哈电集团
HARBIN ELECTRIC CORPORATION

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

(Incorporated in the People's Republic of China with limited liability)
(Stock Code: 1133)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2013

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 2013, which were prepared in accordance with the accounting principles generally accepted in Hong Kong.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS
For the year ended 31 December 2013

	Note	**2013** **RMB'000**	2012 RMB'000 (restated)
Revenue	*5*	**20,500,705**	25,995,186
Cost of sales		**(16,179,823)**	(20,414,447)
Gross profit		**4,320,882**	5,580,739
Other revenue and net loss	*6*	**463,345**	501,036
Distribution expenses		**(528,425)**	(644,951)
Administrative expenses		**(3,066,749)**	(3,320,967)
Other operating expenses		**(211,461)**	(330,702)
Finance costs	*7(a)*	**(228,478)**	(56,439)
Share of profits less losses of associates		**28,980**	42,110

	Note	**2013**	2012
		RMB'000	*RMB'000*
			(restated)
Profit before taxation	*7*	**778,094**	1,770,826
Income tax	*8(a)*	**(152,488)**	(414,105)
Profit for the year		**625,606**	1,356,721
Attributable to:			
Equity shareholders of the Company		**705,813**	1,420,947
Non-controlling interests		**(80,207)**	(64,226)
		625,606	1,356,721
Earnings per share			
— Basic and diluted	*9*	**RMB51.3 cents**	RMB103.2 cents

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
For the year ended 31 December 2013

	2013 *RMB'000*	2012 *RMB'000* (restated)
Profit for the year	**625,606**	1,356,721
Other comprehensive income/(loss) for the year, net of income tax		
Items that may be reclassified subsequently to profit or loss:		
Cash flow hedges:		
Gains arising during the year	**115,292**	48,093
Less: Reclassification adjustments for gains to profit or loss	**–**	(12,781)
Income tax relating to items that may be reclassified subsequently	**(17,294)**	(5,297)
Other comprehensive income for the year, net of income tax	**97,998**	30,015
Total comprehensive income for the year	**723,604**	1,386,736
Attributable to:		
Equity shareholders of the Company	**803,811**	1,450,962
Non-controlling interests	**(80,207)**	(64,226)
	723,604	1,386,736

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2013

	Note	**31/12/2013**	31/12/2012	1/1/2012
		RMB'000	*RMB'000*	*RMB'000*
			(restated)	(restated)
Non-current assets				
Investment properties		**4,448**	4,629	4,810
Property, plant and equipment		**6,633,287**	6,416,132	5,804,470
Prepaid lease payments		**492,512**	420,946	433,000
Intangible assets		**218,357**	233,393	261,732
Deferred tax assets		**297,354**	288,542	277,366
Interests in associates		**234,614**	424,316	399,612
Other non-current assets		**70,538**	109,637	96,637
Other financial assets		**51,095**	248,327	236,085
		8,002,205	8,145,922	7,513,712
Current assets				
Inventories		**14,346,742**	12,356,211	11,616,296
Trade receivables	*11*	**14,452,023**	15,286,812	12,918,135
Bills receivable	*11*	**1,997,282**	1,278,348	1,052,526
Discounted bills and loans receivable		**21,855**	22,536	7,406
Other receivables, deposits and prepayments		**5,673,638**	4,595,102	4,484,131
Prepaid lease payments		**14,286**	12,300	11,922
Amounts due from customers for contract work		**970,378**	2,079,367	1,849,593
Amounts due from fellow subsidiaries		**175,206**	111,832	59,929
Other financial assets		**528,040**	15,422	92,641
Trading securities		**1,532,390**	1,601,800	2,001,530
Tax recoverable		**43,402**	–	–
Restricted and pledged bank deposits		**219,456**	346,077	159,395
Deposits with central bank		**519,145**	133,645	266,074
Bank deposits		**1,326,913**	472,913	47,404
Cash and cash equivalents		**10,538,171**	8,488,162	8,836,358
		52,358,927	46,800,527	43,403,340
Current liabilities				
Amounts due to customers for contract work		**1,128,844**	1,563,378	1,413,194
Derivative financial instruments		**–**	–	3,730
Trade payables	*12*	**15,071,799**	17,260,871	14,647,604
Bills payable	*12*	**4,018,619**	3,555,642	1,900,795
Other payables, accruals and provisions	*12*	**1,564,735**	1,684,451	2,073,247
Deposits received		**10,331,026**	7,238,055	7,483,656
Amounts due to fellow subsidiaries		**65,336**	48,993	36,266
Advance from holding company		**1,768,182**	400,478	2,785
Customer deposits		**454,236**	155,550	288,165
Borrowings — due within one year		**738,464**	1,098,595	581,623
Tax payables		**254,009**	906,893	925,745
Obligation under finance lease — due within one year		**39,289**	36,988	–
		35,434,539	33,949,894	29,356,810

	Note	31/12/2013 *RMB'000*	31/12/2012 *RMB'000* (restated)	1/1/2012 *RMB'000* (restated)
Net current assets		**16,924,388**	12,850,633	14,046,530
Total assets less current liabilities		**24,926,593**	20,996,555	21,560,242
Non-current liabilities				
Derivative financial instruments		**–**	–	28,941
Deposits received		**6,533,021**	4,655,159	6,337,141
Advance from holding company		**3,500**	1,357,108	1,169,838
Borrowings — due after one year		**988,200**	981,317	1,314,244
Obligation under finance lease — due after one year		**97,245**	136,391	–
Corporate bond		**2,992,688**	–	–
Deferred tax liabilities		**17,690**	396	–
		10,632,344	7,130,371	8,850,164
NET ASSETS		**14,294,249**	13,866,184	12,710,078
CAPITAL AND RESERVES				
Share capital	*14*	**1,376,806**	1,376,806	1,376,806
Reserves		**11,150,277**	10,647,189	9,382,200
Total equity attributable to equity shareholders of the Company		**12,527,083**	12,023,995	10,759,006
Non-controlling interests		**1,767,166**	1,842,189	1,951,072
TOTAL EQUITY		**14,294,249**	13,866,184	12,710,078

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 Corporation"), a state-owned enterprise established in the PRC. HE Corporation 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 2013 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

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

Amendments to HKFRSs	Annual Improvements to HKFRSs 2009–2011 Cycle
Amendments to HKAS 1	Presentation of Items of Other Comprehensive Income
Amendments to HKFRS 7	Disclosures — Offsetting Financial Assets and Financial Liabilities
Amendments to HKFRS 10, HKFRS 11 and HKFRS 12	Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance
HKFRS 10	Consolidated Financial Statements
HKFRS 11	Joint Arrangements
HKFRS 12	Disclosure of Interests in Other Entities
HKFRS 13	Fair Value Measurement
HKAS 19 (as revised in 2011)	Employee Benefits
HKAS 27 (as revised in 2011)	Separate Financial Statements
HKAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures
HK(IFRIC)-Int 20	Stripping Costs in the Production Phase of a Surface Mine

The Group has not applied any new HKFRS that is not yet effective for the current accounting period.

Except as described below, the application of other new and revised HKFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

Annual Improvements to HKFRSs 2009–2011 Cycle

This cycle of annual improvements contains amendments to five standards with consequential amendments to other standards and interpretations. Among them, HKAS 1 has been amended to clarify that an opening statement of financial position is required only when a retrospective application of an accounting policy, a retrospective restatement or a reclassification has a material effect on the information presented in the opening statement of financial position. The amendments also remove the requirement to present related notes to the opening statement of financial position when such statement is presented.

Since the group considers that the restatement resulting from the business combination of company under common control and has a material impact on the opening financial position, an additional statement of financial position as at 1 January 2012 has been presented in these financial statements.

Amendments to HKAS 1 Presentation of Items of Other Comprehensive Income

The amendments require entities to present separately the items of other comprehensive income that would be reclassified to profit or loss in the future if certain conditions are met from those that would never be reclassified to profit or loss. The presentation of other comprehensive income in the consolidated statement of profit or loss and other comprehensive income in these financial statements has been modified accordingly. In addition, the Group has chosen to use the new titles "statement of profit or loss" and "statement of profit or loss and other comprehensive income" as introduced by the amendments in these financial statements.

HKFRS 10 Consolidated Financial Statements

HKFRS 10 replaces the requirements in HKAS 27 Consolidated and Separate Financial Statements relating to the preparation of consolidated financial statements and HK-SIC 12 Consolidation — Special Purpose Entities. It introduces a single control model to determine whether an investee should be consolidated, by focusing on whether the entity has power over the investee, exposure or rights to variable returns from its involvement with the investee and the ability to use its power to affect the amount of those returns.

As a result of the adoption of HKFRS 10, the Group has changed its accounting policy with respect to determining whether it has control over an investee. The adoption does not change any of the control conclusions reached by the Group in respect of its involvement with other entities as at 1 January 2013.

HKFRS 12 Disclosure of Interests in Other Entities

HKFRS 12 brings together into a single standard all the disclosure requirements relevant to an entity's interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. The disclosures required by HKFRS 12 are generally more extensive than those previously required by the respective standards.

HKFRS 13 Fair Value Measurement

HKFRS 13 replaces existing guidance in individual HKFRSs with a single source of fair value measurement guidance. HKFRS 13 also contains extensive disclosure requirements about fair value measurements for both financial instruments and non-financial instruments.

Merger accounting for common control combination

HE Finance Company Limited ("Finance Company") was established in April 2010 with a registered capital of RMB300,000,000, of which the Group contributed RMB135,000,000, representing an equity interest of 45% in Finance Company.

During the year ended 31 December 2013, the Group acquired 42% of the equity interest in Finance Company held by its ultimate holding company, Harbin Electric Corporation ("HE Corporation") and 4% of the equity interest in Finance Company held by its fellow subsidiary, Jiamusi Electric Machine Company Limited, at a cash consideration of RMB149,890,000. Upon completion of the acquisition, the Group held 91% equity interest in Finance Company and HE Corporation held the remaining 9% equity interest in Finance Company. The Group has also contributed to Finance Company in proportion to its respective shareholdings thereby increasing the registered capital of Finance Company from RMB300,000,000 to RMB1.5 billion.

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 2013. Under the principles of merger accounting, the consolidated financial statements have been prepared as if Finance Company has been a subsidiary of the Group since its formation by HE Corporation in April 2010. As a result, the comparative consolidated statement of profit or loss, consolidated statement of profit or loss and other comprehensive income and consolidated statement of cash flows for the year ended 31 December 2012 and consolidated statement of financial position as at 1 January 2012 and 31 December 2012 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 the Finance Company on the Group's consolidated statement of profit or loss for the year ended 31 December 2012 by line items are as follows:

	31/12/2012 *RMB'000* (previously reported)	**Merger accounting restatement** *RMB'000*	**31/12/2012** *RMB'000* (restated)
Revenue	25,995,186	–	25,995,186
Cost of sales	(20,414,447)	–	(20,414,447)
Gross profit	5,580,739	–	5,580,739
Other revenue and net loss	451,753	49,283	501,036
Distribution expenses	(632,373)	(12,578)	(644,951)
Administrative expenses	(3,320,872)	(95)	(3,320,967)
Other operating expenses	(330,694)	(8)	(330,702)
Finance costs	(56,767)	328	(56,439)
Share of profits less losses of associates	54,347	(12,237)	42,110
Profit before taxation	1,746,133	24,693	1,770,826
Income tax	(404,551)	(9,554)	(414,105)
Profit for the year	1,341,582	15,139	1,356,721
Attributable to:			
Equity shareholders of the Company	1,408,255	12,692	1,420,947
Non-controlling interests	(66,673)	2,447	(64,226)
	1,341,582	15,139	1,356,721
Earnings per share	RMB	RMB	RMB
— Basic and diluted	102.3cents	0.9cents	103.2cents

The effects of the combination of the Finance Company on the Group's consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2012 by line items are as follows:

	31/12/2012 *RMB'000* (previously reported)	**Merger accounting restatement** *RMB'000*	**31/12/2012** *RMB'000* (restated)
Profit for the year	1,341,582	15,139	1,356,721
Other comprehensive income/(loss) for the year, net of income tax			
Items that may be reclassified subsequently to profit or loss:			
Cash flow hedges:			
Gains arising during the year	48,093	–	48,093
Less: Reclassification adjustments for gains to profit or loss	(12,781)	–	(12,781)
Income tax relating to items that may be reclassified subsequently	(5,297)	–	(5,297)
	30,015	–	30,015
Total comprehensive income for the year	1,371,597	15,139	1,386,736
Attributable to:			
Equity shareholders of the Company	1,438,270	12,692	1,450,962
Non-controlling interests	(66,673)	2,447	(64,226)
	1,371,597	15,139	1,386,736

The effects of the combination of the Finance Company on the Group's consolidated statement of financial position as at 1 January 2012 and 31 December 2012 by line items are as follows:

	1/1/2012 *RMB'000* (previously reported)	Merger accounting restatement *RMB'000*	1/1/2012 *RMB'000* (restated)	31/12/2012 *RMB'000* (previously reported)	Merger accounting restatement *RMB'000*	31/12/2012 *RMB'000* (restated)
Non-current assets						
Investment properties	4,810	–	4,810	4,629	–	4,629
Property, plant and equipment	5,799,944	4,526	5,804,470	6,412,038	4,094	6,416,132
Prepaid lease payments	433,000	–	433,000	420,946	–	420,946
Intangible assets	261,732	–	261,732	233,393	–	233,393
Deferred tax assets	277,366	–	277,366	288,542	–	288,542
Interests in associates	546,899	(147,287)	399,612	583,840	(159,524)	424,316
Other non-current assets	96,637	–	96,637	109,637	–	109,637
Other financial assets	236,085	–	236,085	248,327	–	248,327
	7,656,473	(142,761)	7,513,712	8,301,352	(155,430)	8,145,922
Current assets						
Inventories	11,616,296	–	11,616,296	12,356,211	–	12,356,211
Trade receivables	12,918,135	–	12,918,135	15,286,812	–	15,286,812
Bills receivable	1,052,526	–	1,052,526	1,278,348	–	1,278,348
Discounted bills and loans receivable	–	7,406	7,406	–	22,536	22,536
Other receivables, deposits and prepayments	4,484,066	65	4,484,131	4,595,063	39	4,595,102
Prepaid lease payments	11,922	–	11,922	12,300	–	12,300
Amounts due from customers for contract work	1,849,593	–	1,849,593	2,079,367	–	2,079,367
Amounts due from fellow subsidiaries	59,929	–	59,929	111,832	–	111,832
Other financial assets	92,641	–	92,641	15,422	–	15,422
Trading securities	2,001,530	–	2,001,530	1,601,800	–	1,601,800
Restricted and pledged bank deposits	133,661	25,734	159,395	346,077	–	346,077
Deposits with central bank	–	266,074	266,074	–	133,645	133,645
Bank deposits	247,404	(200,000)	47,404	472,913	–	472,913
Cash and cash equivalents	8,271,875	564,483	8,836,358	8,174,912	313,250	8,488,162
	42,739,578	663,762	43,403,340	46,331,057	469,470	46,800,527

	1/1/2012	Merger accounting restatement	1/1/2012	31/12/2012	Merger accounting restatement	31/12/2012
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	(previously reported)		(restated)	(previously reported)		(restated)
Current liabilities						
Amounts due to customers for contract work	1,413,194	–	1,413,194	1,563,378	–	1,563,378
Derivative financial instruments	3,730	–	3,730	–	–	–
Trade payables	14,646,188	1,416	14,647,604	17,260,173	698	17,260,871
Bills payable	1,900,795	–	1,900,795	3,555,642	–	3,555,642
Other payables, accruals and provisions	2,033,798	39,449	2,073,247	1,655,720	28,731	1,684,451
Deposits received	7,483,656	–	7,483,656	7,238,055	–	7,238,055
Amounts due to fellow subsidiaries	36,266	–	36,266	73,953	(24,960)	48,993
Advance from holding company	2,785	–	2,785	400,478	–	400,478
Customer deposits	–	288,165	288,165	–	155,550	155,550
Borrowings — due within one year	581,623	–	581,623	1,151,595	(53,000)	1,098,595
Tax payables	920,618	5,127	925,745	901,855	5,038	906,893
Obligation under finance lease — due within one year	–	–	–	36,988	–	36,988
	29,022,653	334,157	29,356,810	33,837,837	112,057	33,949,894
Net current assets	13,716,925	329,605	14,046,530	12,493,220	357,413	12,850,633
Total assets less current liabilities	21,373,398	186,844	21,560,242	20,794,572	201,983	20,996,555
Non-current liabilities						
Derivative financial instruments	28,941	–	28,941	–	–	–
Deposits received	6,337,141	–	6,337,141	4,655,159	–	4,655,159
Advance from holding company	1,169,838	–	1,169,838	1,357,108	–	1,357,108
Borrowings — due after one year	1,314,244	–	1,314,244	981,317	–	981,317
Obligation under finance lease — due after one year	–	–	–	136,391	–	136,391
Deferred tax liabilities	–	–	–	396	–	396
	8,850,164	–	8,850,164	7,130,371	–	7,130,371
NET ASSETS	12,523,234	186,844	12,710,078	13,664,201	201,983	13,866,184
CAPITAL AND RESERVES						
Share capital	1,376,806	–	1,376,806	1,376,806	–	1,376,806
Reserves	9,224,814	157,386	9,382,200	10,477,111	170,078	10,647,189
Total equity attributable to equity shareholders of the Company	10,601,620	157,386	10,759,006	11,853,917	170,078	12,023,995
Non-controlling interests	1,921,614	29,458	1,951,072	1,810,284	31,905	1,842,189
TOTAL EQUITY	12,523,234	186,844	12,710,078	13,664,201	201,983	13,866,184

The effects of the combination of the Finance Company on the Group's consolidated equity as at 1 January 2012 and 31 December 2012 by line items are as follows:

	1/1/2012	**Merger accounting restatement**	**1/1/2012**	**31/12/2012**	**Merger accounting restatement**	**31/12/2012**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	(previously reported)		(restated)	(previously reported)		(restated)
Share capital	1,376,806	–	1,376,806	1,376,806	–	1,376,806
Share premium	1,980,295	–	1,980,295	1,980,295	–	1,980,295
Statutory capital reserve	703,229	–	703,229	703,229	–	703,229
Statutory surplus reserve	596,936	–	596,936	621,998	–	621,998
Other reserves	60,131	138,000	198,131	66,911	138,000	204,911
Hedging reserve	(27,770)	–	(27,770)	2,245	–	2,245
Retained profits	5,911,993	19,386	5,931,379	7,102,433	32,078	7,134,511
Non-controlling interests	1,921,614	29,458	1,951,072	1,810,284	31,905	1,842,189
	12,523,234	186,844	12,710,078	13,664,201	201,983	13,866,184

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:

	2013	2012
	RMB'000	*RMB'000*
Sales of goods	**17,043,671**	21,613,824
Revenue from construction contracts	**3,457,034**	4,381,362
	20,500,705	25,995,186

For the year ended 31 December 2013, there was no customer with whom transactions have 10% or more of the Group's revenue (2012: nil).

6. OTHER REVENUE AND NET LOSS

	2013	2012
	RMB'000	*RMB'000*
		(restated)
Other revenue		
Interest income from held-to-maturity bonds	**19,504**	12,242
Bank and other interest income	**180,931**	136,533
Finance company:		
Interest income from banks and other financial institutions	**99,369**	82,556
Interest income on discounted bills and loans receivables	**1,459**	1,310
Total interest income on financial assets not at fair value through profit or loss	**301,263**	232,641
Compensation income	**1,525**	401
Dividend income from trading securities	**51,800**	44,000
Dividend income from available-for-sale investments	**2,331**	769
PRC government subsidies *(note i)*	**139,632**	410,516
Rental income	**4,552**	7,075
Other income	**59,862**	19,348
	560,965	714,750
Other net income/(loss)		
Net gain/(loss) on disposal of property, plant and equipment	**3,771**	(2,774)
Net profit from sale of scrap materials and others	**–**	1,342
Gain on disposal of subsidiaries	**–**	2,194
Loss on disposal of trading securities	**–**	(5,717)
Gain on disposal of available-for-sale investments	**5,216**	3,020
Gain on disposal of associate	**2,123**	–
Fair value gains on derivative financial instruments not qualifying as hedges	**12,930**	18,535
Fair value changes on derivative financial instruments — cash flow hedge (transfer from hedging reserve)	**–**	12,781
Fair value losses on trading securities	**(121,660)**	(243,095)
	(97,620)	(213,714)
	463,345	501,036

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

	2013	2012
	RMB'000	*RMB'000*
Income of financial subsidies	**82,363**	375,591
Research subsidies	**34,638**	16,586
Others	**22,631**	18,339
	139,632	410,516

7. PROFIT BEFORE TAXATION

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

		2013 *RMB'000*	2012 *RMB'000* (restated)
(a)	**Finance costs**		
	Interest on bank and other borrowings:		
	— wholly repayable within five years	**96,744**	52,041
	— not wholly repayable within five years	**–**	480
	Finance Company:		
	Interest expense on customer deposits	**1,354**	1,354
	Interest on corporate bond	**120,867**	–
	Finance charges on obligation under finance lease	**9,513**	9,079
	Total interest expenses on financial liabilities not at fair value through profit or loss	**228,478**	62,954
	Less: interest expense capitalised into construction in progress	**–**	(6,515)
		228,478	56,439

Borrowing costs had been capitalised at a rate of 6.31% per annum in 2012.

		2013 *RMB'000*	2012 *RMB'000* (restated)
(b)	**Staff costs**#		
	Staff costs including directors' and supervisors' emoluments	**1,692,556**	1,653,082
	Post-employment benefit scheme contributions	**398,357**	333,542
	Total staff costs	**2,090,913**	1,986,624
(c)	**Other items**		
	Allowance for doubtful debts	**486,258**	766,307
	Impairment of other receivables	**15,471**	–
	Allowance for inventories	**156,751**	34,531
	Amortisation of prepaid lease payments#	**13,186**	12,301
	Amortisation of intangible assets#	**27,575**	29,292
	Auditors' remuneration	**3,110**	2,915
	Cost of inventories#	**16,179,823**	20,414,447
	Depreciation for investment properties#	**181**	181
	Depreciation for property, plant and equipment#	**666,407**	591,496
	Net foreign exchange loss	**60,826**	6,563
	Reversal of allowance for doubtful debts	**–**	(3,234)
	Research and development expenses	**350,373**	362,092

Cost of inventories includes RMB1,782,343,000 (2012: RMB1,669,265,000) relating to staff costs, depreciation and amortisation expenses, which amount is also included in the respective total amount disclosed separately above or in note 7(b) for each of these types of expenses.

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

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

	2013	2012
	RMB'000	*RMB'000*
		(restated)
Current tax		
PRC Enterprise Income Tax		
— provision for the year	**151,754**	391,304
— under-provision in respect of prior years	**9,158**	39,379
	160,912	430,683
Deferred tax		
Origination and reversal of temporary differences	**(8,424)**	(16,578)
	152,488	414,105

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 October 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% (2012: 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 RMB705,813,000 (2012 (restated): RMB1,420,947,000) and on the weighted average number of ordinary shares of 1,376,806,000 (2012: 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 2013 and 2012, 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, other financial assets, trading securities, deferred tax assets, restricted and pledged bank deposits, bank deposits, deposits with central bank, cash and cash equivalents and other head office and corporate assets. Segment liabilities include trade payables, bills payable, other payables, accruals and provisions, amounts due to fellow subsidiaries, customer deposits, deposits received and amounts due to customers for contract work attributable to the manufacturing and sales activities of the individual segments.

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

The measure used for reporting segment profit is "adjusted operating profit/(loss)". To arrive at "adjusted operating profit/(loss)", the Group's profit/(loss) are further adjusted for items not specifically attributed to individual segments, such as share of profits less losses of associates, interest income, PRC government subsidies, 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 2013 and 2012 is set out below.

2013

	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	12,447,960	2,703,922	1,811,299	733,215	2,804,309	20,500,705
Inter-segment revenue	2,112,317	–	–	–	–	2,112,317
Reportable segment revenue	14,560,277	2,703,922	1,811,299	733,215	2,804,309	22,613,022
Reportable segment profit	2,573,079	694,637	408,642	209,066	486,800	4,372,224
Depreciation of property, plant and equipment	423,265	110,163	9,943	16,848	106,188	666,407
Depreciation of investment properties	–	–	–	–	181	181
Amortisation of intangible assets	13,287	133	–	853	13,302	27,575
Amortisation of prepaid lease payments	8,502	2,763	44	390	1,487	13,186
Impairment of other receivables	7,857	7,282	–	332	–	15,471
Allowances for doubtful debts	332,649	37,006	37,863	23,077	55,663	486,258
Interest income	(97,824)	(12,204)	(71,666)	(5,889)	(113,680)	(301,263)
Interest expenses	183,655	2,292	24,372	2,946	15,213	228,478
Reportable segment assets	32,944,701	5,285,817	2,685,710	1,735,796	5,623,076	48,275,100
Additions to non-current segment assets during the year*	761,435	63,478	14,490	25,742	120,463	985,608
Reportable segment liabilities	27,802,550	3,487,638	4,601,485	1,656,288	3,702,267	41,250,228

* Additions to non-current segment assets during the year consists of additions to property, plant and equipment, prepaid lease payments and intangible assets including assets from the acquisition of a subsidiary.

2012

	Main thermal power equipment *RMB'000* (restated)	Main hydro power equipment *RMB'000* (restated)	Engineering services for power stations *RMB'000* (restated)	Ancillary equipment for power stations *RMB'000* (restated)	AC/DC motors and others *RMB'000* (restated)	Total *RMB'000* (restated)
Revenue from external customers	15,492,620	3,800,862	3,354,372	992,595	2,354,737	25,995,186
Inter-segment revenue	3,027,804	–	–	–	–	3,027,804
Reportable segment revenue	18,520,424	3,800,862	3,354,372	992,595	2,354,737	29,022,990
Reportable segment profit	3,483,838	1,263,199	314,651	232,444	317,743	5,611,875
Depreciation of property, plant and equipment	380,588	115,521	9,754	19,844	65,789	591,496
Depreciation of investment properties	–	–	–	–	181	181
Amortisation of intangible assets	13,209	159	–	640	15,284	29,292
Amortisation of prepaid lease payments	7,404	3,285	43	505	1,064	12,301
Allowances for doubtful debts	563,834	89,044	35,329	37,218	40,882	766,307
Interest income	(59,223)	(8,384)	(72,282)	(3,523)	(89,229)	(232,641)
Interest expenses	7,826	2,288	38,323	354	7,648	56,439
Reversal of allowance for doubtful debts	(1,029)	(2,051)	–	(154)	–	(3,234)
Reportable segment assets	31,006,874	5,587,471	2,985,446	1,567,629	4,368,090	45,515,510
Additions to non-current segment assets during the year	818,089	158,465	21,755	27,978	192,026	1,218,313
Reportable segment liabilities	25,348,246	4,010,740	3,946,318	1,389,019	2,804,603	37,498,926

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

	2013	2012
	RMB'000	*RMB'000*
		(restated)
Revenue		
Reportable segment revenue	**22,613,022**	29,022,990
Elimination of inter-segment revenue	**(2,112,317)**	(3,027,804)
Consolidated turnover	**20,500,705**	25,995,186
Profit		
Reportable segment profit	**4,372,224**	5,611,875
Elimination of inter-segment profits	**(51,342)**	(31,136)
Reportable segment profit derived from Group's external customers	**4,320,882**	5,580,739
Share of profits less losses of associates	**28,980**	42,110
Interest income	**301,263**	232,641
PRC government subsidies	**139,632**	410,516
Fair value losses on trading securities	**(121,660)**	(243,095)
Provision for onerous contracts	**(61,687)**	(56,498)
Finance expenses	**(228,478)**	(56,439)
Unallocated other net income	**144,110**	100,974
Unallocated head office and corporate expenses	**(3,744,948)**	(4,240,122)
Consolidated profit before taxation	**778,094**	1,770,826
Assets		
Reportable segment assets	**48,275,100**	45,515,510
Elimination of inter-segment receivables	**(4,073,577)**	(3,144,128)
	44,201,523	42,371,382
Interests in associates	**234,614**	424,316
Deferred tax assets	**297,354**	288,542
Other non-current assets	**70,538**	109,637
Other financial assets	**579,135**	263,749
Trading securities	**1,532,390**	1,601,800
Restricted and pledged bank deposits	**219,456**	346,077
Bank deposits	**1,326,913**	472,913
Deposits with central bank	**519,145**	133,645
Cash and cash equivalents	**10,538,171**	8,488,162
Unallocated head office and corporate assets	**841,893**	446,226
Consolidated total assets	**60,361,132**	54,946,449

	2013	2012
	RMB'000	*RMB'000*
		(restated)
Liabilities		
Reportable segment liabilities	**41,250,228**	37,498,926
Elimination of inter-segment payables	**(4,073,577)**	(3,144,128)
	37,176,651	34,354,798
Income tax payables	**136,490**	518,432
Advance from holding company	**1,771,682**	1,757,586
Borrowings	**1,726,664**	2,079,912
Obligation under finance lease	**136,534**	173,379
Deferred tax liabilities	**17,690**	396
Corporate bond	**2,992,688**	–
Unallocated head office and corporate liabilities	**2,108,484**	2,195,762
Consolidated total liabilities	**46,066,883**	41,080,265

(c) Geographical information

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

	Revenues from external customers		**Non-current assets**	
	2013	2012	**2013**	2012
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
				(restated)
PRC (place of domicile)	**18,323,443**	21,984,696	**7,583,218**	7,499,416
Overseas:				
— Republic of India	**354,943**	1,136,563	**–**	–
— Islamic Republic of Pakistan	**573,935**	1,303,322	**–**	–
— The Republic of Ecuador	**613,166**	631,932	**–**	–
— Other countries	**635,218**	938,673	**–**	–
	2,177,262	4,010,490	**–**	–
	20,500,705	25,995,186	**7,583,218**	7,499,416

11. TRADE AND BILLS RECEIVABLE

	2013	2012
	RMB'000	*RMB'000*
Trade receivables	**18,509,731**	18,858,846
Less: allowance for doubtful debts	**(4,057,708)**	(3,572,034)
	14,452,023	15,286,812
Bills receivable	**1,997,282**	1,278,348
	16,449,305	16,565,160

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

	2013	2012
	RMB'000	*RMB'000*
Within 1 year	**9,872,023**	9,967,661
Between 1 to 2 years	**3,175,794**	2,871,100
Between 2 to 3 years	**1,607,802**	1,569,410
Over 3 years	**1,793,686**	2,156,989
	16,449,305	16,565,160

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

	2013	2012
	RMB'000	*RMB'000*
		(restated)
Trade payables	**15,071,799**	17,260,871
Bills payable	**4,018,619**	3,555,642
	19,090,418	20,816,513
Provisions	**630,168**	963,429
Other payables and accrued charges	**906,306**	684,020
Amounts due to associates	**28,261**	37,002
	20,655,153	22,500,964

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

	2013 *RMB'000*	2012 *RMB'000* (restated)
Within 1 year	**16,758,609**	17,589,219
Between 1 to 2 years	**1,547,078**	2,566,935
Between 2 to 3 years	**371,421**	149,131
Over 3 years	**413,310**	511,228
	19,090,418	20,816,513

13. DIVIDENDS

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

	2013 *RMB'000*	2012 *RMB'000*
Final dividend proposed after the end of the reporting period of RMB0.08 per ordinary share (2012: RMB0.1 per ordinary share)	**110,144**	137,681

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.

	2013 *RMB'000*	2012 *RMB'000*
Final dividend in respect of the previous financial year, approved and paid during the year, of RMB0.1 per share (2012: RMB0.14 per share)	**137,681**	192,753

14. SHARE CAPITAL

	2013		2012	
	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 EVENTS AFTER THE REPORTING PERIOD

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

MANAGEMENT DISCUSSION AND ANALYSIS

MACRO ECONOMY AND INDUSTRY DEVELOPMENT

Growing at a slow pace, the world economy made little headway in recovery during 2013. The economic performance of the PRC remained stable with some bright spots, including a 7.7% GDP growth. Balance between supply and demand was generally maintained in China's power market with a growth of 7.5% in terms of power consumption across the nation. As at the end of 2013, installed capacity of power generating units reached 1,250,000 MW, topping the world rankings. Installed capacity of non-fossil fuel generating units increased by 58,290 MW, representing 62% of the newly installed capacity of power generating units.

NEW CONTRACTS

For 2013, facing increasingly keen competition in the market, the Group managed to engage full scale marketing activities, realizing RMB52.147 billion worth of duly signed contracts, of which RMB26.011 billion (or 49.88% of total contract value) for thermal power equipment, RMB2.252 billion (or 4.32% of total contract value) for hydropower equipment, RMB3.027 billion (or 5.80% of total contract value) for nuclear power equipment, RMB3.344 billion (or 6.41% of total contract value) for hybrid equipment, RMB12.882 billion (or 24.70% of total contract value) for power engineering, and RMB4.631 billion (or 8.89% of total contract value) for other products.

The thermal power equipment segment achieved another breakthrough in securing projects with a capacity of 1,000MW by entering into contracts with Guohua Jiujiang and Yongzhou for four 1,000MW ultra-supercritical power generating units. Besides, it also entered into contracts with GCL Binhai and Sanmenxia for four 1,000MW ultra-supercritical boilers.

Hydropower equipment segment reached new level of competitiveness by entering into contracts for four 300MW water turbine generators for pumped storage power station in Shenzhen, entering into the market of pumped storage power station with high head range and high capacity.

The nuclear power equipment segment entered a new phase in product development by entering into contracts for exporting K2 and K3 evaporators to Pakistan, being the first exportation of nuclear island major equipment with a capacity of 1,000MW. Contracts for twelve CAP1000 reactor coolant pumps at an aggregate contract price of RMB1.6 billion were also signed.

The hybrid equipment segment achieved a breakthrough in market development by signing a construction agreement for a natural gas distribution station in Jinzhou, Dalian, marking a milestone in perfecting the industry chain.

New contracts secured from international markets amounted to RMB21.258 billion (or 40.77% of total contract value), including the projects in respect of 500KV and 230KV power distribution and transmission network and substation in Ecuador. The signing of a contract with Zetes of Turkey in connection with the turnkey project for two 660 MW supercritical coal-fired power plants indicated the supercritical generating units with a capacity of 600MW once again entered the European market.

PRODUCTION AND SERVICES

In 2013, facing the drawback of delayed projects and frequent modifications in pipeline production, the Group addressed the situation by conducting a comprehensive analysis into the characteristics of individual projects, coming up with a well-thought arrangement, vigorously managing risks, stepping up assurance measures and actively manage our businesses. The total output of the major power equipment of the year reached 19,920MW, representing a decrease of 16.53% over the previous year, of which the capacity of water turbine generators amounted to 5,740MW, decreasing by 20.19% over the previous year; the capacity of steam turbine generators amounted to 14,040MW, decreasing by 15.67% over the previous year.

R&D AND TECHNOLOGY INTRODUCTION

In 2013, the Group was granted 236 patent authorizations, 30 of which were related to inventions, completed 340 R&D projects and received 18 accolades, 10 of which were at provincial or ministerial level. Ruilijiang hydropower station in Myanmar undertaken by the Group received silver award of quality construction project.

"A Study on the Manufacture Technology of AP1000 Evaporator" was approved. Proposal entitled "整體煤氣化聯合循環顯熱回收關鍵設備的研製" filled the void of the domestic market and the "大型水輪發電機電磁結構及性能實驗模擬技術研究" filled the void of the international market. The 800MW water turbine power generator with grid connection is the first self-developed, self-designed and locally-built single-unit water turbine power generator with the world's highest capacity. We have successfully developed the 1,800 mm rotor blade on half-speed nuclear turbine which satisfied international standards. China's first nuclear power generator with a capacity of 1,000MW which enjoys self-developed intellectual property rights has been built. The first pressurized water reactor coolant pump with a capacity of 1,000MW manufactured in China has completed a successful test run. The main desalination equipment pilot project for the world's first stand-alone off-grid wind power generating system has finished testing. The first 3MW tidal power generator unit has been completed.

REFORM AND MANAGEMENT

In 2013, the Group has fostered our internal reformation, perfected the management system and effected optimization adjustments on the organization structure of the Company, as well as strengthened staff deployment and responsibilities division, thereby further enhanced efficiency and quality.

The Group has further developed its management enhancement programme and successfully completed the adjustments and modifications to our specific projects with significant effects that enhanced the level of management.

Comprehensive budget management was going on and expedited the process of comprehensive budget management, actively monitoring the implementation of budget plan and effectively controlling expenditure.

Reforms addressing typical quality-related issues were proactively executed. As a result, typical and recurrent quality-related issues were brought under effective control and improved.

Equity adjustment and increase in capital of HE Finance Company Limited have been completed, which serves as a platform for funds management and a centre for providing financial services, and efficiency of funding utilization was further improved.

PROFIT

In 2013, net profit attributable to the shareholders of the Company was RMB705.81 million, a decrease of 50.33% over the previous year; earnings per share were RMB0.51, a decrease of RMB0.52 over the previous year; net asset as at the end of the period attributable to the shareholders of the Company was RMB12,527.08 million, an increase of RMB503.09 million compared to the beginning of the year; net asset per share was RMB9.10, an increase of RMB0.37 compared to the beginning of the year.

During the period, the decrease in profit of the Group was mainly attributable to the drop in revenue.

TURNOVER

In 2013, the Group recorded a turnover of principal business activities of RMB20,500.71 million, a decrease of 21.14% over the previous year. In particular, turnover of the main thermal power equipment business (including nuclear power and hybrid power) was RMB12,447.96 million, representing 60.72% of the turnover of the principal business activities, a decrease of 19.65% over the previous year. Turnover from main hydropower equipment was RMB2,703.92 million, representing 13.19% of the turnover of the principal business activities, a decrease of 28.86% over the previous year. Turnover of engineering services for power stations was RMB1,811.30 million, representing 8.83% of the turnover from the principal business activities, a decrease of 46% over the previous year. Turnover of ancillary equipment for power stations was RMB733.22 million, representing 3.58% of the turnover from the principal business activities, a decrease of 26.13% over the previous year. Turnover of AC/DC motors and other products and services was RMB2,804.31 million, representing 13.68% of the turnover of the principal business activities, an increase of 19.09% over the previous year.

In 2013, the Group recorded a turnover of export of RMB2,177.26 million, accounted for 10.62% of the turnover of the principal business activities, representing a decrease of RMB1,833.23 million over the previous year. The export was mainly to such regions as Asia and South America.

COST

In 2013, the cost of the principal business activities of the Group was RMB16,179.82 million, a decrease of 20.74% over the previous year.

GROSS PROFIT AND GROSS PROFIT MARGIN

In 2013, the gross profit from the principal business activities of the Group was RMB4,320.88 million, a decrease of 22.58% over the previous year. The gross profit margin was 21.08%, a drop of 0.39 percentage points over the previous year. Among them the gross profit from main thermal power equipment was RMB2,521.73 million, a decrease of RMB930.97 million over the previous year. The gross profit margin for main thermal power equipment was 20.26%, a drop of 2.03 percentage points over the previous year. The gross profit from main hydropower equipment was RMB694.64 million, a decrease of RMB568.56 million over the previous year. The gross profit margin for main hydropower equipment was 25.69%, a drop of 7.54 percentage points over the previous year. The gross profit from engineering services for power stations was RMB408.64 million, an increase of RMB93.99 million over the previous year. The gross profit margin for engineering services for power stations was 22.56%, an increase of 13.18 percentage points over the previous year. The gross profit from ancillary equipment for power stations was RMB209.07 million, a decrease of RMB23.38 million over the previous year. The gross profit margin for ancillary equipment for power stations was 28.51%, an increase of 5.09 percentage points over the previous year. The gross profit from the AC/DC motors and other products and services was RMB486.80 million, an increase of RMB169.06 million over the previous year. The gross profit margin for the AC/DC motors and other products and services was 17.36%, an increase of 3.87 percentage points over the previous year.

EXPENSES DURING THE PERIOD

In 2013, the Group's distribution expenses amounted to RMB528.43 million, a decrease of RMB116.53 million or 18.07% over the previous year.

In 2013, administrative expenses amounted to RMB3,066.75 million, a decrease of RMB254.22 million or 7.65% over the previous year.

The decrease in expenses during the year was mainly due to the continuous effort of the Company in expenses control, the decrease in entertainment expenses and maintenance expenses and the reduction in provision.

INTEREST EXPENSE

In 2013, the Group has incurred finance costs of RMB228.48 million, an increase of RMB172.04 million over the previous year, which was principally attributable to the interests provided for issuance of bonds.

FUNDING SOURCES AND BORROWINGS

The Group has four major funding sources for operation and development, namely shareholder's funds, trade receivables from customers, bank borrowings and corporate bonds. 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, together with the issuance of corporate bonds, the Group had abundant working capital and has thus repaid substantially all of the loans for working capital. As at 31 December 2013, the total sum of the Group's borrowings was RMB1,726.66 million (31 December 2012: RMB2,079.91 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 RMB738.46 million, a decrease of RMB360.13 million compared to the beginning of the year. The amount of the Group's borrowings due after one year was RMB988.20 million, an increase of RMB6.88 million compared to the beginning of the year.

DEPOSITS AND CASH FLOW

As at 31 December 2013, bank deposits and cash of the Group amounted to RMB11,865.08 million, an increase of RMB2,904.01 million compared to the beginning of the year. During the period, net cash inflow from operating activities of the Group amounted to RMB1,395.83 million. Net cash outflow from investment activities amounted to RMB1,866.36 million and net cash inflow from financing activities was RMB2,563.14 million.

ASSET STRUCTURE AND ITS MOVEMENTS

As at 31 December 2013, total assets of the Group amounted to RMB60,361.13 million, an increase of RMB5,414.68 million (or 9.85%) compared to the beginning of the year, among which current assets were RMB52,358.93 million, representing 86.74% of the total assets, and non-current assets were RMB8,002.20 million, representing 13.26% of the total assets.

LIABILITIES

As at 31 December 2013, the Group's total liabilities amounted to RMB46,066.88 million, an increase of RMB4,986.62 million compared to the beginning of the year, among which total current liabilities were RMB35,434.54 million, representing 76.92% of the total liabilities, and total non-current liabilities were RMB10,632.34 million, representing 23.08% of the total liabilities. As at 31 December 2013, the gearing ratio of the Group was 76.32%.

SHAREHOLDERS' EQUITY

As at 31 December 2013, the total equity attributable to the shareholders of the Company amounted to RMB12,527.08 million, an increase of RMB503.09 million compared to the beginning of the year; the net asset per share was RMB9.10. During the period, the net asset return rate of the Group was 5.75%.

GEARING RATIO

As at 31 December 2013, gearing ratio of the Group (non-current liabilities over total shareholders' equity) was 0.85:1 as compared to that of 0.59:1 at the beginning of the year.

CONTINGENT LIABILITIES AND PLEDGE OF ASSET

As at 31 December 2013, the Group pledged its assets in the amount of RMB265.84 million to secure loans for liquidity and to obtain banking facilities.

CAPITAL EXPENDITURES AND MAJOR INVESTMENTS

In 2013, the Group had a total capital expenditure of RMB684 million invested in infrastructure constructions and technological upgrades. The particulars of the investments and construction projects are as follows:

As regards Phase I of the technology research base involving the enclosed heating system, the construction of the main building was completed. The installation work of two main trial platforms of our combustion trial center has been completed and passed the trial operation. As regards the projects under the nuclear power nuclear island main equipment manufacturing automation, saved for the 110KV step-down station, the construction work for all projects was completed. The construction work for nuclear power ancillary equipment manufacturing automation is essentially completed. The key pilot project relating to production of components for the heavy duty gas turbine has completed the procurement of equipment as well as installation and adjustments. Construction work of other projects has been implemented as scheduled.

In 2014, the Group intends to commit an investment of RMB739 million, which will be mainly used for projects such as Phase I of the technology research base, the construction of combustion trial center, and the nuclear power nuclear island main equipment manufacturing automation.

As at 31 December 2013, 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.;

75 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 2013, the amount of the Group's deposits in foreign currencies was equivalent to RMB1,619.19 million. The export business and foreign currencies settled businesses expose the Group to exchange risk.

USE OF FUND-RAISING PROCEEDS

The Company has fully utilized its proceeds from equity fund-raising and no other usage of proceeds from equity fund-raising was recorded in 2013.

In March 2013, the Company issued the domestic corporate bonds (first tranche) with a size of RMB3 billion, of which RMB2.63 billion was applied to replenish working capital for production.

STAFF AND REMUNERATION

As at 31 December 2013, the Group had a workforce of 19,358 employees and the total remuneration amounted to RMB1,693 million. According to the development strategies and actual circumstances of our human resources, the Group has drawn up a year-plan for staff training based on their level of knowledge, skills, abilities as well as other general criteria. Our training programs place emphasis on professional training and have a focus on senior-level management training, accompanied by certain aspects of academic education. Our training program has broken the 70,000 attendance barrier and effectively enhanced the overall standards of our staff.

PROSPECT

In 2014, the global economy will continue its recovery at a slow pace. Under such instability and uncertainties, the international market will see intensified competitions. The PRC economic growth faces structural adjustment, putting downward pressure on the economy. The PRC government will insist its fundamentals of growing amid stability, maintaining the continued stability of macro-economic policies, deepening reform and implementing innovation. Opportunities always co-exist with challenges as in the case of driving force and pressure. The Group will implement further reforms and innovations as well as optimizing resources allocation, in order to overcome the adversities arising from the downturn of operations and the increasing risks and difficulties. We will seize every advantages and favourable factors in terms of development to uphold our scale, efficiency and operation quality, and to build up trust and further our effort in advancement, so as to reward our investors with the utmost efforts and performance.

The Group will focus on accomplishing the following tasks in 2014:

1. **Strengthening analysis and judgment, developing markets, honoring contracts and ensuring turnaround in operations**

   The Group will adhere to a system of reviewing the economy on a quarterly basis to further analyze the economy pinpointing quality and effectiveness. Attention will be paid to the changes of the macro economy and prudent judgment will be made in respect of the development trend of the industry, changes in production essentials and demand from domestic and international markets, ensuring appropriate measures are prepared beforehand to mitigate risks arising from operations.

   The Group will integrate marketing resources and leverage on its own competitive edge to step up its efforts in market development. While reinforcing our status within the traditional market, emphasis will be placed on capturing emerging markets overseas and increasing the proportion of orders secured from international markets. To materialize breakthrough in development, steps will be taken to tap into the markets of such environment-friendly products and latest manufacturing services as photovoltaic power generation, seawater desalination, distributed energy, desulfation and denitration.

   The Group will also leverage its leading role in devising projects, balance its production capacity and realize its potential so as to meet the production target set for the year. Our capabilities in honoring contracts will be further strengthened through centralized management of information by specific departments, the appraisal system for project implementation and the application of a risk assessment model.

2. **Accelerating innovation, adjusting structure, effecting self-reliant R&D and materializing optimization and upgrading of the industry**

   The Group will effectively integrate technological resources, speed up the establishment of a technology innovation system, enhance research into cutting edge technologies, industry-specific technologies and system integration technologies, to bring an advanced level R&D platform into being and enhance the capabilities of coming up with original creation and rendering innovation through integration of ideas.

The Group will make full use of such R&D platform as combustion testing centre to considerably promote the clean utilization of coal. It will expedite the development of nuclear power industry and achieve breakthrough in key technologies so as to launch branded products with self-developed intellectual property rights as soon as possible. Active development of the market of fuel-fired generators is to be made to gradually upgrade the industry, expanding the Group's business scope to distributed energy and power generation by hybrid energy. We will actively develop such environment-friendly products as desulfation and denitration devices, waste heat boilers and highly efficient energy saving power generators, specially addressing the air pollution situation in a smoggy environment by studying the ways to remove particulate matters in the atmosphere and developing specific products.

By promoting the concept of protecting intellectual property rights and building a portfolio of patents and standards, the Group will further enhance its brand image and influence. It will continue to enlarge its patent portfolio in terms of quantity and quality as well as establish its self-developed intellectual property rights as industry standards and even national standards.

3. Innovating performance appraisal, implementing reforms, integrating resources and enhancing vitality of the enterprise

The Group will perfect the procedure of assessing operating results and implement segmental assessment with an emphasis being placed on cost-effectiveness, improvement to management short-comings and quality of development. The Group will encourage its entities to shift to a growth pattern focusing more on quality and effectiveness.

The Group will optimize its salary structure by initiating a reform to the existing system regarding labor deployment and income distribution. Magnitude of reform will be increased to form a more market-oriented allocation mechanism, and the vitality and competitiveness of the enterprise will be improved.

More work will be done in connection with shareholding management and to increase capital operation, further integrating internal and external resources and achieving strategic goals.

4. **Strengthening the effects of cutting cost and increasing effectiveness, exacting control, strengthening operation and enhancing development quality**

   The Group will exercise strict cost control over the entire production course and take steps to strengthen the capacity of design, technology optimization and centralized procurement of materials, steadily increasing profitability.

   The Group will further analyze the components of trade receivables and inventory and take effective measures to address the "double high" issues and mitigate operation risks. Procurement and production will be carefully planned to balance among production, sale and inventory, actively implementing the policy of clearing stock and expediting inventory turnover as well as minimizing employment of capital. Recovery of trade receivables, negotiation of settlement agreements and the collection of retention money and doubtful debts will expedite recovery of funds.

   The Group will take steps to review its manual of quality, procedure handbook and constitutional documents to ensure smooth running of the system and seamless management. Typical quality-related issues will be selected for careful study so as to find an effective solution from the fundamental perspective and provide customers with a satisfactory answer to their queries regarding quality. Marketing activities with a theme emphasizing "quality reigns supreme" will be put in place to increasing customer satisfaction.

5. **Implementing management enhancement, stepping up assurance measures, preventing and managing risks and ensuring a solid foundation**

   The Group will ensure positive results by strengthening management, continue to rectify short-comings in management, improve project quality through coordination, promote typical experience and solutions as well as demand efficiency and effectiveness from the management. Long-term mechanism, such as management review, management standardization and management forum, will be established to foster an atmosphere for innovative management and promote scientific, systematic and regulated management in enterprise.

   The Group will capitalize on the supervisory function of the auditing and monitoring efforts, and press ahead towards the set-up of a comprehensive risk management and internal control system, continue to commence the pilot scheme of risk management and expand the scope and subjects of such scheme. The Group will also closely monitor its liquidity and exercise reasonable control over its debt size so as to avoid debt risks and liquidity risks effectively.

PRINCIPAL ACTIVITIES

The Group is mainly engaged in the manufacture and sales of various kinds of power equipment and power station engineering services.

All the activities of the Group are based in the PRC, where 89.38% of the Group's turnover is derived from.

The export sales of the Group for the year ended 31 December 2013 amounted to USD357.1097 million, representing 10.62% of the Group's total turnover for the year. The Group's export markets mainly include Asia and South America.

SUBSIDIARIES

The Company has eleven principal subsidiaries. Harbin Electrical Machinery Company Limited is mainly in the field of manufacture and sales of water turbine generator units and steam turbine generator units. Harbin Boiler Company Limited is mainly in the field of manufacture and sales of boilers for power stations. Harbin Turbine Company Limited is mainly in the field of manufacture and sales of steam turbine for power stations. Harbin Electric International Company Limited is mainly in the field of the turnkey construction of power station projects and complete set of power station equipment. Harbin Electric Corporation (QHD) Heavy Equipment Company Limited is mainly in the field of manufacture and assembly of equipment such as large scale thermal power, nuclear power and gas turbine. Harbin Electric Power Equipment Company Limited is mainly in the field of manufacture and sales of medium-to-heavy-duty AC/DC motors and nuclear power main pump motors. HE Harbin Power Plant Valve Company Limited is mainly in the field of manufacture and sales of valves for power stations. Harbin Power Equipment National Engineering Research Center Co., Ltd is mainly in the field of research and development of power equipment engineerisation technology. Harbin Power Technology & Trade Inc. is mainly in the field of trading. HE Modern Manufacturing Service Industry Company Limited is mainly in the field of service businesses like power station maintenance, reconstruction, and supply of equipment. HE Finance Company Limited is mainly in the business of providing financial services to the members of HE.

DIVIDEND

A dividend of RMB0.08 per share (appropriate tax included) for 2013 was proposed by the board of directors.

Dividends payable to shareholders of H share will be paid in Hong Kong dollar at the average of the exchange rates quoted by the People's Bank of China for the five days preceding 21 March 2014, which is RMB1 for HK$1.2655. The dividend for every H share will be HK$0.1012.

CLOSURE OF REGISTER

The Register of members of the Company will be closed from 23 May, 2014 to 29 May, 2014 (both dates inclusive). Final dividend for 2013 will be distributed by 24 July, 2014 to shareholders whose names appear in the Register of members of the Company on 23 May, 2014. In order to qualify for the final dividend for 2013, 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, 2014.

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)" (《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》, 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" (《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), the Company will withhold and pay the individual income tax in respect of the dividend (bonus) received by the individual H Shareholders from the Company. The individual H Shareholders of the Company may be entitled to certain tax preferential treatments pursuant to the tax treaties between the PRC and the countries in which the individual H Shareholders are domiciled and the tax arrangements between Mainland China and Hong Kong (Macau). The Company will determine the capacity of the individual H Shareholders based on the registered address as recorded in the register of shareholders of the Company on the book closure date, i.e. 23 May 2014. 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.

According to the "PRC Tax Law" (《中華人民共和國稅法》), the Company will withhold and pay dividend income tax at the rate of 10% on behalf of the non-resident corporate shareholders.

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

As at 31 December 2013, 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 Listed Issuers 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

The issuance of five-year Domestic Corporate Bonds (first tranche) was completed on 13 March 2013. Final issuance size of the first tranche of Corporate Bonds was RMB3 billion, the coupon rates was 4.90%, and was listed on the Shanghai Stock Exchange on 2 May 2013, stock short name and stock code of which is "12 哈電 01" and "122236".

Save for the above, 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 for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 of the Listing Rules throughout the period.

CORPORATE GOVERNANCE CODE

The Company has complied throughout the year of 2013 with 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 2013, and discussed with the Board the financial reporting procedures as well as the internal control system of the Group.

AUDITORS

The current PRC auditor of the Company is Ruihua Certified Public Accountants, 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, 21 March 2014

As at the date of this announcement, the executive Directors of the Company are Mr. Wu Wei-zhang, Mr. Zhang Ying-jian, Mr. Song Shi-qi and Mr. Shang Zhong-fu; the non-executive directors of the Company are Mr. Gong Jing-kun and Mr. Zou Lei; and the independent non-executive directors of the Company are Mr. Sun Chang-ji, Mr. Fan Fu-chun, Mr. Jia Chengbing, Mr. Yu Bo and Mr. Liu Deng-qing.