哈电集团
HARBIN ELECTRIC CORPORATION

哈尔滨电气股份有限公司
HARBIN ELECTRIC COMPANY LIMITED

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

(Stock Code: 1133)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2011

The Board of Directors of Harbin Electric Company Limited (the "Company") is pleased to announce the audited operating results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2011, which were prepared in accordance with the accounting principles generally accepted in Hong Kong.

CONSOLIDATED INCOME STATEMENT
For the year ended 31 December 2011

	Note	**2011** ***RMB'000***	2010 *RMB'000* (restated)
Revenue	*5*	**28,487,782**	29,172,224
Cost of sales		**(22,777,148)**	(24,982,419)
Gross profit		**5,710,634**	4,189,805
Other revenue and net income	*6*	**490,785**	960,853
Distribution expenses		**(558,036)**	(508,789)
Administrative expenses		**(3,040,175)**	(2,754,880)
Other operating expenses		**(969,230)**	(411,337)
Finance costs	*7(a)*	**(72,552)**	(139,544)
Share of profits less losses of associates		**78,534**	25,793

	Note	2011 RMB'000	2010 RMB'000 (restated)
Profit before taxation	7	**1,639,960**	1,361,901
Income tax	8(a)	**(256,686)**	(268,950)
Profit for the year		**1,383,274**	1,092,951
Attributable to:			
Equity shareholders of the Company		**1,228,661**	1,001,108
Non-controlling interests		**154,613**	91,843
		1,383,274	1,092,951
Earnings per share			
— Basic and diluted	9	**RMB89.2 cents**	RMB72.7 cents

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2011

	2011	2010
	RMB'000	*RMB'000*
		(restated)
Profit for the year	**1,383,274**	1,092,951
Other comprehensive loss for the year, net of income tax		
Cash flow hedges	**(32,671)**	—
Income tax relating to component of other comprehensive income	**4,901**	—
	(27,770)	—
Total comprehensive income for the year	**1,355,504**	1,092,951
Attributable to:		
Equity shareholders of the Company	**1,200,891**	1,001,108
Non-controlling interests	**154,613**	91,843
	1,355,504	1,092,951

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
At 31 December 2011

	Note	2011 RMB'000	2010 RMB'000 (restated)
Non-current assets			
Investment properties		**4,810**	4,991
Property, plant and equipment		**5,799,944**	4,890,113
Prepaid lease payments		**433,000**	419,466
Intangible assets		**261,732**	90,321
Deferred tax assets		**277,366**	205,071
Interests in associates		**546,899**	328,640
Other non-current financial assets		**332,722**	53,637
		7,656,473	5,992,239
Current assets			
Inventories		**11,616,296**	12,824,895
Trade receivables	*11*	**12,918,135**	11,270,063
Bills receivable	*11*	**1,052,526**	982,083
Other receivables, deposits and prepayments	*11*	**4,484,066**	4,541,796
Prepaid lease payments		**11,922**	13,242
Amounts due from customers for contract work		**1,849,593**	894,923
Amounts due from fellow subsidiaries		**59,929**	112,920
Derivative financial instruments		**92,641**	104,276
Trading securities		**2,001,530**	1,188,000
Restricted bank deposits		**2,506**	5,000
Pledged bank deposits		**131,155**	276,493
Bank deposits		**247,404**	1,090,860
Cash and cash equivalents		**8,271,875**	11,459,319
		42,739,578	44,763,870
Current liabilities			
Derivative financial instruments		**3,730**	—
Amounts due to customers for contract work		**1,413,194**	1,274,290
Trade payables	*12*	**14,646,188**	11,867,247
Other payables, accruals and provisions	*12*	**3,934,593**	2,852,629
Deposits received		**7,483,656**	11,891,531
Amounts due to fellow subsidiaries		**36,266**	24,418
Advance from holding company		**2,785**	20,478
Borrowings — due within one year		**581,623**	627,005
Tax payables		**920,618**	816,233
		29,022,653	29,373,831

	Note	2011 RMB'000	2010 RMB'000 (restated)
Net current assets		**13,716,925**	15,390,039
Total assets less current liabilities		**21,373,398**	21,382,278
Non-current liabilities			
Derivative financial instruments		**28,941**	—
Deposits received		**6,337,141**	7,592,559
Advance from holding company		**1,169,838**	1,042,918
Borrowings — due after one year		**1,314,244**	1,582,959
		8,850,164	10,218,436
NET ASSETS		**12,523,234**	11,163,842
CAPITAL AND RESERVES			
Share capital	*14*	**1,376,806**	1,376,806
Reserves		**9,224,814**	8,324,642
Total equity attributable to equity shareholders of the Company		**10,601,620**	9,701,448
Non-controlling interests		**1,921,614**	1,462,394
TOTAL EQUITY		**12,523,234**	11,163,842

NOTES

1. GENERAL INFORMATION

The Company was established as a joint stock company in the People's Republic of China (the "PRC") and its H shares are listed on The Stock Exchange of Hong Kong Limited. Its parent and ultimate parent company is Harbin Electric Corporation ("HE"), a state-owned enterprise established in the PRC. HE has not produced financial statements available for public use.

The consolidated financial statements are presented in Renminbi ("RMB"), rounded to the nearest thousand unless otherwise indicated. RMB is the Company's functional and presentation currency.

2. STATEMENT OF COMPLIANCE

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group and the Company. Note 4 provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

3. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

The consolidated financial statements for the year ended 31 December 2011 comprise the Company and its subsidiaries (together referred to as the "Group") and the Group's interests in associates.

The measurement basis used in the preparation of the financial statements is the historical cost basis except that the following assets and liabilities are stated at their fair value:

— financial instruments classified as trading securities, and

— derivative financial instruments.

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

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

4. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") AND MERGER ACCOUNTING FOR COMMON CONTROL COMBINATION

New and revised HKFRSs

The Group has adopted the following new and revised Standards, Amendments and Interpretations ("new and revised HKFRSs") that are first effective for the current accounting period.

Amendments to HKFRSs	Improvements to HKFRSs issued in 2010
HKAS 24 (as revised in 2009)	Related Party Disclosures(#)
Amendments to HKAS 32	Classification of Rights Issues
Amendments to HK(IFRIC)-Int 14	Prepayments of a Minimum Funding Requirement
HK(IFRIC)-Int 19	Extinguishing Financial Liabilities with Equity Instruments

(#) The Group had early applied the partial exemption from the disclosure requirements for government-related entities for its annual consolidated financial statements for the year ended 31 December 2010.

The application of these new and revised HKFRSs in the current year has had no material effect on the amounts reported in these consolidated financial statements and/or disclosures set out in these consolidated financial statements.

Merger accounting for common control combination

In May 2011, the Group acquired 55.64% of the equity interest of 哈爾濱電機廠(昆明)有限公司 ("Kunming Generator") by way of capital contribution of RMB250,000,000 (the "Capital Contribution") to Kunming Generator. Kunming Generator is a company incorporated in the PRC and principally engaged in the business of manufacturing of small-scale hydro power equipment. Before the Capital Contribution, the Group's ultimate parent company, HE, had previously obtained a controlling equity interest of 78% on Kunming Generator in 2010.

The Group's acquisition is considered as business combination involving entities under common control and has been accounted for using merger accounting method, based on the Accounting Guideline 5 "Merger Accounting for Common Control Combinations" issued by the HKICPA for the year ended 31 December 2011. Under the principles of merger accounting, the consolidated financial statements have been prepared as if Kunming Generator and its subsidiaries have been subsidiaries of the Group for the year ended 31 December 2010. As a result, the comparative consolidated income statement, consolidated statement of comprehensive income and consolidated statement of cash flows for the year ended 31 December 2010 and consolidated statement of financial position as at 31 December 2010 have therefore been restated, in order to include the results of the combining entities since the date of which first come under common control.

The effects of the combination of Kunming Generator on the Group's consolidated income statement and consolidated statement of comprehensive income for the year ended 31 December 2010 by line items is as follows:

	31 December 2010 *RMB'000* (previously reported)	**Combination of Kunming Generator** *RMB'000*	**Elimination adjustments** *RMB'000*	**31 December 2010** *RMB'000* (restated)
Revenue	28,815,543	370,770	(14,089)	29,172,224
Cost of sales	(24,665,786)	(331,322)	14,689	(24,982,419)
Gross profit	4,149,757	39,448	600	4,189,805
Other revenue and net income	948,150	14,046	(1,343)	960,853
Distribution expenses	(483,997)	(24,792)	—	(508,789)
Administrative expenses	(2,686,530)	(68,350)	—	(2,754,880)
Other operating expenses	(410,931)	(406)	—	(411,337)
Finance costs	(132,321)	(7,966)	743	(139,544)
Share of profits less losses of associates	25,793	—	—	25,793
Profit before taxation	1,409,921	(48,020)	—	1,361,901
Income tax	(272,027)	3,077	—	(268,950)
Profit and total comprehensive income for the year	1,137,894	(44,943)	—	1,092,951
Attributable to:				
Equity shareholders of the Company	1,024,498	(23,390)	—	1,001,108
Non-controlling interests	113,396	(21,553)	—	91,843
	1,137,894	(44,943)	—	1,092,951
Earnings per share				
— Basic and diluted	RMB74.4 cents	(RMB1.7cents)	—	RMB72.7 cents

The effects of the combination of Kunming Generator on the Group's consolidated statement of financial position as at 31 December 2010 by line items is as follows:

	31 December 2010 *RMB'000* (previously reported)	**Combination of Kunming Generator** *RMB'000*	**Elimination adjustments** *RMB'000*	**31 December 2010** *RMB'000* (restated)
NON-CURRENT ASSETS				
Investment properties	4,991	—	—	4,991
Property, plant and equipment	4,815,171	74,942	—	4,890,113
Prepaid lease payments	367,348	52,118	—	419,466
Intangible assets	90,321	—	—	90,321
Deferred tax assets	193,878	11,193	—	205,071
Interests in associates	328,490	150	—	328,640
Other non-current financial assets	35,941	17,696	—	53,637
	5,836,140	156,099	—	5,992,239
CURRENT ASSETS				
Inventories	12,562,801	262,094	—	12,824,895
Trade receivables	11,122,830	152,220	(4,987)	11,270,063
Bills receivable	980,496	1,587	—	982,083
Other receivables, deposits and prepayments	4,506,705	69,319	(34,228)	4,541,796
Prepaid lease payments	12,058	1,184	—	13,242
Amounts due from customers for contract work	894,923	—	—	894,923
Amounts due from fellow subsidiaries	112,920	—	—	112,920
Derivative financial instruments	104,276	—	—	104,276
Trading securities	1,188,000	—	—	1,188,000
Restricted bank deposits	—	5,000	—	5,000
Pledged bank deposits	249,294	27,199	—	276,493
Bank deposits	1,090,000	860	—	1,090,860
Cash and cash equivalents	11,425,774	33,545	—	11,459,319
	44,250,077	553,008	(39,215)	44,763,870

	31 December 2010 *RMB'000* (previously reported)	Combination of Kunming Generator *RMB'000*	Elimination adjustments *RMB'000*	31 December 2010 *RMB'000* (restated)
CURRENT LIABILITIES				
Amounts due to customers for contract work	(1,274,290)	—	—	(1,274,290)
Trade payables	(11,746,026)	(126,208)	4,987	(11,867,247)
Other payables, accruals and provisions	(2,799,289)	(53,340)	—	(2,852,629)
Deposits received	(11,681,047)	(214,712)	4,228	(11,891,531)
Amounts due to fellow subsidiaries	(24,418)	—	—	(24,418)
Advance from holding company	(20,478)	—	—	(20,478)
Borrowings — due within one year	(507,005)	(150,000)	30,000	(627,005)
Tax payables	(815,084)	(1,149)	—	(816,233)
	(28,867,637)	(545,409)	39,215	(29,373,831)
NET CURRENT ASSETS	15,382,440	7,599	—	15,390,039
TOTAL ASSETS LESS CURRENT LIABILITIES	21,218,580	163,698	—	21,382,278
NON-CURRENT LIABILITIES				
Deposits received	(7,592,559)	—	—	(7,592,559)
Advance from holding company	(1,042,918)	—	—	(1,042,918)
Borrowings — due after one year	(1,549,909)	(33,050)	—	(1,582,959)
	(10,185,386)	(33,050)	—	(10,218,436)
NET ASSETS	11,033,194	130,648	—	11,163,842
CAPITAL AND RESERVES				
Share capital	1,376,806	38,840	(38,840)	1,376,806
Reserves	8,260,977	88,821	(25,156)	8,324,642
Total equity attributable to equity shareholders of the Company	9,637,783	127,661	(63,996)	9,701,448
Non-controlling interests	1,395,411	2,987	63,996	1,462,394
TOTAL EQUITY	11,033,194	130,648	—	11,163,842

The effects of the combination of Kunming Generator on the Group's equity as at 31 December 2010 is as follows:

	31 December 2010 *RMB'000* (previously reported)	**Combination of Kunming Generator** *RMB'000*	**Elimination adjustments** *RMB'000*	**31 December 2010** *RMB'000* (restated)
Share capital	1,376,806	38,840	(38,840)	1,376,806
Share premium	1,980,295	—	—	1,980,295
Statutory capital reserve	709,850	72,381	(72,381)	709,850
Statutory surplus reserve	596,936	20,259	(20,259)	596,936
Other reserves	74,421	—	87,055	161,476
Retained profits	4,899,475	(3,819)	(19,571)	4,876,085
Non-controlling interests	1,395,411	2,987	63,996	1,462,394
	11,033,194	130,648	—	11,163,842

5. REVENUE

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

	2011 ***RMB'000***	2010 *RMB'000* (restated)
Sales of goods	**22,539,408**	21,473,509
Revenue from construction contracts	**5,948,374**	7,691,199
Revenue from services rendered	**—**	7,516
	28,487,782	29,172,224

For the year ended 31 December 2011, there was no customer with whom transactions have exceeded 10% of the Group's revenue (2010: Nil).

6. OTHER REVENUE AND NET INCOME

	2011	2010
	RMB'000	*RMB'000*
		(restated)
Other revenue		
Interest income from held-to-maturity bonds	**6,085**	—
Other interest income	**246,160**	277,728
Total interest income on financial assets not at fair value through profit or loss	**252,245**	277,728
Compensation income	**3,181**	60,617
Dividend income from trading securities	**50,000**	—
Dividend income from unlisted equity securities	**7,358**	1,120
PRC government subsidy	**380,675**	335,603
Rental income	**7,145**	2,289
Other income	**92,131**	26,628
	792,735	703,985
Other net income/(loss)		
Net gain on disposal of property, plant and equipment	**3,850**	6,122
Net gain on disposal of investment properties	**—**	550
Net profit from sale of scrap materials and others	**839**	1,461
Gain on disposal of subsidiaries	**389**	150,349
Gain on disposal of trading securities	**7,606**	—
Gain on disposal of available-for-sale investments	**1,174**	—
Fair value gains on derivative financial instruments not qualifying as hedges	**78,704**	104,276
Reversal of impairment loss of property, plant and equipment	**—**	1,110
Fair value losses on trading securities	**(394,512)**	(7,000)
	(301,950)	256,868
	490,785	960,853

7. PROFIT BEFORE TAXATION

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

	2011 *RMB'000*	2010 *RMB'000* (restated)
(a) Finance costs		
Interest on bank and other borrowings:		
— wholly repayable within five years	**60,183**	134,135
— not wholly repayable within five years	**17,690**	18,690
Total interest expenses on financial liabilities not at fair value through profit or loss	**77,873**	152,825
Less: interest expense capitalised into construction in progress	**(5,321)**	(13,281)
	72,552	139,544

Borrowing costs capitalised during the year arose on the general borrowing pool and are calculated by applying a capitalisation rate of 6.40% (2010: 4.78%) per annum to expenditure on qualifying assets.

	2011 *RMB'000*	2010 *RMB'000* (restated)
(b) Staff costs#		
Staff costs including directors' and supervisors' emoluments	**1,569,233**	1,364,342
Post-employment benefit scheme contributions	**301,251**	262,587
Total staff costs	**1,870,484**	1,626,929
(c) Other items		
Allowance for doubtful debts	**618,868**	574,012
Allowance for inventories	**115,526**	134,867
Amortisation of intangible assets#	**19,110**	12,993
Amortisation of prepaid lease payments#	**11,922**	13,242
Auditors' remuneration	**2,850**	2,520
Cost of inventories#	**22,777,148**	24,997,108
Depreciation for investment properties#	**181**	181
Depreciation for property, plant and equipment#	**527,497**	465,459
Net foreign exchange loss	**113,123**	95,834
Impairment loss recognised in respect of intangible assets	**—**	3,945
Impairment loss recognised in respect of available-for-sale investments	**1,000**	—
Reversal of impairment loss on doubtful debts	**(42,695)**	—
Property, plant and equipment written off	**—**	5,970
Research and development expenses	**339,617**	658,630

Cost of inventories includes RMB1,636,299,000 (2010 (restated): RMB1,404,128,000) relating to staff costs, depreciation and amortisation expenses, which amount is also included in the respective total amounts disclosed separately above or in note 7(b) for each of these types of expenses.

8. INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT

(a) Taxation in the consolidated income statement represents:

	2011	2010
	RMB'000	*RMB'000*
		(restated)
Current tax		
PRC enterprise income tax		
— provision for the year	**370,078**	362,131
— (over)-provision in respect of prior years	**(45,607)**	(28,934)
	324,471	333,197
Deferred tax		
Origination and reversal of temporary differences	**(67,785)**	(64,247)
	256,686	268,950

On 21 November 2008, the Company was named as one of the High and New Technology Enterprise (高新技術企業). According to the PRC Law on Enterprise Income Tax promulgated on 16 March 2007, the Company is entitled to a concessionary rate of enterprise income tax at 15% over 3 years, beginning on 17 November 2011.

Except for certain subsidiaries which are subject to an enterprise income tax rate of 15%, other subsidiaries located in the PRC are subject to the PRC enterprise income tax at a rate of 25% (2010: 25%) on its assessable profits.

(b) According to Circular Guoshuihan [2008] No. 897 "Notice on the issue about withholding Enterprise Income Tax on the dividends paid by Chinese resident enterprises to overseas non-resident enterprises H-share holders" issued by State Administration of Taxation on 6 November 2008, where a Chinese resident enterprise pays dividends for the year of 2008 or any year thereafter to its H-share holders which are overseas non-resident enterprises, it shall withhold the enterprise income tax on the basis of 10% of the dividends. In accordance with this circular, the Company would withhold the enterprise income tax with tax rate of 10% when it pays dividends for the year of 2008 or any year thereafter to its overseas non-resident enterprise H-shares holders.

9. EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of the basic earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of approximately RMB1,228,661,000 (2010 (restated): RMB1,001,108,000) and on the weighted average number of ordinary shares of 1,376,806,000 (2010: 1,376,806,000) in issue during the year.

(b) Diluted earnings per share

There were no dilutive potential ordinary shares in issue during the years ended 31 December 2011 and 2010, and diluted earnings per share is the same as basic earnings per share.

10. SEGMENT REPORTING

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

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

(a) Segment results, assets and liabilities

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

Segment assets include all tangible, intangible assets and current assets with the exception of interests in associates, other non-current financial assets, trading securities, derivative financial instruments, deferred tax assets and other corporate assets. Segment liabilities include trade payables, other payables, accruals and provisions, deposits received and amounts due to customers for contract work attributable to the manufacturing and sales activities of the individual segments and borrowings managed directly by the segments, with the exception of income tax payable.

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

The measure used for reporting segment profit is "adjusted operating profit/(loss)". To arrive at "adjusted operating profit/(loss)", the Group's profit/(loss) are further adjusted for items not specifically attributed to individual segments, such as share of profits less losses of associates, interest income, directors' and auditors' remuneration, expected loss, finance costs and other head office or corporate administration costs. Taxation charge is not allocated to reporting segments. Inter-segment sales are priced with reference to prices charged to external parties for similar orders.

Information regarding the Group's reportable segments as provided to the Group's directors for the purposes of resource allocation and assessment of segment performance for the years ended 31 December 2011 and 2010 is set out below.

2011

	Main thermal power equipment *RMB'000*	Main hydro power equipment *RMB'000*	Engineering services for power stations *RMB'000*	Ancillary equipment for power stations *RMB'000*	AC/DC motors and others *RMB'000*	Total *RMB'000*
Revenue from external customers	**17,295,041**	**3,162,786**	**5,104,920**	**719,100**	**2,205,935**	**28,487,782**
Inter-segment revenue	**3,247,639**	**—**	**—**	**—**	**—**	**3,247,639**
Reportable segment revenue	**20,542,680**	**3,162,786**	**5,104,920**	**719,100**	**2,205,935**	**31,735,421**
Reportable segment profit	**3,998,910**	**958,992**	**278,315**	**286,505**	**343,872**	**5,866,594**
Depreciation of property, plant and equipment	**372,050**	**95,720**	**7,796**	**5,450**	**46,481**	**527,497**
Depreciation of investment properties	**—**	**—**	**—**	**—**	**181**	**181**
Amortisation of intangible assets	**10,270**	**236**	**—**	**499**	**8,105**	**19,110**
Amortisation of prepaid lease payments	**7,854**	**2,778**	**48**	**183**	**1,059**	**11,922**
Allowances for doubtful debts	**444,860**	**77,254**	**45,153**	**16,754**	**34,847**	**618,868**
Interest income	**(113,616)**	**(31,265)**	**(97,455)**	**(3,917)**	**(5,992)**	**(252,245)**
Interest expenses	**19,053**	**5,798**	**47,503**	**198**	**—**	**72,552**
Reversal of impairment loss on doubtful debts	**(14,246)**	**(9,709)**	**(18,257)**	**—**	**(483)**	**(42,695)**
Reportable segment assets	**28,467,215**	**4,772,229**	**3,394,865**	**712,866**	**3,694,413**	**41,041,588**
Additions to non-current segment assets during the year	**1,033,470**	**208,445**	**25,955**	**11,246**	**470,860**	**1,749,976**
Reportable segment liabilities	**24,528,940**	**3,520,911**	**3,973,575**	**752,172**	**2,165,011**	**34,940,609**

2010

	Main thermal power equipment *RMB'000*	Main hydro power equipment *RMB'000* (restated)	Engineering services for power stations *RMB'000*	Ancillary equipment for power stations *RMB'000*	AC/DC motors and others *RMB'000* (restated)	Total *RMB'000* (restated)
Revenue from external customers	17,984,152	2,599,998	5,060,211	919,028	2,608,835	29,172,224
Inter-segment revenue	3,655,382	—	—	—	—	3,655,382
Reportable segment revenue	21,639,534	2,599,998	5,060,211	919,028	2,608,835	32,827,606
Reportable segment profit	2,629,949	619,133	170,478	307,563	558,336	4,285,459
Depreciation of property, plant and equipment	314,336	73,258	11,904	8,933	57,028	465,459
Depreciation of investment properties	—	—	—	—	181	181
Amortisation of intangible assets	11,038	271	—	568	1,116	12,993
Amortisation of prepaid lease payments	7,097	2,400	41	234	3,470	13,242
Allowances for doubtful debts	441,736	50,959	(1,079)	18,546	63,850	574,012
Interest income	(118,072)	(31,700)	(110,386)	(3,982)	(13,588)	(277,728)
Interest expenses	31,527	7,191	96,514	517	3,795	139,544
Reportable segment assets	26,426,075	3,426,207	3,853,640	969,260	3,937,948	38,613,130
Additions to non-current segment assets during the year	638,313	82,952	31,797	12,808	310,413	1,076,283
Reportable segment liabilities	26,382,460	3,176,327	3,803,714	1,060,681	2,731,652	37,154,834

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

	2011	2010
	RMB'000	*RMB'000*
		(restated)
Revenue		
Reportable segment revenue	**31,735,421**	32,827,606
Elimination of inter-segment revenue	**(3,247,639)**	(3,655,382)
Consolidated turnover	**28,487,782**	29,172,224
Profit		
Reportable segment profit	**5,866,594**	4,285,459
Elimination of inter-segment profits	**(155,960)**	(95,654)
Reportable segment profit derived from Group's external customers	**5,710,634**	4,189,805
Finance costs	**(72,552)**	(139,544)
Interest income	**252,245**	277,728
Share of profits less losses of associates	**78,534**	25,793
Fair value loss on trading securities	**(394,512)**	(7,000)
Expected loss	**(814,924)**	(248,402)
Unallocated head office and corporate expenses	**(3,119,465)**	(2,736,479)
Consolidated profit before taxation	**1,639,960**	1,361,901
Assets		
Reportable segment assets	**41,041,588**	38,613,130
Interests in associates	**546,899**	328,640
Deferred tax assets	**277,366**	205,071
Other non-current financial assets	**332,722**	53,637
Derivative financial instruments	**92,641**	104,276
Trading securities	**2,001,530**	1,188,000
Unallocated head office and corporate assets	**6,103,305**	10,263,355
Consolidated total assets	**50,396,051**	50,756,109
Liabilities		
Reportable segment liabilities	**34,940,609**	37,154,834
Income tax payables	**635,239**	406,831
Derivative financial instruments	**32,671**	—
Advance from holding company	**1,172,623**	1,063,396
Unallocated head office and corporate liabilities	**1,091,675**	967,206
Consolidated total liabilities	**37,872,817**	39,592,267

(c) Geographical information

The following is an analysis of geographical location of the Group's revenue from external customers and the Group's non-current assets specified below. The geographical location of customers is based on the location at which the services were provided or the goods delivered. The Group's non-current assets, which include property, plant and equipment, investment properties, prepaid lease payments, intangible assets and interests in associates, and exclude financial instruments and deferred tax assets. The geographical location of the Group non-current assets are based on the physical location of the asset under consideration in case of tangible assets and the location of the operation to which they are allocated, in the case of intangible assets. In the case of interests in associates, it is the location of operations of such associates.

	Revenues from external customers		Non-current assets	
	2011	2010	**2011**	2010
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
		(restated)		(restated)
PRC (place of domicile)	**22,512,472**	23,872,730	**7,046,385**	5,733,531
Overseas	**5,975,310**	5,299,494	**—**	—
	28,487,782	29,172,224	**7,046,385**	5,733,531

11. TRADE RECEIVABLES/BILLS RECEIVABLE/OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	2011	2010
	RMB'000	*RMB'000*
		(restated)
Trade receivables	**15,727,096**	13,502,851
Less: allowance for doubtful debts	**(2,808,961)**	(2,232,788)
	12,918,135	11,270,063
Bills receivable	**1,052,526**	982,083
	13,970,661	12,252,146
Other receivables	**580,642**	430,478
Deposits and prepayments	**3,903,424**	4,111,318
	4,484,066	4,541,796
	18,454,727	16,793,942

The credit terms given to the customers vary and are generally based on the financial strengths of individual customers. In order to effectively manage the credit risks associated with trade receivables, credit evaluations of customers are performed periodically. The balances mentioned above are expected to be recovered or recognised as expense within one year.

Trade receivables and bills receivable (net of allowance for doubtful debts) with the following ageing analysis as of the end of the reporting period:

	2011 *RMB'000*	2010 *RMB'000* (restated)
Within 1 year	**7,824,717**	5,668,971
1 to 2 years	**2,430,624**	2,616,726
2 to 3 years	**1,374,045**	3,273,047
Over 3 years	**2,341,275**	693,402
	13,970,661	12,252,146

12. TRADE PAYABLES/OTHER PAYABLES, ACCRUALS AND PROVISIONS

	2011 *RMB'000*	2010 *RMB'000* (restated)
Trade payables	**14,646,188**	11,867,247
Bills payable	**1,900,795**	1,505,108
	16,546,983	13,372,355
Provisions	**1,463,359**	783,397
Other payables and accrued charges	**570,439**	564,124
	18,580,781	14,719,876

Trade and bills payables with the following ageing analysis as of the end of reporting period is as follows:

	2011 *RMB'000*	2010 *RMB'000* (restated)
Within 1 year	**15,584,796**	11,476,206
1 to 2 years	**278,938**	1,204,406
2 to 3 years	**389,386**	549,995
Over 3 years	**293,863**	141,748
	16,546,983	13,372,355

13. DIVIDENDS

(a) Dividends payable to equity shareholders of the Company attributable to the year.

	2011 *RMB'000*	2010 *RMB'000*
Final dividend proposed after the end of the reporting period of RMB0.14 per ordinary share (2010: RMB0.14 per ordinary share)	**192,753**	192,753

The final dividend proposed after the end of the reporting period has not been recognised as a liability at the end of the reporting period.

(b) Dividends payable to equity shareholders of the Company attributable to the previous financial year, approved and paid during the year.

	2011	2010
	RMB'000	*RMB'000*
Final dividend in respect of the previous financial year, approved and paid during the year, of RMB0.14 per share (2010: RMB0.068 per share)	**192,753**	93,623

14. SHARE CAPITAL

	2011		2010	
	Number of shares	***RMB'000***	*Number of shares*	*RMB'000*
Registered, issued and fully paid:				
State owned equity interest shares of RMB1 each	**701,235,000**	**701,235**	701,235,000	701,235
H Shares of RMB1 each	**675,571,000**	**675,571**	675,571,000	675,571
At 1 January and 31 December	**1,376,806,000**	**1,376,806**	1,376,806,000	1,376,806

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

15. NON-ADJUSTING EVENT AFTER THE REPORTING PERIOD

(a) In March 2012, the Group entered into a placing agreement to subscribe certain equity securities listed outside Hong Kong for a consideration of RMB388,000,000.

(b) After the end of the reporting period, the directors of the Company proposed a final dividend. Further details are disclosed in note 13.

16. COMPARATIVE FIGURES

Certain comparative figures have been adjusted to conform to current year's presentation.

MANAGEMENT DISCUSSION AND ANALYSIS

MACRO ECONOMY AND INDUSTRY DEVELOPMENT

In 2011, the European debt crisis has been worsening and spreading around. Developed countries saw a feeble recovery and emerging economies a slowdown in growth. The PRC government insisted upon its course of austerity measures, stable economic growth, price control and structural adjustment to ensure a stable and faster economic development, culminating a 9.2% GDP growth.

China has stepped up its efforts to adjust the energy structure by lowering the proportion of thermal power and increasing that of clean energy such as hydropower, wind power and solar power. In light of the incident in Fukujima, the pace for the development of nuclear power was slowed down. Growing demand from abroad has made up for the lack of domestic demand.

In 2011, power consumption across China grew at 11.74% over the previous year. Installed capacity of the power generating units nation-wide has reached 1,055,760MW by the end of the year, representing a growth of 9.25% over the previous year.

NEW CONTRACTS

In 2011, at the backdrop of the complicated economic development and highly competitive environment, the Group rose up against all odds and won RMB44.611 billion worth new contracts, of which RMB23.546 billion (or 52.78% of total contract value)for thermal power equipment, RMB3.24 billion (or 7.26% of total contract value) for hydropower equipment, RMB3.358 billion (or 7.53% of total contract value) for hybrid equipment, RMB7.676 billion (or 17.21% of total contract value) for power engineering, RMB0.717 billion (or 1.61% of total contract value) for nuclear power equipment and RMB6.074 billion (or 13.61% of total contract value) for other products.

Leveraging on its strong competitiveness in the thermal power equipment market, the Group signed a new contract for installing 4 units of 1,100MW ultra supercritical boilers in Xinjiang.

Our competitive edge in hydropower equipment has further strengthened. The Group has signed contracts for 6 units of 250MW pumped-storage hydroelectric power generators in Liyang, Jiangsu and 4 units of 425MW water turbine power generators in Houziyan.

The Group commands a leading position in the hybrid equipment market and has introduced model 9FB03 and model 6FA into the domestic market of China.

The wind power equipment segment has succeeded in opening up the domestic market and won 4 contracts for wind farm projects.

The nuclear power equipment segment has signed a supply contract of conventional island for the power generating units 3 and 4 of Tianwan Nuclear Power Plant.

The seawater desalination segment has secured two 'birth certificate' projects respectively from Datang Wushashan power plant and Cuddalore in India.

The Group's environment-friendly equipment tapped the export market by signing a contract for selling 3 units of 600MW thermal power desulfation island.

New contracts obtained from the international markets set new record high, totalling RMB24.482 billion, or 54.88% of total contract value.

PRODUCTION AND SERVICES

The total output of the Group's power equipment for 2011 reached 22,332.2MW, representing an increase of 3.60% over the previous year, among which the total capacity of utility boilers amounted to 23,010MW, decreasing by 11.74% over the previous year. The total capacity of steam turbines for power plant recorded 20,257MW, decreasing by 2.74% over the previous year. The total capacity of steam turbine generators was 15,297MW, decreasing by 14.73% over the previous year. The total capacity of hydropower turbo-generator units totaled 7,035.20MW, increasing by 94.53% over the previous year.

Notwithstanding such negative factors as rescheduling of delivery timetable, concentration of delivery and tight availability of funds, in order to accomplish our production target for the year, we have taken practical situation into account before taking effective measures in response and finished our jobs to customers' satisfaction by strengthening our capabilities in management and production, upgrading technology and arranging reasonable production schedule. As a number of nuclear island products have commenced production, the production of core makeup tank for Haiyang nuclear power unit 1 was completed and delivered.

R&D AND TECHNOLOGY INTRODUCTION

In 2011, the Group continued to increase its input in R&D. During the year, the Group was granted 102 patent authorizations. Besides, 241 R&D projects were completed and 20 accolades from various disciplines awarded, among which the 《三峽全空冷巨型水輪發電機組研製》 won the second prize of National Science and Technology Progress Award.

The introduction and absorption of technology has made impressive headway. As to nuclear power, we have secured the knowhow of designing and manufacturing a number of AP1000 components. As to hybrid equipment, we have completed the technology transfer of the 9FA combustion engines and signed an agreement of technology transfer with GE in connection with the 9FB03 combustion engines. As to wind power, we have completed the technology transfer of the 2.75MW wind turbines and prototyping gets under way. As to seawater desalination, technical proposal in connection with the "large-scale multi-purpose seawater evaporation and desalination equipment and system operating at low temperatures" obtained approval from the China Machinery Industry Federation. As to compressors, technical preparation for prototyping has been largely completed and production of the combustion chamber, a main component, has commenced.

REFORM AND MANAGEMENT

The establishment and implementation of a performance-based appraisal system ensures the annual target and goal can be met. At the same time, policies in respect of new products, new business and incentive were formulated and adjustment to product structure achieved positive results.

By issuing an internal control manual and effecting the procedures therein, introducing a self-assessment mechanism to internal control, organizing control on development and promoting efficient operation of and on-going improvement to the internal control system, a comprehensive risk management is running in an orderly fashion.

The Group has been striving to promote a positive atmosphere in the workforce by emphasizing the attitude of "dedication, concentration and professionalism". We have set up a professional hierarchy as a reference for assessment and recruitment.

Through optimization of design, higher utilization of materials, lower inventory level and enhanced management of cash flows, cost control is tightened and operation is being run in a more cost-effective way. Meanwhile, consolidated procurement by tender has effectively regulated the purchase process and lowered the purchase costs.

PROFIT

In 2011, net profit of the Group attributable to the shareholders of the Company was RMB1,228.66 million, an increase of 22.73% over the previous year; earnings per share were RMB0.89, an increase of RMB0.16 over the previous year; net asset as at the end of the period attributable to the shareholders of the Company were RMB10,601.62 million, an increase of RMB900.17 million compared to the beginning of the year; net asset per share was RMB7.70, an increase of RMB0.65 compared to the beginning of the year.

During the period, the increase of Group profit was mainly attributable to increased gross profit.

TURNOVER

In 2011, the Group recorded a turnover of principal business activities of RMB28,487.78 million, a decrease of 2.35% over the previous year. In particular, turnover of the thermal power main equipment business was RMB17,295.04 million, a decrease of 3.83% over the previous year, representing 60.71% of the turnover of the principal business activities. Turnover from hydropower main equipment was RMB3,162.79 million, an increase of 21.65% over the previous year, representing 11.10% of the turnover of the principal business activities. Turnover of power plant engineering services was RMB5,104.92 million, an increase of 0.88% over the previous year, representing 17.92% of the turnover from the principal business activities. Turnover of ancillary equipment for power stations was RMB719.10 million, a decrease of 21.75% over the previous year, representing 2.53% of the turnover from the principal business activities. Turnover of AC/DC motors and other products and services was RMB2,205.93 million, a decrease of 15.44% over the previous year, representing 7.74% of the turnover of the principal business activities.

In 2011, the Group recorded a turnover of export of RMB5,975.31 million, representing an increase of RMB675.82 million over the previous year and accounted for 20.97% of the turnover of the principal business activities. The export was mainly to such regions as Asia and Africa.

COST

In 2011, the cost of the principal business activities of the Group was RMB22,777.15 million, a decrease of 8.83% over the previous year. The decrease was mainly due to the Group's effort in cost control paid off.

GROSS PROFIT AND GROSS PROFIT MARGIN

In 2011, the gross profit from the principal business activities of the Group was RMB5,710.63 million, an increase of 36.30% over the previous year. The gross profit margin was 20.05%, an increase of 5.69 percentage points over the previous year. Among them the gross profit from thermal power main equipment was RMB3,842.95 million, an increase of RMB1,308.66 million over the previous year. The gross profit margin for thermal power main equipment was 22.22%, an increase of 8.13 percentage points over the previous year. The gross profit from hydropower main equipment was RMB958.99 million, an increase of RMB339.86 million over the previous year. The gross profit margin for hydropower main equipment was 30.32%, an increase of 6.51 percentage points over the previous year. The gross profit from power plant engineering services was RMB278.32 million, an increase of RMB107.84 million over the previous year. The gross profit margin for power plant engineering services was 5.45%, an increase of 2.08 percentage points over the previous year. The gross profit from ancillary equipment for power stations was RMB286.50 million, a decrease of RMB21.06 million over the previous year. The gross profit margin for ancillary equipment for power stations was 39.84%, an increase of 6.37 percentage points over the previous year. The gross profit from the AC/DC motors and other products and services was RMB343.87 million, a decrease of RMB214.47 million over the previous year. The gross profit margin for the AC/DC motors and other products and services was 15.59%, a decrease of 5.81 percentage points over the previous year.

EXPENSES DURING THE PERIOD

The Group's expenses for operation activities during 2011 amounted to RMB558.04 million, an increase of RMB49.25 million or 9.68% over the previous year.

Expenses for administration activities during 2011 amounted to RMB3,040.18 million, an increase of RMB285.30 million or 10.36% over the previous year.

The increase in expenses during the period was mainly due to the increase in staff costs, sales services expenses, depreciation charges and R&D expenses.

INTEREST EXPENSE

In 2011, the Group has incurred financial charges of RMB72.55 million, a decrease of RMB66.99 million over the previous year.

FUNDING AND BORROWINGS

The Group has three major funding sources for operation and development, namely shareholder's funds, trade receivables from customers and bank borrowings. The Group arranges borrowings for each specific project. Except for some special situations, loans will be raised individually by the Group's subsidiaries. However, prior approval from the parent company is required in respect of borrowings raised for capital investments. As the number of orders and advance receipts increased significantly during the past two years, the Group had abundant working capital and has thus repaid substantially all of the loans for working capital. As at 31 December 2011, the total sum of the Group's borrowings was RMB1,895.86 million (31 December 2010: RMB2,209.96 million). The Group's bank borrowings are loans from various commercial banks and the State's policy banks with interest rates stipulated by the state. Among the Group's borrowings, the amount due within one year was RMB581.62 million, a decrease of RMB45.38 million compared to the beginning of the year. The amount of the Group's borrowings due after one year was RMB1,314.24 million, a decrease of RMB268.72 million compared to the beginning of the year.

DEPOSITS AND CASH FLOW

As at 31 December 2011, bank deposits and cash of the Group amounted to RMB8,519.28 million, a decrease of RMB4,030.90 million compared to the beginning of the year. During the period, net cash outflow from operating activities of the Group amounted to RMB2,273.66 million. Net cash outflow from investment activities amounted to RMB672.11 million and net cash outflow from financing activities was RMB241.67 million.

ASSET STRUCTURE AND ITS MOVEMENTS

As at 31 December 2011, total assets of the Group amounted to RMB50,396.05 million, a decrease of RMB360.06 million (or 0.71%) compared to the beginning of the year, among which current assets were RMB42,739.58 million, representing 84.81% of the total assets, and non-current assets were RMB7,656.47 million, representing 15.19% of the total assets.

LIABILITIES

As at 31 December 2011, the Group's total liabilities amounted to RMB37,872.82 million, a decrease of RMB1,719.45 million compared to the beginning of the year, among which total current liabilities were RMB29,022.65 million, representing 76.63% of the total liabilities, and total non-current liabilities were RMB8,850.17 million, representing 23.37% of the total liabilities. As at 31 December 2011, the gearing ratio of the Group was 75.15%.

SHAREHOLDERS' EQUITY

As at 31 December 2011, the total equity attributable to the shareholders of the Company amounted to RMB10,601.62 million, an increase of RMB900.17 million compared to the beginning of the year; the net asset per share was RMB7.70. During the period, the net asset return rate of the Group was 12.1%.

GEARING RATIO

As at 31 December 2011, gearing ratio of the Group (non-current liabilities over total shareholders' equity) was 0.83:1 as compared to that of 1.05:1 at the beginning of the year.

CONTINGENT LIABILITIES AND PLEDGE OF ASSET

As at 31 December 2011, the Group pledged its bank deposits in the amount of RMB131.16 million to secure loans for liquidity.

CAPITAL EXPENDITURES AND MAJOR INVESTMENTS

In 2011, the Group has a total capital expenditure of RMB1,530 million invested in infrastructure constructions and technological upgrades. The particulars of the investments and construction projects are as follows:

The technological upgrade projects for 1,000MW nuclear power ancillary equipment and the newly-built hydropower model laboratory were completed during the year;

The improvement project for domestic nuclear production at conventional islands, the manufacturing and construction project of the main equipment for nuclear island, the self-reliance and improvement project of the main equipment for nuclear island, the construction project of manufacturing base for main pump generators, the manufacturing technology upgrade project for nuclear power reactor-cooling agent pump units as well as the technological upgrade projects for coal chemicals, IGCC and large-scale chemical engineering equipment have reached their final stages;

As regards Phase I of the scientific research base, the technological upgrade project for mass production of 30MW fuel gas compressor units as well as the construction projects for boiler laboratory, technological laboratory and material laboratory have been carried out as scheduled.

In 2012, the Group intends to commit an investment of RMB992 million, which will be mainly used for Phase I of the scientific research base and the technological upgrade project for mass production of 30MW fuel gas compressor units.

On 11 May 2011, the Group subscribed for 200 million A shares of Datang International Power Generation Co., Ltd. under private offering at a price of RMB6.74 per share, totaling RMB1,348 million. The shares were subject to a locked-up period of one year.

As at 31 December 2011, the shareholdings by the Company were as follows:

200 million A shares of Datang International Power Generation Co., Ltd., with a locked- up period of one year;

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

98 million A shares of Huaneng Power International, Inc..

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES AND RELATED HEDGES

The Group has certain amount of deposits that are denominated in foreign currencies. As at 31 December 2011, the amount of the Group's deposits in foreign currencies was equivalent to RMB790.55 million. The export business and foreign currencies settled businesses expose the Group to exchange risk.

USE OF FUND-RAISING PROCEEDS

The Group has fully utilized its fund-raising proceeds and no other usage of fund-raising proceeds was recorded in 2011.

STAFF AND REMUNERATION

As at 31 December 2011, the Group had a workforce of 20,106 employees and the total remuneration amounted to RMB1,569 million. The Group endeavors to introduce more recruitment tactics to attract high-caliber talents and puts additional efforts in staff training to provide our staff with opportunities for growth and development.

PROSPECT

For 2012, severity and complexity will remain a phenomenon of the global economy with an economic recovery becoming increasingly uncertain. The fallout of international financial crisis will exert downward pressure on the Chinese economy which may lose some steam with an expected slowdown in GDP growth of 7.5%.

Facing with a complex and volatile political and economic environment abroad, and the new situations and changes in the domestic economy, the PRC government remains adamant on its stance of striving for progress without compromising stability, strengthening and improving austerity measures as well as maintaining a steady yet faster pace of economic development. The PRC will step up its efforts in adjusting energy structure by actively developing hydropower provided that sufficient measures for environment protection as well as relocation and settlement are in place, effectively developing nuclear power with adequate safety assurance, promoting the development of natural gas industry, developing wind power in a proactive and orderly manner, and actively developing solar power. It is expected that annual installed capacity will increase by approximately 70,000MW.

2012 marks the beginning of the "Twelfth Five year Plan". Under the leadership of the Board, the Group is confident that we will be able to achieve impressive progress, overcome difficulties, adjusting structure, enhancing management, facilitating on-going development of the Company, and creating greater value for our investors.

The Group will focus on accomplishing the following tasks in 2012:

Enhancing customer satisfaction and developing markets with full strength

Under the concept of "total marketing", all our efforts are directed to market development. We strive for higher customer satisfaction by providing meticulous design, production and services, actively responding to their demands for energy saving, reduction of wastage and higher efficiency, and meeting their requirements for performance, quality assurance, construction progress and efficient services. Besides, to provide powerful support for market development, we integrate and re-allocate our marketing resources to maximize the Group's overall strength.

We will consolidate our presence in the conventional market by gaining a bigger share in the thermal power market, maintaining our competitiveness in the hydropower market and developing the nuclear power market with full strength. We will also continue to develop the markets for combustion engines and environment-friendly products as well as such new products as IGCC, compressors, photovoltaic power generation, wind power, seawater desalination, etc.. Driven by the exportation of EPC projects and main equipment as well as the provision of up-to-date services for the manufacturing sectors, we have taken a big step in exploring the overseas markets and the service markets.

Tightening cost control and enhancing operating efficiency

We will tighten cost control to actively cope with the complex economic environment. By promoting the "total cost" model, we manage and control by allocating the costs to the design, procurement, production and sales segments.

We will perform strict budget management to step up control on cash flows. Measures adopted include timely recovery of receivables, reduction of unnecessary expenses, squeeze on overhead, further reduction of inventory, and optimal utilization of funds by tapping new resources while reducing expenditure.

Capitalizing on the benefits of tendering process, we will lower procurement cost by expanding the scope of procurement. We will also fully utilize in-house capacity to reduce the amount of outsourcing operations and cut down on outsourcing prices to contain the expenditure on outsourcing.

Speeding up technology innovation and pushing through structure adjustment

Bearing market demand and national policies in mind, we will continue on our course of technology advancement and product upgrading. To sharpen our competitive edge in terms of technology, we will step up our efforts in self-initiated innovation along with the absorption of transferred technology. To provide technical support for product improvement and upgrading, we will meticulously work on the performance and projects of high capacity thermal power and hydropower generating units. To enhance our own capabilities in designing and manufacturing nuclear power products, we will conduct in-depth research into the design and manufacture of the AP1000 nuclear power equipment. To ensure smooth execution of contracts in hand, we will work on the technology transfer for 9FB gas turbine.

Leveraging on technology innovation, we will speed up the process of adjusting the industry structure and incubate budding businesses so as to set up new growth points. To lay a foundation for the Group's long term development, we will achieve breakthroughs in the research of such new segments as coal chemicals, seawater desalination, photovoltaic power generation and compressors.

For the purpose of expanding our nuclear power segment, the Group is setting up its own design institute for nuclear power equipment to build up its capabilities in the design and supply of nuclear power turnkey projects and complete the industry chain.

We will accelerate the construction of a manufacturing base for compressors. Taking advantage of the contracted projects, construction and production will be effected simultaneously to expedite the prototyping process.

We will also accelerate the construction of a wind farm in Zhenjiang with particular attention being paid to technology transfer and absorption, installation and fine-tuning of equipment, and pre-commissioning preparations.

Enhancing management and developing fundamentals in a pragmatic way

The Group has marked 2012 as its "Management Enhancement Year". Quality of workflow and products is placed high on the priority list to attain a higher degree of efficiency and economic benefits.

Under the comprehensive quality enhancement directive, performance will be assured by technology advancements, product quality by effective system and service quality by efficiency and integrity.

We will closely monitor the inherent risks and actual progress of the projects so as to effect timely adjustment to our implementation strategies and ensure contracts will be honoured. Under the principle of total control and high precision, the Group will further deepen its development of human resources by expanding its workforce, strengthening personnel training, supervision and assessment as well as optimizing its execution capabilities.

Under the principle of necessary prudence and tight control, the Group will conduct systematic reviews and examinations as well as post-assessments on the infrastructure and investment projects underway.

The Group will make greater contribution to the society in terms of conservation of energy and reduction of emission by applying the same principle to itself in environmental protection, cost-saving and effectiveness enhancement.

DIVIDEND

A dividend of RMB0.14 per share (appropriate tax included) for 2011 (2010: RMB0.14 per share) was proposed by the board of directors, which remained unchanged as last year.

Dividends payable to shareholders of H share will be paid in Hong Kong dollar at the average of the exchange rates quoted by the People's Bank of China for the five days preceding 17 March 2012, which is RMB1 for HK$1.2259. The dividend for every H share will be HK$0.1716.

CLOSURE OF REGISTER

The Register of members of the Company will be closed from 23 May 2012 to 25 May 2012 (both dates inclusive). Final dividend for 2011 will be distributed by 13th July, 2012 to shareholders whose names appear in the Register of members of the Company on 23 May 2012. In order to qualify for the final dividend for 2011, all completed transfers accompanied with the relevant share certificates must be lodged with the Company's Registrar, namely Hong Kong Registrars Limited at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong no later than 4:30 p.m. on 22 May 2012.

DIVIDEND TAX

Pursuant to the "PRC Individual Income Tax Law" (《中華人民共和國個人所得稅法》), the "PRC Implementation Regulations of the Individual Income Tax Law" (《中華人民共和國個人所得稅法實施條例》), the "Notice of the State Administration of Taxation in relation to the Administrative Measures on Preferential Treatment Entitled by Non-residents under Tax Treaties (Tentative)" ([Guo Shui Fa 2009] No.124) (《國家稅務總局關於印發〈非居民享受稅收協定待遇管理辦法（試行)〉的通知》([國稅發2009]124號)) ("Tax Treaties Notice") and other relevant laws and regulations promulgated by the State Administration of Taxation, following the repeal of the "Notice of the Issues Concerning Tax on the Profits Earned by Foreign Invested Enterprises, Foreign Enterprises and Individual Foreigners from the Transfer of Shares (Equity Interests) and on Dividend Income" (Guo Shui Fa [1993] No.45) (《關於外商投資企業、外國企業和外籍個人取得股票（股權）轉讓收益和股息所得稅收問題的通知》(國稅發[1993]45號)), the Company will withhold and pay the individual income tax in respect of the dividend (bonus) received by the individual H Shareholders from the Company. The individual H Shareholders of the Company may be entitled to certain tax preferential treatments pursuant to the tax treaties between the PRC and the countries in which the individual H Shareholders are domiciled and the tax arrangements between Mainland China and Hong Kong (Macau). The Company will determine the capacity of the individual H Shareholders based on the registered address as recorded in the register of holders of H shares of the Company on book closure date, i.e. 23 May 2012. The detailed arrangement will be as follows:

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

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

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

For individual H Shareholders whose country of domicile has entered into a tax treaty with the PRC stipulating a dividend tax rate of 20% or has not entered into any tax treaties with the PRC, the Company will withhold and pay individual income tax at the rate of 20% on behalf of the individual H Shareholders.

The Company will have no liability in respect of any claims arising from any delay in, or inaccurate determination, of the status of the shareholders of the Company or any disputes over the mechanism of withholding.

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

As at 31 December 2011, none of the directors, supervisors and senior management of the Company had any interest or short position 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 interest or short position which any such director, supervisor or senior management is 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 Listing Companies as contained in Appendix 10 to the Listing Rules.

DIRECTORS' AND SUPERVISORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

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

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

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

PRE-EMPTIVE RIGHTS

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

MODEL CODE

The Company, having made specific enquiry, confirms that all members of the Board 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 throughout the year of 2011 with all code provisions set out in the Code on Corporate Governance Practices contained in Appendix 14 of the Listing Rules of the Stock Exchange.

AUDIT COMMITTEE

The Audit Committee had reviewed the annual results and the audited financial statements of the Group for the year ended 31 December 2011, and discussed with the Board the financial reporting procedures as well as the internal control system.

AUDITORS

The current PRC auditor of the Company is Crowe Horwath China CPAs, and the Hong Kong auditor is Crowe Horwath (HK) CPA Limited.

By order of the Board
Gong Jing-kun
Chairman

17 March 2012

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