract for 2 steam power generators and turbine generator for HTGR reactor for the Huaneng Shangdong Shidaowan (華能山東石島灣) Project has allowed the Company to emerge as an equipment supplier for the first domestic HTGR reactor in the PRC. The Company has acquired manufacturing contracts of steam power generators for 4 types of reactors, including the steam generator unit for Chashma Nuclear Power C2 Project. In addition,

the Company was awarded the supply contracts for a total of 6 pressure stabilizers (穩壓器) for 1# to 4# of the Generation II+ CPR 1000 of Yangjiang Project and 1# and 2# of Ningde Project. Besides, the Company has entered into contract of product supply and technologies transfer and product subcontracting for the major reactor-cooling agent pump units (反應堆主冷卻劑泵組) for Generation II+ CPR1000 in Fuqing and Fangjiashan Project with CNNC, allowing the Company to acquire the technology transfer contracts for "Generation II+" nuclear main pump technology and the supply contract for 12 sets of main pump and 14 sets of main pump generators. Such developments have enabled the Company to take the lead in self-development and manufacturing of major cooling agent pump sets for nuclear plants.

The Company has maintained its competitive edges in the traditional products market. Among the projects tendered in 2008, the Company has successfully won 48.39% and 30.16% of the tenders for boiler and for gas turbines and power generators, respectively, with respect to the 300MW thermal power projects, while 34.15% and 36.59% of the tenders for boilers and for gas turbines and power generators with respect to 600MW thermal power projects were acquired by the Company, representing more than one third of the market share. In the hydropower aspect, the Company has secured the supply contracts for large-scale hydropower plants such as Jiaba and Xiluodu, and this reinforced the Company's leading position in the large-scale hydropower market. The signing of the contract with respect to 4 x 250 MW large-scale pumped storage units for Xiangshuijian has made the Company the first domestic manufacturing enterprise which provides domestic large-scale pumped storage units.

The Company has made significant achievement in the international market and has entered into product supply and service contracts to supply 2 x 600MW main equipment island to phase two of SALAYA and 2 x 600 MW main equipment island to 佳凱德 in India. Meanwhile, the Company has also entered into contracts in relation to a 1 x 150 MW bio-energy power generator project in Thailand and signed a supply contract with 特羅依茨克 in Russia for 2 x 660MW ultra super critical main equipment. Such contracts marked the Company's success in exploring the emerging markets, such as Russia.

Production and Services

The Company has set a new record for the quantity of products produced. The total output for the year was up to 35,100.56MW, representing an increase of 12.30% compared with the last year, among which 67 units of utility boiler with a total capacity of 25,645MW, an increase of 2.64% over the last year; 81 steam turbines for power plant with a total capacity of 30,111MW, an increase of 24.12% over the last year; 70 turbine generator units with a total capacity of 29,367MW, an increase of 16.41% over the last year; 43 units of hydro power turbo-generator units with a total capacity of 5,733.65MW, a decrease of 4.92% over the last year; and 3 units of gas turbines with a total capacity of 766.8MW, an increase of 50% over the last year, were completed.

In view of the drastic changes in the external environment and the immense pressure of product delivery, the Company has undertaken dynamic analysis over the contracts on hand and has made timely adjustment to the plan with reference to the customers' requirements, the construction progress of electricity plants and the preparation with respect to materials and technologies. All the measures undertaken aimed at overcoming the challenges coming from the shortage in raw materials supply and promoting customers' satisfaction.

R&D and Introduction of Technologies

The Company has greatly enhanced its core competitiveness by absorbing and incorporating the imported technologies and extending its capacity in self-innovation.

DIVIDEND

A dividend of Rmb0.075 per share (appropriate tax included) for the year of 2008 (2007: Rmb0.091 per share) was proposed by the board of directors.

TURNOVER

In 2008, the Group recorded a turnover of principal business activities of Rmb29,903.54 million, an increase of 8.16% compared to the last year. In particular, turnover of the thermal power main equipment business was Rmb20,493.13 million, representing a slight increase over the last year and accounted for 68.53% of the turnover of the principal business activities. Turnover of hydropower main equipment was Rmb2,863.25 million, an increase of 31.79% over the last year, representing 9.58% of the turnover of the principal business activities. Turnover of power plant engineering services was Rmb3,446.17 million, an increase of 64.83% compared to the last year, representing 11.52% of the turnover of the principal business activities. Turnover of power plant accessories and parts was Rmb1,161.01 million, an increase of 3.25% over the last year, representing 3.88% of the turnover of the principal business activities. Turnover of AC/DC motors and other products and services was Rmb1,939.99 million, an increase of 7.94% over the last year, representing 6.49% of the turnover of the principal business activities.

During the period, the Group recorded a turnover of export of Rmb2,814.98 million, representing an increase of Rmb657.9 million over the last year and accounted for 9.41% of the turnover of the principal business activities. The turnover was mainly generated from Russia, Asia and Africa.

COST

During the year, the cost of the principal business activities of the Group was Rmb25,896.46 million, an increase of 11.04% as compared to the last year. The increase was attributable to the increase of turnover of main business activities and prices of raw materials.

GROSS PROFIT AND GROSS PROFIT MARGIN

During the period under review, the gross profit from the principal business activities of the Group was Rmb4,007.08 million, a decrease of 7.41% as compared to the last year. The gross profit margin was 13.40%, a decrease of 2.25 percentage points over the last year. The decrease in profit margin is mainly attributable to the rise in raw material prices and the fluctuation in exchange rates.

Among them the profit from thermal power main equipment were Rmb3,042.98 million, a decrease of Rmb374.80 million compared to the last year. The profit margin for thermal power main equipment was 14.85%, a decrease of 1.85 percentage points compared to the last year. The profit from hydropower main equipment was Rmb658.65 million, an increase of Rmb353.00 million compared to the last year. The profit margin for hydropower power main equipment was 23.00%, an increase of 8.93 percentage points compared to the last year. The profit from power plant engineering services was Rmb-346.16 million, a decrease of Rmb391.05 million compared to the last year. The profit margin for engineering services was -10.04%, a decrease of 12.19 percentage points over the last year. The profit from power plant accessories and parts were Rmb299.58 million, a decrease of Rmb18.18 million compared to the last year. The profit margin for power plant accessories and parts were 25.80%, a decrease of 2.46 percentage points over the last year.

The profit from the AC/DC motors and other products and services was Rmb352.03 million, an increase of Rmb110.40 million compared to the last year. The profit margin for the AC/DC motors and other products and services was 18.15%, an increase of 4.71 percentage points over the last year.

EXPENSES DURING THE PERIOD

CAPITAL STRUCTURE AND CHANGES THEREOF

As at 31st December 2008, total assets of the Group amounted to Rmb48,966.63 million, an increase of Rmb6,876.14 million (or 16.34%) compared to the beginning of the year, among which total current assets were Rmb44,116.30 million, representing 90.09% of the total assets, and total non-current assets were Rmb4,850.33 million, representing 9.91% of the total assets.

LIABILITIES

As at 31st December 2008, the Group's total liabilities amounted to Rmb39,398.70 million, an increase of Rmb5,720.62 million compared to the beginning of the year, among which total current liabilities were Rmb30,497.36 million, representing 77.41% of the total liabilities, and total non-current liabilities were Rmb8,901.34 million, representing 22.59% of the total liabilities. As at 31st December 2008, the assets to liabilities ratio of the Group was 80.46%.

SHAREHOLDERS' EQUITY

As at 31st December 2008, the shareholders' equity of the Company amounted to Rmb8,136.08 million, an increase of Rmb923.09 million compared to the beginning of the year; the net asset per share was Rmb5.91. During the period, the net asset return rate of the Company was 13.58%.

GEARING RATIO

As at 31st December 2008, gearing ratio of the Group (non-current liabilities over total shareholders' equity) was 1.09:1 as compared to that of 0.80:1 at the beginning of the year.

CONTINGENT LIABILITIES AND PLEDGE OF ASSET

As at 31st December 2008, the Group pledged its assets in an amount of Rmb484.26 million to secure loans for liquidity.

CAPITAL EXPENDITURES AND MAJOR INVESTMENTS

In the year 2008, the Group has invested a total capital expenditure of Rmb1.015 billion in infrastructure constructions and technological upgrades. The major items were as follows:

The planned investment for the construction of production base for main equipment for nuclear island was Rmb602 million, of which Rmb252 million has been utilized in 2008. The construction of a heavy-duty nuclear power equipment plant was completed and the installation of the main equipment was proceeding smoothly.

Rmb285 million and Rmb100 million were allocated for the manufacture and construction of nuclear power main pump generators and nuclear power plant valves, in which Rmb156 million and Rmb68 million respectively has been utilized in 2008. The approval procedures of the plans for the construction site and construction work were completed. Moreover, two clusters of factories for main pump generators and nuclear power plant valves were cold-sealed while lifting and transportation equipment has been delivered to the factories by batches and installed subsequently.

Rmb182 million was planned to be invested in the domestic production project for large-scale pumped storage unit, in which Rmb63 million has been utilized in 2008. The installation and trial operation of the main equipment will be completed by the end of the year.

A total of Rmb248 million was allocated for the technological improvement projects for large-scale gas turbine generator units, in which Rmb44 million has been utilized in 2008. The project was in well progress.

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES AND RELATED HEDGES

The Group has certain amount of deposits that are denominated in foreign currencies. As at 31st December 2008, the amount of the Group's deposits in foreign currencies amounted to Rmb629.87 million. Export and foreign currencies settled businesses expose the Group to exchange risk.

USE OF FUND-RAISING PROCEEDS

In the year 2008, the Group has utilized a total of Rmb588 million of its fund-raising proceeds mainly for the Workshop Base Construction Project in relation to main equipment for nuclear islands, technological upgrade of nuclear power plant valves and nuclear power main pump generators.

For the year ended 31st December 2008, the Group has utilized a total of Rmb2.383 billion of its H share listing proceeds, while the remaining balance of the listing proceeds of Rmb247 million was deposited with banks and will be used in the second stage of the Workshop Base Construction Project and other technological upgrade projects.

STAFF AND REMUNERATION

As at 31st December 2008, the Group had a workforce of 18,264 employees and the total remuneration amounted to Rmb1.130 billion. In order to promote the overall caliber of its staff so as to build a solid foundation for a steady development of the Company, the Group has put additional effort in staff training and adopted various training approaches emphasizing on-the-job training and targeting at senior management personnel while a number of training courses for academic qualifications were also provided.

PROSPECT

The year 2009 will be a critical year for the economic development of China and excessive supply of electricity will be seen. The newly increased installed capacity of power equipment is expected to be 70 million kilowatt, representing a decrease of 23% as compared to the last year. Market competition will be more intense. Meanwhile, due to the delay in acceptance of products by some customers, the Group expects that the production capacity of its major products in 2009 will also decrease as compared to the last year, which will pose significant pressure on its annual operating results. The shortage in supply of certain specific raw materials will also bring extra burden to the production division.

Although the global economy is in a slump and China's economy also encounters many problems, hardship is only temporary and bright future lies ahead. As China is one of countries in the world which enjoys the fastest development, we have full confidence that China will maintain a sustainable and healthy economic development while the Company will also achieve a steady growth.

China will accelerate its pace in the restructuring of the electric power industry in 2009. The Chinese government will construct large-scale coal-fired electricity plants, continue to implement the policy of "replacing small units with larger units" (「上大壓小」) in the electric power industry, develop heat and power co-generation, promote the development of nuclear power and extend the coverage of power grids. It will also actively develop renewable and new energies, encourage the development and utilization of hydro power, advocate large-scale development of wind power, boost the development and utilization of solar energy, and promote the development and utilization of biomass energy.

We will make relentless efforts to transform crisis to momentum. We will seek growth opportunities during the crisis, focus on good management, improve our internal capacity, accelerate our pace in optimizing the product structures, spare no effort in enhancing core competitiveness and endeavor to maintain steady growth.

The Company will focus on accomplishing the following tasks in 2009:

1. Optimize production operation and project management to deliver full performance of contracts

In face of the uncertainties prevailed in the current economic environment, we will, for the purpose of satisfying the demand of the customers and taking into account of the present and long-term benefits, endeavour to optimize the production schedule for the contracts on hand while adopting preemptive measures and promoting scientific and rational management. We will also strengthen our risk management by taking effective measures to timely recover the receivables. Meanwhile, we will also further our work in improving our relationship with the suppliers of raw materials while studying measures for dealing with the challenges arising from the soaring raw material prices and reducing the pressure of shortage in raw materials supply.

We will better our management over assets and inventory to reduce the amount of restricted capital through lowering the level of inventory, promoting turnover rate and exercising stringent cost control with the target of realizing the potential benefits of inventory management.

2. Scientific analysis of market trend and expand marketing effort

The market in 2009 will be full of uncertainties and further fluctuations are expected. The Company, in response to such an environment, will adopt flexible marketing strategy and will commit itself to exploring the domestic and overseas markets. Our targets for market development in 2009 are: to secure an one-third or above market share for generator units

4. Capitalize on the development of the nuclear power industry

Our marketing effort in the nuclear power products market will be stepped up in order to acquire more orders of Generation II+ CPR1000 and AP1000 nuclear power steam equipment. We aim at reinforcing our competitive strength in terms of products for AP1000 nuclear power and conventional islands and endeavor to achieve higher sales of products for Generation II+ conventional island. We will actively explore the market of nuclear power valves and foster technological collaboration and marketing of CRDM.

Serious effort will be taken to develop nuclear power technologies. For example, the R&D projects that aim at achieving significant breakthrough in nuclear power and conventional islands technologies will be conducted according to our stated schedule. We will speed up the construction of our nuclear power product production base so as to provide the necessary conditions to completely launch our nuclear power products project. The second phase construction project of 秦皇島重裝公司 has been completed and full-scale production has been started, while further expansion projects thereof has been commenced with the expansion project for CDRM filed for approval. The fine-tuning and testing of the equipment of 交直流公司 has been finished while the construction of the laboratory has been approved and has commenced. On the other hand, 閘門公司 will complete the integration of its new processing equipment as soon as practicable. We will also formulate further construction and investment plans according to the development plan in respect of the nuclear power industry.

5. Advance our infrastructure investment to cater to the Company's development

In 2009, our investment in infrastructure and technological upgrade will align with the development plan of the Company, while existing projects will be subject to more stringent supervision so as to speed up their progress and production. The aggregate planned investment amounts to Rmb1.214 million and the major projects are as follows:

Nuclear power construction projects to be implemented: Rmb179 million will be allocated for the construction of the production facilities for main nuclear power island equipment in Qinghuangdao, which is scheduled to be completed and commence production in 2009; Rmb279 million will be allocated for the projects of main nuclear power pump generator, which is scheduled to be completed in 2009 except the generator testing laboratory (電機實驗站); Rmb96 m6009082.5(009)12.ensi. 9090alignmpleted for main roduction

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

As at 31st December 2008, none of the directors, supervisors and senior management of the Company had any interests or short positions in the shares, underlying shares and/or debentures (as the case may be) of the Company and/or of any of its associated corporations (within the meaning of Part XV of the SFO) which was required to be notified to the Company and the HKSE pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which any such director, supervisor or senior management was taken or deemed to have under such provisions of the SFO) or which was required to be entered in the register kept by the Company pursuant to section 352 of the SFO or which was required to be notified to the Company and the HKSE pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules.

DIRECTORS' AND SUPERVISORS' SERVICE CONTRACTS

Each of the directors and supervisors has entered into a service contract with the Company that will expire on 29th September 2009 except for Mr. Zou Lei, an executive director, whose contract will expire upon the conclusion of the forthcoming general meeting of the Company. Otherwise, there are no existing and proposed service contracts between any director, supervisor and any member of the Group.

DIRECTORS' AND SUPERVISORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

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

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

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

PRE-EMPTIVE RIGHTS

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

MAJOR LITIGATION

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

MAJOR SUPPLIERS AND CUSTOMERS

1. The aggregate amount of purchases during the period attributable to the Group's five largest suppliers accounted for 10.87% of the Group's total purchases, among which the largest supplier, 揚州誠德鋼管有限公司, accounted for 2.65% of the Group's total purchases.
2. 13.93% of the total turnover of the Group during the period was attributable to the Group's five largest customers, among which the owner of the Paiton Project in Indonesia was the largest customer accounting for 3.81% 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 abovementioned suppliers or customers.

ENTRUSTED DEPOSITS AND OVERDUE TIME DEPOSITS

As at 31st December 2008, the Group had no entrusted deposits in commercial banks or non-bank financial institutions and had no due deposits that had not been withdrawn.

TAX POLICIES

Pursuant to the Administrative Measures with regard to the Recognition of Advanced Technology Enterprises (《高新技術企業認定管理辦法》) jointly promulgated by the Ministry of Science and Technology of the People's Republic of China, the Ministry of Finance and the State Administration of Taxation on 14th April 2008 and the Administrative Guidance with regard to the Recognition of Advanced Technology Enterprises (《高新技術企業認定管理工作指引》) jointly promulgated by the Ministry of Science and Technology, the Ministry of Finance and the State Administration of Taxation on 8th July 2008, the Company and six of its subsidiaries, namely Harbin Electrical Machinery Company Limited, Harbin Boiler Company Limited, Harbin Turbine Company Limited, Harbin Electric Machinery AC-DC Motor Limited Duty Company and HE Harbin Power Plant Valve Company Limited, were reconfirmed as hi-tech enterprises and will continue to enjoy the preferential enterprise income tax rate of 15%.

Pursuant to the Provisional Regulations of the PRC on Value-added Tax (《中華人民共和國增值稅暫行條例》) promulgated by the Ministry of Finance and the State Administration of Taxation on 18th December 2008, with effect from 1st January 2009, the Company and its principal subsidiaries will be included in the general framework of the value-added tax system reform and will start implementing the new Implementing Rules of the Provisional Regulations of the PRC on Value-added Tax (《中華人民共和國增值稅暫行條例實施細則》), which allows the Company to deduct the value-added tax incurred for the purchase of equipment.

CONFIRMATION ON CONNECTED TRANSACTIONS

The Company's independent directors have reviewed the connected transactions (as defined in the Listing Rules) set out in note 40 to the financial statements and confirmed that:

1. Such transactions have been entered into by the Company in its ordinary and usual course of business; and
2. Such transactions have been entered into either (I) on normal commercial terms (which shall be determined with reference to transactions of a similar nature and to be made by similar entities within the PRC) or (II) (where there is no comparison available) on terms that are fair and reasonable so far as the shareholders of the Company are concerned; and
3. Such transactions have been entered into either (I) in accordance with the terms of the relevant agreements governing such transactions or (II) (where there is no such agreement) on terms no less favorable than terms available to third parties.

CONFIRMATION OF INDEPENDENCE OF THE INDEPENDENT NON-EXECUTIVE DIRECTORS

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

SHAREHOLDING STRUCTURE

The share capital of the Company as at 31st December 2008 comprised 1,376,806,000 shares, of which 701,235,000 shares (representing 50.93% of the entire share capital) were held by the promoters and 675,571,000 shares (representing 49.07% of the entire share capital) were held by overseas H shares holders.

MODEL CODE

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

CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has complied with the Code on Corporate Governance Practices set out in Appendix 14 of the Listing Rules throughout the 2008.

POST BALANCE SHEET EVENTS

On 11th February 2009, the fifth session of the board of the Company resolved to appoint Mr. Zou Lei as an executive director of the Company with a term expiring at the conclusion of the next general meeting of the Company pursuant to the authorization granted in the last annual general meeting.

AUDITORS

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

CONSOLIDATED INCOME STATEMENT

For the year ended 31st December, 2008

	Notes	2008 Rmb'000	2007 Rmb'000
Turnover	5	29,903,544	27,648,584
Cost of sales		<u>(25,896,464)</u>	<u>(23,320,873)</u>
Gross profit		4,007,080	4,327,711
Other income	7	391,260	355,042
Distribution costs		(425,281)	(413,613)
Administrative expenses		(2,153,807)	(1,886,760)
Other expenses		(74,000)	(149,151)
Finance costs	8	(195,325)	(154,858)
Share of results of associates	20	23,320	37,449
Profit before taxation		1,573,247	2,115,820
Income tax expense	9	(289,532)	(331,246)
Profit for the year	10	<u>1,283,715</u>	<u>1,784,574</u>
Attributable to:			
Equity holders of the Company		1,041,837	1,527,979
Minority interests		241,878	256,595
		<u>1,283,715</u>	<u>1,784,574</u>
Dividends	12	<u>125,289</u>	<u>123,913</u>
Earnings per share-basic	13	<u>Rmb75.7 cents</u>	<u>Rmb112.3 cents</u>

CONSOLIDATED BALANCE SHEET

At 31st December, 2008

	Notes	2008 Rmb'000	2007 Rmb'000
Non-currents assets			
Property, plant and equipment	14	3,802,837	2,856,048
Investment properties	15	271,383	287,605
Prepaid lease payments	16	350,438	358,098
Patents	17	114,223	126,202
Deferred tax assets	18	133,837	87,105
Interests in associates	20	150,536	128,101
Available-for-sale investments	21	27,074	28,074
		<u>4,850,328</u>	<u>3,871,233</u>
Current assets			
Inventories	22	12,941,218	10,167,289
Trade debtors	23	12,354,226	8,994,565
Bills receivable	23	361,324	208,710
Other debtors, deposits and prepayments	23	6,537,067	5,339,159
Prepaid lease payments	16	9,710	11,760
Amounts due from customers for contract work	24	1,045,979	3,632,591
Amounts due from fellow subsidiaries	25	66,353	67,327
Restricted bank deposits		14,568	6,630
Pledged bank deposits	38	484,255	169,684
Bank deposits	26	3,079,921	940,000
Cash and cash equivalents	26	7,221,676	8,681,542
		<u>44,116,297</u>	<u>38,219,257</u>
Current liabilities			
Derivative financial instrument	27	3,133	–
Amounts due to customers for contract work	24	757,056	758,315
Trade creditors	28	7,715,110	5,267,391
Other creditors and accrued charges	28	2,055,636	2,757,797
Deposits received	29	18,656,591	17,182,390
Amounts due to fellow subsidiaries	25	50,069	23,426
Advance from holding company	30	13,470	103,956
Tax payables	31	375,591	1,057,226
Borrowings – due within one year	32	870,704	753,387
		<u>30,497,360</u>	<u>27,903,888</u>
Net current assets		<u>13,618,937</u>	<u>10,315,369</u>
Total assets less current liabilities		<u>18,469,265</u>	<u>14,186,602</u>

	<i>Notes</i>	2008 Rmb'000	2007 <i>Rmb'000</i>
CAPITAL AND RESERVES			
Share capital	33	1,376,806	1,376,806
Reserves	34	6,759,274	5,836,187
		<hr/>	<hr/>
Equity attributable to equity holders of the Company		8,136,080	7,212,993
Minority interests		1,431,845	1,199,417
		<hr/>	<hr/>
TOTAL EQUITY		9,567,925	8,412,410
		<hr/>	<hr/>
Non-current liabilities			
Deposits received	29	5,059,506	1,621,598
Advance from holding company	30	306,720	142,702
Borrowings-due after one year	32	3,535,114	4,009,892
		<hr/>	<hr/>
		8,901,340	5,774,192
		<hr/>	<hr/>
		18,469,265	14,186,602
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BALANCE SHEET*At 31st December, 2008*

	<i>Notes</i>	2008 <i>Rmb'000</i>	2007 <i>Rmb'000</i>
Non-currents assets			
Property, plant and equipment	14	927,582	398,541
Prepaid lease payments	16	34,793	35,548
Interests in subsidiaries	19	2,413,428	2,262,001
Interests in associates	20	60,084	41,811
Available-for-sale investments	21	17,879	17,879
		<hr/>	<hr/>
		3,453,766	2,755,780
Current assets			
Inventories	22	435,165	173,532
Trade debtors		309,603	381,244
Other debtors, deposits and prepayments		299,269	864,937
Prepaid lease payments	16	754	754
Amounts due from subsidiaries	19	1,347,351	996,022
Bank deposits	26	56,254	300,000
Cash and cash equivalents	26	453,387	890,545
		<hr/>	<hr/>
		2,901,783	3,607,034
Current liabilities			
Trade creditors	28	272,010	385,629
Other creditors and accrued charges	28	136,355	261,283
Deposits received	29	662,023	379,462
Advance from holding company	30	567	567
Amounts due to subsidiaries	19	184,866	323,330
Tax payables	31	26,428	61,490
Borrowings – due within one year	32	97,500	200,000
		<hr/>	<hr/>
		1,379,749	1,611,761
Net current assets		<hr/>	<hr/>
		1,522,034	1,995,273
Total assets less current liabilities		<hr/>	<hr/>
		4,975,800	4,751,053

	<i>Notes</i>	2008 Rmb'000	2007 <i>Rmb'000</i>
CAPITAL AND RESERVES			
Share capital	33	1,376,806	1,376,806
Reserves	34	3,505,670	3,346,827
		<hr/>	<hr/>
TOTAL EQUITY		4,882,476	4,723,633
		<hr/>	<hr/>
Non-current liabilities			
Advance from holding company	30	60,540	–
Borrowings – due after one year	32	32,784	27,420
		<hr/>	<hr/>
		93,324	27,420
		<hr/>	<hr/>
		4,975,800	4,751,053
		<hr/>	<hr/>

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31st December, 2008

	Attributable to equity holders of the Company						Total	Minority interests	Total	
	Share capital	Share premium	Statutory capital reserve	Statutory surplus reserve	Other reserve	Investment revaluation reserve				Retained profits
	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000	
At 1st January, 2007	1,274,451	1,089,089	709,850	493,639	-	16,101	1,248,337	4,831,467	947,931	5,779,398
Profit for the year	-	-	-	-	-	-	1,527,979	1,527,979	256,595	1,784,574
Transfer to profit or loss on sale of available-for-sale investments	-	-	-	-	-	(16,101)	-	(16,101)	(5,109)	(21,210)
Issue of share capital	102,355	914,623	-	-	-	-	-	1,016,978	-	1,016,978
Share issue expense	-	(23,417)	-	-	-	-	-	(23,417)	-	(23,417)
Transfers	-	-	-	37,975	-	-	(37,975)	-	-	-
Dividends	-	-	-	-	-	-	(123,913)	(123,913)	-	(123,913)
At 31st December, 2007	1,376,806	1,980,295	709,850	531,614	-	-	2,614,428	7,212,993	1,199,417	8,412,410
Profit for the year	-	-	-	-	-	-	1,041,837	1,041,837	241,878	1,283,715
Purchase of addition interest in subsidiaries from minority shareholders	-	-	-	-	6,539	-	-	6,539	(9,460)	(2,921)
Transfers	-	-	-	28,413	-	-	(28,413)	-	-	-
Reserve released upon de-registration of subsidiaries	-	-	-	(2,844)	-	-	2,844	-	10	10
Dividends	-	-	-	-	-	-	(125,289)	(125,289)	-	(125,289)
At 31st December, 2008	1,376,806	1,980,295	709,850	557,183	6,539	-	3,505,407	8,136,080	1,431,845	9,567,925

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

- (1) making up of losses;
- (2) allocation to statutory surplus reserve;
- (3) allocation to discretionary surplus reserve; and
- (4) payment of dividends in respect of ordinary shares.

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

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

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

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

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

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

Pursuant to a document issued by the Ministry of Finance in August 1995 in respect of profit appropriations, the amount available for distribution to shareholders is the lesser of the amount determined in accordance with the PRC accounting standards and the amount determined in accordance with accounting principles generally accepted in Hong Kong. At 31st December, 2008, the amount available for distribution to shareholders was Rmb421,571,000 (2007: Rmb291,141,000) representing the retained profits of the Company prepared under accounting principles generally accepted in Hong Kong. As also mentioned above, the balance of statutory surplus reserve can also be distributed to shareholders in certain situations.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31st December, 2008

	2008 Rmb'000	2007 Rmb'000
Cash flows from operating activities		
Profit before taxation	1,573,247	2,115,820
Adjustments for:		
Allowance for bad and doubtful debts	265,511	262,962
Allowance for inventories	52,519	92,613
Amortisation of prepaid lease payments	9,710	11,760
Amortisation of patents	17,160	71,195
Dividend income	(2,737)	(794)
Depreciation of property, plant and equipment	436,996	372,479
Depreciation of investment properties	16,222	21,906
Finance costs	195,325	154,858
Gain on disposal of available-for-sale investments	–	(39,136)
(Gain)/Loss on disposal of property, plant and equipment	(3,117)	614
Impairment loss recognized in respect of investment properties	–	2,520
Impairment loss recognized in respect of patents	–	8,403
Impairment loss recognized in respect of property, plant and equipment	1,772	46,886
Interest income	(237,545)	(229,852)
Loss on fair value change of foreign currency forward contracts	3,133	–
Property, plant and equipment written off	198,036	14,715
Patent written off	4,613	–
Reversal of allowance for bad and doubtful debts	–	(10,943)
Reversal of impairment loss of property, plant and equipment	(6,482)	(570)
Reversal of allowance for inventories	–	(35,709)
Share of results of associates	(23,320)	(37,449)
Operating profit before working capital changes	2,501,403	2,822,278
(Increase)/Decrease in inventories	(2,826,448)	1,279,498
Increase in trade debtors	(3,620,639)	(2,679,592)
(Increase)/Decrease in bills receivable	(152,614)	108,145
(Increase)/Decrease in other debtors, deposits and prepayments	(1,567,548)	720,994
Decrease/(Increase) in amounts due from customers for contract work	2,586,612	(91,329)
(Increase)/Decrease in amounts due from associates	(2,829)	77,796
Decrease/(Increase) in amounts due from fellow subsidiaries	974	(12,586)
(Decrease)/Increase in amounts due to customers for contract work	(1,259)	71,128
Increase/(Decrease) in trade creditors	2,447,719	(1,272,352)
(Decrease)/Increase in other creditors and accrued charges	(607,971)	1,286,947
Increase in deposits received	4,912,109	1,215,806
Decrease in amounts due to shareholders	–	(1,071)
Increase in amounts due to fellow subsidiaries	26,643	10,474
(Decrease)/Increase in value added tax and other taxes payable	(656,524)	274,530
Cash generated from operations	3,039,268	3,810,666
Dividends paid	(125,289)	(123,913)
Income tax paid	(361,375)	(126,631)
Net cash generated from operating activities	2,552,604	3,560,122

	2008 <i>Rmb'000</i>	2007 <i>Rmb'000</i>
Cash flows from investing activities		
Proceeds from disposal of available-for-sale investments	1,000	20,799
Decrease in bank deposits	(2,139,921)	(358,791)
Interest received	237,545	229,852
Proceeds from disposal of property, plant and equipment	66,291	21,263
Dividend received from associates	3,714	–
Dividend received from available-for-sale investments	2,737	794
Increase in pledged bank deposits	(314,571)	(129,184)
Purchases of investment properties	–	(8,956)
Purchases of property, plant and equipment	(1,275,178)	(649,649)
Additions to prepaid lease payments	–	(9,617)
Purchases of patents	(9,794)	(132,174)
(Increase)/Decrease in restricted bank deposits	(7,938)	5,370
Purchases of additional interests in subsidiaries	(2,921)	–
	<u>(3,439,036)</u>	<u>(1,010,293)</u>
Cash flows from financing activities		
New bank loans raised	733,226	1,298,322
Proceeds from issue of shares	–	993,561
Other loans raised	27,300	23,634
Advance from holding company	73,532	(254,493)
Repayment of bank loans	(1,180,059)	(895,234)
Interest paid	(195,325)	(154,858)
Repayment of other loans	(1,118)	(36,481)
	<u>(542,444)</u>	<u>974,451</u>
Net cash (used in)/from financing activities	(542,444)	974,451
Net (decrease)/increase in cash and cash equivalents	(1,428,876)	3,524,280
Cash and cash equivalents at the beginning of the year	8,681,542	5,157,262
Effect of foreign exchange rate changes	(30,990)	–
	<u>7,221,676</u>	<u>8,681,542</u>
Cash and cash equivalents at the end of the year	7,221,676	8,681,542
Analysis of cash and cash equivalents at the end of the year		
Bank balances and cash	6,827,252	8,331,542
Bank deposits	394,424	350,000
	<u>7,221,676</u>	<u>8,681,542</u>

1. GENERAL

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

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

The Company acts as an investment holding company and the activities of its principal subsidiaries and associates are set out in notes 44 and 20, respectively.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has applied, for the first time, the followings new standards, amendments and interpretations ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which are effective for the Group's financial year beginning on 1st January, 2008.

HKAS 39 and HKFRS 7 (Amendments)	Reclassification of Financial Assets
HK(IFRIC) – INT 11	HKFRS 2: Group and Treasury Share Transactions
HK(IFRIC) – INT 12	Service Concession Arrangements
HK(IFRIC) – INT 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

The adoption of these new HKFRSs had no material effect on how the results and the financial position for the current or prior accounting periods have been prepared and presented. Accordingly, no prior year adjustment has been required.

The Group has not early applied the following new and revised standards, amendments or interpretations that have been issued but are not yet effective.

HKFRSs (Amendments)	Improvements to HKFRSs ¹
HKAS 1 (Revised)	Presentation of Financial Statements ²
HKAS 23 (Revised)	Borrowing Costs ²
HKAS 27 (Revised)	Consolidated and Separate Financial Statements ³
HKAS 32 and 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation ²
HKAS 39 (Amendment)	Eligible Hedged Items ³
HKFRS 1 and HKAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Joint Controlled Entity or Associate ²
HKFRS 2 (Amendments)	Vesting Conditions and Cancellations ²
HKFRS 3 (Revised)	Business Combinations ³
HKFRS 8	Operating Segments ²
HK(IFRIC) – Int 13	Customer Loyalty Programmes ⁴
HK(ICRIC) – Int 15	Agreements for the Construction of Real Estate ²
HK(ICRIC) – Int 16	Hedges of Net Investment in a Foreign Operation ⁵
HK(ICRIC) – Int 17	Distribution of Non-cash Assets to Owners ³

¹ Effective for annual periods beginning on or after 1st January, 2009 except for the amendments to HKFRS 5, effective for annual periods beginning on or after 1st July 2009.

² Effective for annual periods beginning on or after 1st January, 2009

³ Effective for annual periods beginning on or after 1st July, 2009

⁴ Effective for annual periods beginning on or after 1st July, 2008

⁵ Effective for annual periods beginning on or after 1st October, 2008

The adoption of HKFRS 3 (Revised) may affect the accounting for business combination for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1st July, 2009. HKAS 27 (Revised) will affect the accounting treatment for changes in a parent's ownership interest in a subsidiary.

The directors of the Company anticipate that the application of the other new or revised standards, amendments or interpretations will have no material impact on the results and the financial position of the Group.

3. SIGNIFICANT ACCOUNTING POLICIES

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

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

Basis of consolidation

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

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

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

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

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

Business combinations

The acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under HKFRS 3. Business Combinations are recognised at recognised at their fair values at the acquisition date, except for non-current assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 Non-current Assets Held Sale and Discontinued Operations, which are recognised and measured at fair value less costs to sell.

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

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

Interests in associates

An associate is an entity over which the Group has significant influence and that is not a subsidiary nor an interest in a joint venture.

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

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment.

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

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

Revenue recognition

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

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

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

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

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

Service income is recognised when services are provided.

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

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

Property, plant and equipment

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

Construction-in-progress represents properties under construction and equipment purchases prior to installation and is stated at cost, including borrowing costs capitalised in accordance with the Group's accounting policy for borrowing costs, less any recognised impairment loss. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

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

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

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

Investment properties

Investment properties are interests in land and buildings held to earn rental income and/or for capital appreciation. Such properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at cost less accumulated depreciations and accumulated impairment losses. Any gains or losses on the retirement or disposal of investment properties are recognised in the income statement in the year of the retirement or disposal. Such properties are depreciated on the straight-line basis over the lease term.

Prepaid lease payments

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

Construction contracts

Where the outcome of a construction contract can be estimated reliably, revenue and costs are recognised by reference to the stage of completion of the contract activity at the balance sheet date, as measured by the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs for the contract. Variations in contract work, claims and incentive payments are included to the extent that they have been agreed with the customer.

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

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

Government grants

Government grants are recognised as income over the periods necessary to match them with the related costs. Grants related to expense items are recognised in the same period as those expenses are charged in the consolidated income statement and are reported separately as “other income”.

Retirement benefit costs

Retirement benefit costs charged to the consolidated income statement represent the amount payable under a defined contribution arrangement with the local government.

Income taxes

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

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years, and it further excludes income statement items that are never taxable or deductible. The Group’s liability for current tax is calculated using tax rates that have been enacted or substantially enacted by the balance sheet date.

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

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

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

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Intangible assets

(i) Intangible assets acquired separately

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

Gains or losses arising from derecognition of an intangible asset are measured at the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the consolidated income statement when the asset is derecognized.

(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 expenditure is recognised only if it is anticipated that the development costs incurred on a clearly-defined project will be recovered through future commercial activity. The resultant asset is amortised on a straight-line basis over its useful life, and carried at cost less subsequent accumulated amortisation and any accumulated impairment losses.

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

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

(iii) *Intangible assets acquired in a business combination*

Intangible assets acquired in a business combination are identified and recognised separately from goodwill where they satisfy the definition of an intangible asset and their fair values can be measured reliably. The cost of such intangible assets is their fair value at the acquisition date.

Subsequent to initial recognition, intangible assets with finite useful lives are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives. Alternatively, intangible assets with indefinite useful lives are carried at cost less any subsequent accumulated impairment losses.

(iv) *Impairment*

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually by comparing their carrying amounts with their recoverable amounts, irrespective of whether there is any indication that they may be impaired. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

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

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

Inventories

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

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

Properties under development

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

Completed properties held for sale

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

Financial instruments

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

Financial assets

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

Effective interest method

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

Interest income is recognised on an effective interest basis for debt instruments.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including trade and other debtors, loans receivable, pledged bank deposits and bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy in respect of impairment loss on financial assets below).

Available-for-sale financial assets

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

At each balance sheet date subsequent to initial recognition, available-for-sale financial assets are measured at fair value. Changes in fair value are recognised in equity, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously recognised in equity is removed from equity and recognised in profit or loss (see accounting policy in respect of impairment loss on financial assets below).

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

Impairment of financial assets

Financial assets are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

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

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

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

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

For financial assets carried at amortised cost, an impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

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

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

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

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

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

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

Effective interest method

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

Interest expense is recognised on an effective interest basis.

Other financial liabilities

Other financial liabilities including bank and other borrowings, trade creditors, other creditors and accrued charges, amount due to holding company and advance from holding company are subsequently measured at amortised cost, using the effective interest rate method.

Equity instruments

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

Derivative financial instruments and hedging

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

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and the cumulative gain or loss that had been recognised directly in equity is recognised in profit or loss.

For financial liabilities, they are removed from the Group's balance sheet (i.e. when the obligation specified in the relevant contract is discharged, cancelled or expires). The difference between the carrying amount of the financial liability derecognised and the consideration paid or payable is recognised in profit or loss.

Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation. Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the balance sheet date, and are discounted to present value where the effect is material.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

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

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

Allowance for inventories

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

5. TURNOVER

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

	2008 <i>Rmb'000</i>	2007 <i>Rmb'000</i>
Sales of goods	22,976,686	22,047,750
Revenue from construction contracts	6,302,931	5,052,361
Sales of properties	46,443	220,306
Rental income	35,848	24,479
Services rendered	541,636	303,688
	29,903,544	27,648,584

6. BUSINESS AND GEOGRAPHICAL SEGMENTS

Business segments

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

Principal activities are as follows:

- Main thermal power equipment – manufacture of main thermal power equipment.
- Main hydro power equipment – manufacture of main hydro power equipment.
- Engineering services – providing engineering services for power stations.
- Ancillary equipment – manufacture of ancillary equipment for power stations.
- AC/DC motors and others – manufacture of AC/DC motor and others.

Segment information about these businesses is presented below:

2008

	Main thermal power equipment <i>Rmb'000</i>	Main hydro power equipment <i>Rmb'000</i>	Engineering services for power stations <i>Rmb'000</i>	Ancillary equipment for power stations <i>Rmb'000</i>	AC/DC motors and others <i>Rmb'000</i>	Eliminations <i>Rmb'000</i>	Consolidated <i>Rmb'000</i>
REVENUE							
External sales	20,493,133	2,863,250	3,446,168	1,161,006	1,939,987	–	29,903,544
Inter-segment sales	1,201,875	–	–	–	–	(1,201,875)	–
Total revenue	<u>21,695,008</u>	<u>2,863,250</u>	<u>3,446,168</u>	<u>1,161,006</u>	<u>1,939,987</u>	<u>(1,201,875)</u>	<u>29,903,544</u>
Inter-segment sales are charged at prevailing market rates.							
SEGMENT RESULTS	<u>3,042,982</u>	<u>658,649</u>	<u>(346,162)</u>	<u>299,577</u>	<u>352,034</u>	<u>–</u>	<u>4,007,080</u>
Unallocated corporate expenses							(2,258,695)
Finance costs							(195,325)
Share of results of associates							23,320
Loss on fair value change of foreign currency forward contracts							(3,133)
Profit before taxation							1,573,247
Income tax expense							(289,532)
Profit for the year							<u>1,283,715</u>
ASSETS							
Segment assets	26,896,743	2,551,123	5,414,333	1,438,544	2,866,305		39,167,048
Interests in associates							150,536
Unallocated corporate assets							9,649,041
Consolidated total assets							<u>48,966,625</u>
LIABILITIES							
Segment liabilities	26,613,834	2,694,706	2,838,118	1,137,670	2,100,603		35,384,931
Unallocated corporate liabilities							4,013,769
Consolidated total liabilities							<u>39,398,700</u>
OTHER INFORMATION							
Capital additions	1,362,940	176,905	12,303	26,213	71,718	–	1,650,079
Depreciation of property, plant and equipment	325,893	48,965	9,844	12,992	39,302	–	436,996
Depreciation of investment properties	–	–	–	–	16,222	–	16,222
Amortisation of patents	14,206	262	–	691	2,001	–	17,160
Amortisation of prepaid lease payments	7,252	1,559	41	324	534	–	9,710
Allowances for bad and doubtful debts	183,383	32,442	(388)	10,610	39,464	–	265,511

2007

	Main thermal power equipment <i>Rmb'000</i>	Main hydro power equipment <i>Rmb'000</i>	Engineering services for power stations <i>Rmb'000</i>	Ancillary equipment for power stations <i>Rmb'000</i>	AC/DC motors and others <i>Rmb'000</i>	Eliminations <i>Rmb'000</i>	Consolidated <i>Rmb'000</i>
REVENUE							
External sales	20,463,511	2,172,504	2,090,704	1,124,500	1,797,365	–	27,648,584
Inter-segment sales	1,223,875	–	–	–	5,098	(1,228,973)	–
Total revenue	<u>21,687,386</u>	<u>2,172,504</u>	<u>2,090,704</u>	<u>1,124,500</u>	<u>1,802,463</u>	<u>(1,228,973)</u>	<u>27,648,584</u>
Inter-segment sales are charged at prevailing market rates.							
SEGMENT RESULTS	<u>3,417,779</u>	<u>305,648</u>	<u>44,892</u>	<u>317,754</u>	<u>241,638</u>	<u>–</u>	4,327,711
Unallocated corporate expenses							(2,094,482)
Finance costs							(154,858)
Share of results of associates							37,449
Profit before taxation							2,115,820
Income tax expense							(331,246)
Profit for the year							<u>1,784,574</u>
ASSETS							
Segment assets	20,811,910	1,969,860	4,706,676	1,077,262	2,774,206		31,339,914
Interests in associates							128,101
Unallocated corporate assets							10,622,475
Consolidated total assets							<u>42,090,490</u>
LIABILITIES							
Segment liabilities	19,691,571	2,085,136	1,864,180	1,043,768	1,832,941		26,517,596
Unallocated corporate liabilities							7,160,484
Consolidated total liabilities							<u>33,678,080</u>
OTHER INFORMATION							
Capital additions	462,111	33,412	37,326	26,276	241,271	–	800,396
Depreciation of property, plant and equipment	181,466	49,558	16,967	7,528	116,960	–	372,479
Depreciation of investment properties	4,391	777	–	231	16,507	–	21,906
Amortisation of patents	64,504	102	–	3,656	2,933	–	71,195
Amortisation of prepaid lease payments	8,840	1,655	6	402	857	–	11,760
Allowances for bad and doubtful debts	233,605	2,266	–	15,150	11,941	–	262,962

Geographical segments

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

	2008 <i>Rmb'000</i>	2007 <i>Rmb'000</i>
PRC	27,088,569	25,491,509
Overseas	2,814,975	2,157,075
Total revenue	<u>29,903,544</u>	<u>27,648,584</u>

The majority of the Group's assets and liabilities are located in the PRC. The assets and liabilities situated overseas account for less than 10% of the Group's assets and liabilities as at 31st December, 2008 and 2007.

7. OTHER INCOME

Included in other income are the following:

	2008 <i>Rmb'000</i>	2007 <i>Rmb'000</i>
Dividend income	2,737	794
Gain on disposal of available-for-sales investments	–	39,136
Gain on disposal of property, plant and equipment	3,117	–
Government subsidy	80,658	18,336
Interest income from financial institutions	237,545	229,852
Profit from sale of scrap materials	23,279	17,178
Reversal of allowance for bad and doubtful debts	–	10,943
Reversal of allowance for inventories	–	35,709
Reversal of impairment loss recognized in respect of property, plant and equipment	6,482	570
Other income	37,442	2,524
Total	<u>391,260</u>	<u>355,042</u>

8. FINANCE COSTS

	2008 <i>Rmb'000</i>	2007 <i>Rmb'000</i>
Interest on borrowings:		
– wholly repayable within five years	126,657	93,109
– not wholly repayable within five years	68,668	61,998
	<u>195,325</u>	<u>155,107</u>
<i>Less:</i> Interest capitalised in construction in progress	–	(249)
	<u>195,325</u>	<u>154,858</u>

9. INCOME TAX EXPENSE

	2008 <i>Rmb'000</i>	2007 <i>Rmb'000</i>
PRC enterprise income tax		
– current year	351,325	418,545
– overprovision in prior years	<u>(15,061)</u>	<u>(194)</u>
	336,264	418,351
Deferred tax (<i>note 18</i>)	<u>(46,732)</u>	<u>(87,105)</u>
	<u>289,532</u>	<u>331,246</u>

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

Except for certain subsidiaries which are subject to an enterprise income tax rate of 15%, other subsidiaries located in Mainland China are subject to the PRC corporate income tax at a rate of 25% (2007: 33%) on its assessable profits.

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

	2008 <i>Rmb'000</i>	2007 <i>Rmb'000</i>
Profit before taxation	<u>1,573,247</u>	<u>2,115,820</u>
Tax charge at the enterprise income tax rate of 15%	235,987	317,373
Tax effect of share of results of associates	(3,498)	(5,617)
Additional enterprise income tax in respect of the income tax rate of 25% for certain subsidiaries	5,987	7,490
Tax effect of income not taxable for tax purpose	(59,654)	(8,812)
Tax effect of expenses not deductible for tax purpose	41,998	75,693
Effect of tax exemptions granted to a PRC subsidiary	(4,747)	(28,684)
Temporary difference previously not recognised	–	(27,122)
Tax effect of tax losses not recognized	88,520	1,119
Overprovision in respect of prior years	<u>(15,061)</u>	<u>(194)</u>
Tax charge for the year	<u>289,532</u>	<u>331,246</u>

10. PROFIT FOR THE YEAR

Profit for the year has been arrived at after charging:

	2008 <i>Rmb'000</i>	2007 <i>Rmb'000</i>
Staff costs including directors' and supervisors' emoluments (<i>note 11</i>)	1,172,098	875,268
Retirement benefit scheme contributions	39,014	216,744
Total staff costs	1,211,112	1,092,012
Allowance for bad and doubtful debts	265,511	262,962
Allowance for inventories	52,519	92,613
Amortisation of patents	17,160	71,195
Release of prepaid lease payments	9,710	11,760
Auditors' remuneration	2,500	2,500
Cost of inventory sold	19,642,081	17,633,572
Depreciation for investment properties	16,222	21,906
Depreciation for property, plant and equipment	436,996	372,479
Loss on disposal of property, plant and equipment	–	614
Loss on fair value change of foreign currency forward contracts	3,133	–
Impairment loss recognized in respect of patents	–	8,403
Impairment loss recognized in respect of investment properties	–	2,520
Impairment loss recognized in respect of property, plant and equipment	1,772	46,886
Net foreign exchange loss	138,656	104,286
Patent written off	4,613	–
Property, plant and equipment written off	198,036	14,715
Research and development expenses	472,192	463,893

11. DIRECTORS' AND SUPERVISORS' EMOLUMENTS

2008

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

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

2007

	*	*	*	*	*	*	**	**	**	**	**	***	***	***	***	***
	Mr. Gong	Mr. Qu	Mr. Duan	Mr. Shang	Mr. Wu	Mr.	Ms. Li	Mr. Zhou	Mr. Jia	Ms. Ding	Mr. Lang	Mr.	Mr. Gao	Ms. Lu	Mr.	Total
	Jing-kun	Da-zhuang	Hong-Yi	Zhong-fu	Wei-zhang	Jiang Kui	He-jun	Dao-jiong	Cheng-bing	Xue-mei	En-qi	Yang Xu	Xu-guang	Chun-lian	Chen Si	2007
	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Fees	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other emoluments																
Salaries and other benefits	-	451	-	432	406	-	-	-	-	-	432	113	96	176	-	2,106
Contributions to retirement benefits schemes	-	11	-	11	11	-	-	-	-	-	11	11	11	11	-	77

* Being executive directors of the Group

** Being independent non-executive directors of the Group

*** Being supervisors of the Group

None of the directors received more than Rmb1,000,000 for any of these two years.

The five highest paid individuals in the Group in 2007 and 2008 were directors and supervisors of the Company and details of their emoluments are set out above.

12. DIVIDENDS

	2008	2007
	Rmb'000	Rmb'000
Payment of 2007 final dividend of Rmb0.091 (2006: Rmb0.090) per share	<u>125,289</u>	<u>123,913</u>

The final dividend for 2008 of Rmb0.075 (2007: Rmb0.091) per share has been proposed by the board of directors of the Company and is subject to approval by the shareholders in the forthcoming annual general meeting.

13. EARNINGS PER SHARE

The calculation of the earnings per share is based on the profit for the year of approximately Rmb1,041,837,000 (2007: Rmb1,527,979,000) and on the weighted average number of shares of 1,376,806,000 (2007: 1,359,981,000).

No diluting events existed as the Company did not have any potential shares for the two years or at each of the balance sheet dates. Accordingly, diluted earnings per share amounts for the two years ended 31st December 2008 and 2007 have not been disclosed.

14. PROPERTY, PLANT AND EQUIPMENT

THE GROUP

	Buildings <i>Rmb'000</i>	Plant and machinery <i>Rmb'000</i>	Furniture, fixtures and equipment <i>Rmb'000</i>	Motor vehicles <i>Rmb'000</i>	Construction- in-progress <i>Rmb'000</i>	Total <i>Rmb'000</i>
COST						
At 1st January, 2007	1,295,725	2,832,144	282,386	73,666	533,596	5,017,517
Reclassification	–	(69,902)	–	69,902	–	–
Additions	6,430	78,548	22,167	84,852	457,652	649,649
Transfers	20,408	148,681	27,202	9,664	(205,955)	–
Written off	(1,509)	(72,817)	(14,626)	–	–	(88,952)
Disposals	(8,780)	(44,390)	(24,941)	(4,009)	–	(82,120)
At 1st January, 2008	1,312,274	2,872,264	292,188	234,075	785,293	5,496,094
Additions	17,130	186,722	61,047	18,253	1,357,133	1,640,285
Transfers	113,923	383,353	24,386	6,631	(528,293)	–
Written off	–	(51,660)	(9,461)	(5,617)	(194,084)	(260,822)
Disposals	(24,387)	(57,756)	(56,418)	(3,093)	–	(141,654)
At 31st December, 2008	1,418,940	3,332,923	311,742	250,249	1,420,049	6,733,903
DEPRECIATION						
At 1st January, 2007	487,186	1,677,302	152,140	39,103	–	2,355,731
Reclassification	–	(53,962)	–	53,962	–	–
Charge for the year	44,470	274,739	31,628	21,642	–	372,479
Impairment	–	–	–	36,586	10,300	46,886
Reversal of impairment	–	(537)	(33)	–	–	(570)
Written off	(168)	(60,399)	(13,670)	–	–	(74,237)
Eliminated on disposals	(2,096)	(42,168)	(12,511)	(3,468)	–	(60,243)
At 1st January, 2008	529,392	1,794,975	157,554	147,825	10,300	2,640,046
Charge for the year	89,377	290,974	35,296	21,349	–	436,996
Impairment	–	663	–	1,109	–	1,772
Reversal of impairment	(161)	(407)	(79)	(3)	(5,832)	(6,482)
Written off	–	(49,959)	(7,792)	(5,035)	–	(62,786)
Eliminated on disposals	(19,976)	(26,093)	(27,228)	(5,183)	–	(78,480)
At 31st December, 2008	598,632	2,010,153	157,751	160,062	4,468	2,931,066
NET BOOK VALUE						
At 31st December, 2008	820,308	1,322,770	153,991	90,187	1,415,581	3,802,837
At 31st December, 2007	782,882	1,077,289	134,634	86,250	774,993	2,856,048

THE COMPANY

Furniture,

15. INVESTMENT PROPERTIES

THE GROUP

	<i>Rmb'000</i>
COST	
At 1st January, 2007	333,584
Additions	8,956
	<hr/>
At 1st January, 2008 and 31st December, 2008	342,540
	<hr/>
DEPRECIATION AND IMPAIRMENT	
At 1st January, 2007	30,509
Charge for the year	21,906
Impairment loss	2,520
	<hr/>
At 1st January, 2008	54,935
Charge for the year	16,222
	<hr/>
At 31st December, 2008	71,157
	<hr/>
CARRYING AMOUNT	
At 31st December, 2008	271,383
	<hr/>
At 31st December, 2007	287,605
	<hr/>

The directors consider that the carrying amounts approximate their fair value.

The above investment properties are depreciated on a straight-line basis at rate of 5%.

The carrying amount of investment properties shown above comprises:

	2008 <i>Rmb'000</i>	2007 <i>Rmb'000</i>
Land in the PRC:		
Medium-term lease	252,236	267,306
Short-term lease	19,147	20,299
	<hr/>	<hr/>
	271,383	287,605
	<hr/>	<hr/>

16. PREPAID LEASE PAYMENTS

THE GROUP

	<i>Rmb'000</i>
COST	
At 1st January, 2007	478,652
Additions	9,617
	<hr/>
At 1st January, 2008 and 31st December, 2008	488,269
	<hr/>
ACCUMULATED AMORTISATION	
At 1st January, 2007	106,651
Amortise for the year	11,760
	<hr/>
At 1st January, 2008	118,411
Amortise for the year	9,710
	<hr/>
At 31st December, 2008	128,121
	<hr/>
NET BOOK VALUE	
At 31st December, 2008	360,148
	<hr/>
At 31st December, 2007	369,858
	<hr/>

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

	2008	2007
	<i>Rmb'000</i>	<i>Rmb'000</i>
Current portion	9,710	11,760
Non-current portion	350,438	358,098
	<hr/>	<hr/>
	360,148	369,858
	<hr/>	<hr/>

THE COMPANY

	<i>Rmb'000</i>
COST	
At 1st January, 2007	37,716
Additions	1,093
	<hr/>
At 1st January, 2008 and 31st December, 2008	38,809
	<hr/>
ACCUMULATED AMORTISATION	
At 1st January, 2007	1,753
Amortise for the year	754
	<hr/>
At 1st January, 2008	2,507
Amortise for the year	755
	<hr/>
At 31st December, 2008	3,262
	<hr/>
NET BOOK VALUE	
At 31st December, 2008	35,547
	<hr/>
At 31st December, 2007	36,302
	<hr/>

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

	2008	2007
	<i>Rmb'000</i>	<i>Rmb'000</i>
Current portion	754	754
Non-current portion	34,793	35,548
	<hr/>	<hr/>
	35,547	36,302
	<hr/>	<hr/>

17. PATENTS

THE GROUP

	<i>Rmb'000</i>
COST	
At 1st January, 2007	92,647
Additions	132,174
	<hr/>
At 1st January, 2008	224,821
Additions	9,794
Written off	(16,315)
	<hr/>
At 31st December, 2008	218,300
	<hr/>
AMORTISATION AND IMPAIRMENT	
At 1st January, 2007	19,021
Amortise for the year	71,195
Impairment loss	8,403
	<hr/>
At 1st January, 2008	98,619
Amortise for the year	17,160
Written off	(11,702)
	<hr/>
31st December, 2008	104,077
	<hr/>
CARRYING AMOUNT	
At 31st December, 2008	114,223
	<hr/>
At 31st December, 2007	126,202
	<hr/>

The amortisation expense has been included in "administrative expenses" in the consolidated income statement.

The above patents have definite useful lives and are amortised on a straight-line basis over 3 to 10 years.

18. DEFERRED TAX ASSETS

The following are the major deferred tax balances recognised and movements thereon during the current and prior years:

	Impairment of trade and other debtors, and inventories <i>Rmb'000</i>	Provisions <i>Rmb'000</i>	Others <i>Rmb'000</i>	Total <i>Rmb'000</i>
Credit during the 2007 and at 1st January, 2008	62,251	18,854	6,000	87,105
Credit to consolidated income statement	43,843	2,524	365	46,732
At 31st December, 2008	106,094	21,378	6,365	133,837

19. INTERESTS IN SUBSIDIARIES

THE COMPANY

	2008 <i>Rmb'000</i>	2007 <i>Rmb'000</i>
Investment, at cost		
Unlisted in the PRC	2,413,428	2,262,001
Amounts due from subsidiaries	1,347,351	996,022
Amounts due to subsidiaries	(184,866)	(323,330)
	3,575,913	2,934,693

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

Details of subsidiaries are set out in note 44 to the financial statements.

20. INTERESTS IN ASSOCIATES

	THE GROUP		THE COMPANY	
	2008 <i>Rmb'000</i>	2007 <i>Rmb'000</i>	2008 <i>Rmb'000</i>	2007 <i>Rmb'000</i>
Cost of investment in associates unlisted in the PRC	95,555	87,873	25,422	17,740
Share of post-acquisition profits, net of dividend received	53,342	41,418	34,662	24,071
Amounts due from associates	1,639	377	–	–
Amounts due to associates	–	(1,567)	–	–
	150,536	128,101	60,084	41,811

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

As at 31st December, 2008, the Group had interests in the following associates:

Name of entity	Form of business structure	Place/ Country of incorporation/ registration	Principal place of operation	Class of Share held	Proportion of nominal value of issued capital/ registered capital held by the Group	Proportion of voting power held	Principal activity
通用電氣 - 哈動能源 服務(秦皇島)							

The summarised financial information in respect of the Group's associates is set out below:

	2008 <i>Rmb'000</i>	2007 <i>Rmb'000</i>
Total assets	741,288	600,731
Total liabilities	(392,263)	(306,037)
Net assets	349,025	294,694
Group's share of net assets of associates	148,897	129,290
Revenue	545,762	513,922
Profit for the year	61,563	80,225
Group's share of results of associates for the year	23,320	37,449

21. AVAILABLE-FOR-SALE INVESTMENTS

Available-for-sale investments comprise:

	THE GROUP		THE COMPANY	
	2008 <i>Rmb'000</i>	2007 <i>Rmb'000</i>	2008 <i>Rmb'000</i>	2007 <i>Rmb'000</i>
Unlisted equity securities in the PRC, at cost less impairment	27,074	28,074	17,879	17,879

The unlisted equity investments represented investments in unlisted equity securities issued by private entities incorporated in the PRC. They are measured at cost less impairment at each balance sheet date 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.

22. INVENTORIES

	THE GROUP		THE COMPANY	
	2008 <i>Rmb'000</i>	2007 <i>Rmb'000</i>	2008 <i>Rmb'000</i>	2007 <i>Rmb'000</i>
Raw materials	5,035,414	3,410,013	2,046	2,167
Work in progress	6,974,897	5,744,762	433,119	163,068
Finished goods	507,717	663,877	–	8,297
Properties under development for sale	315,605	218,485	–	–
Completed properties held for sale	107,585	130,152	–	–
	12,941,218	10,167,289	435,165	173,532

23. TRADE DEBTORS/BILLS RECEIVABLE/OTHER DEBTORS, DEPOSITS AND PREPAYMENTS

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 debtors, credit evaluations of customers are performed periodically.

	2008 <i>Rmb'000</i>	2007 <i>Rmb'000</i>
Trade debtors	13,428,014	9,819,274
<i>Less:</i> Allowance for doubtful debts	<u>(1,073,788)</u>	<u>(824,709)</u>
	12,354,226	8,994,565
Bills receivables	361,324	208,710
Other debtors, deposits and prepayments	<u>6,537,067</u>	<u>5,339,159</u>
	<u>19,252,617</u>	<u>14,542,434</u>

The following is an aged analysis of trade debtors net of allowance for doubtful debts at the balance sheet date:

	2008 <i>Rmb'000</i>	2007 <i>Rmb'000</i>
Within 1 year	8,554,404	6,000,510
1 to 2 years	2,391,479	2,083,009
2 to 3 years	1,119,172	860,094
Over 3 years	<u>289,171</u>	<u>50,952</u>
	<u>12,354,226</u>	<u>8,994,565</u>

Movement in allowance for doubtful debts of trade debtors:

	2008 <i>Rmb'000</i>	2007 <i>Rmb'000</i>
Balance at beginning of the year	824,709	564,282
Impairment losses recognized on receivables	260,978	262,962
Amounts written off as uncollectible	<u>(11,899)</u>	<u>(2,535)</u>
Balance at end of the year	<u>1,073,788</u>	<u>824,709</u>

The fair value of the Group's trade debtors and other debtors at 31st December, 2008 and 2007 approximates to the corresponding carrying amount.

24. AMOUNTS DUE FROM/(TO) CUSTOMERS FOR CONTRACT WORK

	THE GROUP	
	2008	2007
	<i>Rmb'000</i>	<i>Rmb'000</i>
Contracts in progress at the balance sheet date:		
Contract costs incurred	9,489,378	10,087,702
Recognised profits less recognised losses	(40,957)	25,425
	<u>9,448,421</u>	<u>10,113,127</u>
<i>Less:</i> Progress billings	(9,159,498)	(7,238,851)
	<u>288,923</u>	<u>2,874,276</u>
Represented by:		
Amounts due from customers included in current assets	1,045,979	3,632,591
Amounts due to customers included in current liabilities	(757,056)	(758,315)
	<u>288,923</u>	<u>2,874,276</u>

As at 31st December, 2008 and 2007, there were no retentions held by customers for contract works.

25. AMOUNTS DUE FROM/(TO) FELLOW SUBSIDIARIES/RELATED COMPANIES

THE GROUP

The amounts are unsecured, non-interest bearing and are repayable on demand. The fair value of the amounts at 31st December, 2008 and 2007 approximates to the corresponding carrying amount.

26. BANK DEPOSITS AND CASH AND CASH EQUIVALENTS

	THE GROUP		THE COMPANY	
	2008	2007	2008	2007
	<i>Rmb'000</i>	<i>Rmb'000</i>	<i>Rmb'000</i>	<i>Rmb'000</i>
Cash and bank balances	6,827,252	8,331,542	453,387	890,545
Time deposits, matured within 3 months	394,424	350,000	–	–
	<u>7,221,676</u>	<u>8,681,542</u>	<u>453,387</u>	<u>890,545</u>
Bank deposits, matured over 3 months	3,079,921	940,000	56,254	300,000

As at 31st December, 2008, a total of Rmb9,671,726,000 (2007: Rmb6,665,175,000) were denominated in Renminbi and deposited with banks in the PRC. 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 as at 31st December, 2008 were 1.10 % (2007: 3.28%).

The directors consider that the carrying amounts approximate their fair value.

27. DERIVATIVE FINANCIAL INSTRUMENTS

	THE GROUP	
	2008 <i>Rmb'000</i>	2007 <i>Rmb'000</i>
Foreign currency forward contracts	3,133	–

At 31st December, 2008, the Group had outstanding foreign currency forward contracts denominated in United States dollars with total notional amount of US\$65,000,000. These contracts were subject to net settlement at various maturity dates and are measured at fair value at the balance sheet date. The fair values were calculated based on market values of equivalent instruments quoted from the banks.

The above foreign currency forward contracts did not qualify for hedging accounting, and changes in the fair values of the foreign currency forward contracts were charged to the income statement during the year ended 31st December, 2008.

28. TRADE CREDITORS/OTHER CREDITORS AND ACCRUED CHARGES

	THE GROUP		THE COMPANY	
	2008 <i>Rmb'000</i>	2007 <i>Rmb'000</i>	2008 <i>Rmb'000</i>	2007 <i>Rmb'000</i>
Trade creditors	7,715,110	5,267,391	272,010	385,629
Other creditors and accrued charges	2,055,636	2,757,797	136,355	261,283
	9,770,746	8,025,188	408,365	646,912

An aged analysis of trade creditors at the balance sheet date is as follows:

	THE GROUP	
	2008 <i>Rmb'000</i>	2007 <i>Rmb'000</i>
Within 1 year	7,039,443	3,522,251
1 to 2 years	470,791	1,298,712
2 to 3 years	67,951	305,767
Over 3 years	136,925	140,661
	7,715,110	5,267,391

The fair value of the Group's trade creditors, other creditors and accrued charges at 31st December, 2008 and 2007 approximates to the corresponding carrying amount.

29. DEPOSITS RECEIVED

THE GROUP

The amount represents the progress payments received from customers in respect of work in progress. Included in deposits received of approximately Rmb5,059,506,000 (2007: Rmb1,621,598,000) were the progress payments received in respect of contract works to be commenced twelve months from the balance sheet date and were classified in the balance sheet as non-current. The remaining balance represents deposit received for contract works to be commenced within one year and were classified as current liabilities. The deposits received will be used to set-off the contract price upon the completion of contract works.

The fair value of the amount at 31st December, 2008 and 2007 approximates to the corresponding carrying amount.

30. ADVANCE FROM HOLDING COMPANY

THE GROUP

Current

The balances of the advance from holding company is non-interest-bearing, amounting to Rmb13,470,000 (2007: Rmb103,478,000). The amount is unsecured and repayable within one year. The fair value of the amount at 31st December, 2008 and 2007 is approximate to the corresponding carrying amount.

Non-current

The balance of the advance from holding company is the interest-bearing loans amounting to Rmb306,720,000 (2007: Rmb142,702,000) with effective interest rate of 6.72% (2007: 5.76%) per annum and have no fixed repayment term. The amount will not be demanded for repayment in the next twelve months of the balance sheet date and, accordingly, the amounts have been classified as non-current liabilities. Their fair value at 31st December, 2008 and 2007 approximates to their carrying value.

31. TAX PAYABLES

	THE GROUP		THE COMPANY	
	2008	2007	2008	2007
	<i>Rmb'000</i>	<i>Rmb'000</i>	<i>Rmb'000</i>	<i>Rmb'000</i>
Value added tax	(44,714)	535,772	(21,784)	(15,110)
Enterprise income tax	381,705	406,816	44,758	58,493
Business tax	(4,315)	20,311	1,414	14,517
Others	42,915	94,327	2,040	3,590
	<hr/>	<hr/>	<hr/>	<hr/>
Tax payables	375,591	1,057,226	26,428	61,490
	<hr/>	<hr/>	<hr/>	<hr/>

32. BORROWINGS

	THE GROUP		THE COMPANY	
	2008 <i>Rmb'000</i>	2007 <i>Rmb'000</i>	2008 <i>Rmb'000</i>	2007 <i>Rmb'000</i>
Bank loans	4,190,179	4,668,010	97,500	200,000
Other loans	215,639	95,269	32,784	27,420
	4,405,818	4,763,279	130,284	227,420
Secured	4,089,725	4,472,810	–	–
Unsecured	316,093	290,469	130,284	227,420
	4,405,818	4,763,279	130,284	227,420
The borrowings are repayable as follows:				
Within one year	870,704	753,387	97,500	200,000
More than one year but not more than five years	2,342,952	2,470,336	–	–
Over five years	1,192,162	1,539,556	32,784	27,420
	4,405,818	4,763,279	130,284	227,420
<i>Less:</i> Amounts due within one year classified as current liabilities	(870,704)	(753,387)	(97,500)	(200,000)
	3,535,114	4,009,892	32,784	27,420

The carrying amount of the bank loans are denominated in the following currencies:

	THE GROUP		THE COMPANY	
	2008 <i>Rmb'000</i>	2007 <i>Rmb'000</i>	2008 <i>Rmb'000</i>	2007 <i>Rmb'000</i>
Rmb	3,489,982	4,251,956	130,284	227,420
USD	915,836	511,323	–	–
	4,405,818	4,763,279	130,284	227,420

All of the Group's borrowings carrying at rates ranging from 3.51% to 7.47% at both years. The contracted interest rates are equal to the effective interest rates.

At 31st December, 2008, none of the Group's bank borrowings are guaranteed by Harbin Electric Corporation ("HE") (2007: Rmb200,000,000).

The directors consider that the carrying amounts of the borrowings approximate their fair value.

33. SHARE CAPITAL

	2008 <i>Rmb'000</i>	2007 <i>Rmb'000</i>
Registered, issued and fully paid:		
State owned equity interest shares of Rmb1 each	701,235	701,235
H Shares of Rmb1 each	675,571	675,571
	<u>1,376,806</u>	<u>1,376,806</u>

The movements in share capital are as follows:

	Number of shares in issue	Issued share capital <i>Rmb'000</i>	Share premium <i>Rmb'000</i>	Total <i>Rmb'000</i>
At 1st January, 2007	1,274,451,000	1,274,451	1,089,089	2,363,540
Issue of H shares	112,590,000	112,590	914,623	1,027,213
Share issue expenses	–	–	(23,417)	(23,417)
Conversion of state owned equity interest shares	<u>(10,235,000)</u>	<u>(10,235)</u>	<u>–</u>	<u>(10,235)</u>
At 1st January, 2008 and at 31st December, 2008	<u>1,376,806,000</u>	<u>1,376,806</u>	<u>1,980,295</u>	<u>3,357,101</u>

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.

34. RESERVES

THE GROUP

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 7 of the financial statements.

THE COMPANY

	Share premium <i>Rmb'000</i>	Statutory capital reserve <i>Rmb'000</i>	Statutory surplus reserve <i>Rmb'000</i>	Retained profits <i>Rmb'000</i>	Total <i>Rmb'000</i>
At 1st January, 2007	1,089,089	709,849	327,567	85,032	2,211,537
Profit for the year	–	–	–	367,997	367,997
Issue of share capital	914,623	–	–	–	914,623
Share issue expense	(23,417)	–	–	–	(23,417)
Transfer to reserves	–	–	37,975	(37,975)	–
Dividends	–	–	–	(123,913)	(123,913)
At 1st January, 2008	1,980,295	709,849	365,542	291,141	3,346,827
Profit for the year	–	–	–	284,132	284,132
Transfer to reserves	–	–	28,413	(28,413)	–
Dividends	–	–	–	(125,289)	(125,289)
At 31st December, 2008	<u>1,980,295</u>	<u>709,849</u>	<u>393,955</u>	<u>421,571</u>	<u>3,505,670</u>

35. CONTINGENT LIABILITIES

	2008 <i>Rmb'000</i>	2007 <i>Rmb'000</i>
Guarantee given to banks and financial institutions in respect of general banking facilities granted to external parties	<u>14,119</u>	<u>168,890</u>

36. OPERATING LEASES

The Group as lessor

Property rental income earned during the year was approximately Rmb35,848,000 (2007: Rmb24,479,000) . The Group's properties held for rental purposes are expected to generate rental yields of 13% on an ongoing basis. All of the properties held have committed tenants ranging from 1 to 20 years.

At the balance sheet date, the Group had contracted with tenants for the following future minimum lease receivables:

	2008 <i>Rmb'000</i>	2007 <i>Rmb'000</i>
Within one year	39,998	40,276
In the second to fifth year inclusive	143,074	147,836
After five years	128,425	254,568
	311,497	442,680

At 31st December, 2008 and 2007, the Group had no commitments under operating leases.

37. CAPITAL COMMITMENTS

	2008 <i>Rmb'000</i>	2007 <i>Rmb'000</i>
Capital expenditure for the acquisition of property, plant and equipment – contracted for but not provided in the financial statements	315,838	909,275

38. PLEDGE OF ASSETS

At 31st December, 2008, the Group had pledged investment properties having a net book value of approximately Rmb245,814,000 (2007: Rmb267,394,000) and bank deposits amounting to approximately Rmb484,255,000 (2007: Rmb169,684,000) to secure certain of Group's trading facilities.

39. RETIREMENT BENEFIT SCHEME

In accordance with regulations issued by the local government in 1996, 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 22% of the basic salary of its existing PRC staff, while employees contribute 8% of their basic salary. Apart from the above, the Group is also obliged to pay pensions and retirement benefits during the transition period. During the transition period, pension payments are calculated by reference to the staff's monthly basic salaries and period of service and are paid by the Harbin Social Insurance Administration Bureau and the Group. After the transition period, pension payments will be paid by the Harbin Social Insurance Administration Bureau only by reference to the payable amount of individual saving account and the Group has no material obligation for the pension payments or any post-retirement benefits beyond the annual contributions described above.

40. RELATED PARTY TRANSACTIONS

41. 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 shareholder 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 31st December, 2008 and 2007.

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 interest-bearing bank and other borrowings, bills and other payables, accruals, less cash and cash equivalents. The gearing ratios as at the balance sheet dates were as follows:

	2008 <i>Rmb'000</i>	2007 <i>Rmb'000</i>
Derivative financial instrument	3,133	–
Amounts due to customers for contract work	757,056	758,315
Trade creditors	7,715,110	5,267,391
Other creditors and accrued charges	2,055,636	2,757,797
Deposits received	23,716,097	18,803,988
Amounts due to fellow subsidiaries	50,069	23,426
Advance from holding company	320,190	246,658
Tax liabilities	375,591	1,057,226
Borrowings	4,405,818	4,763,279
	<hr/>	<hr/>
<i>Less:</i> Restricted bank deposits	(14,568)	(6,630)
Pledged bank deposits	(484,255)	(169,684)
Bank deposits	(3,079,921)	(940,000)
Cash and bank balances	(7,221,676)	(8,681,542)
	<hr/>	<hr/>
Net debt	28,598,280	23,880,224
	<hr/>	<hr/>
Equity	8,136,080	7,212,993
	<hr/>	<hr/>
Capital and net debt	36,734,360	31,093,217
	<hr/>	<hr/>
Gearing ratio	78%	77%
	<hr/>	<hr/>

42. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the balance sheet date are as follows:

Financial assets

	2008 <i>Rmb'000</i>	2007 <i>Rmb'000</i>
Trade debtors	12,354,226	8,994,565
Bills receivable	361,324	208,710
Other debtors	489,970	675,214
Amounts due from customers for contract work	1,045,979	3,632,591
Amounts due from fellow subsidiaries	66,353	67,327
Available-for-sale investments	27,074	28,074
Restricted bank deposits	14,568	6,630
Pledged bank deposits	484,255	169,684
Bank deposits	3,079,921	940,000
Cash and cash equivalents	7,221,676	8,681,542
	<u>25,145,346</u>	<u>23,404,337</u>

Financial liabilities

	2008 <i>Rmb'000</i>	2007 <i>Rmb'000</i>
Derivative financial instruments	3,133	–
Amounts due to customers for contract work	757,056	758,315
Trade creditors	7,715,110	5,267,391
Other creditors and accrued charges	2,055,636	2,757,797
Amounts due to fellow subsidiaries	50,069	23,426
Advance from holding company	320,190	246,658
Tax liabilities	375,591	1,057,226
Borrowings	4,405,818	4,763,279
	<u>15,682,203</u>	<u>14,874,092</u>

43. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments including available-for-sale investments, trade and other debtors, trade and other creditors, borrowings and bank balances and deposits. The risks associate with and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure approximate measures are implemented on a timely and effective manner.

Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations as at 31st December, 2008 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated balance sheet. In order to minimise the credit risk, 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 action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual receivable at each balance sheet date 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.

The credit risk on bank deposit and balances is limited because the majority of the counterparties are reputable banks or bank with high credit ratings assigned by international credit-rating agencies. The Group has no significant concentration of credit risk, with exposure spread over a number of counterparties.

Liquidity risk

With regard to 2008 and thereafter, the liquidity of the Group is primarily dependent on its ability to maintain adequate cash flow from operations to meet its debt obligations as they fall due. The Group has good standing among its bankers. The Group continued to enjoy a strong financial position at the end of 2008, with cash and cash equivalents amounting to Rmb7,221,676,000 as at 31st December 2008.(2007: Rmb8,681,542,000).

The maturity profile of the Group's financial liabilities as at the balance sheet date are as follows:

THE GROUP

2008

	Less than 1 year <i>Rmb'000</i>	1 to 2 years <i>Rmb'000</i>	2 to 5 years <i>Rmb'000</i>	More than 5 years <i>Rmb'000</i>	Total <i>Rmb'000</i>
Derivative financial instruments	3,133	-	-	-	3,133
Amounts due to customers for contract work	757,056	-	-	-	757,056
Trade creditors	7,039,443	470,791	67,951	136,925	7,715,110
Other creditors and accrued charges	2,055,636	-	-	-	2,055,636
Amounts due to fellow subsidiaries	50,069	-	-	-	50,069
Advance from holding company	13,470	-	-	306,720	320,190
Tax liabilities	375,591	-	-	-	375,591
Borrowings	870,704	1,014,256	1,328,696	1,192,162	4,405,818
	<u>11,165,102</u>	<u>1,485,047</u>	<u>1,396,647</u>	<u>1,635,807</u>	<u>15,682,603</u>

2007

	Less than 1 year <i>Rmb'000</i>	1 to 2 years <i>Rmb'000</i>	2 to 5 years <i>Rmb'000</i>	More than 5 years <i>Rmb'000</i>	Total <i>Rmb'000</i>
Amounts due to customers for contract work	3,522,251	1,298,712	305,767	140,661	5,267,391
Trade creditors	758,315	-	-	-	758,315
Other creditors and accrued charges	2,757,797	-	-	-	2,757,797
Amounts due to fellow subsidiaries	23,426	-	-	-	23,426
Advance from holding company	103,956	-	-	142,702	246,658
Tax liabilities	1,057,226	-	-	-	1,057,226
Borrowings	753,387	716,092	1,754,244	1,539,556	4,763,279
	<u>8,976,358</u>	<u>2,014,804</u>	<u>2,060,011</u>	<u>1,822,919</u>	<u>14,874,092</u>

Interest rate risk

The Group's interest rate risk relates primarily to fixed rate bank deposits and borrowings. The Group currently does not have an interest rate hedging policy. However, the management monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arise.

The Group's exposure to interest rate risk for changes in interest rates relates primarily to the Group's interest-bearing borrowings. As at 31st December, 2008, if interest rates on borrowings had been 50 basis points higher/lower with all other variables held constant, profit for the current/prior year would have been Rmb4,579,000 and Rmb3,075,000, lower/higher respectively, mainly as a result of higher/lower interest expense on floating rate borrowings.

Other price risk

The Group is not exposed to any equity securities risk or commodity price risk.

Currency risk

Certain trade receivables of the Group are denominated in foreign currencies. The management monitors foreign exchange exposure and hedges certain exposure using foreign currency forward contracts. The foreign currency forward contracts do not qualify for hedging accounting.

	2008 <i>Rmb'000</i>	2007 <i>Rmb'000</i>
Financial assets denominated in foreign currencies:		
Trade debtors	3,041,673	3,884,831
Bank balance and cash	629,871	1,746,815
	<u>3,671,544</u>	<u>5,631,646</u>
	2008 <i>Rmb'000</i>	2007 <i>Rmb'000</i>
Financial liabilities denominated in foreign currencies:		
Borrowings	<u>915,836</u>	<u>511,323</u>

	2008 <i>Rmb'000</i>	2007 <i>Rmb'000</i>
The financial assets were denominated in the following foreign currencies:		
EUR	80,083	227,386
USD	3,529,822	4,694,090
HKD	59,847	710,170
Others	1,792	–
	<u>3,671,544</u>	<u>5,631,646</u>

	2008 <i>Rmb'000</i>	2007 <i>Rmb'000</i>
The financial liabilities were denominated in the following foreign currencies:		
USD	<u>915,836</u>	<u>511,323</u>

The following table demonstrates the sensitivity at the balance sheet date to a reasonably possible change in the Rmb exchange rate, with all other variables held constant, of the Group's net profit (due to changes in the fair value of monetary assets and liabilities).

2008

	Increase/decrease in foreign currency rate	2008 Effect on profit before taxation <i>Rmb'000</i>	2007 Effect on profit before taxation <i>Rmb'000</i>
EUR	5%	4,004	11,369
	-5%	(4,004)	(11,369)
USD	5%	222,283	209,138
	-5%	(222,283)	(209,138)
HKD	5%	2,992	35,509
	-5%	(2,992)	(35,509)

44. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY

Details of the Company's principal subsidiaries as at 31st December, 2008, all of which are incorporated and operating in the PRC, are:

Name of subsidiary	Registered share capital <i>Rmb'000</i>	Proportion of nominal value of registered capital held by the Company		Principal activities
		Directly %	Indirectly %	
哈爾濱鍋爐廠 有限責任公司*	746,853	90.94	–	Manufacture of boilers
哈爾濱電機廠 有限責任公司*	709,237	87.37	–	Manufacture of steam turbine generator sets and hydro turbine generator sets
哈爾濱電站工程 有限責任公司*	136,000	100	–	Provision of engineering services for power stations
哈爾濱三利亞股份 有限公司**	76,116	81.39	–	Development, production and sale of plasma-enhanced and electrochemical surface ceramicised light alloy materials, building aluminum templates and boards, industrial special nature materials, electrophoresis paints and electrolyte, relevant chemical products
哈爾濱動力科技貿易 股份有限公司**	27,000	55.55	44.45	Trading
哈爾濱汽輪機廠 有限責任公司*	859,723	62.54	–	Manufacture of steam turbines
哈爾濱東力房地產開發 有限責任公司*	10,000	–	75	Property development
哈爾濱哈鍋閥門股份 有限公司**	80,000	100	–	Manufacture of valves
哈電發電設備國家工程 研究中心有限公司*	50,000	60	–	Research and development of power equipment engineerisation technology

Name of subsidiary	Registered share capital <i>Rmb'000</i>	Proportion of nominal value of registered capital held by the Company		Principal activities
		Directly %	Indirectly %	
成都三利亞中瓷 有限責任公司*	53,127	–	50	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.
哈爾濱鍋爐預熱器 有限責任公司*	10,000	–	100	Research and development of hydropower generation