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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 2012

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 2012, which were prepared in accordance with the accounting principles generally accepted in Hong Kong.

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2012

	<i>Note</i>	2012 RMB'000	2011 RMB'000
Revenue	5	25,995,186	28,487,782
Cost of sales		(20,414,447)	(22,777,148)
Gross profit		5,580,739	5,710,634
Other revenue and net loss	6	451,753	490,785
Distribution expenses		(632,373)	(558,036)
Administrative expenses		(3,320,872)	(3,040,175)
Other operating expenses		(330,694)	(969,230)
Finance costs	7(a)	(56,767)	(72,552)
Share of profits less losses of associates		54,347	78,534

	<i>Note</i>	2012 RMB'000	2011 <i>RMB'000</i>
Profit before taxation	7	1,746,133	1,639,960
Income tax	8(a)	<u>(404,551)</u>	<u>(256,686)</u>
Profit for the year		<u>1,341,582</u>	<u>1,383,274</u>
Attributable to:			
Equity shareholders of the Company		1,408,255	1,228,661
Non-controlling interests		<u>(66,673)</u>	<u>154,613</u>
		<u>1,341,582</u>	<u>1,383,274</u>
Earnings per share			
— Basic and diluted	9	<u>102.3 cents</u>	<u>89.2 cents</u>

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2012

	2012 <i>RMB'000</i>	2011 <i>RMB'000</i>
Profit for the year	1,341,582	1,383,274
Other comprehensive income/(loss) for the year, net of income tax		
Cash flow hedges:		
Gains/(losses) arising during the year	48,093	(32,671)
Less: Reclassification adjustments for gains to profit or loss	(12,781)	–
Income tax relating to component of other comprehensive income	(5,297)	4,901
	<u>30,015</u>	<u>(27,770)</u>
Total comprehensive income for the year	<u><u>1,371,597</u></u>	<u><u>1,355,504</u></u>
Attributable to:		
Equity shareholders of the Company	1,438,270	1,200,891
Non-controlling interests	(66,673)	154,613
	<u><u>1,371,597</u></u>	<u><u>1,355,504</u></u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2012

	<i>Note</i>	2012 <i>RMB'000</i>	2011 <i>RMB'000</i>
Non-current assets			
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
		<u>8,301,352</u>	<u>7,656,473</u>
Current assets			
Inventories		12,356,211	11,616,296
Trade receivables	<i>11</i>	15,286,812	12,918,135
Bills receivable	<i>11</i>	1,278,348	1,052,526
Other receivables, deposits and prepayments	<i>11</i>	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
		<u>46,331,057</u>	<u>42,739,578</u>
Current liabilities			
Derivative financial instruments		–	3,730
Amounts due to customers for contract work		1,563,378	1,413,194
Trade payables	<i>12</i>	17,260,173	14,646,188
Bills payable	<i>12</i>	3,555,642	1,900,795
Other payables, accruals and provisions	<i>12</i>	1,655,720	2,033,798
Deposits received		7,238,055	7,483,656
Amounts due to fellow subsidiaries		73,953	36,266
Advance from holding company		400,478	2,785
Borrowings — due within one year		1,151,595	581,623
Tax payables		901,855	920,618
Obligation under finance lease — due within one year		36,988	–
		<u>33,837,837</u>	<u>29,022,653</u>

	<i>Note</i>	2012 <i>RMB'000</i>	2011 <i>RMB'000</i>
Net current assets		<u>12,493,220</u>	<u>13,716,925</u>
Total assets less current liabilities		<u>20,794,572</u>	<u>21,373,398</u>
Non-current liabilities			
Derivative financial instruments		–	28,941
Deposits received		4,655,159	6,337,141
Advance from holding company		1,357,108	1,169,838
Borrowings — due after one year		981,317	1,314,244
Obligation under finance lease — due after one year		136,391	–
Deferred tax liabilities		<u>396</u>	<u>–</u>
		<u>7,130,371</u>	<u>8,850,164</u>
NET ASSETS		<u><u>13,664,201</u></u>	<u><u>12,523,234</u></u>
CAPITAL AND RESERVES			
Share capital	<i>14</i>	1,376,806	1,376,806
Reserves		<u>10,477,111</u>	<u>9,224,814</u>
Total equity attributable to equity shareholders of the Company		11,853,917	10,601,620
Non-controlling interests		<u>1,810,284</u>	<u>1,921,614</u>
TOTAL EQUITY		<u><u>13,664,201</u></u>	<u><u>12,523,234</u></u>

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

Amendments to HKAS 12 Deferred Tax: Recovery of Underlying Assets

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

The Group has applied the amendments to HKFRS 7 Disclosures — Transfers of Financial Assets in the current year. The amendments increase the disclosure requirements for transactions involving the transfer of financial assets in order to provide greater transparency around risk exposures when financial assets are transferred. However, an entity need not provide the disclosures for the comparative period in the first year of adoption.

The Group did not have any significant transfers of financial assets in previous periods or the current period which require disclosure in the current accounting period under the amendments.

Amendments to HKAS 12, Income taxes

The Group has applied for the first time the amendments to HKAS 12 Deferred Tax: Recovery of Underlying Assets in the current year. Under the amendments, investment properties that are measured using the fair value model in accordance with HKAS 40 Investment Property are presumed to be recovered entirely through sale for the purposes of measuring deferred taxes unless the presumption is rebutted.

These amendments do not have any material impact on the classification, recognition and measurements of the amounts recognised in the financial statements in the current and previous periods.

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:

	2012 <i>RMB’000</i>	2011 <i>RMB’000</i>
Sales of goods	21,613,824	22,539,408
Revenue from construction contracts	4,381,362	5,948,374
	<u>25,995,186</u>	<u>28,487,782</u>

For the year ended 31 December 2012, there was no customer with whom transactions have exceeded 10% of the Group’s revenue (2011: Nil).

6. OTHER REVENUE AND NET LOSS

	2012 <i>RMB'000</i>	2011 <i>RMB'000</i>
Other revenue		
Interest income from held-to-maturity bonds	12,242	6,085
Other interest income	<u>171,116</u>	<u>246,160</u>
Total interest income on financial assets not at fair value through profit or loss	183,358	252,245
Compensation income	401	3,181
Dividend income from trading securities	44,000	50,000
Dividend income from unlisted equity securities	769	7,358
PRC government subsidies (<i>note i</i>)	410,516	380,675
Rental income	7,075	7,145
Other income	<u>19,348</u>	<u>92,131</u>
	<u>665,467</u>	<u>792,735</u>
Other net income/(loss)		
Net (loss)/gain on disposal of property, plant and equipment	(2,774)	3,850
Net profit from sale of scrap materials and others	1,342	839
Gain on disposal of subsidiaries	2,194	389
(Loss)/gain on disposal of trading securities	(5,717)	7,606
Gain on disposal of available-for-sale investments	3,020	1,174
Fair value gains on derivative financial instruments not qualifying as hedges	18,535	78,704
Fair value changes on derivative financial instruments — cash flow hedge (transfer from hedging reserve)	12,781	—
Fair value losses on trading securities	<u>(243,095)</u>	<u>(394,512)</u>
	<u>(213,714)</u>	<u>(301,950)</u>
	<u>451,753</u>	<u>490,785</u>

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

	2012 <i>RMB'000</i>	2011 <i>RMB'000</i>
Income of financial subsidies	375,591	285,556
Research subsidies	16,586	19,610
Others	<u>18,339</u>	<u>75,509</u>
	<u>410,516</u>	<u>380,675</u>

7. PROFIT BEFORE TAXATION

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

	2012 <i>RMB'000</i>	2011 <i>RMB'000</i>
(a) Finance costs		
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) Staff costs[#]		
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>
Total staff costs	<u>1,981,676</u>	<u>1,870,484</u>
(c) Other items		
Allowance for doubtful debts	766,307	618,868
Allowance for inventories	34,531	115,526
Amortisation of intangible assets [#]	29,292	19,110
Amortisation of prepaid lease payments [#]	12,301	11,922
Auditors' remuneration	2,910	2,850
Cost of inventories [#]	20,414,447	22,777,148
Depreciation for investment properties [#]	181	181
Depreciation for property, plant and equipment [#]	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>

[#] 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) Taxation in the consolidated income statement represents:

	2012 <i>RMB'000</i>	2011 <i>RMB'000</i>
Current tax		
PRC Enterprise Income Tax		
— provision for the year	381,795	370,078
— under (over)-provision in respect of prior years	39,334	(45,607)
	<u>421,129</u>	<u>324,471</u>
Deferred tax		
Origination and reversal of temporary differences	(16,578)	(67,785)
	<u>404,551</u>	<u>256,686</u>

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% (2011: 25%) on its assessable profits.

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

9. EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of the basic earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of approximately RMB1,408,255,000 (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 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, 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

	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	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	<u>18,520,424</u>	<u>3,800,862</u>	<u>3,354,372</u>	<u>992,595</u>	<u>2,354,737</u>	<u>29,022,990</u>
Reportable segment profit	<u>3,483,840</u>	<u>1,263,199</u>	<u>314,651</u>	<u>232,444</u>	<u>317,743</u>	<u>5,611,877</u>
Depreciation of property, plant and equipment	380,588	115,521	9,754	19,844	64,600	590,307
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	(84,650)	(12,554)	(73,295)	(4,600)	(8,259)	(183,358)
Interest expenses	8,435	3,064	38,323	415	6,530	56,767
Reversal of impairment loss on doubtful debts	(1,029)	(2,051)	-	(154)	-	(3,234)
Reportable segment assets	<u>31,006,874</u>	<u>5,587,471</u>	<u>2,985,446</u>	<u>1,567,629</u>	<u>4,363,996</u>	<u>45,511,416</u>
Additions to non-current segment assets during the year	818,089	158,465	21,755	27,978	191,269	1,217,556
Reportable segment liabilities	<u>25,348,246</u>	<u>4,010,740</u>	<u>3,946,318</u>	<u>1,389,019</u>	<u>2,803,905</u>	<u>37,498,228</u>

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	<u>3,247,639</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>3,247,639</u>
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>
Reportable segment profit	<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)
Reportable segment assets	28,467,215	4,772,229	3,394,865	712,866	3,694,413	41,041,588
Additions to non-current segment assets during the year	1,033,470	208,445	25,955	11,246	470,860	1,749,976
Reportable segment liabilities	<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>
Revenue		
Reportable segment revenue	29,022,990	31,735,421
Elimination of inter-segment revenue	<u>(3,027,804)</u>	<u>(3,247,639)</u>
Consolidated turnover	<u>25,995,186</u>	<u>28,487,782</u>
Profit		
Reportable segment profit	5,611,877	5,866,594
Elimination of inter-segment profits	<u>(31,138)</u>	<u>(155,960)</u>
Reportable segment profit derived from		
Group's external customers	5,580,739	5,710,634
Share of profits less losses of associates	54,347	78,534
Interest income	183,358	252,245
PRC government subsidies	410,516	380,675
Fair value losses on trading securities	(243,095)	(394,512)
Provision for onerous contracts	(56,498)	(814,924)
Finance costs	(56,767)	(72,552)
Unallocated other net income	100,974	252,377
Unallocated head office and corporate expenses	<u>(4,227,441)</u>	<u>(3,752,517)</u>
Consolidated profit before taxation	<u>1,746,133</u>	<u>1,639,960</u>
Assets		
Reportable segment assets	45,511,416	41,041,588
Elimination of inter-segment receivables	<u>(3,010,180)</u>	<u>(3,056,385)</u>
	42,501,236	37,985,203
Interests in associates	583,840	546,899
Deferred tax assets	288,542	277,366
Other non-current assets	357,964	332,722
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
Unallocated head office and corporate assets	<u>289,703</u>	<u>506,750</u>
Consolidated total assets	<u>54,632,409</u>	<u>50,396,051</u>

	2012 <i>RMB'000</i>	2011 <i>RMB'000</i>
Liabilities		
Reportable segment liabilities	37,498,228	34,940,609
Elimination of inter-segment payables	(3,010,180)	(3,056,385)
	34,488,048	31,884,224
Income tax payables	513,608	635,239
Derivative financial instruments	–	32,671
Advance from holding company	1,757,586	1,172,623
Borrowings	2,132,912	1,895,867
Obligation under finance lease	173,379	–
Deferred tax liabilities	396	–
Unallocated head office and corporate liabilities	1,902,279	2,252,193
Consolidated total liabilities	40,968,208	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)	21,984,696	22,512,472	7,654,846	7,046,385
Overseas:				
— Republic of India	1,136,563	3,755,841	–	–
— Islamic Republic of Pakistan	1,303,322	1,800,770	–	–
— The Republic of Ecuador	631,932	–	–	–
— Other countries	938,673	418,699	–	–
	4,010,490	5,975,310	–	–
	25,995,186	28,487,782	7,654,846	7,046,385

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

	2012 <i>RMB'000</i>	2011 <i>RMB'000</i>
Trade receivables	18,858,846	15,727,096
Less: allowance for doubtful debts	(3,572,034)	(2,808,961)
	15,286,812	12,918,135
Bills receivable	1,278,348	1,052,526
	16,565,160	13,970,661
Other receivables	418,770	579,281
Amounts due from associates	83,964	1,361
Deposits and prepayments	4,092,329	3,903,424
	4,595,063	4,484,066
	21,160,223	18,454,727

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.

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

	2012 <i>RMB'000</i>	2011 <i>RMB'000</i>
Within 1 year	9,967,661	7,824,717
Between 1 to 2 years	2,871,100	2,430,624
Between 2 to 3 years	1,569,410	1,374,045
Over 3 years	2,156,989	2,341,275
	16,565,160	13,970,661

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>Number of shares</i>	<i>RMB'000</i>	<i>Number of shares</i>	<i>RMB'000</i>
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	<u>1,376,806,000</u>	<u>1,376,806</u>	<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 effective measures in response, such as conferring closely with its users, as well as enhancing the forewarning system and systematic scheduling of projects, with the view to attain better control over key links in productions and to reinforce coordination and assessment measures, so as to complete all production tasks during the year, and essentially satisfy demands of our clients.

R&D AND TECHNOLOGY INTRODUCTION

In 2012, the Group was granted 190 patent authorizations, and completed 359 R&D projects, as well as received 17 accolades from various disciplines awarded, among which the《實現無燃油燃煤電廠的成套技術研究與應用》won the second prize of National Science and Technology Progress Award.

The National High Technology Research and Development Program 863《整體煤氣化聯合循環顯熱回收關鍵設備的研製》and《鎳基合金大型零件高效切削技術及應用》has passed inspection, while the National Key Technology Research and Development Program《1000MW水力發電機組研究》has been approved by the Ministry of Science and Technology.

The Group has achieved stage result in several technology research and development aspects, such as nuclear compressors, waste heat boilers, fuel gas compressor units and photovoltaic power generators.

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 of RMB0.13 over the previous year; net asset as at the end of the period attributable to the shareholders of the Company were RMB11,853.92 million, an increase of RMB1,252.30 million compared to the beginning of the year; net asset per share was RMB8.61, an increase of RMB0.91 compared to the beginning of the year.

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

TURNOVER

In 2012, the Group recorded a turnover of principal business activities of RMB25,995.19 million, a decrease of 8.75% over the previous year. In particular, turnover of the thermal power main equipment business was RMB15,492.62 million, a decrease of 10.42% over the previous year, representing 59.60% of the turnover of the principal business activities. Turnover from hydropower main equipment was RMB3,800.86 million, an increase of 20.17% over the previous year, representing 14.62% of the turnover of the principal business activities. Turnover of power plant engineering services was RMB3,354.37 million, a decrease of 34.29% over the previous year, representing 12.90% of the turnover from the principal business activities. Turnover of ancillary equipment for power stations was RMB992.60 million, an increase of 38.03% over the previous year, representing 3.82% of the turnover from the principal business activities. Turnover of AC/DC motors and other products and services was RMB2,354.74 million, an increase of 6.75% over the previous year, representing 9.06% of the turnover of the principal business activities.

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 costs, travel allowances, depreciation charges and R&D expenses.

INTEREST EXPENSE

In 2012, the Group has incurred financial charges of RMB56.77 million, a decrease of RMB15.78 million over the previous year.

FUNDING AND BORROWINGS

The Group has three major funding sources for operation and development, namely shareholder's funds, trade receivables from customers and bank borrowings. The Group arranges borrowings for each specific project. Except for some special situations, loans will be raised individually by the Group's subsidiaries. However, prior approval from the parent company is required in respect of borrowings raised for capital investments. As the number of orders and advance receipts increased significantly during the past two years, the Group had abundant working capital and has thus repaid substantially all of the loans for working capital. As at 31 December 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 forecast to 7.5%. The power equipment market is challenged by both risks and opportunities, which makes further development more difficult. It is expected that the production volume and results will be substantially decreased due to the delay and cancellation of orders. In coping with unfavorable conditions such as corporate downsizing, the Group targets to halt the downtrend and maintain its scale while on the lookout for expanding opportunities. The Group endeavors to explore new markets, adjust group structure, encourage innovations, carry out corporate reforms, and enhance business management, and is committed in bringing maximum returns to our investors.

The Group will focus on accomplishing the following tasks in 2013:

1. Develop markets and explore potentials to encourage sustainable development

The Group will strengthen and maintain its shares in the existing markets, while actively develop the international market and expedite market development for our new projects, to cultivate our modernized service and manufacturing business as the new source of economic growth.

Leveraging on our projects at hand, we will direct our efforts to the development of new products, such as seawater desalination, photovoltaic power generation, fuel gas compressor units, and tidal power generation, and speed up the structural adjustment and business upgrades of the Group.

The Group will step up in developing the equipment assemble supply market, and refine its marketing and management models for the equipment assemble supply business.

We will actively implement our group development strategies under the principle of “assemble supply leading the main equipment segment, which in turn drives the ancillary equipments segment”, and strive for economies of scales and synergies in development.

The Group will make use of its current capacity and resources, to capitalize on its internal productivity in order to minimize sub-contracting and outsourcing.

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 measures.

In regard to quality control, we will perfect our quality control system by closely assess the quality of our products, and to launch key projects in quality improvement, as well as strengthening our cost-quality analyzing effort to better our quality monitoring and assessment work.

In relation to our team-building, we will consider our needs in long-term development in order to design human resources plans. The Group will focus on availing ourselves of our leaders, and prudently recruit and engage skilled personnel, as well as establishing staff training scheme to foster team-building, and will employ staff assessment procedures to promote excellency.

DIVIDEND

A dividend of RMB0.10 per share (appropriate tax included) for 2012 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 23 March 2013, which is RMB1 for HK\$1.2373. The dividend for every H share will be HK\$0.1237.

CLOSURE OF REGISTER

The Register of members of the Company will be closed from 11 April, 2013 to 10 May, 2013 (both dates inclusive). Final dividend for 2012 will be distributed by 28 July, 2013 to shareholders whose names appear in the Register of members of the Company on 11 April, 2013. In order to qualify for the final dividend for 2012, 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 10 April, 2013.

DIVIDEND TAX

Pursuant to the "PRC Individual Income Tax Law" (《中華人民共和國個人所得稅法》), the "PRC Implementation Regulations of the Individual Income Tax Law" (《中華人民共和國個人所得稅法實施條例》), the "Notice of the State Administration of Taxation in relation to the Administrative Measures on Preferential Treatment Entitled by Non-residents under Tax Treaties (Tentative)" ([Guo Shui Fa 2009] No.124) (《國家稅務總局關於印發〈非居民享受稅收協定待遇管理辦法(試行)〉的通知》(國稅發[2009]124號)) ("Tax Treaties Notice") and other relevant laws and regulations promulgated by the State Administration of Taxation, following the repeal of the "Notice of the Issues Concerning Tax on the Profits Earned by Foreign Invested Enterprises, Foreign Enterprises and Individual Foreigners from the Transfer of Shares (Equity Interests) and on Dividend Income" (Guo Shui Fa [1993] No.45) (《關於外商投資企業、外國企業和外籍個人取得股票(股權)轉讓收益和股息所得稅收問題的通知》(國稅發[1993]45號)), the Company will withhold and pay the individual income tax in respect of the dividend (bonus) received by the individual H Shareholders from the Company. The individual H Shareholders of the Company may be entitled to certain tax preferential treatments pursuant to the tax treaties between the PRC and the countries in which the individual H Shareholders are domiciled and the tax arrangements between Mainland China and Hong Kong (Macau). The Company will determine the capacity of the individual H Shareholders based on the registered address as recorded in the register of holders of H shares of the Company on book closure date, i.e. 11 April 2013. 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.

In addition, 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 OF THE COMPANY

As at 31 December 2012, none of the directors, supervisors and senior management of the Company had any interest or short position in the shares, underlying shares and/or debentures (as the case may be) of the Company and/or of any of its associated corporations (within the meaning of Part XV of the SFO) which was required to be notified to the Company and the HKSE pursuant to Divisions 7 and 8 of Part XV of the SFO (including interest or short position which any such director, supervisor or senior management is taken or deemed to have under such provisions of the SFO) or which was required to be entered in the Register kept by the Company pursuant to section 352 of the SFO or which was required to be notified to the Company and the HKSE pursuant to the Model Code for Securities Transactions by Directors of Listing Companies as contained in Appendix 10 to the Listing Rules.

DIRECTORS' AND SUPERVISORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

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

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

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

PRE-EMPTIVE RIGHTS

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

MODEL CODE

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

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.