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	<i>Note</i>	<b>2012</b> <i>RMB'000</i>	2011 <i>RMB'000</i>
Profit before taxation	7	<b>1,746,133</b>	1,639,960
Income tax	8(a)	<b>(404,551)</b>	(256,686)
Profit for the year		<b><u>1,341,582</u></b>	<u>1,383,274</u>
<b>Attributable to:</b>			
Equity shareholders of the Company		<b>1,408,255</b>	1,228,661
Non-controlling interests		<b>(66,673)</b>	154,613
		<b><u>1,341,582</u></b>	<u>1,383,274</u>
<b>Earnings per share</b>			



## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2012

	Note	2012 RMB'000	2011 RMB'000
<b>Non-current assets</b>			
Investment properties		4,629	4,810
Property, plant and equipment		6,412,038	5,799,944
Prepaid lease payments		420,946	433,000
Intangible assets		233,393	261,732
Deferred tax assets		288,542	277,366
Interests in associates		583,840	546,899
Other non-current assets		357,964	332,722
		<b>8,301,352</b>	7,656,473
<b>Current assets</b>			
Inventories		12,356,211	11,616,296
Trade receivables	11	15,286,812	12,918,135
Bills receivable	11	1,278,348	1,052,526
Other receivables, deposits and prepayments	11	4,595,063	4,484,066
Prepaid lease payments		12,300	11,922
Amounts due from customers for contract work		2,079,367	1,849,593
Amounts due from fellow subsidiaries		111,832	59,929
Derivative financial instruments		15,422	92,641
Trading securities		1,601,800	2,001,530
Restricted bank deposits		14,631	2,506
Pledged bank deposits		331,446	131,155
Bank deposits		472,913	247,404
Cash and cash equivalents		8,174,912	8,271,875
		<b>46,331,057</b>	42,739,578
<b>Current liabilities</b>			
Derivative financial instruments		-	3,730
Amounts due to customers for contract work		1,563,378	1,413,194
Trade payables	12	17,260,173	14,646,188
Bills payable	12	3,555,642	1,900,795
Other payables, accruals and provisions	12	1,655,720	2,033,798
Deposits received		>> 6(4,595,063) 19De767mc4	

	<i>Note</i>	<b>2012</b> <i>RMB'000</i>	2011 <i>RMB'000</i>
<b>Net current assets</b>		<b>12,493,220</b>	13,716,925
<b>Total assets less current liabilities</b>		<b>20,794,572</b>	21,373,398
<b>Non-current liabilities</b>			
Derivative financial instruments		–	28,941
Deposits received		<b>4,655,159</b>	6,337,141
Advance from holding company		<b>1,357,108</b>	1,169,838
Borrowings — due after one year		<b>981,317</b>	1,314,244
Obligation under finance lease — due after one year		<b>136,391</b>	–
Deferred tax liabilities		<b>396</b>	–
		<b>7,130,371</b>	8,850,164
<b>NET ASSETS</b>		<b>13,664,201</b>	12,523,234
<b>CAPITAL AND RESERVES</b>			
Share capital	<i>14</i>	<b>1,376,806</b>	1,376,806
Reserves		<b>10,477,111</b>	9,224,814
Total equity attributable to equity shareholders of the Company		<b>11,853,917</b>	10,601,620

## 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 2012 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”)**

##### **New and revised HKFRSs**

The Group has adopted the following new and revised standards and amendments (“new and revised HKFRSs”) that are first effective for the current accounting period.

Amendments to HKFRS 7	Financial Instruments: Disclosures — Transfers of Financial Assets; and
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Amendments to HKAS 12	Deferred Tax: Recovery of Underlying Assets
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Except as described below, the application of the amendments to HKFRSs in the current year has had no material effect on the Group’s financial performance and positions for the current and prior years and/or on the disclosures set out in these financial statements.

##### **Amendments to HKFRS 7, Financial instruments: Disclosures**



## 7. PROFIT BEFORE TAXATION

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

	2012 <i>RMB'000</i>	2011 <i>RMB'000</i>
<b>(a) Finance costs</b>		
Interest on bank and other borrowings:		
— wholly repayable within five years	53,723	60,183
— not wholly repayable within five years	480	17,690
Finance charges on obligation under finance lease	9,079	—
	<u>63,282</u>	<u>77,873</u>
Total interest expenses on financial liabilities not at fair value through profit or loss	63,282	77,873
Less: interest expense capitalised into construction in progress	(6,515)	(5,321)
	<u>56,767</u>	<u>72,552</u>

Borrowing costs capitalised during the year arose on the general borrowing pool and are calculated by applying a capitalisation rate of 6.31% (2011: 6.40%) per annum to expenditure on qualifying assets.

	2012 <i>RMB'000</i>	2011 <i>RMB'000</i>
<b>(b) Staff costs<sup>#</sup></b>		
Staff costs including directors' and supervisors' emoluments	1,648,984	1,569,233
Post-employment benefit scheme contributions	332,692	301,251
	<u>1,981,676</u>	<u>1,870,484</u>
<b>(c) Other items</b>		
Allowance for doubtful debts	766,307	618,868
Allowance for inventories	34,531	115,526
Amortisation of intangible assets <sup>#</sup>	29,292	19,110
Amortisation of prepaid lease payments <sup>#</sup>	12,301	11,922
Auditors' remuneration	2,910	2,850
Cost of inventories <sup>#</sup>	20,414,447	22,777,148
Depreciation for investment properties <sup>#</sup>	181	181
Depreciation for property, plant and equipment <sup>#</sup>	590,307	527,497
Net foreign exchange loss	6,563	113,123
Impairment loss recognised in respect of available-for-sale investments	—	1,000
Reversal of impairment loss on doubtful debts	(3,234)	(42,695)
Research and development expenses	362,092	339,617
	<u>362,092</u>	<u>339,617</u>

<sup>#</sup> Cost of inventories includes RMB1,669,265,000 (2011: RMB1,636,299,000) 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)**

## 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 RMB1,408,255,000 (2011: RMB1,228,661,000) and on the weighted average number of ordinary shares of 1,376,806,000 (2011: 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 2012 and 2011, 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 Company's directors monitor 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 assets, trading securities, derivative financial instruments, deferred tax assets, restricted bank deposits, pledged bank deposits, bank deposits, cash and cash equivalents and other corporate assets. Segment liabilities include trade payables, bills payable, other payables, accruals and provisions, amounts due to fellow subsidiaries, deposits received and amounts due to

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

Information regarding the Group’s reportable segments as provided to the Company’s directors for the purposes of resource allocation and assessment of segment performance for the years ended 31 December 2012 and 2011 is set out below.

**2012**

	<b>Main thermal power equipment RMB’000</b>	<b>Main hydro power equipment RMB’000</b>	<b>Engineering services for power stations RMB’000</b>	<b>Ancillary equipment for power stations RMB’000</b>	<b>AC/DC motors and others RMB’000</b>	<b>Total RMB’000</b>
Revenue from external customers	15,492,620	3,800,862	3,354,372	992,595	2,354,737	25,995,186

2011

	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>	Total <i>RMB'000</i>
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	<u>20,542,680</u>	<u>3,162,786</u>	<u>5,104,920</u>	<u>719,100</u>	<u>2,205,935</u>	<u>31,735,421</u>
<b>Reportable segment profit</b>	<u>3,998,910</u>	<u>958,992</u>	<u>278,315</u>	<u>286,505</u>	<u>343,872</u>	<u>5,866,594</u>
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)
<b>Reportable segment assets</b>	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
<b>Reportable segment liabilities</b>	<u>24,528,940</u>	<u>3,520,911</u>	<u>3,973,575</u>	<u>752,172</u>	<u>2,165,011</u>	<u>34,940,609</u>

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

	2012 <i>RMB'000</i>	2011 <i>RMB'000</i>
<b>Revenue</b>		
Reportable segment revenue	<b>29,022,990</b>	31,735,421
Elimination of inter-segment revenue	<b>(3,027,804)</b>	(3,247,639)
	<hr/>	<hr/>
Consolidated turnover	<b>25,995,186</b>	28,487,782
	<hr/> <hr/>	<hr/> <hr/>
<b>Profit</b>		
Reportable segment profit	<b>5,611,877</b>	5,866,594
Elimination of inter-segment profits	<b>(31,138)</b>	(155,960)
	<hr/>	<hr/>
Reportable segment profit derived from		
Group's external customers	<b>5,580,739</b>	5,710,634
Share of profits less losses of associates	<b>54,347</b>	78,534
Interest income	<b>183,358</b>	252,245
PRC government subsidies	<b>410,516</b>	380,675
Fair value losses on trading securities	<b>(243,095)</b>	(394,512)
Provision for onerous contracts	<b>(56,498)</b>	(814,924)
Finance costs	<b>(56,767)</b>	(72,552)
Unallocated other net income	<b>100,974</b>	252,377
Unallocated head office and corporate expenses	<b>(4,227,441)</b>	(3,752,517)
	<hr/>	<hr/>
Consolidated profit before taxation	<b>1,746,133</b>	1,639,960
	<hr/> <hr/>	<hr/> <hr/>
<b>Assets</b>		
Reportable segment assets	<b>45,511,416</b>	41,041,588
Elimination of inter-segment receivables		

	2012 <i>RMB'000</i>	2011 <i>RMB'000</i>
<b>Liabilities</b>		
Reportable segment liabilities	<b>37,498,228</b>	34,940,609
Elimination of inter-segment payables	<b>(3,010,180)</b>	(3,056,385)
	<b>34,488,048</b>	31,884,224
Income tax payables	<b>513,608</b>	635,239
Derivative financial instruments	–	32,671
Advance from holding company	<b>1,757,586</b>	1,172,623
Borrowings	<b>2,132,912</b>	1,895,867
Obligation under finance lease	<b>173,379</b>	–
Deferred tax liabilities	<b>396</b>	–
Unallocated head office and corporate liabilities	<b>1,902,279</b>	2,252,193
Consolidated total liabilities	<b>40,968,208</b>	37,872,817

**(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	
	2012 <i>RMB'000</i>	2011 <i>RMB'000</i>	2012 <i>RMB'000</i>	2011 <i>RMB'000</i>
PRC (place of domicile)	<b>21,984,696</b>	22,512,472	<b>7,654,846</b>	7,046,385
Overseas:				
— Republic of India	<b>1,136,563</b>	3,755,841	–	–
— Islamic Republic of Pakistan	<b>1,303,322</b>	1,800,770	–	–
— The Republic of Ecuador	<b>631,932</b>	–	–	–
— Other countries	<b>938,673</b>	418,699	–	–
	<b>4,010,490</b>	5,975,310	–	–
	<b>25,995,186</b>	28,487,782	<b>7,654,846</b>	7,046,385



## 12. TRADE PAYABLES/BILLS PAYABLE/OTHER PAYABLES, ACCRUALS AND PROVISIONS

	2012 <i>RMB'000</i>	2011 <i>RMB'000</i>
Trade payables	17,260,173	14,646,188
Bills payable	3,555,642	1,900,795
	<u>20,815,815</u>	<u>16,546,983</u>
Provisions	963,429	1,463,359
Other payables and accrued charges	692,291	570,439
	<u>22,471,535</u>	<u>18,580,781</u>

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

	2012 <i>RMB'000</i>	2011 <i>RMB'000</i>
Within 1 year	17,686,026	15,584,796
Between 1 to 2 years	2,471,225	278,938
Between 2 to 3 years	147,336	389,386
Over 3 years	511,228	293,863
	<u>20,815,815</u>	<u>16,546,983</u>

## 13. DIVIDENDS

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

	2012 <i>RMB'000</i>	2011 <i>RMB'000</i>
Final dividend proposed after the end of the reporting period of RMB0.1 per ordinary share (2011: RMB0.14 per ordinary share)	<u>137,681</u>	<u>192,753</u>

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.

	2012 <i>RMB'000</i>	2011 <i>RMB'000</i>
Final dividend in respect of the previous financial year, approved and paid during the year, of RMB0.14 per share (2011: RMB0.14 per share)	<u>192,753</u>	<u>192,753</u>

## 14. SHARE CAPITAL

	2012		2011	
	<i>N</i>	<i>RMB'000</i>	<i>Number</i>	<i>RMB'000</i>
	<i>f</i>	<i>¥</i>	<i>of shares</i>	
Registered, issued and fully paid:				
State owned equity interest				
shares of RMB1 each	<b>701,235,000</b>	<b>701,235</b>	701,235,000	701,235
H Shares of RMB1 each	<b>675,571,000</b>	<b>675,571</b>	675,571,000	675,571
At 1 January and 31 December	<b><u>1,376,806,000</u></b>	<b><u>1,376,806</u></b>	<u>1,376,806,000</u>	<u>1,376,806</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.

## 15. NON-ADJUSTING EVENT AFTER THE REPORTING PERIOD

- (a) After the end of the reporting period, the directors of the Company proposed a final dividend. Further details are disclosed in note 13(a).
- (b) On 20 February 2013, the Company received the “Approval relating to the Public Issuance of Corporate Bonds by Harbin Electric Company Limited (Zhengjianxuke [2013] No. 159)” from the China Securities Regulatory Commission (the “CSRC”).

The CSRC approved the public issuance of the domestic corporate bonds (“the Corporate Bonds”) of not exceeding RMB4 billion by the Company. The issuance of five-year Corporate Bonds (first tranche) of the Company was completed on 13 March 2013 with a final operating size of RMB3 billion. Other tranches shall be issued and completed within 24 months from the date on which the approval of the CSRC is obtained. The coupon rates of the first tranche of the Corporate Bonds are determined at 4.90%.

The issue of Corporate Bonds shall strictly comply with the prospectus and the announcement of issuance submitted to the CSRC.

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **MACRO ECONOMY AND INDUSTRY DEVELOPMENT**

In 2012, the global economy remained sluggish as in 2011. Developed countries endured a feeble recovery and a slowdown in growth rate, while emerging economies faced an overall downturn in growth, and the international trade expansion was in a notable downtrend. The PRC intensified and enhanced its macro control measures, resulting in a steady development in its social economy with a GDP growth rate of 7.8%.

Under the influence of the global economic trend, the international power market saw increasing uncertainty. China's power consumption sustained steady growth, power consumption across China grew at 5.5% over the previous year, and newly installed capacity of the power generating units reached 80,200MW. As at the end of 2012, power generating units nationwide has a capacity of 1,144,910MW.

### **NEW CONTRACTS**

In 2012, confronted by the complicated global economic development and highly competitive environment, Harbin Electric Company Limited and its subsidiaries (hereinafter as the "Group") devised its strategies with assertiveness, and focused on promoting satisfactory of its clients and endeavored to develop new markets, realizing RMB52.495 billion worth of new contracts, of which RMB21.185 billion (or 40.36% of total contract value) for thermal power equipment, RMB2.884 billion (or 5.49% of total contract value) for hydropower equipment, RMB2.895 billion (or 5.51% of total contract value) for nuclear power equipment, RMB5.549 billion (or 10.57% of total contract value) for hybrid equipment, RMB0.889 billion (or 1.69% of total contract value) for wind power equipment, RMB12.948 billion (net of duplication) (or 24.66% of total contract value) for power engineering, and RMB6.145 billion (or 11.72% of total contract value) for other products.

The thermal power equipment segment has achieved the millionth project breakthrough, and the Group signed a new contract for supplying 3 major units of 1,000MW ultra supercritical boilers for the Leizhou project, a new contract to supply the 1,000MW unit and power supply for the Luoyuan Bay project, as well as the new contract to supply the 1,000MW boiler for the Laiwu project, the first project in China to implement both the double-reheating technology and the tower boiler technology.

The hydropower equipment exporting capacity reached its record high, and the Group signed a new contract for supplying 4 units of 375MW water turbine generators for the Ethiopia Revival project. The Group also procured its first assemble supply transaction by signing the contract for 2 units of 14MW hydropower specialized equipment supply and service assemble contract in Topo, Ecuador.

Our range of nuclear power equipment further widened, and the Group signed the supply contract of masking main-pump generator and the high-temperature gas-cooled helium compression generator with the world-largest capacity for the CAP1400 major specialized pilot project.

The Group further developed its hybrid equipment market. We have completed the installation of the first prototype compressor, thus established the ability to supply 30MW assembled compressor, while at the same time signed the assemble supply contract for 3 units of E-graded compressors in Shenzhen Nantian, Tongxiang and Suzhou.

The wind power equipment segment has signed its first 52.8MW exporting master contract; the photovoltaic power generation segment signed a 20MW thermal power equipment supply contract; the tidal power segment signed a 3MW tidal power equipment supply contact; the desulfation environmental-friendly equipment segment signed the 2 units of 350MW supercritical coal-fired generator desulfation island master contract in Panjin.

New contracts obtained from the international markets amounted to RMB21.206 billion, or 40.40% of total contract value. The Group has signed several major contracts, including the supply contract for 2 units of 660MW supercritical specialized main unit in Nagar, India, and a unit of 670MW supercritical coal-fired generator in Banten, Indonesia.

## **PRODUCTION AND SERVICES**

The total output of the Group's power equipment for 2012 reached 23,866.60MW, representing an increase of 6.87% over the previous year, among which the capacity of water turbine generators amounted to 7,188.30MW, increased by 2.18% over the previous year; the capacity of steam turbine generators amounted to 14,719MW, decreased by 3.78% from the previous year; the nuclear generator segment realized a breakthrough in its productivity, the capacity of which amounted to 1,926MW; and the capacity of wind power generator amounted to 33.30MW, which has begun to take shape in terms of production scales.

Facing negative factors such as tightened funding of clients and increasing hold-ups and delays of projects, the Group has taken practical situation into account before implementing

## **REFORM AND MANAGEMENT**

The Group has implemented the management enhancing scheme through self-evaluation, and has identified five short planks and bottlenecks problems. The Group formulated rectifying plans accordingly, and introduced concrete rectifying actions to execute such detailed improving measures orderly.

Through tightening control over use of funding and lowering costs and expenses, the Group achieved profit growth over the previously year despite unfavorable factors such as drop in sales income.

In order to increase the capacity of our nuclear assemble supply business, the Group has established the Beijing Nuclear Equipment Design House (北京核電設備設計院). All processes are on track, and data-mining and know-how transfer procedures are underway.

Also, the Group had completed the preparation work for the issuance of corporate bonds in a principal amount of RMB4 billion in order to boost development of the Company as well as to alleviate funding pressure.

## **PROFIT**

In 2012, net profit attributable to the shareholders of the Company was RMB1,408.26 million, an increase of 14.62% over the previous year; earnings per share were RMB1.02, an increase

In 2012, the Group recorded a turnover of export of RMB4,010.49 million, representing a decrease of RMB1,964.82 million over the previous year and accounted for 15.43% of the turnover of the principal business activities. The export was mainly to such regions as Asia and South America.

## **COST**

In 2012, the cost of the principal business activities of the Group was RMB20,414.45 million, a decrease of 10.37% 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 2012, the gross profit from the principal business activities of the Group was RMB5,580.74 million, a decrease of 2.27% over the previous year. The gross profit margin was 21.47%, an increase of 1.42 percentage points over the previous year. Among them the gross profit from thermal power main equipment was RMB3,452.70 million, a decrease of RMB390.25 million over the previous year. The gross profit margin for thermal power main equipment was 22.29%, an increase of 0.07 percentage points over the previous year. The gross profit from hydropower main equipment was RMB1,263.20 million, an increase of RMB304.21 million over the previous year. The gross profit margin for hydropower main equipment was 33.23%, an increase of 2.91 percentage points over the previous year. The gross profit from power plant engineering services was RMB314.65 million, an increase of RMB36.33 million over the previous year. The gross profit margin for power plant engineering services was 9.38%, an increase of 3.93 percentage points over the previous year. The gross profit from ancillary equipment for power stations was RMB232.44 million, a decrease of RMB54.06 million over the previous year. The gross profit margin for ancillary equipment for power stations was 23.42%, an increase of 16.42 percentage points over the previous year. The gross profit from the AC/DC motors and other products and services was RMB317.75 million, a decrease of RMB26.12 million over the previous year. The gross profit margin for the AC/DC motors and other products and services was 13.49%, a decrease of 2.1 percentage points over the previous year.

## **EXPENSES DURING THE PERIOD**

The Group's expenses for operation activities during 2012 amounted to RMB632.37 million, an increase of RMB74.33 million or 13.32% over the previous year.

Expenses for administration activities during 2012 amounted to RMB3,320.87 million, an increase of RMB280.69 million or 9.23% over the previous year.

The increase in expenses during the period was mainly due to the increase in transportation

## **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 2012, the total sum of the Group's borrowings was RMB2,132.91 million (31 December 2011: RMB1,895.86 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 RMB1,151.60 million, an increase of RMB569.98 million compared to the beginning of the year. The amount of the Group's borrowings due after one year was RMB981.31 million, a decrease of RMB332.93 million compared to the beginning of the year.

## **DEPOSITS AND CASH FLOW**

As at 31 December 2012, bank deposits and cash of the Group amounted to RMB8,647.83 million, an increase of RMB128.55 million compared to the beginning of the year. During the period, net cash inflow from operating activities of the Group amounted to RMB475.53 million. Net cash outflow from investment activities amounted to RMB1,288.93 million and net cash inflow from financing activities was RMB701.63 million.

## **ASSET STRUCTURE AND ITS MOVEMENTS**

As at 31 December 2012, total assets of the Group amounted to RMB54,632.41 million, an increase of RMB4,236.36 million (or 8.41%) compared to the beginning of the year, among which current assets were RMB46,331.06 million, representing 84.81% of the total assets, and non-current assets were RMB8,301.35 million, representing 15.19% of the total assets.

## **LIABILITIES**

As at 31 December 2012, the Group's total liabilities amounted to RMB40,968.21 million, an increase of RMB3,095.39 million compared to the beginning of the year, among which total current liabilities were RMB33,837.84 million, representing 82.60% of the total liabilities, and total non-current liabilities were RMB7,130.37 million, representing 17.40% of the total liabilities. As at 31 December 2012, the gearing ratio of the Group was 74.99%.

## **SHAREHOLDERS' EQUITY**

As at 31 December 2012, the total equity attributable to the shareholders of the Company amounted to RMB11,853.92 million, an increase of RMB1,252.30 million compared to the beginning of the year; the net asset per share was RMB8.61. During the period, the net asset return rate of the Group was 12.54%.

## **GEARING RATIO**

As at 31 December 2012, gearing ratio of the Group (non-current liabilities over total shareholders' equity) was 0.60:1 as compared to that of 0.83:1 at the beginning of the year.

## **CONTINGENT LIABILITIES AND PLEDGE OF ASSET**

As at 31 December 2012, the Group pledged its assets in the amount of RMB362.36 million to secure loans for liquidity.

## **CAPITAL EXPENDITURES AND MAJOR INVESTMENTS**

In 2012, the Group has a total capital expenditure of RMB1,106 million invested in infrastructure constructions and technological upgrades. The particulars of the investments and construction projects are as follows:

Nuclear reactor-cooling agent pump units manufacturing technology upgrade, high-capacity offshore wind turbine base construction, as well as the 3 technological upgrade projects for coal chemicals, IGCC and large-scale chemical engineering equipment have been completed.

In regard to Phase I of the scientific research base, the framework construction up to 20th floor of the main building and the framework construction for the auxiliary building have been completed.

The civil engineering construction of our combustion trial center has been completed, which completed the enclosed heating system of our factory.

Projects including the nuclear power nuclear island main equipment manufacturing automation, the construction work for nuclear power ancillary equipment manufacturing automation, and heavy gas turbine key compartment main R&D laboratory have been carried out as scheduled.

In 2013, the Group intends to commit an investment of RMB1,073 million, which will be mainly used for Phase I of the scientific research base, the heavy gas turbine key compartment main R&D laboratory and the Southwest hydropower equipment manufacturing base.

As at 31 December 2012, the shareholdings by the Company were as follows:

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

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

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

## **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 2012, the amount of the Group's deposits in foreign currencies was equivalent to RMB1,140.81 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 2012.

## **STAFF AND REMUNERATION**

As at 31 December 2012, the Group had a workforce of 22,065 employees and the total remuneration amounted to RMB1,649 million. The Group recruit its staff members through multiple channels to attract professionals for our development, while performing in-depth appraisal for the entire staff and provide further training, so as to continuously improving the performances of our staff.

## **PROSPECT**

In 2013, underlying impact of the international financial crisis persist, creating uncertainty and insecurity in the global economic recovery. The PRC is under a conflicting downward pressure on economic growth and relative productivity surplus, bringing the GDP growth rate

## **2. Optimize organization and encourage innovations to build up competitive edges**

In keeping with the national industrial policies and energy development strategies, the Group will focus on major projects in developing new industries and research and development therein, and put its competitive technology resources to form committees in tackling key science and technology frontiers.

We will foster and regulate the operation of our Nuclear Design House, and put our effort in managing and cultivating the nuclear culture, with the view to support the technology R&D and nuclear power quality data-mining procedures, so as to strengthen our nuclear island equipment assemble supply business.

In response to the energy-saving and waste-reduction requirements of the government and to prompt breakthroughs, the Group strives to achieve higher standards of product functions, to spur favorable outcomes which will drive our environmental-friendly businesses such as desulfation and denitration.

The Group will further its intellectual properties management, and will seek out patent registrations, so as to solidify and apply our technologies achievements.

## **3. Solidify foundation and enhance management to further development**

In terms of enhancing management, the Group will encourage intensive and delicate management, to guarantee significant improvement in basic management skills as well as internal control abilities, and to modernize and innovate our management system to boost integrated performance of the Group.

In terms of project management, the Group will secure the basics of manufacturing technologies, balance internal and external resources, and intensify management over manufacture planning. The Group will also promote communication and coordination with the users, as well as regulating project risks, in order to meet our annual manufacturing target.

As to the quality of our economic operations, the Group will implement overall budget management and tighten control over off-budget expenses. We will heighten our funding consolidation and allocation to make good use of proceeds from debt issuance, so as to increase funds utilization efficiency. Also, the Group will set up routines to tighten control over costs and expenses through cost-minimization and performance enhancing

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**DIVIDEND**

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

## **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.

## **CORPORATE GOVERNANCE CODE COMPLIANCE**

The Company has complied throughout the year of 2012 with all code provisions set out in the Corporate Governance Code and Corporate Governance Report ("CG Code") contained in Appendix 14 of the Listing Rules of the Stock Exchange.

## **AUDIT COMMITTEE**

The Audit Committee had reviewed the audited financial statements and connected transactions of the Group for the year ended 31 December 2012, 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  
**Harbin Electric Company Limited**  
**Gao Xu-Guang**  
*Company Secretary*

Harbin, PRC, 25 March 2013

*As at the date of this announcement, the executive directors of the Company are Mr. Wu Weizhang and Mr. Shang Zhong-fu; the non-executive directors of the Company are Mr. Gong Jing-kun, Mr. Zou Lei, Mr. Zhang Ying-jian and Mr. Song Shi-qi; and the independent non-executive directors of the Company are Mr. Sun Chang-ji, Mr. Jia Cheng-bing, Mr. Yu Bo and Mr. Liu Deng-qing.*