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REPORT OF THE DIRECTORS

The Board of Directors of Harbin Electric Company Limited (the “Company”) is pleased to announce the operating results of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2014, which were prepared in accordance with accounting principles generally accepted in Hong Kong. Such operating results have not been audited but have been reviewed by Crowe Horwath (HK) CPA Limited.

OPERATING RESULTS

For the six months ended 30 June 2014, the Group recorded a turnover of RMB 11,390.24 million from its principal business activities, an increase of 20.30% as compared with the same period last year. The Group recorded a net profit attributable to the equity shareholders of the Company of RMB140.10 million, a decrease of 63.57% as compared with the same period last year. Earnings per share were RMB0.10, a decrease of RMB0.18 as compared with the same period last year. Net assets attributable to the equity shareholders of the Company at the end of the period were RMB12,396.50 million, a decrease of RMB130.59 million over the beginning of the period; and net assets per share were RMB9.00, a decrease of RMB0.10 over the beginning of the period. The decrease in profit of Group during the period was mainly attributable to the decrease of gross profit margin and the decrease of fair value of the stock of power companies held by it.

INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2014.

INDUSTRY DEVELOPMENT AND BUSINESS REVIEW

In the first half of 2014, the global economic growth rate was slower than expected while downward pressure persisted in China’s economy, posting a year-on-year increase of 7.4% in China’s GDP growth. Domestic economy remained in a slow yet stable motion. According to the statistics of CEC, the completed investment of hydro power, thermal power and nuclear power continued to record a year-on-year decrease, the completed investment of wind power increased significantly, while the installed capacity and generating capacity of grid solar power generating units recorded a substantial year-on-year increase. There was a year-on-year growth of 5.3% in terms of power consumption across the nation. Newly installed capacity of the power generating units was 36,700MW. Under the circumstances of slowdown of the domestic economy, the slow growth of the power market would be a long term trend.

Facing with a complex and volatile economic environment and the increasingly competitive market, in the first half of the year, the Group further implemented its strategic planning set at the beginning of the year, insisted to grow, achieve its goal and improve its quality amid stability, adopted effective measures to overcome the difficulties. We worked together and devoted ourselves to achieve recovery growth on the Group scale.

NEW CONTRACTS

During the first half of the year, the value of new contracts secured by the Group amounted to RMB24.566 billion, slightly decreasing from the same period last year, to which export contract contributed RMB9.389 billion, a decrease of 10.20% from the same period last year. Among the contracts in the first half of the year, thermal power accounted for 45.95%; hydropower accounted for 6.64%; power plant engineering services accounted for 27.70%; nuclear power accounted for 8.15%; and the others accounted for 11.56%.

PRODUCTION AND SERVICES

The total capacity of the Group's power equipment produced during the first half of the year was 12,438.1MW, a year-on-year increase of 8.45%, among which 2,755.9MW were generated by 53 water turbine generators, representing a year-on-year decrease of 14.77%; and 9,671MW by 25 steam turbine generators, representing a year-on-year increase of 17.42%. 7 utility boilers with a total capacity of 3,030MW recorded a year-on-year decrease of 25.83%, while 20 steam turbines for power plants with a total capacity of 7,214MW recorded a year-on-year increase of 42.43%.

TURNOVER AND COST

As at 30 June 2014, the Group recorded a turnover of RMB11,390.24 million from its principal business activities, an increase of 20.30% as compared with the same period last year. In particular, turnover of main thermal power equipment was RMB6,032.90 million, an increase of 6.01% as compared with the same period last year. Turnover of main hydropower equipment was RMB1,648.61 million, an increase of 6.71% as compared with the same period last year. Turnover of engineering services for power stations was RMB1,825.36 million, an increase of 165.33% as compared with the same period last year. Turnover of ancillary equipment for power stations was RMB786.88 million, an increase of 100.66% as compared with the same period last year. Turnover of AC/DC motors and other products and services was RMB1,096.49 million, a decrease of 4.83% as compared with the same period last year.

During the period, the Group recorded an export turnover of RMB2,092.74 million, accounting for 18.37% of the turnover of the principal business activities. The exports were mainly to Ecuador, Indonesia and Turkey.

During the period, the cost of the principal business activities of the Group was RMB9,558.65 million, an increase of 25.00% as compared with the same period last year.

GROSS PROFIT AND GROSS PROFIT MARGIN

As at 30 June 2014, the Group's gross profit from its principal business activities was RMB1,831.59 million, an increase of 0.58% as compared with the same period last year. The gross profit margin was 16.08%, a decrease of 3.15 percentage points as compared with the same period last year.

Among them, the gross profit from main thermal power equipment was RMB1,043.71 million and the gross profit margin was 17.30%, a decrease of 1.2 percentage points as compared with the same period last year. The gross profit from main hydropower equipment was RMB417.07 million and the gross profit margin was 25.30%, an increase of 2.22 percentage points as compared with the same period last year. The gross profit from engineering services for power stations was RMB133.03 million and the gross profit margin was 7.29%, a decrease of 15.11 percentage points as compared with the same period last year. The gross profit from ancillary equipment for power stations was RMB142.27 million and the gross profit margin was 18.08%, an increase of 0.65 percentage points as compared with the same period last year. The gross profit from AC/DC motors and other products and services was RMB95.51 million and the gross profit margin was 8.71%, a decrease of 7.71 percentage points as compared with the same period last year.

EXPENSES FOR THE PERIOD

As at 30 June 2014, the Group's operational and administrative expenses amounted to RMB1,525.41 million, an increase of RMB75.05 million or 5.17% as compared with the same period last year.

ASSETS AND LIABILITIES

As at 30 June 2014, the total assets of the Group amounted to RMB61,573.04 million, an increase of RMB1,211.90 million or 2.01% over the beginning of the period, among which the current assets were RMB53,689.94 million, representing 87.20% of the total assets, and the non-current assets were RMB7,883.10 million, representing 12.80% of the total assets.

The total liabilities of the Group amounted to RMB47,407.42 million, an increase of RMB1,340.54 million or 2.91% over the beginning of the period, among which the total current liabilities were RMB36,304.78 million, representing 76.58% of the total liabilities, and the total non-current liabilities were RMB11,102.64 million, representing 23.42% of the total liabilities. As at 30 June 2014, the gearing ratio of the Group was 76.99%.

DEPOSITS AND CASH FLOW

As at 30 June 2014, the bank deposits and cash of the Group amounted to RMB9,315.64 million, a decrease of RMB 2,549.44 million over the beginning of the period, among which the time deposits amounted to RMB2,047.20 million. During the period, net cash outflow from operating activities of the Group amounted to RMB1,912.37 million, net cash outflow from investing activities amounted to RMB1,273.34 million, and net cash outflow from financing activities amounted to RMB84.02 million.

FUNDING AND BORROWINGS

The Group currently has four funding sources for operation and development, namely shareholder's funds, trade receivables from customers, bank borrowings and corporate bonds. The Group arranges borrowings for each specific project. Except for some special situations, loans will be raised individually by the Group's subsidiaries. However, prior approval from the parent company is required in respect of borrowings raised for capital investments. As at 30 June 2014, the Group's total borrowings amounted to RMB1,656.79 million, all of which amounts were borrowed from various commercial banks and the state's policy banks with interest rates stipulated by the state. Among the borrowings, the amount due within one year was RMB625.80 million, a decrease of RMB112.67 million over the beginning of the period. The amount of the Group's borrowings due after one year was RMB1,030.99 million, an increase of RMB42.79 million over the beginning of the period. The amounts received in advance were RMB15,930.89 million, a decrease of RMB933.16 million over the beginning of the period.

GEARING RATIO

As at 30 June 2014, gearing ratio of the Group (calculated as non-current liabilities over total shareholders' equity) was 0.90:1 as compared to 0.85:1 at the beginning of the period.

INCOME TAX

According to the provisions of Administrative Measures with regard to the Recognition of High and New Technology Enterprises (《高新技術企業認定管理辦法》) jointly issued by the Ministry of Science and Technology, the Ministry of Finance and the State Administration for Taxation of the PRC on 14 April 2008 and the Administrative Guidance with Regard to the Recognition of High and New Technology Enterprises (《高新技術企業認定管理工作指引》) jointly issued by the Ministry of Science and Technology, the Ministry of Finance and the State Administration of Taxation on 8 July 2008, the Company and its major subsidiaries were re-recognized as High and New technology enterprises and were entitled to a 15% preferential income tax rate.

STAFF

As at 30 June 2014, the employees of the Group totaled at 19,235.

PROSPECTS

For the second half of the year, the internal and external environment will remain complicated and full of instabilities and uncertainties. China's economy may maintain its stable growth with even more challenges ahead. Results of the Company may be adversely affected due to factors such as decrease of the product price in the recent years. For the marco-economy policy, China procures vigorously carrying out energy reform, which marked the beginning of the reform of China's energy industry. Meanwhile, the acceleration of reform of the big five power groups in China, the continuous optimization of power structure, the transformation of coal and electric industry towards efficient and clean utilization will provide new development opportunity for gas power and nuclear power, assuring the blooming development of clean energy such as hydro power, wind power, solar power and biochemical power. Power equipment manufacturing industry is facing new opportunities and challenges.

Under the existing complicated economic situation, the Group will insist on its principles of "making progress while ensuring stability, enhancing quality and efficiency, reform and renovation, transformation and upgrading", and highlight its subject of "maintaining growth, improving ability, procuring reform, and creating image". We will strengthen our operating control, capture working opportunities and realize the persistent and healthy development of the enterprise. We will also focus on the following tasks: firstly, we will place our emphasis on enhancing quality and efficiency to ensure the completion of the planned yearly target; secondly, we will adhere our innovation and momentum, use our best effort to transform and upgrade our products; thirdly, we will carry out reform thoroughly and stimulate the development momentum and potential of the company; fourthly, we will enhance our brand image to maintain our market competitiveness and influence.

The Board sincerely appreciates the continuous support and trust from all shareholders and the efforts of the management and all employees. I am fully confident in the Company's future development.

THE SHAREHOLDINGS OF SUBSTANTIAL SHAREHOLDERS

As at 30 June 2014, the total issued share capital of the Company was 1,376,806,000 shares. The shareholdings of substantial shareholders were as follows:

Name of Shareholders	Class of Shares	Number of Shares	Percentage to total share capital (%)	Position held
Harbin Electric Corporation	State-owned legal person shares	701,235,000	50.93%	Long position
HKSCC Nominees Limited	H shares	636,452,597	46.23%	Long position

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

As at 30 June 2014, none of the Directors, Supervisors and senior management of the Company and their associates had any interest and short position in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO).

MODEL CODE

The Company, having made specific enquiry, confirms that all Directors have complied with the provisions of the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 of the Listing Rules throughout the period.

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

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

CONTINGENT LIABILITIES

PENDING LITIGATION

In 2013, a litigation was brought against the Group's subsidiary namely, Harbin Electrical Machinery Company Limited, by one of its suppliers (the "Plaintiff 1") in relation to a dispute in a purchase transaction and claiming for an amount of approximately RMB1,542,000 and default interest of approximately RMB2,864,000 in respect of the delayed payment.

Harbin Electrical Machinery Company Limited has filed a counter-claim for an amount of approximately RMB3,583,000 against Plaintiff 1 for the costs suffered due to the delay in the delivery of the goods and the repair and maintenance costs incurred for the defected goods.

The Plaintiff 1 was granted a freezing order by Henan Intermediate People's Court over Harbin Electrical Machinery Company Limited's bank deposits of approximately RMB2,500,000.

The dispute has not been finalised and no opinion is possible at this time as to likelihood of the outcome of the case. The directors of the Company considered that no further provision is required.

The Group did not have any other significant contingent liabilities as at the end of this interim period.

PLEDGE OF ASSETS

As at 30 June 2014, the Group pledged certain property, plant and equipment, prepaid lease payments and bank deposits having a net book value of approximately RMB121,602,000, RMB30,912,000 and RMB123,209,000 (at 31 December 2013: RMB22,441,000, RMB31,243,000 and RMB212,156,000) to secure the banking facilities granted to the Group.

CORPORATE GOVERNANCE CODE

The Company is currently and has been at all times during the accounting period in compliance with the code provisions set out in the Corporate Governance Code and Corporate Governance Report contained in Appendix 14 of the Listing Rules of the Hong Kong Stock Exchange. In respect of the diversification of the members of Board, the Company understands a diversified board is beneficial for the Company to improve its performance. When determining the composition of the Board, the Company will consider board diversity from different point of view, including (but not limited to) age, educational background, professional experience, expertise and skills etc.

THE AUDIT COMMITTEE

The members of audit committee of the Company include Yu Bo, Liu Deng-qing and Zhang Ying-jian. The Board's audit committee has reviewed these interim results.

Crowe Horwath (HK) CPA Limited, the Group's external auditors, have carried out a review of the unaudited interim report for the six months ended 30 June 2014 in accordance with the Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA.

SHAREHOLDERS' MEETING

The 2013 annual general meeting, H shares class meeting and domestic shares class meeting of the Company was held in Harbin, PRC on 16 May 2014 and the results of which have been published on the websites of Hong Kong Stock Exchange and the Company.

DOCUMENTS AVAILABLE FOR INSPECTION

The Articles of Association of the Company and the original copies of the interim report and reviewed financial statements as at 30 June 2014 will be available for inspection at the office of the Company at Block B, 39 Sandadongli Road, Xiangfang District, Harbin, the PRC.

By Order of the Board
Harbin Electric Company Limited
Gong Jing-kun
Chairman

SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Hong Kong Institute of Certified Public Accountants. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with HKAS 34.

Crowe Horwath (HK) CPA Limited

Certified Public Accountants

Hong Kong, 15 August 2014

Lau Kwok Hung

Practising Certificate No.: P04169

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

FOR THE SIX MONTHS ENDED 30 JUNE 2014

		Six months ended	
		30.6.2014	30.6.2013
	Note	RMB'000	RMB'000
		(unaudited)	(unaudited) (restated)
Revenue	3	11,390,242	9,468,102
Cost of sales		<u>(9,558,654)</u>	<u>(7,647,119)</u>
Gross profit		1,831,588	1,820,983
Other revenue and net income		237,232	153,287
Fair value (losses)/gains on trading securities		(137,800)	73,500
Distribution expenses		(216,828)	(253,623)
Administrative expenses	4	(1,308,580)	(1,196,735)
Other operating expenses		(42,476)	(46,843)
Finance costs		(149,491)	(95,159)
Share of profits less losses of associates		<u>9,321</u>	<u>1,516</u>
Profit before taxation	6	222,966	456,926
Income tax	5	<u>(86,733)</u>	<u>(92,286)</u>
Profit for the period		<u>136,233</u>	<u>364,640</u>
Attributable to:			
Equity shareholders of the Company		140,102	384,560
Non-controlling interests		<u>(3,869)</u>	<u>(19,920)</u>
		<u>136,233</u>	<u>364,640</u>
Earnings per share			
— Basic and diluted	8	<u>RMB10.18 cents</u>	<u>RMB27.93 cents</u>

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2014

	Six months ended	
	30.6.2014	30.6.2013
	RMB'000	RMB'000
	(unaudited)	(unaudited) (restated)
Profit for the period	136,233	364,640
Other comprehensive (loss)/income for the period, net of income tax Item that may be subsequently reclassified to profit or loss:		
Cash flow hedges	(193,207)	(2,641)
Income tax relating to component of other comprehensive (loss)	<u>28,981</u>	<u>396</u>
	<u>(164,226)</u>	<u>(2,245)</u>
Total comprehensive (loss)/income for the period	<u>(27,993)</u>	<u>362,395</u>
Attributable to:		
Equity shareholders of the Company	(24,124)	382,315
Non-controlling interests	<u>(3,869)</u>	<u>(19,920)</u>
	<u>(27,993)</u>	<u>362,395</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 30 JUNE 2014

	<i>Note</i>	30.6.2014 RMB'000 (unaudited)	31.12.2013 <i>RMB'000</i> (audited)
Non-current assets			
Investment properties		4,448	4,448
Property, plant and equipment	9	6,557,510	6,633,287
Prepaid lease payments		489,256	492,512
Intangible assets		209,145	218,357
Deferred tax assets		308,979	297,354
Interests in associates		243,218	234,614

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(Continued)*

AT 30 JUNE 2014

	Note	30.6.2014 RMB'000 (unaudited)	31.12.2013 RMB'000 (audited)
Current liabilities			
Amounts due to customers			
for contract work		3,046,032	1,128,844
Derivative financial instruments		36,095	—
Trade payables	11	15,856,931	15,071,799
Bills payable	11	3,589,853	4,018,619
Other payables, accruals and provisions		1,427,823	1,564,735
Deposits received		8,974,959	10,331,026
Amounts due to fellow subsidiaries		42,645	65,336
Advance from holding company		1,767,970	1,768,182
Customer deposits		817,152	454,236
Borrowings — due within one year	12	625,796	738,464
Tax payables		79,031	254,009
Obligations under finance leases — due within one year	13	40,492	39,289
		<u>36,304,779</u>	<u>35,434,539</u>
Net current assets		<u>17,385,163</u>	<u>16,924,388</u>
Total assets less current liabilities		<u>25,268,257</u>	<u>24,926,593</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(Continued)*

AT 30 JUNE 2014

	<i>Note</i>	30.6.2014 RMB'000 (unaudited)	31.12.2013 <i>RMB'000</i> (audited)
Non-current liabilities			
Derivative financial instruments		41,819	—
Deposits received		6,955,928	6,533,021
Advance from holding company		3,500	3,500
Borrowings — due after one year	12	1,030,991	988,200
Obligations under finance leases			
— due after one year	13	76,735	97,245
Corporate bond	14	2,993,670	2,992,688
Deferred tax liabilities		—	17,690
		11,102,643	10,632,344
NET ASSETS		14,165,614	14,294,249
CAPITAL AND RESERVES			
Share capital	15	1,376,806	1,376,806
Reserves		11,019,689	11,150,277
Total equity attributable to equity shareholders of the Company		12,396,495	12,527,083
Non-controlling interests		1,769,119	1,767,166
TOTAL EQUITY		14,165,614	14,294,249

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2014

	Attributable to equity shareholders of the Company								Non-controlling interests	Total equity
	Share capital RMB'000	Share premium RMB'000	Statutory capital reserve RMB'000	Statutory surplus reserve RMB'000	Special reserve RMB'000	Other reserves RMB'000	Hedging reserve RMB'000	Retained profits RMB'000	Total RMB'000	
At 1 January 2014 (audited)	1,376,806	1,980,295	703,229	647,740	4,485	68,843	100,243	7,645,442	12,527,083	14,294,249
Profit for the period	-	-	-	-	-	-	-	140,102	140,102	136,233
Other comprehensive loss for the period	-	-	-	-	-	-	(164,226)	-	(164,226)	(164,226)
Total comprehensive loss for the period	-	-	-	-	-	-	(164,226)	140,102	(24,124)	(27,993)
Acquisition of a subsidiary (note 21)	-	-	-	-	-	-	-	-	-	5,374
Dividends (note 7)	-	-	-	-	-	-	-	(110,144)	(110,144)	(110,144)
Net increase in special reserve for the period	-	-	-	-	3,680	-	-	-	3,680	448
At 30 June 2014 (unaudited)	1,376,806	1,980,295	703,229	647,740	8,165	68,843	(63,983)	7,675,400	12,396,495	14,165,614

	Attributable to equity shareholders of the Company								Non-controlling interests	Total equity
	Share capital RMB'000	Share premium RMB'000	Statutory capital reserve RMB'000	Statutory surplus reserve RMB'000	Special reserve RMB'000	Other reserves RMB'000	Hedging reserve RMB'000	Retained profits RMB'000	Total RMB'000	
At 1 January 2013 (audited)	1,376,806	1,980,295	703,229	621,998	-	66,911	2,245	7,102,433	11,853,917	13,664,201
Merger accounting restatement	-	-	-	-	-	138,000	-	32,078	170,078	201,983
Restated balance at 1 January 2013	1,376,806	1,980,295	703,229	621,998	-	204,911	2,245	7,134,511	12,023,995	13,866,184
Profit for the period	-	-	-	-	-	-	-	384,560	384,560	364,640
Other comprehensive loss for the period	-	-	-	-	-	-	(2,245)	-	(2,245)	(2,245)
Total comprehensive income for the period	-	-	-	-	-	-	(2,245)	384,560	382,315	362,395
Dividends distributed to non-controlling shareholder	-	-	-	-	-	-	-	-	-	(6,155)
Dividend paid to HE Corporation before business combination under common control	-	-	-	-	-	-	-	(31,459)	(31,459)	(31,459)
Dividends (note 7)	-	-	-	-	-	-	-	(137,681)	(137,681)	(137,681)
Restated balance at 30 June 2013 (unaudited) (restated)	1,376,806	1,980,295	703,229	621,998	-	204,911	-	7,349,931	12,237,170	14,053,284

The annexed notes form part of these financial statements.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED 30 JUNE 2014

	Six months ended	
	30.6.2014	30.6.2013
	RMB'000	RMB'000
	(unaudited)	(unaudited)
		(restated)
Net cash (used in) operating activities	(1,912,367)	(2,393,406)
Cash flows from investing activities		
Purchases of property, plant and equipment	(270,970)	(387,138)
(Increase) in bank deposits	(720,287)	(36,804)
Purchase of held-to-maturity investments	(750,835)	–
Redemption of held-to-maturity investments	400,779	–
Other investing cash flows	67,970	40,234
Net cash (used in) investing activities	(1,273,343)	(383,708)
Cash flows from financing activities		
New bank borrowings	437,844	450,811
Repayment of bank borrowings	(507,721)	(651,035)
Proceeds from issue of corporate bond	–	2,992,800
Other financing cash flows	(14,144)	(195,542)
Net cash (used in)/generated from financing activities	(84,021)	2,597,034
Net (decrease) in cash and cash equivalents	(3,269,731)	(180,080)
Cash and cash equivalents at the beginning of the period	10,538,171	

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 JUNE 2014

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. The addresses of the registered office and principal place of business of the Company are disclosed in the "Information on the Company" section of the interim report.

The condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). The condensed 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.

These condensed consolidated financial statements are unaudited, but have been reviewed by Crowe Horwath (HK) CPA Limited in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA.

The principal activities of the Company and its subsidiaries are mainly engaged in manufacturing and sales of various kinds of power equipments and provision of power station engineering services.

2. SIGNIFICANT ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair values.

The accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2014 are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2013, except as described in below.

In the current interim period, the Group has applied, for the first time, the following new or revised Hong Kong Financial Reporting Standards ("HKFRSs") issued by the HKICPA, which are effective for the Group's financial period beginning on 1 January 2014.

Amendments to HKFRS 10, HKFRS 12 and HKAS 27	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)-Int 21	Levies

The adoption of the new or revised HKFRSs has had no significant financial effect on these condensed consolidated financial statements.

The Group has not early applied any of the following new or revised standards, amendments and interpretations which have been issued but are not yet effective for annual periods beginning on 1 January 2014:

Amendments to HKFRSs	Annual Improvements to HKFRSs 2010–2012 Cycle ¹
Amendments to HKFRSs	Annual Improvements to HKFRSs 2011–2013 Cycle ⁴
HKFRS 9	Financial Instruments ²
HKFRS 14	Regulatory Deferral Accounts ³
HKFRS 15	Revenue from Contracts with Customers ⁶
Amendments to HKFRS 9 and HKFRS 7	Mandatory Effective Date of HKFRS 9 and Transition Disclosures ²
Amendments to HKFRS 11	Accounting for Acquisitions of Interests in Joint Operations ⁵
Amendments to HKAS 16 and HKAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation ⁵
Amendments to HKAS 19	Defined Benefit Plans: Employee Contributions ⁴

¹ Effective for annual periods beginning on or after 1 July 2014, with limited exceptions

² Available for application — the mandatory effective date will be determined when the outstanding phases of HKFRS 9 are finalised

³ Effective for first annual HKFRS financial statements beginning on or after 1 January 2016

⁴ Effective for annual periods beginning on or after 1 July 2014

⁵ Effective for annual periods beginning on or after 1 January 2016

⁶ Effective for annual periods beginning on or after 1 January 2017

The directors of the Group anticipate that the application of these new or revised standards, amendments or interpretations will have no material impact on the results and financial position of the Group.

3. REVENUE AND SEGMENT INFORMATION

The following is an analysis of the Group's revenue and results by reportable and operating segments for the period under review:

Six months ended 30 June 2014

	Main thermal power equipment RMB'000 (unaudited)	Main hydro power equipment RMB'000 (unaudited)	Engineering services for power stations RMB'000 (unaudited)	Ancillary equipment for power stations RMB'000 (unaudited)	AC/DC motors and others RMB'000 (unaudited)	Total RMB'000 (unaudited)
SEGMENT REVENUE						
Revenue from external customers	6,032,904	1,648,613	1,825,361	786,879	1,096,485	11,390,242
Inter-segment revenue	901,684	–	–	–	–	901,684
Reportable segment revenue	<u>6,934,588</u>	<u>1,648,613</u>	<u>1,825,361</u>	<u>786,879</u>	<u>1,096,485</u>	<u>12,291,926</u>
Reportable segment profit	<u>1,041,856</u>	<u>417,068</u>	<u>133,034</u>	<u>142,273</u>	<u>95,507</u>	<u>1,829,738</u>
Elimination of inter-segment loss						<u>1,850</u>
Reportable segment profit derived from Group's external customers						1,831,588
Unallocated head office and corporate expenses						(1,468,452)
Finance costs						(149,491)
Share of profits less losses of associates						<u>9,321</u>
Consolidated profit before taxation						<u>222,966</u>

Six months ended 30 June 2013

	Main thermal power equipment RMB'000 (unaudited)	Main hydro power equipment RMB'000 (unaudited)	Engineering services for power stations RMB'000 (unaudited)	Ancillary equipment for power stations RMB'000 (unaudited)	AC/DC motors and others RMB'000 (unaudited)	Total RMB'000 (unaudited) (restated)
SEGMENT REVENUE						
Revenue from external customers	5,690,920	1,544,989	687,966	392,151	1,152,076	9,468,102
Inter-segment revenue	<u>775,392</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>775,392</u>
Reportable segment revenue	<u>6,466,312</u>	<u>1,544,989</u>	<u>687,966</u>	<u>392,151</u>	<u>1,152,076</u>	<u>10,243,494</u>
Reportable segment profit	<u>1,051,918</u>	<u>356,656</u>	<u>154,091</u>	<u>68,337</u>	<u>189,150</u>	<u>1,820,152</u>
Elimination of inter-segment loss						<u>831</u>
Reportable segment profit derived from Group's external customers						1,820,983
Unallocated head office and corporate expenses						(1,270,414)
Finance costs						(95,159)
Share of profits less losses of associates						<u>1,516</u>
Consolidated profit before taxation						<u>456,926</u>

4. ADMINISTRATIVE EXPENSES

Impairment of trade receivables and bills receivable

Included in administrative expenses is the provision of impairment losses for the current period of RMB279,437,000 (six months ended 30 June 2013: RMB219,017,000), in respect of trade receivables and bills receivable are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade receivables directly.

5. INCOME TAX

- (a) No provision has been made for Hong Kong Profits Tax as the Group did not earn any income subject to Hong Kong Profits Tax during the six months ended 30 June 2014 and 2013.
- (b) 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% (six months ended 30 June 2013: 15%), other subsidiaries located in the PRC are subject to the PRC Enterprise Income Tax at a rate of 25% (six months ended 30 June 2013: 25%) on its assessable profits.

- (c) 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 a 10% when it pays dividends for the year of 2008 or any year thereafter to its overseas non-resident enterprise H-shares holders.

6. PROFIT BEFORE TAXATION

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

	Six months ended	
	30.6.2014	30.6.2013
	RMB'000	RMB'000
	(unaudited)	(unaudited) (restated)
Depreciation for property, plant and equipment	343,247	334,120
Amortisation of prepaid lease payments	5,847	6,088
Amortisation of intangible assets	14,423	17,800
Allowance against inventories	26,917	12,739
Impairment loss on doubtful debts	279,437	219,017
Interest and investment income	(90,651)	(105,513)
Loss/(gain) on disposal of property, plant and equipment	333	(2,905)

7. DIVIDENDS

	Six months ended	
	30.6.2014	30.6.2013
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Final dividends declared for 2013 of RMB 0.08 per share	110,144	–
Final dividends declared for 2012 of RMB 0.10 per share	–	137,681
	110,144	137,681

The directors do not recommend the payment of any interim dividend for the six months ended 30 June 2014 (six months ended 30 June 2013: RMBNil).

8. EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the profit attributable to ordinary equity shareholders of the Company for the period of approximately RMB140,102,000 (six months ended 30 June 2013 (restated): RMB384,560,000) and on the weighted average number of 1,376,806,000 (six months ended 30 June 2013: 1,376,806,000) ordinary shares in issue during the period.

There were no dilutive potential ordinary shares in issue during the six months ended 30 June 2014 and 2013, and diluted earnings per share is the same as basic earnings per share.

9. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2014, the Group disposed of certain plant and machinery with a carrying amount of approximately RMB3,500,000 (six months ended 30 June 2013: RMB30,080,000) for proceeds of approximately RMB3,167,000 (six months ended 30 June 2013: RMB32,985,000) resulting in a loss on disposal of approximately RMB333,000 (six months ended 30 June 2013: gain of RMB2,905,000).

During the six months ended 30 June 2014, the Group spent approximately RMB270,970,000 (six months ended 30 June 2013: RMB387,138,000) mainly on construction in progress and plant and machinery for production process and to upgrade its manufacturing capabilities.

At 30 June 2014, the net carrying amount of plant and machinery held under finance lease in the form of sale and leaseback arrangements of the Group amounted to approximately RMB195,882,000 (at 31 December 2013: RMB204,007,000).

10. TRADE RECEIVABLES AND BILLS RECEIVABLE

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 periodically performed.

Trade receivables and bills receivable with aging analysis is as follows:

	30.6.2014 <i>RMB'000</i> (unaudited)	31.12.2013 <i>RMB'000</i> (audited)
Within 1 year	9,712,058	9,872,023
1 to 2 years	3,417,240	3,175,794
2 to 3 years	1,146,320	1,607,802
Over 3 years	2,304,957	1,793,686
	<u>16,580,575</u>	<u>16,449,305</u>

11. TRADE PAYABLES AND BILLS PAYABLE

Trade payables and bills payables with the aging analysis are as follows:

	30.6.2014 <i>RMB'000</i> (unaudited)	31.12.2013 <i>RMB'000</i> (audited)
Within 1 year	16,193,237	16,758,609
1 to 2 years	1,672,992	1,547,078
2 to 3 years	1,167,359	371,421
Over 3 years	413,196	413,310
	<u>19,446,784</u>	<u>19,090,418</u>

12. BORROWINGS

During the six months ended 30 June 2014, the Group obtained new bank borrowings in the amount of approximately RMB437,844,000 (six months ended 30 June 2013 (restated): RMB450,811,000) and made repayment of bank borrowings in the amount of approximately RMB507,721,000 (six months ended 30 June 2013 (restated): RMB651,035,000). The borrowings bear interest at market rate and have fixed terms of repayment. The proceeds were used for working capital of operation.

13. OBLIGATIONS UNDER FINANCE LEASES

	30.6.2014 RMB'000 (unaudited)	31.12.2013 <i>RMB'000</i> (audited)
Obligation under finance leases (<i>Note</i>)	117,227	136,534
Current portion of obligations under finance leases	(40,492)	(39,289)

14. CORPORATE BOND

On 11 March 2013, the Company issued a corporate bond to the public on the Shanghai Stock Exchange with a nominal value of RMB3 billion. The bond carries interest at 4.9% per annum with a term of five years, which is payable annually in arrears on 11 March each year. The bond will be fully repaid by the Company upon maturity in March 2018. As at 30 June 2014, the bond issued is guaranteed by HE Corporation.

15. SHARE CAPITAL

	30.6.2014 <i>RMB'000</i> (unaudited)	31.12.2013 <i>RMB'000</i> (audited)
Registered, issued and fully paid:		
State owned equity interest shares of		
RMB1 each	701,235	701,235
H shares of RMB1 each	675,571	675,571
	1,376,806	1,376,806

16. CAPITAL COMMITMENTS

The Group had the following capital commitment at the end of current interim period:

	30.6.2014 <i>RMB'000</i> (unaudited)	31.12.2013 <i>RMB'000</i> (audited)
Capital expenditure for the acquisition of property, plant and equipment contracted for but not provided in the condensed consolidated financial statements	367,080	328,503

17. PLEDGE OF ASSETS

At 30 June 2014, the Group pledged certain property, plant and equipment, prepaid lease payments and bank deposits having a net book value of approximately RMB121,602,000, RMB30,912,000 and RMB123,209,000 (at 31 December 2013: RMB22,441,000, RMB31,243,000 and RMB212,156,000) to secure14,

19. MATERIAL RELATED PARTY TRANSACTIONS

The Group has entered into the following material related party transactions:

(a) Financing arrangement

	30.6.2014 <i>RMB'000</i> (unaudited)	31.12.2013 <i>RMB'000</i> (audited)
Advance from holding company (note (i))	1,761,898	1,761,898

Note:

- (i) The balance of the advance from holding company comprises of non-interest bearing and interest bearing loans amounting to RMB3,500,000 (at 31 December 2013: RMB3,500,000) and RMB1,758,398,000 (at 31 December 2013: RMB1,758,398,000) respectively with effective interest rate of 5.4% (at 31 December 2013: 5.4%) per annum.
- (ii) During the six months ended 30 June 2014, the Group paid interest expenses for the advance from holding company of approximately RMB45,438,000 (six months ended 30 June 2013: RMB10,260,000).

(b) Trading transactions

	Six months ended 30.6.2014 <i>RMB'000</i> (unaudited)	30.6.2013 <i>RMB'000</i> (unaudited)
Sales of goods		
— Fellow subsidiaries	13,679	78
Purchases of goods		
— Fellow subsidiaries	89,081	82,919
Service fee income		
— Holding company	1,640	—
Service fee expenses		
— Fellow subsidiaries	28,839	21,100

The above transactions were also continuing connected transactions of the Group during the period and the details of the transactions have been set out in the announcement of the Company dated 3 January 2014 and 22 December 2010.

The Group had sales of goods to and purchases of goods from associates for an amount of RMB550,000 and RMB27,231,000 (six months ended 30 June 2013: RMB29,000 and RMB17,584,000) during the six months ended 30 June 2014 respectively.

The sales and purchases, service income and expenses were conducted in accordance with mutually agreed terms.

The following balances arising from trading transactions were outstanding at the end of the period/year:

	Amounts due from		Amounts due to	
	30.6.2014	31.12.2013	30.6.2014	31.12.2013
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	(unaudited)	(audited)	(unaudited)	(audited)
Holding company	–	–	9,572	9,784
Fellow subsidiaries	254,806	175,206	42,645	65,336
Associates	44,253	15,124	72,081	28,261

(c) **Deposits and loan services provided to related parties by, the Group's subsidiary HE Finance Company Limited ("Finance Company").**

	Six months ended	
	30.6.2014	30.6.2013
	<i>RMB'000</i>	<i>RMB'000</i>
	(unaudited)	(unaudited)
Interest expenses for customer deposits:		
— Holding company	5,231	379
— Fellow subsidiaries	314	250
— Associates	5	9
	<hr/> 5,550 <hr/>	<hr/> 638 <hr/>
Interest income for loans and bills discounting:		
— Fellow subsidiaries	583	356
	<hr/> 583 <hr/>	<hr/> 356 <hr/>

Discounted bills and loans receivables due from related parties as detailed below:

	30.6.2014 <i>RMB'000</i> (unaudited)	31.12.2013 <i>RMB'000</i> (audited)
Fellow subsidiaries	20,000	20,000

Customer deposits represent deposits maintained with Finance Company as detailed below:

	30.6.2014 <i>RMB'000</i> (unaudited)	31.12.2013 <i>RMB'000</i> (audited)
Deposits from the ultimate holding company	697,833	385,728
Deposits from fellow subsidiaries	117,802	65,721
Deposits from an associate	1,517	2,784
Deposits from a non-related party	–	3
	817,152	454,236

Interest rates for customer deposits, loans and bills discounting were determined with reference to the interest rates adopted by financial institutions as regulated by the People's Bank of China.

(d) Guarantees provided by related parties of the Group

As at 30 June 2014, HE Corporation has provided an unconditional and irrevocable joint liability guarantee in respect of the Group's corporate bond with a normal value of RMB3 billion.

(e) Transactions/balances with other state-controlled entities in the PRC

The Group operates in an economic environment currently predominated by entities directly or indirectly owned or controlled by the PRC government ("state-controlled entities"). In addition, the Group itself is part of a larger group of companies under HE Corporation, which is controlled by the PRC government. Apart from the transactions with HE Corporation and fellow subsidiaries disclosed above, the Group also conducts business with other state-controlled entities. The directors consider those state-controlled entities are independent third parties so far as the Group's business transactions with them are concerned.

In establishing its pricing strategies and approval process for transactions with other state-controlled entities, the Group does not differentiate whether the counter-party is a state-controlled entity or not.

The Group has entered into various transactions, including sales and purchases, and maintained trade balances with state-controlled entities.

20. FINANCIAL INSTRUMENT

(i) Financial assets and liabilities measured at fair value

Fair value hierarchy

The following table presents the fair value of the Group's financial instruments measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in HKFRS 13, Fair value measurement. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

Level 1 valuations:	Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date
Level 2 valuations:	Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available
Level 3 valuations:	Fair value measured using significant unobservable inputs

Fair value measurements as at
30 June 2014 categorised into

	Fair value at 30 June			
	2014 RMB'000 (unaudited)	Level 1 RMB'000 (unaudited)	Level 2 RMB'000 (unaudited)	Level 3 RMB'000 (unaudited)
Recurring fair value measurements				
Assets:				
Trading securities	1,362,777	1,362,777	—	—
	<u>1,362,777</u>	<u>1,362,777</u>	<u>—</u>	<u>—</u>

Fair value measurements as at
30 June 2014 categorised into

	Fair value at 30 June			
	2014 RMB'000 (unaudited)	Level 1 RMB'000 (unaudited)	Level 2 RMB'000 (unaudited)	Level 3 RMB'000 (unaudited)
Recurring fair value measurements				
Liabilities:				
Derivative financial instruments — foreign currency forward contracts	77,914	—	77,914	—
	<u>77,914</u>	<u>—</u>	<u>77,914</u>	<u>—</u>

Fair value measurements as at 31 December 2013 categorised into				
Fair value at 31 December 2013	Level 1	Level 2	Level 3	
RMB'000 (audited)	RMB'000 (audited)	RMB'000 (audited)	RMB'000 (audited)	
Recurring fair value measurements				
Assets:				
Derivative financial instruments				
— foreign currency forward				
contracts	117,933	–	117,933	–
Trading securities	<u>1,532,390</u>	<u>1,532,390</u>	<u>–</u>	<u>–</u>
	<u>1,650,323</u>	<u>1,532,390</u>	<u>117,933</u>	<u>–</u>

There were no significant transfers between Level 1 and Level 2 during the period.

Valuation techniques and inputs used in Level 2 fair value measurements.

The fair value of foreign currency forward contracts is measured using forward exchange rates at the end of the reporting period with the resulting value discounted back to present value.

(ii) Fair values of financial instruments carried at other than fair value

The carrying amounts of the Group's financial instruments carried at cost or amortised cost are not materially different from their fair values as at 30 June 2014 and 31 December 2013.

21. BUSINESS COMBINATION — THE GROUP

During the six months ended 30 June 2014, the Group acquired 51% of the share capital of 哈電(大連)電力設計有限責任公司 (formerly known as 大連東電電力設計有限公司), a company which operates in engineering design and technical consultancy services. The acquired business contributes revenues of RMB9,244,000 and net profit of RMB354,000 to the Group for the period ended 30 June 2014. These amounts have been calculated using the Group's accounting policies. The Group recognised the non-controlling interests at the proportionate share of net assets of 哈電(大連)電力設計有限責任公司.

22. COMPARATIVE AMOUNTS

Due to the business combinations under common control in the second half of 2013, the comparative amounts of the financial statements have been restated.

INFORMATION ON THE COMPANY

REGISTERED NAME OF THE COMPANY

哈爾濱電氣股份有限公司

ENGLISH NAME OF THE COMPANY

Harbin Electric Company Limited

REGISTERED ADDRESS OF THE COMPANY

Block 3
Nangang District High Technology
Production Base
Harbin
Heilongjiang
PRC
Registration No. 230100100004252(1-1)

OFFICE ADDRESS OF THE COMPANY

Block B, 39 Sandadongli Road
Xiangfang District
Harbin
Heilongjiang
PRC
Postcode: 150040
Tel: 86-451-82135717 or 82135727
Fax: 86-451-82135700

PLACE OF BUSINESS IN HONG KONG

Room 1601, 16th Floor
LHT Tower
31 Queen's Road Central
Hong Kong

WEBSITE

www.chpec.com

LEGAL REPRESENTATIVE

Mr. Gong Jing-kun

AUTHORISED REPRESENTATIVES

Mr. Wu Wei-zhang
Mr. Gao Xu-guang

COMPANY SECRETARY

Mr. Gao Xu-guang

JOINT COMPANY SECRETARY

Mr. Tung Tat Chiu, Michael

AUDITORS

Crowe Horwath (HK) CPA Limited

LEGAL ADVISORS

as to PRC Law
Haiwen Partners

LISTING INFORMATION

H Shares
The Stock Exchange of Hong Kong Limited
Code: 1133

DEPOSITARY

The Bank of New York

SHARE REGISTER AND TRANSFER OFFICE

Hong Kong Registrars Limited