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 2014

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 2014, 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 2014

	Note	**2014** ***RMB'000***	2013 *RMB'000*
Revenue	*5*	**23,794,457**	20,500,705
Cost of sales		**(20,653,741)**	(16,179,823)
Gross profit		**3,140,716**	4,320,882
Other revenue and net income/(loss)	*6*	**1,851,931**	463,345
Distribution expenses		**(572,051)**	(528,425)
Administrative expenses		**(3,296,586)**	(3,066,749)
Other operating expenses		**(490,338)**	(211,461)
Finance costs	*7(a)*	**(300,010)**	(228,478)
Share of profits less losses of associates		**31,217**	28,980

	Note	**2014**	2013
		RMB'000	*RMB'000*
Profit before taxation	*7*	**364,879**	778,094
Income tax	*8(a)*	**(230,713)**	(152,488)
Profit for the year		**134,166**	625,606
Attributable to:			
Equity shareholders of the Company		**566,410**	705,813
Non-controlling interests		**(432,244)**	(80,207)
		134,166	625,606
		RMB	*RMB*
Earnings per share			
— Basic and diluted	*9*	**41.1 cents**	51.3 cents

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
For the year ended 31 December 2014

	2014	2013
	RMB'000	*RMB'000*
Profit for the year	**134,166**	625,606
Other comprehensive (loss)/income for the year, net of income tax		
Items that may be reclassified subsequently to profit or loss:		
Cash flow hedges:		
(Losses)/gains arising during the year	**(371,309)**	115,292
Less: Reclassification adjustments for amounts transferred to profit or loss	**(24,332)**	–
Income tax relating to items that may be reclassified subsequently to profit or loss	**59,346**	(17,294)
Other comprehensive (loss)/income for the year, net of income tax	**(336,295)**	97,998
Total comprehensive (loss)/income for the year	**(202,129)**	723,604
Attributable to:		
Equity shareholders of the Company	**230,115**	803,811
Non-controlling interests	**(432,244)**	(80,207)
	(202,129)	723,604

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
At 31 December 2014

	Note	2014 RMB'000	2013 RMB'000
Non-current assets			
Investment properties		**21,701**	4,448
Property, plant and equipment		**6,701,041**	6,633,287
Prepaid lease payments		**493,517**	492,512
Intangible assets		**200,333**	218,357
Deferred tax assets		**349,580**	297,354
Interests in associates		**242,769**	234,614
Other non-current assets		**49,292**	70,538
Other financial assets		**–**	51,095
		8,058,233	8,002,205
Current assets			
Inventories		**15,471,226**	14,346,742
Trade receivables	*11*	**12,567,552**	14,452,023
Bills receivable	*11*	**2,144,792**	1,997,282
Discounted bills and loans receivable		**19,550**	21,855
Other receivables, deposits and prepayments		**5,627,510**	5,673,638
Prepaid lease payments		**14,009**	14,286
Amounts due from customers for contract work		**1,263,968**	970,378
Amounts due from fellow subsidiaries		**336,530**	175,206
Other financial assets		**–**	528,040
Trading securities		**1,909,300**	1,532,390
Tax recoverable		**87,548**	43,402
Restricted and pledged bank deposits		**339,540**	219,456
Deposits with central bank		**710,781**	519,145
Bank deposits		**2,086,312**	1,326,913
Cash and cash equivalents		**11,557,109**	10,538,171
		54,135,727	52,358,927
Current liabilities			
Amounts due to customers for contract work		**2,219,009**	1,128,844
Derivative financial instruments		**139,410**	–
Trade payables	*12*	**13,997,053**	15,071,799
Bills payable	*12*	**4,162,470**	4,018,619
Other payables, accruals and provisions	*12*	**1,304,964**	1,619,281
Deposits received		**7,701,437**	10,331,026
Amounts due to fellow subsidiaries		**57,734**	65,336
Advance from holding company		**1,854,550**	1,768,182
Customers' deposits		**796,680**	454,236
Bank borrowings		**1,105,704**	683,918
Tax payables		**347,831**	254,009
Obligations under finance leases			
— due within one year		**41,733**	39,289
		33,728,575	35,434,539

	Note	**2014** **RMB'000**	2013 RMB'000
Net current assets		**20,407,152**	16,924,388
Total assets less current liabilities		**28,465,385**	24,926,593
Non-current liabilities			
Derivative financial instruments		**153,889**	–
Deposits received		**10,527,167**	6,533,021
Advance from holding company		**3,500**	3,500
Bank borrowings		**74,450**	440,000
Obligations under finance leases — due after one year		**55,597**	97,245
Corporate bonds		**2,994,443**	2,992,688
Other non-current liabilities		**676,223**	548,200
Deferred tax liabilities		**–**	17,690
		14,485,269	10,632,344
NET ASSETS		**13,980,116**	14,294,249
CAPITAL AND RESERVES			
Share capital	*14*	**1,376,806**	1,376,806
Reserves		**11,274,130**	11,150,277
Total equity attributable to equity shareholders of the Company		**12,650,936**	12,527,083
Non-controlling interests		**1,329,180**	1,767,166
TOTAL EQUITY		**13,980,116**	14,294,249

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") and accounting principles generally accepted in Hong Kong. These financial statements also comply with the applicable disclosure requirements of the Hong Kong Companies Ordinance, which for this financial year and the comparative period continue to be those of the predecessor Hong Kong Companies Ordinance (Cap. 32), in accordance with transitional and saving arrangements for Part 9 of the new Hong Kong Companies Ordinance (Cap. 622), "Accounts and Audit", which are set out in sections 76 to 87 of Schedule 11 to that Ordinance. These financial statements also comply with the 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 2014 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.

Disposal groups held for sale are stated at the lower of carrying amount and fair value less costs to sell.

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")

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

Amendments to HKFRS 10, HKFRS 12 and HKAS 27 (2011)	Investment Entities
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities
Amendments to HKAS 36	Recoverable Amount Disclosures for Non-Financial Assets
Amendments to HKAS 39	Novation of Derivatives and Continuation of Hedge Accounting
HK(IFRIC)-21	Levies

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period. Impacts of the adoption of the new or amended HKFRSs are discussed below:

Amendments to HKFRS 10, HKFRS 12 and HKAS 27 (2011) Investment entities

The amendments provide consolidation relief to those parents which qualify to be an investment entity as defined in the amended HKFRS 10. Investment entities are required to measure their subsidiaries at fair value through profit or loss. These amendments do not have an impact on these financial statements as no group entity qualifies as an investment entity.

Amendments to HKAS 32 Offsetting Financial Assets and Financial Liabilities

The amendments to HKAS 32 clarify the offsetting criteria in HKAS 32. The amendments do not have an impact on these financial statements as they are consistent with the policies already adopted by the Group.

Amendments to HKAS 36 Recoverable Amount Disclosures for Non-Financial Assets

The amendments to HKAS 36 modify the disclosure requirements for impaired non-financial assets. Among them, the amendments expand the disclosures required for an impaired asset or CGU whose recoverable amount is based on fair value less costs of disposal.

The application of these amendments has had no material impact on the disclosures in the Group's consolidated financial statements.

Amendments to HKAS 39 Novation of Derivatives and Continuation of Hedge Accounting

The amendments to HKAS 39 provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. The amendments do not have an impact on these financial statements as the Group has not novated any of its derivatives.

HK (IFRIC)-Int 21 Levies

The Interpretation provides guidance on when a liability to pay a levy imposed by a government should be recognised. The amendments do not have an impact on these financial statements as the guidance is consistent with the Group's existing accounting policies.

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:

	2014	2013
	RMB'000	*RMB'000*
Sales of goods	**16,862,413**	17,043,671
Revenue from construction contracts	**6,932,044**	3,457,034
	23,794,457	20,500,705

6. OTHER REVENUE AND NET INCOME/(LOSS)

	2014	2013
	RMB'000	*RMB'000*
Other revenue		
Interest income from held-to-maturity investments	**11,333**	19,504
Bank and other interest income	**141,406**	180,931
Finance company:		
Interest income from banks and other financial institutions	**211,616**	99,369
Interest income on discounted bills and loans receivables	**19,851**	1,459
Total interest income on financial assets not at fair value through profit or loss	**384,206**	301,263
Investment income on wealth management products purchased from banks	**23,181**	–
Compensation income	**337**	1,525
Dividend income from trading securities	**67,300**	51,800
Dividend income from available-for-sale investments	**998**	2,331
PRC government subsidies *(note i)*	**92,918**	139,632
Rental income	**10,640**	4,552
Exchange gain	**9,096**	–
Other income	**53,236**	59,862
	641,912	560,965
Other net income/(loss)		
Net (loss)/gain on disposal of property, plant and equipment	**(145)**	3,771
Gain on disposal of prepaid lease payments	**4,875**	–
Net gain from sale of scrap materials and others	**1,854**	–
Net realised and unrealised gains/(losses) on trading securities	**1,155,300**	(121,660)
Gain on disposal of available-for-sale investments	**23,803**	5,216
Gain on disposal of associate	**–**	2,123
Fair value gains on derivative financial instruments not qualifying as hedges	**–**	12,930
Fair value gain — cash flow hedge (transfer from equity)	**24,332**	–
	1,210,019	(97,620)
	1,851,931	463,345

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

	2014	2013
	RMB'000	*RMB'000*
Income of financial subsidies	**21,631**	82,363
Research subsidies	**51,253**	34,638
Others	**20,034**	22,631
	92,918	139,632

7. PROFIT BEFORE TAXATION

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

	2014 *RMB'000*	2013 *RMB'000*
(a) Finance costs		
Interest on bank and other borrowings:		
— wholly repayable within five years	**135,540**	96,744
— not wholly repayable within five years	**–**	–
Finance Company:		
Interest expense on customers' deposits	**8,534**	1,354
Interest on corporate bonds	**148,755**	120,867
Finance charges on obligations under finance leases	**7,436**	9,513
Total interest expenses on financial liabilities not at fair value through profit or loss	**300,265**	228,478
Less: interest expense capitalised into construction in progress	**(255)**	–
	300,010	228,478

Borrowing costs had been capitalised at a rate of 5.4% in 2014 (2013: nil).

	2014 *RMB'000*	2013 *RMB'000*
(b) Staff costs#		
Staff costs including directors' and supervisors' emoluments	**2,056,830**	1,692,556
Post-employment benefit scheme contributions	**403,068**	398,357
Total staff costs	**2,459,898**	2,090,913
(c) Other items		
Allowance for doubtful debts	**642,242**	486,258
Impairment of other receivables	**17,911**	15,471
Allowance for inventories	**462,619**	156,751
Amortisation of prepaid lease payments#	**14,009**	13,186
Amortisation of intangible assets#	**28,121**	27,575
Auditors' remuneration	**3,110**	3,110
Cost of inventories#	**20,653,741**	16,179,823
Depreciation for investment properties	**1,256**	181
Depreciation for property, plant and equipment#	**693,073**	666,407
Net foreign exchange (gain)/loss	**(9,096)**	60,826
Provision for onerous contracts##	**226,803**	61,687
Provision for product warranty##	**164,485**	82,592
Research and development costs	**370,136**	350,373

Cost of inventories includes RMB2,102,615,000 (2013: RMB1,782,343,000) 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.

These items are included in "other operating expenses" on the face of the consolidated statement of profit or loss.

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

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

	2014	2013
	RMB'000	*RMB'000*
Current tax		
PRC Enterprise Income Tax		
— provision for the year	**174,886**	151,754
— under-provision in respect of prior years	**66,384**	9,158
	241,270	160,912
Deferred tax		
Origination and reversal of temporary differences	**(10,557)**	(8,424)
	230,713	152,488

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, with the latest concession beginning on 5 August 2014.

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% (2013: 25%) on its assessable profits.

Taxation arising on other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

(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 RMB566,410,000 (2013: RMB705,813,000) and on the weighted average number of ordinary shares of 1,376,806,000 (2013: 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 2014 and 2013, 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 resources 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 and accruals, amounts due to fellow subsidiaries, customers' 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, net realised and unrealised gains/(losses) on trading securities, fair value changes on derivative financial instruments, provision for onerous contracts, finance costs, unallocated 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 the 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 resources allocation and assessment of segment performance for the years ended 31 December 2014 and 2013 is set out below.

2014

	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 motor and others** *RMB'000*	**Total** *RMB'000*
Revenue from external customers	**12,310,169**	**2,906,874**	**3,894,369**	**1,556,343**	**3,126,702**	**23,794,457**
Inter-segment revenue	**1,900,380**	**–**	**189,297**	**–**	**–**	**2,089,677**
Reportable segment revenue	**14,210,549**	**2,906,874**	**4,083,666**	**1,556,343**	**3,126,702**	**25,884,134**
Reportable segment profit	**1,761,147**	**388,715**	**318,493**	**360,615**	**273,461**	**3,102,431**
Depreciation of property, plant and equipment	**439,152**	**113,832**	**11,794**	**19,675**	**108,620**	**693,073**
Depreciation of investment properties	**274**	**–**	**709**	**–**	**273**	**1,256**
Amortisation of intangible assets	**17,554**	**142**	**–**	**1,974**	**8,451**	**28,121**
Amortisation of prepaid lease payments	**8,861**	**2,945**	**44**	**603**	**1,556**	**14,009**
(Reversal)/impairment of other receivables	**(251)**	**2,804**	**(2,309)**	**(435)**	**18,102**	**17,911**
Allowances for doubtful debts	**426,068**	**58,820**	**49,029**	**60,673**	**47,652**	**642,242**
Interest income	**(92,345)**	**(6,310)**	**(41,603)**	**(4,483)**	**(239,465)**	**(384,206)**
Interest expenses	**246,480**	**8,167**	**14,400**	**3,306**	**27,657**	**300,010**
Reportable segment assets	**31,971,154**	**5,226,341**	**2,710,586**	**3,050,889**	**5,534,629**	**48,493,599**
Additions to non-current segment assets during the year*	**479,920**	**143,580**	**74,815**	**39,498**	**100,759**	**838,572**
Reportable segment liabilities	**27,755,381**	**4,298,796**	**4,317,490**	**2,919,926**	**4,408,274**	**43,699,867**

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 motor 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 consist of additions to property, plant and equipment, prepaid lease payments and intangible assets including assets from the acquisition of a subsidiary.

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

	2014 *RMB'000*	2013 *RMB'000*
Revenue		
Reportable segment revenue	**25,884,134**	22,613,022
Elimination of inter-segment revenue	**(2,089,677)**	(2,112,317)
Consolidated turnover	**23,794,457**	20,500,705

	2014	2013
	RMB'000	*RMB'000*
Profit		
Reportable segment profit	**3,102,431**	4,372,224
Elimination of inter-segment losses/(profits)	**38,285**	(51,342)
Reportable segment profit derived from Group's external customers	**3,140,716**	4,320,882
Share of profits less losses of associates	**31,217**	28,980
Interest income	**384,206**	301,263
PRC government subsidies	**92,918**	139,632
Net realised and unrealised gains/(losses) on trading securities	**1,155,300**	(121,660)
Fair value gain — cash flow hedge (transfer from equity)	**24,332**	–
Provision for onerous contracts	**(226,803)**	(61,687)
Finance costs	**(300,010)**	(228,478)
Unallocated other net income	**195,175**	144,110
Unallocated head office and corporate expenses	**(4,132,172)**	(3,744,948)
Consolidated profit before taxation	**364,879**	778,094
Assets		
Reportable segment assets	**48,493,599**	48,275,100
Elimination of inter-segment receivables	**(5,020,546)**	(4,073,577)
	43,473,053	44,201,523
Interests in associates	**242,769**	234,614
Deferred tax assets	**349,580**	297,354
Other non-current assets	**49,292**	70,538
Other financial assets	**–**	579,135
Trading securities	**1,909,300**	1,532,390
Restricted and pledged bank deposits	**339,540**	219,456
Bank deposits	**2,086,312**	1,326,913
Deposits with central bank	**710,781**	519,145
Cash and cash equivalents	**11,557,109**	10,538,171
Unallocated head office and corporate assets	**1,476,224**	841,893
Consolidated total assets	**62,193,960**	60,361,132
Liabilities		
Reportable segment liabilities	**43,699,867**	41,250,228
Elimination of inter-segment payables	**(5,020,546)**	(4,073,577)
	38,679,321	37,176,651
Income tax payables	**108,423**	136,490
Derivative financial instruments	**293,299**	–
Advance from holding company	**1,858,050**	1,771,682
Bank borrowings	**1,180,154**	1,123,918
Other non-current liabilities	**676,223**	548,200
Obligations under finance leases	**97,330**	136,534
Deferred tax liabilities	**–**	17,690
Corporate bonds	**2,994,443**	2,992,688
Unallocated head office and corporate liabilities	**2,326,601**	2,163,030
Consolidated total liabilities	**48,213,844**	46,066,883

(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	
	2014	2013	**2014**	2013
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
PRC (place of domicile)	**19,459,852**	18,323,443	**7,659,361**	7,583,218
Overseas:				
— Republic of India	**137,800**	354,943	**–**	–
— Islamic Republic of Pakistan	**208,166**	573,935	**–**	–
— The Republic of Ecuador	**1,210,258**	613,166	**–**	–
— The Republic of Turkey	**795,238**	–	**–**	–
— The Republic of Indonesia	**1,204,588**	89,571	**–**	–
— Other countries	**778,555**	545,647	**–**	–
	4,334,605	2,177,262	**–**	–
	23,794,457	20,500,705	**7,659,361**	7,583,218

In 2014, revenue of approximately RMB2,544,790,000 are derived from a single external customer. These revenue are attributable to the main thermal power equipment and main hydro power equipment segments.

No single customer contributed 10% or more to the Group's total revenue in 2013.

11. TRADE AND BILLS RECEIVABLE

	2014	2013
	RMB'000	*RMB'000*
Trade receivables	**17,267,807**	18,509,731
Less: allowance for doubtful debts	**(4,700,255)**	(4,057,708)
	12,567,552	14,452,023
Bills receivable	**2,144,792**	1,997,282
	14,712,344	16,449,305

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 and bills 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:

	2014	2013
	RMB'000	*RMB'000*
Within 1 year	**8,955,086**	9,872,023
Between 1 to 2 years	**2,731,996**	3,175,794
Between 2 to 3 years	**1,415,246**	1,607,802
Over 3 years	**1,610,016**	1,793,686
	14,712,344	16,449,305

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

	2014	2013
	RMB'000	*RMB'000*
Trade payables	**13,997,053**	15,071,799
Bills payable	**4,162,470**	4,018,619
	18,159,523	19,090,418
Provisions	**760,207**	630,168
Other payables and accrued charges	**523,933**	960,852
Amounts due to associates	**20,824**	28,261
	19,464,487	20,709,699

The amounts due to associates are unsecured, non-interest-bearing and repayable within one year.

The ageing analysis of trade and bills payables as of the end of the reporting period is as follows:

	2014	2013
	RMB'000	*RMB'000*
Within 1 year	**15,490,004**	16,758,609
Between 1 to 2 years	**1,632,085**	1,547,078
Between 2 to 3 years	**532,491**	371,421
Over 3 years	**504,943**	413,310
	18,159,523	19,090,418

13. DIVIDENDS

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

	2014	2013
	RMB'000	*RMB'000*
Final dividend proposed after the end of the reporting period of RMB0.04 per ordinary share (2013: RMB0.08 per ordinary share)	**55,072**	110,144

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

	2014	2013
	RMB'000	*RMB'000*
Final dividend in respect of the previous financial year, approved and paid during the year, of RMB0.08 per share (2013: RMB0.1 per share)	**110,144**	137,681

14. SHARE CAPITAL

	2014		2013	
	Number of shares	***RMB'000***	*Number of shares*	*RMB'000*
1,376,806,000 shares, 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

In 2014, the global economy made little headway in recovery and major economies developed in diversified ways. The general economic performance and social development of the PRC remained stable. The international power market was still facing various uncertainties amid fierce competitions. The growing pace of power consumption in the PRC slowed down with a growth of 3.8% across the nation. As at the end of 2014, installed capacity of power generating units reached 1,360,000 MW, representing an increase of 8.7% over the previous year. Installed capacity of non-fossil fuel generating units reached 450,000 MW, representing 33.3% of the total installed capacity of power generating units. Newly installed capacity of generating units reached 103,500 MW for the year, increasing by 1,280 MW over the previous year, of which installed capacity of non-fossil fuel generating units amounted to 57,020 MW.

NEW CONTRACTS

Facing with a complex and volatile environment in both the PRC and the rest of the world during the year 2014, Harbin Electric Company Limited and its subsidiaries (hereinafter as the "Group") leveraged on the thorough understanding of the latest development of the market so as to attain efficient resource allocation and enlarge the market share of the Group, realizing RMB40.472 billion worth of duly signed contracts, of which RMB16.391 billion (or 40.50% of total contract value) for thermal power equipment, RMB2.894 billion (or 7.15% of total contract value) for hydropower equipment, RMB3.765 billion (or 9.30% of total contract value) for nuclear power equipment, RMB1.979 billion (or 4.89% of total contract value) for hybrid equipment, RMB9.750 billion (or 24.09% of total contract value) for power engineering, and RMB5.693 billion (or 14.07% of total contract value) for other products.

The Group actively exploited the market of conventional products by entering into supply contracts with 湖北能源鄂州三期 and 國電方家莊 for four 1,000MW ultra-supercritical boilers equipment in aggregate. Besides, the Group also entered into supply contracts with 吉林豐滿 in relation to reconstruction work for six 200 MW mixed-flow water turbine generators equipment.

In addition, the Group devoted more efforts to the marketing of the nuclear power equipment segment by entering into contracts with China National Nuclear Corporation in relation to the projects in 福清 and Karachi, Pakistan for six main reactor coolant pumps "華龍一號" respectively. The Group also entered into contracts with 福建漳州 in relation to nuclear construction work for four AP1000 evaporators and renewed the contracts with China National Nuclear Corporation in relation to the 三門 project for two AP1000 steam turbine generators.

The hybrid equipment segment attained relatively satisfactory development. The Group entered into supply contracts with 粵電新會 and 洛陽萬衆 for two sets of 9FB gas-steam combined-cycle cogeneration power unit island equipment.

The Group achieved a breakthrough in developing international markets. The Group entered into contracts with India in connection with the turnkey project of 喜來雅二期 for two 660 MW supercritical coal-fired power plants. The Group also entered into supply contracts with the Nestor Kirchner Hydropower Station in Argentina for six 190 MW mixed-flow water turbine generators equipment.

PRODUCTION AND SERVICES

Facing the adverse impact arising from frequent changes of projects, the Group addressed the situation by continuously strengthening the process control of projects, optimizing production flow, stepping up assurance measures and promoting punctual delivery measures, so as to meet the needs of customers and accomplish the production target for the year.

In 2014, the total output of the Group's power equipment reached 22,628MW, representing an increase of 13.59% over the previous year, of which the capacity of water turbine generators amounted to 6,428MW, increasing by 12.05% over the previous year; the capacity of steam turbine generators amounted to 16,182MW (including nuclear power of 1,266MW, increasing by 91.82% over the previous year), increasing by 15.29% over the previous year; the capacity of steam turbine for power stations amounted to 17,579MW, increasing by 72.59% over the previous year; the capacity of boilers for power stations amounted to 14,050MW, increasing by 0.18% over the previous year.

R&D AND TECHNOLOGY INTRODUCTION

In 2014, the Group received 22 awards for technology achievements, 2 of which were at national level. The Group was granted 303 patent authorizations, 41 of which were related to inventions. It also hosted the formulation of 1 international standard, 5 national standards and 9 industry standards.

The world-leading 350MW supercritical boiler technology running on Zhundong coal passed the evaluation by the Ministry of Industry and Information Technology (MIIT). The highly efficient 660MW ultra-supercritical boiler of Changxin Power Plant (長興電廠) created the highest record of the number of operating generators in the world. China's first 30MW compression-ignition generator passed the evaluation for national new product at an advanced level meeting international standard. The world's first large-scale water-lubricating thrust bearing trial platform was built and the technological development of the 700 meters head range pumped storage project was completed. The Group mastered the techniques of shielded motor pumps and shaft sealing pumps design and products, and obtained the certificate for designing pressure vessels at the 2nd and 3rd level. The Group also attained fruitful achievement in the core technology of designing and manufacturing large-scale nuclear-powered half-speed steam turbines generators, marking further enhancement of our nuclear power technology. The Group successfully developed the reaction type and fine-tuned enthalpy drop techniques applicable to steam turbine generators, effectively enhancing performance of both 1,000MW and 600MW steam turbine generators.

REFORM AND MANAGEMENT

The Group carried out specific research on the management and reform models to formulate the preliminary plan for enhancing control. Significant modification was made to the evaluation system for operating performance of executives, highlighting the performance-oriented and strategy leading approach of the Group. Comprehensive risk management was implemented by organizing risk inspection on and promoting risk prevention of external projects.

The Group also applied stringent management and control on trade receivables and inventory while actively implemented the debt collection policy and stock clearance policy. The turnover rates of trade receivables and inventory were increased by 0.38 and 0.17 respectively. Energy-saving and emission reduction measures were further carried out, resulting in a year-on-year decrease in the aggregate consumption per ten thousand yuan output value by 21%, while emission of SO_2 and COD a drop of 12% and 14% respectively.

Bills rediscounting for the Finance Company and the business licenses for the interbank lending business together improved the financial service function of the Group.

PROFIT

In 2014, net profit attributable to the shareholders of the Company was RMB566.41 million, a decrease of 19.75% over the previous year; earnings per share were RMB0.41, a decrease of RMB0.10 over the previous year; net asset as at the end of the period attributable to the shareholders of the Company was RMB12,650.94 million, an increase of RMB123.85 million compared to the beginning of the year; net asset per share was RMB9.19, an increase of RMB0.09 compared to the beginning of the year.

During the period, the decrease in profit of the Group was mainly attributable to the significant drop in gross profit and the increase in provision.

TURNOVER

In 2014, the Group recorded a turnover from principal business activities of RMB23,794.46 million, an increase of 16.07% over the previous year. In particular, turnover of the main thermal power equipment business was RMB12,310.17 million, representing 51.73% of the turnover of the principal business activities, a decrease of 1.11% over the previous year. Turnover from main hydropower equipment was RMB2,906.88 million, representing 12.22% of the turnover of the principal business activities, an increase of 7.51% over the previous year. Turnover of engineering services for power stations was RMB3,894.37 million, representing 16.37% of the turnover from the principal business activities, an increase of 115% over the previous year. Turnover of ancillary equipment for power stations was RMB1,556.34 million, representing 6.54% of the turnover from the principal business activities, an increase of 112.26% over the previous year. Turnover of AC/DC motors and other products and services was RMB3,126.70 million, representing 13.14% of the turnover of the principal business activities, an increase of 11.50% over the previous year.

In 2014, the Group recorded a turnover of export of RMB4,334.61 million, accounted for 18.22% of the turnover of the principal business activities, representing an increase of RMB2,157.34 million over the previous year. The export was dominated by Asia and South America.

COST

In 2014, the cost of the principal business activities of the Group was RMB20,653.74 million, an increase of 27.65% over the previous year, which was mainly attributable to the expansion of scale.

GROSS PROFIT AND GROSS PROFIT MARGIN

In 2014, the gross profit from the principal business activities of the Group was RMB3,140.72 million, a decrease of 27.31% over the previous year. The gross profit margin was 13.20%, a drop of 7.88 percentage points over the previous year. Among them the gross profit from main thermal power equipment was RMB1,817.32 million, a decrease of RMB704.42 million over the previous year. The gross profit margin for main thermal power equipment was 14.76%, a drop of 5.5 percentage points over the previous year. The gross profit from main hydropower equipment was RMB388.72 million, a decrease of RMB305.92 million over the previous year. The gross profit margin for main hydropower equipment was 13.37%, a drop of 12.32 percentage points over the previous year. The gross profit from engineering services for power stations was RMB300.60 million, a decrease of RMB108.04 million over the previous year. The gross profit margin for engineering services for power stations was 7.72%, a decrease of 14.84 percentage points over the previous year. The gross profit from ancillary equipment for power stations was RMB360.62 million, an increase of RMB151.55 million over the previous year. The gross profit margin for ancillary equipment for power stations was 23.17%, a decrease of 5.34 percentage points over the previous year. The gross profit from the AC/DC motors and other products and services was RMB273.46 million, a decrease of RMB213.34 million over the previous year. The gross profit margin for the AC/DC motors and other products and services was 8.75%, a decrease of 8.61 percentage points over the previous year.

EXPENSES DURING THE PERIOD

In 2014, the Group's distribution expenses amounted to RMB572.05 million, an increase of RMB43.63 million or 8.26% over the previous year. Administrative expenses amounted to RMB3,296.59 million, an increase of RMB229.84 million or 7.49% over the previous year.

The increase in expenses during the year was mainly due to the increase in provision for the year.

FINANCE EXPENSE

In 2014, the Group incurred finance expense of RMB300.01 million, representing a year-on-year increase of RMB71.53 million, which was principally attributable to the increased interest provision for entrusted loans during the year.

FUNDING SOURCES AND BORROWINGS

The Group financed its operation and development with four major funding sources, namely shareholder's funds, trade receivables from customers, bank borrowings and corporate bonds. The Group arranges borrowings on project basis. Except for special situations, loans will be raised individually by the Group's subsidiaries in general while prior approval from the parent company is required in respect of borrowings for capital investments. As the number of orders and advance receipts increased significantly during the past two years, the Group had sufficient working capital and thus repaid substantially all of the loans for working capital. As of 31 December 2014, the total of the Group's borrowings was RMB1,180.15 million (31 December 2013: RMB1,123.92 million). The Group's borrowings were made up of loans from various commercial banks and the State's policy banks with interest rates stipulated by the state, among which the borrowings repayable within one year were RMB1,105.70 million, an increase of RMB421.79 million as compared to the beginning of the year, and the borrowings repayable after one year were RMB74.45 million, a decrease of RMB365.55 million as compared to the beginning of the year.

DEPOSITS AND CASH FLOW

As at 31 December 2014, bank deposits and cash of the Group amounted to RMB13,643.42 million, an increase of RMB1,778.34 million as compared to the beginning of the year. During the period, net cash inflow from operating activities of the Group amounted to RMB1,735.11 million, net cash outflow from investment activities amounted to RMB655.96 million and net cash outflow from financing activities amounted to RMB54.18 million.

ASSET STRUCTURE AND MOVEMENTS

As at 31 December 2014, total assets of the Group amounted to RMB62,193.96 million, an increase of RMB1,832.83 million (or 3.04%) as compared to the beginning of the year, among which current assets were RMB54,135.73 million, representing 87.04% of the total assets, and non-current assets were RMB8,058.23 million, representing 12.96% of the total assets.

LIABILITIES

As at 31 December 2014, total liabilities of the Group amounted to RMB48,213.84 million, an increase of RMB2,146.96 million as compared to the beginning of the year, among which current liabilities were RMB33,728.58 million, representing 69.96% of the total liabilities, and non-current liabilities were RMB14,485.27 million, representing 30.04% of the total liabilities. As at 31 December 2014, the gearing ratio of the Group was 77.52%.

SHAREHOLDERS' EQUITY

As at 31 December 2014, the total equity attributable to the shareholders of the Company amounted to RMB12,650.94 million, an increase of RMB123.85 million as compared to the beginning of the year; the net asset per share was RMB9.19. During the period, the net asset return rate of the Group was 4.50%.

GEARING RATIO

As at 31 December 2014, gearing ratio of the Group (non-current liabilities over total shareholders' equity) was 1.14:1 as compared to that of 0.85:1 at the beginning of the year.

CONTINGENT LIABILITIES AND PLEDGE OF ASSETS

As at 31 December 2014, the Group pledged its assets in an amount of RMB477.52 million to secure loans for liquidity.

CAPITAL EXPENDITURES AND MAJOR INVESTMENTS

In 2014, the Group had a total capital expenditure of RMB608 million invested in major construction projects and technological upgrades. The particulars of those projects are as follows:

As regards Phase I of the technology research base, the construction of the main building was completed; the construction work of the "three chambers (三室)" for Harbin Boiler Company Limited was substantially completed; the construction work of the combustion trial center for Harbin Boiler Company Limited was fully completed; the construction work of the newly-constructed branch factory project for Harbin Electrical Machinery Company Limited was completed; and the projects under the nuclear island main equipment manufacturing automation was substantially completed.

In 2015, the Group intends to commit an investment of RMB771 million, which will mainly finance Phase I of the technology research base, the construction of informatization foundation for the technology research base, the power system upgrades for Harbin Electrical Machinery Company Limited and 哈電國貿大廈 for 哈爾濱動力科技貿易股份有限公司.

As at 31 December 2014, the listed securities held by the Company were as follows:

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

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

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

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES AND RELATED HEDGES

Some of the deposit of the Group are denominated in foreign currencies. As at 31 December 2014, the amount of the Group's deposits in foreign currencies was equivalent to RMB436.53 million. The export business and foreign currencies settled businesses expose the Group to exchange risk.

USE OF FUND-RAISING PROCEEDS

Proceeds from equity fund-raising of the Company was fully utilized.

In March 2013, the Company issued the domestic corporate bonds (first tranche) of RMB3.0 billion, of which RMB370 million (2013: RMB2.63 billion) was applied to replenish working capital for production in 2014. Proceeds from issuance of bonds was fully utilized.

STAFF AND REMUNERATION

As at 31 December 2014, the Group had a workforce of 19,356 employees and the total remuneration for 2014 amounted to RMB2,057 million. According to the development strategies and actual circumstances of our human resources, the Group provided practical guidance and training on professional knowledge based on practicality and level and position of staff, so as to enhance the professionalism and working capability of its teams. A total of 15,188 employees completed our training programs.

PROSPECT

For 2015, the global economy will be characterized by in-depth consolidation and feeble recovery amid increasing uncertainties. Boosting growth, increasing employment and restructuring will become a dominant theme among the international community. The Chinese economy will face growing downward pressure and deep-rooted conflicts will propel the economic development and settle into a new normal economy. GDP is expected to grow at around 7%. Adhering to its basic principle of progressing amid stability, the PRC government will aim at enhancing quality and effectiveness when it comes to economic development. More emphasis will be placed in transformation in terms of implementation and structure, stepping up the development of emerging industries with strategic values and eco-friendly products with highly-efficient energy conservation features, further advancing the development of up-to-date manufacturing and service industries and capitalizing the new opportunities afforded to the power generating equipment manufacturing enterprises. Reform is such a challenging task for the Group that it must strengthen its management, facilitate comprehensive reform, ensure law-abiding corporate governance and materialize a healthy development so as to reward the shareholders with better operating results.

The Group will address the following areas in 2015:

Eyeing market development while strengthening marketing capabilities.

We will enhance the marketing network establishment and perfect the running mechanism and management system to generate greater synergy in overall marketing programme. We will come up with more well-thought marketing plans, visit our major customers and senior management in major regions more frequently and actively promote working relations with core customers. We will also explore new operation model to cater the latest market trend and customers' requirements.

With customers' requirements in mind, we will enhance our core manufacturing capabilities and take step-up measures to undertake major projects. We will address the most pressing issues arising in the course of market development and solve the problems encountered in feature projects to enhance customer satisfaction.

We attach importance to the quality of orders and actively develop the market of high-capacity power generating units, striving for new orders for ultra supercritical steam turbines and power generators with a capacity of 1,000 MW, maintaining the competitive edge in large-scale hydro-power generators and pumped-storage water turbines, as well as capturing larger market share in both nuclear and conventional power markets. We will also make all-out efforts to develop the international market of engineering services with focus on the emerging markets and high-end markets. As a brand building process, competitive products for nuclear power, hydro power and ultra supercritical coal-fired power with capacity over 600 MW will be actively promoted and launched into the international markets.

Enhancing corporate development in pace with economic development.

We will press ahead with the typical quality enhancement projects by leveraging on the product quality management and achieve an overall improvement in quality by promoting a sound nuclear safety culture.

We spare no effort to improve quality in operation and efficiency in control, strengthen target management, step up control on major affairs and major enterprises, conduct evaluation on operation, for the purpose of further optimizing asset turnover, minimizing inventory, settling outstanding accounts and achieving a 5% decrease in both receivable and inventory levels.

Further steps will be taken to ensure cost reduction and efficiency enhancement, reinforce cost control, and strengthen cost control target review. Overheads and expenses not relating to production will be considerably reduced and stricter control will be exercised on travelling expenses, entertainment and office supplies. Integration of internal resources and synergy among business divisions will be emphasized to enhance overall effectiveness.

Optimization of asset structure with focus on the core operating divisions is a regular exercise. We insist on the problem-solving approach to achieve turnaround or growth in profitability. Assistance will be lent to some entities to overcome difficulties in development while winding up of some entities will help to cut losses and some entities will be transformed to promote optimization and upgrading.

Technological innovation as a driver to speed up transformation and upgrading.

We will take steps to further perfect our technological innovation system, optimize allocation of technological resources, commit more technological applications and establish more R&D infrastructures to enhance self-initiated innovation. We will also deepen international cooperation and exchange to initiate a concerted effort for breakthroughs.

Efforts will be made to materialize new development in reaction turbines, Zhundong coal combustion, high-efficiency ultra supercritical technologies, double reheat, etc. Besides, we will proceed to obtain accreditation for the design of Class I nuclear equipment and raise the design and manufacturing standards of nuclear power equipment so as to build up our capabilities to supply turnkey projects and foster home-grown technologies for heavy duty as well as small-to-medium size combustion engines.

We will do everything possible to accomplish the R&D initiatives for the newly developed steam turbines with a capacity of 1,000 MW, optimize the supercritical w-flame boilers, and expand our capabilities to develop and accumulate technological transformation expertise. R&D for large-scale hydro-power generators and sizable pumped-storage water turbines with variable speed will be accomplished. Introduction and absorption of nuclear power technology as well as research and development of products are actively promoted. Development of such sectors as environmental integration, distributable energy and ocean energy will be pursued at a quicker pace.

Reform in management to secure a foundation for sustainable development.

Higher degree of innovation in management, constant optimization of asset allocation and tightened control on centralized procurement and capital management will strengthen coordination among different divisions. We introduced incentive and disciplinary measures to fully realize the positiveness, initiative and creativity of our staff.

We will deepen the reform in three systems, tighten control on staff costs, enhance management in labour utilization and closely monitor performance by taking a problem-solving and result-oriented approach to facilitate self-initiation of the enterprise.

For the active promotion of law-abiding corporate governance, we regulate the decision making process with a set of sophisticated constitutions. To run a legitimate business in compliance with regulatory requirements, we make timely disclosures of important information pursuant to the Listing Rules. We strengthen our precautions for legal risks and perform legal review on our constitutions and major decisions with greater care. We will increase our capabilities in enforcing financial discipline and improve deployment of funds to eliminate the weakest links. Audit and researches on engineering projects undertaken overseas will be enhanced.

We will prevent loss of effectiveness by closely monitoring major areas and plugging loopholes in management. Performance tracking and spot check on major tasks and important decisions are in place to ensure their successful implementation.

Harbin, PRC
20 March 2015

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 approximately 81.78% of the turnover is derived from.

As of 31 December 2014, the export sales of the Group amounted to USD708.3846 million, representing 18.22% of the Group's total turnover for the year. The Group's major export markets are Asia and South America, which account for 11.43% and 5.09% of the Group's total turnover respectively.

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 RMB0.04 per share (appropriate tax included) for 2014 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 20 March 2015, which is RMB1 for HK$1.2610. The dividend for every H share will be HK$0.0504.

CLOSURE OF REGISTER

The Register of members of the Company will be closed from 22 May, 2015 to 28 May, 2015 (both dates inclusive). Final dividend for 2014 will be distributed on 23 July, 2015 to shareholders whose names appear in the Register of members of the Company on 22 May, 2015. In order to qualify for the final dividend for 2014, 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 21 May, 2015.

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 Nonresidents under Tax Treaties (Tentative)" (《國家稅務總局關於印發〈非居民享受稅收協議待遇管理辦法(試行)〉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. 22 May 2015. 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 2014, 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

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.

MAJOR LITIGATION

In 2014, Harbin Power Equipment National Engineering Research Center Co., Ltd, a subsidiary of the Company, received a notice of arbitration served by Daqing Arbitration Commission. A customer filed a claim for an aggregate amount of RMB192,057,000 against Harbin Power Equipment National Engineering Research Center Co., Ltd to Daqing Arbitration Commission. Harbin Power Equipment National Engineering Research Center Co., Ltd has appealed to Supreme People's Court of Heilongjiang Province in relation to disputing jurisdiction and no judgment has been delivered by Supreme People's Court of Heilongjiang Province yet. The case has not been heard yet and the results of the arbitration remain uncertain.

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 2014 with the Corporate Governance Code and Corporate Governance Report 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 2014, 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
20 March 2015

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 Director of the Company is Mr. Zou Lei; and the independent non-executive Directors of the Company are Mr. Yu Bo, Mr. Liu Deng-qing and Mr. Yu Wen-xing.