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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 2012, 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 2012, the Group recorded a turnover of RMB11,163.08 million from its principal business activities, a decrease of 23.62% as compared with the same period last year; and a net profit attributable to the equity shareholders of the Company of RMB701.03 million, an increase of 21.42% as compared with the same period last year. Earnings per share were RMB0.51, an increase of RMB0.09 as compared with the same period last year. Net assets at the end of the period attributable to the equity shareholders of the Company were RMB11,120.21 million, an increase of RMB518.59 million over the beginning of the year; and net assets per share were RMB8.08, an increase of RMB0.38 over the beginning of the year. The increase in profit of Group during the period was mainly attributable to the improvement in gross profit margin and the fair value gains on trading securities.

### **INTERIM DIVIDEND**

The Board does not recommend an interim dividend for the six months ended 30 June 2012.

### **BUSINESS REVIEW**

In the first half of 2012, the European debt crisis has been increasingly threatening the global economy and adding its uncertainty and instability.

China's economic growth maintained at an expected rate, posting a year on year increase of 7.8% in GDP growth. The PRC government insisted upon its general direction of progress amid stability to achieve balance among stable development, structural adjustment and curbing inflation, and put more efforts on its austerity measures to ensure a steady overall economic development. In the first half of the year, the demand and supply for power in China remained stable. Power consumption across China suffered substantial decline and only recorded a year on year increase of 5.5%. Investment in power business nationwide posted a year on year increase of 2.3%, while investment in wind power and thermal power recorded a year on year decrease of 37.3% and 16.8% respectively. The proportion of investment in thermal power has been decreased by 4.7 percentage points over the same period last year. Investment in nuclear power also recorded a year on year decrease of 5.1%. The newly installed capacity nationwide has reached 25,850MW, representing a year on year decrease of 8,920MW, which was mainly attributable to the year on year decrease of 7,440MW in thermal power.

Facing with a complex and volatile economic environment and highly competitive market, the Group formulates its strategies and strives for keeping in line with the "Twelfth Five Year Plan", enhancing customer satisfaction and adjusting its structure, improving its management and execution efficiency, so as to make notable progress in all aspects, realize its goal of enhancing efficiency and maintain steady development.

## **NEW CONTRACTS**

During the first half of the year, the value of new contracts secured by the Group amounted to RMB24.502 billion, which was approximate to that of the same period last year, in which thermal power accounted for 44.30%; hydropower accounted for 7.15%; power plant engineering services accounted for 11.01%; nuclear power accounted for 11.75%; steam power accounted for 6.50%; wind power accounted for 3.63%; and others accounted for 15.66%.

## **PRODUCTION AND SERVICES**

The total output of the Group's power equipment during the first half of the year remained at a relatively high level, posting a year on year increase of 9.74%, among which were 30 water turbine generators with a total capacity of 3,358.65MW, representing a year on year increase of 20.01%; and 24 steam turbine generators with a total capacity of 9,195MW, representing a year on year increase of 6.41%. In addition, due to delay in construction and unstable delivery schedule of certain projects, the output of 21 steam turbines for power plants with a total capacity of 8,160MW has recorded a year on year decrease of 22.03%, while 18 utility boilers with a total capacity of 6,215MW has recorded a year on year decrease of 51.10%.

## **TURNOVER AND COST**

As at 30 June 2012, the Group recorded a turnover of RMB11,163.08 million from its principal business activities, a decrease of 23.62% as compared with the same period last year. In particular, turnover of thermal power main equipment business was RMB6,539.34 million, a decrease of 34.20% as compared with the same period last year. Turnover of hydropower main equipment was RMB1,734.51 million, an increase of 21.03% as compared with the same period last year. Turnover of power plant engineering services was RMB1,499.26 million, a decrease of 14.47% as compared with the same period last year. Turnover of ancillary equipment for power stations was RMB392.36 million, a decrease of 5.07% as compared with the same period last year. Turnover of AC/DC motors and other products and services was RMB997.61 million, a decrease of 7.33% as compared with the same period last year.

During the period, the Group recorded a turnover of export of RMB1,710.25 million, accounting for 15.32% of the turnover of the principal business activities. The export was mainly to India and Pakistan.

During the period, the cost of the principal business activities of the Group was RMB8,741.62 million, a decrease of 27.94% as compared with the same period last year, which was higher than the decline in turnover of its principal businesses.

## **GROSS PROFIT AND GROSS PROFIT MARGIN**

As at 30 June 2012, the Group's gross profit from its principal business activities was RMB2,421.46 million, a decrease of 2.47% as compared with the same period last year. The gross profit margin was 21.69%, an increase of 4.7 percentage points as compared with the same period last year.

Among them, the gross profit from thermal power main equipment was RMB1,412.47 million and the gross profit margin was 21.60%, an increase of 5.06 percentage points as compared with the same period last year. The gross profit from hydropower main equipment was RMB616.81 million and the gross profit margin was 35.56%, an increase of 6.15 percentage points as compared with the same period last year. The gross profit from power plant engineering services was RMB111.77 million and the gross profit margin was 7.46%, a decrease of 2.03 percentage points as compared with the same period last year. The gross profit from ancillary equipment for power stations was RMB167.60 million and the gross profit margin was 42.72%, an increase of 18.12 percentage points as compared with the same period last year. The gross profit from AC/DC motors and other products and services was RMB112.81 million and the gross profit margin was 11.31%, a decrease of 2.6 percentage points as compared with the same period last year.

## **EXPENSES DURING THE PERIOD**

As at 30 June 2012, the Group's operational and administrative expenses amounted to RMB1,786.04 million, an increase of RMB177.01 million or 11.00% as compared with the same period last year.

## **ASSETS AND LIABILITIES**

As at 30 June 2012, the total assets of the Group amounted to RMB51,662.67 million, an increase of RMB1,266.62 million or 2.51% over the beginning of the year, among which the current assets were RMB43,720.04 million, representing 84.63% of the total assets, and the non-current assets were RMB7,942.63 million, representing 15.37% of the total assets.

The total liabilities of the Group amounted to RMB38,627.87 million, an increase of RMB755.05 million over the beginning of the year, among which the total current liabilities were RMB28,700.27 million, representing 74.30% of the total liabilities, and the total non-current liabilities were RMB9,927.60 million, representing 25.70% of the total liabilities. As at 30 June 2012, the gearing ratio of the Group was 74.77%.

## **DEPOSITS AND CASH FLOW**

As at 30 June 2012, the bank deposits and cash of the Group amounted to RMB6,213.61 million, a decrease of RMB2,305.67 million over the beginning of the year, among which the time deposits amounted to RMB410.18 million. During the period, net cash outflow from operating activities of the Group amounted to RMB1,675.16 million, net cash inflow from financing activities amounted to RMB185.90 million, and net cash outflow from investment activities amounted to RMB979.19 million.

## FUNDING AND BORROWINGS

The Group has three major funding sources for operation and development, namely shareholder's funds, trade receivables from customers and bank borrowings. The Group arranges borrowings for each specific project. Except for some special situations, loans will be raised individually by the Group's subsidiaries. However, prior approval from the parent company is required in respect of borrowings raised for capital investments. As at 30 June 2012, the Group's total borrowings amounted to RMB1,768.13 million, of which amount borrowed from various commercial banks and the state's policy banks with interest rates stipulated by the state amounted to RMB1,250.42 million. Among the Group's borrowings, the amount due within one year was RMB614.10 million, an increase of RMB32.48 million over the beginning of the year. The amount of the Group's borrowings due after one year was RMB1,154.03 million, a decrease of RMB160.22 million over the beginning of the year. The amounts received in advance were RMB12,942.11 million, a decrease of RMB878.69 million over the beginning of the year.

## GEARING RATIO

As at 30 June 2012, gearing ratio of the Group (calculated as non-current liabilities over total shareholders' equity) was 0.89:1 as compared to 0.83:1 at the beginning of the year.

## 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, which entitles the Company to a 15% preferential income tax rate.

## STAFF

As at 30 June 2012, the employees of the Group totaled at 19,874.

## **PROSPECTS**

In the second half of 2012, the feeble recovery and depression of the global economy continues, while demand and risks coexist in the international power market. The PRC government stays alert on major conflicts and issues arising from economic development and is well poised to remain adamant on its stance of striving for steady progress. As for macro measures, the PRC government has established “optimizing energy structure, promoting environmental-friendly and efficient usage of conventional



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 2012, the total issued share capital of the Company was 1,376,806,000 shares. The shareholdings of substantial shareholders were as follows:

<b>Name of Shareholders</b>	<b>Class of Shares</b>	<b>Number of Shares</b>	<b>Percentage to total share capital (%)</b>	<b>Position held</b>
Harbin Electric Corporation	State-owned shares	701,235,000	50.93%	Long position
HKSCC Nominees Limited	H shares	651,562,597	47.32%	Long position

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

As at 30 June 2012, 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 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.

## **CODE ON CORPORATE GOVERNANCE PRACTICES**

The Company has currently and at all times during the accounting period complied with the provisions of the Corporate Governance Code and Corporate Governance Report set out in Appendix 14 of the Listing Rules of the Stock Exchange.

## **THE AUDIT COMMITTEE**

The members of audit committee of the Company include Li He-jun, Liu Deng-qing and Duan Hong-yi. The Board's audit committee has reviewed these interim results.

## **THE AUDITOR**

The Board of the Company appointed Crowe Horwath (HK) CPA Limited as the auditor for the interim period of the year 2012 according to the authority granted at the general meeting. The auditor has reviewed these interim results.

## **SHAREHOLDERS' MEETING**

The 2011 annual general meeting of the Company was convened in Harbin, PRC on 17 May 2012 and the results of which have been published on the Hong Kong Stock Exchange website and the Company's website.

## DOCUMENTS AVAILABLE FOR INSPECTION

The office of the Company is located at Block B, 39 Sandadongli Road, Xiangfang District, Harbin, the PRC, at where the Articles of Association of the Company and the original copies of the interim report and reviewed financial statements as at 30 June 2012 will be available for inspection.

By order of the Board

**Gong Jing-kun**

*Chairman*

Harbin, PRC, 16 August 2012

*As at the date of this report, the non-executive Directors of the Company are Mr. Gong Jing-kun, Mr. Zou Lei and Mr. Duan Hong-yi; the executive Directors are Mr. Wu Wei-zhang and Mr. Shang Zhong-fu; and the independent non-executive Directors are Mr. Sun Chang-ji, Mr. Jia Cheng-bing, Ms. Li He-jun, Mr. Yu Bo and Mr. Liu Deng-qing.*

# REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION

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## **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, 16 August 2012

### **Lau Kwok Hung**

Practising Certificate No.: P04169

## CONDENSED CONSOLIDATED INCOME STATEMENT

FOR THE SIX MONTHS ENDED 30 JUNE 2012

		Six months ended	
	Notes	30.6.2012 RMB'000 (unaudited)	30.6.2011 RMB'000 (unaudited)
<b>Revenue</b>	3	<b>11,163,078</b>	14,614,477
Cost of sales		<u>(8,741,619)</u>	<u>(12,131,566)</u>
<b>Gross profit</b>		<b>2,421,459</b>	2,482,911
Other revenue and net income		<b>140,836</b>	290,685
Fair value gains/(losses) on trading securities		<b>86,600</b>	(290,800)
Distribution expenses		<b>(268,909)</b>	(258,368)
Administrative expenses	4	<b>(1,517,126)</b>	(1,350,659)
Other operating expenses		<b>(30,522)</b>	(58,140)
Finance costs		<b>(23,214)</b>	(30,874)
Share of profits less losses of associates		<u>17,075</u>	<u>4,193</u>
<b>Profit before taxation</b>	6	<b>826,199</b>	788,948
Income tax	5	<u>(131,541)</u>	<u>(113,146)</u>
<b>Profit for the period</b>		<u><b>694,658</b></u>	<u>675,802</u>
<b>Attributable to:</b>			
Equity shareholders of the Company		<b>701,034</b>	577,356
Non-controlling interests		<u>(6,376)</u>	<u>98,446</u>
		<u><b>694,658</b></u>	<u>675,802</u>
<b>Earnings per share</b>			
— Basic and diluted	8	<u><b>RMB50.92 cents</b></u>	<u>RMB41.93 cents</u>

## CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2012

	Six months ended	
	30.6.2012 RMB'000 (unaudited)	30.6.2011 RMB'000 (unaudited)
<b>Profit for the period</b>	<b>694,658</b>	675,802
<b>Other comprehensive income for the period, net of income tax</b>		
Cash flow hedges	12,127	—
Income tax relating to component of other comprehensive income	(1,819)	—
	<u>10,308</u>	<u>—</u>
<b>Total comprehensive income for the period</b>	<b><u>704,966</u></b>	<u>675,802</u>
<b>Attributable to:</b>		
Equity shareholders of the Company	711,342	577,356
Non-controlling interests	(6,376)	98,446
	<u>704,966</u>	<u>675,802</u>

# CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 30 JUNE 2012

	<i>Notes</i>	<b>30.6.2012</b> <b>RMB'000</b> <b>(unaudited)</b>	31.12.2011 <i>RMB'000</i> (audited)
<b>Non-current assets</b>			
Investment properties		<b>4,810</b>	4,810
Property, plant and equipment	9	<b>6,082,785</b>	5,799,944
Prepaid lease payments		<b>431,541</b>	433,000
Intangible assets		<b>246,137</b>	261,732
Deferred tax assets		<b>275,617</b>	277,366
Interests in associates		<b>562,974</b>	546,899
Available-for-sale investments		<b>96,637</b>	96,637
Held-to-maturity investments		<b>242,129</b>	236,085
		<hr/> <b>7,942,630</b> <hr/>	<hr/> 7,656,473 <hr/>
<b>Current assets</b>			
Inventories		<b>12,399,806</b>	11,616,296
Trade receivables	10	<b>14,170,448</b>	12,918,135
Bills receivable	10	<b>967,991</b>	1,052,526
Other receivables, deposits and prepayments		<b>4,777,583</b>	4,484,066
Prepaid lease payments		<b>12,208</b>	11,922
Amounts due from customers for contract work		<b>2,569,239</b>	1,849,593
Amounts due from fellow subsidiaries		<b>202,104</b>	59,929
Derivative financial instruments		<b>4,919</b>	92,641
Trading securities		<b>1,953,000</b>	2,001,530
Restricted bank deposits		<b>1,806</b>	2,506
Pledged bank deposits		<b>447,335</b>	131,155
Bank deposits		<b>410,178</b>	247,404
Cash and cash equivalents		<b>5,803,427</b>	8,271,875
		<hr/> <b>43,720,044</b> <hr/>	<hr/> 42,739,578 <hr/>



# CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(Continued)*

AT 30 JUNE 2012

	<i>Notes</i>	<b>30.6.2012</b> <b>RMB'000</b> <b>(unaudited)</b>	31.12.2011 <i>RMB'000</i> (audited)
<b>Current liabilities</b>			
Derivative financial instruments		17,005	3,730
Amounts due to customers for contract work		2,027,360	1,413,194
Trade payables	11	15,959,760	14,646,188
Other payables, accruals and provisions		4,103,301	3,934,593
Deposits received		5,623,228	7,483,656
Amounts due to fellow subsidiaries		43,324	36,266
Advance from holding company		478	2,785
Borrowings — due within one year	12	614,104	581,623
Tax payables		267,628	920,618
Obligations under finance leases — due within one year	13	44,079	—
		<u>28,700,267</u>	<u>29,022,653</u>
<b>Net current assets</b>		<u>15,019,777</u>	<u>13,716,925</u>
<b>Total assets less current liabilities</b>		<u>22,962,407</u>	<u>21,373,398</u>
<b>Non-current liabilities</b>			
Derivative financial instruments		3,539	28,941
Deposits received		7,318,877	6,337,141
Advance from holding company		1,295,238	1,169,838
Borrowings — due after one year	12	1,154,029	1,314,244
Obligations under finance leases — due after one year	13	155,921	—
		<u>9,927,604</u>	<u>8,850,164</u>
<b>NET ASSETS</b>		<u>13,034,803</u>	<u>12,523,234</u>
<b>CAPITAL AND RESERVES</b>			
Share capital	14	1,376,806	1,376,806
Reserves		9,743,403	9,224,814
Total equity attributable to equity shareholders of the Company		11,120,209	10,601,620
Non-controlling interests		1,914,594	1,921,614
<b>TOTAL EQUITY</b>		<u>13,034,803</u>	<u>12,523,234</u>

# CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2012

	Attributable to equity shareholders of the Company								Non-controlling interests	Total equity
	Share capital	Share premium	Statutory capital reserve	Statutory surplus reserve	Other reserve	Hedging reserve	Retained profits	Total		
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2012 (audited)	1,376,806	1,980,295	703,229	596,936	60,131	(27,770)	5,911,993	10,601,620	1,921,614	12,523,234
Profit for the period	—	—	—	—	—	—	701,034	701,034	(6,376)	694,658
Other comprehensive income:										
Changes in fair value of effective portion of cash flow hedges — gross	—	—	—	—	—	12,127	—	12,127	—	12,127
Changes in fair value of effective portion of cash flow hedges — tax	—	—	—	—	—	(1,819)	—	(1,819)	—	(1,819)
Other comprehensive income for the period	—	—	—	—	—	10,308	—	10,308	—	10,308
Total comprehensive income for the period	—	—	—	—	—	10,308	701,034	711,342	(6,376)	704,966
Dividends paid to non-controlling interests	—	—	—	—	—	—	—	—	(644)	(644)
Dividends (Note 7)	—	—	—	—	—	—	(192,753)	(192,753)	—	(192,753)
At 30 June 2012 (unaudited)	<b>1,376,806</b>	<b>1,980,295</b>	<b>703,229</b>	<b>596,936</b>	<b>60,131</b>	<b>(17,462)</b>	<b>6,420,274</b>	<b>11,120,209</b>	<b>1,914,594</b>	<b>13,034,803</b>

	Attributable to equity shareholders of the Company								Non-controlling interests	Total equity
	Share capital	Share premium	Statutory capital reserve	Statutory surplus reserve	Other reserve	Hedging reserve	Retained profits	Total		
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2011 (audited)	1,376,806	1,980,295	709,850	596,936	161,476	—	4,876,085	9,701,448	1,462,394	11,163,842
Profit and total comprehensive income for the period	—	—	—	—	—	—	577,356	577,356	98,446	675,802
Dividends paid to non-controlling interests	—	—	—	—	—	—	—	—	(2,190)	(2,190)
Capital contribution by non-controlling interests	—	—	—	—	—	—	—	—	166,113	166,113
Arising on business combination under common control	—	—	—	—	(99,399)	—	—	(99,399)	99,399	—
Dividends (Note 7)	—	—	—	—	—	—	(192,753)	(192,753)	—	(192,753)
At 30 June 2011 (unaudited)	<b>1,376,806</b>	<b>1,980,295</b>	<b>709,850</b>	<b>596,936</b>	<b>62,077</b>	<b>—</b>	<b>5,260,688</b>	<b>9,986,652</b>	<b>1,824,162</b>	<b>11,810,814</b>

## CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED 30 JUNE 2012

	Six months ended	
	30.6.2012	30.6.2011
	RMB'000	RMB'000
	(unaudited)	(unaudited)
<b>Net cash (used in) operating activities</b>	<b>(1,675,163)</b>	<b>(3,131,879)</b>
<b>Cash flows from investing activities</b>		
Purchases of property, plant and equipment	(574,571)	(589,091)
Other investing cash flows	(404,615)	760,692
<b>Net cash (used in)/generated from investing activities</b>	<b>(979,186)</b>	<b>171,601</b>
<b>Cash flows from financing activities</b>		
New bank borrowings	148,000	50,000
Repayment of bank borrowings	(310,000)	(265,699)
Other financing cash flows	347,901	(36,123)
<b>Net cash generated from/(used in) financing activities</b>	<b>185,901</b>	<b>(251,822)</b>
<b>Net (decrease) in cash and cash equivalents</b>	<b>(2,468,448)</b>	<b>(3,212,100)</b>
Cash and cash equivalents at the beginning of the period	8,271,875	11,459,319
Cash and cash equivalents at the end of the period	<b>5,803,427</b>	<b>8,247,219</b>
<b>Analysis of cash and cash equivalents at the end of the period</b>		
Cash and bank balances	4,791,280	5,440,239
Bank deposits	1,012,147	2,806,980
	<b>5,803,427</b>	<b>8,247,219</b>

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 JUNE 2012

## 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 2012 are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2011, except as described in below.

In the current interim period, the Group has applied, for the first time, the following amendments issued by the HKICPA, which are effective for the Group's financial year beginning on 1 January 2012.

Amendments to HKFRS 7	"Disclosures — Transfers of Financial Assets"
Amendments to HKAS 12	"Deferred Tax — Recovery of Underlying Assets"

The application of these amendments has had no material effect on the amounts reported in the condensed consolidated financial statements and/or disclosures set out in the 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 2012:

Amendments to HKFRSs	"Annual Improvements to HKFRSs 2009–2011 Cycle" <sup>(2)</sup>
Amendments to HKFRS 7	"Disclosures — Offsetting Financial Assets and Financial Liabilities" <sup>(2)</sup>
Amendments to HKFRS 7 and HKFRS 9	"Mandatory Effective Date of HKFRS 9 and Transition Disclosures" <sup>(4)</sup>
HKFRS 9	"Financial Instruments" <sup>(4)</sup>
HKFRS 10	"Consolidated Financial Statements" <sup>(2)</sup>
HKFRS 11	"Joint Arrangements" <sup>(2)</sup>
HKFRS 12	"Disclosure of Interests in Other Entities" <sup>(2)</sup>
HKFRS 13	"Fair Value Measurement" <sup>(2)</sup>
Amendments to HKAS 1	"Presentation of Items of Other Comprehensive Income" <sup>(1)</sup>
HKAS 19 (as revised in 2011)	"Employee Benefits" <sup>(2)</sup>
HKAS 27 (as revised in 2011)	"Separate Financial Statements" <sup>(2)</sup>
HKAS 28 (as revised in 2011)	"Investments in Associates and Joint Ventures" <sup>(2)</sup>
Amendments to HKAS 32	"Offsetting Financial Assets and Financial Liabilities" <sup>(3)</sup>
HK (IFRIC)-Int 20	"Stripping Costs in the Production Phase of a Surface Mine" <sup>(2)</sup>

(1) Effective for annual periods beginning on or after 1 July 2012.

(2) Effective for annual periods beginning on or after 1 January 2013.

(3) Effective for annual periods beginning on or after 1 January 2014.

(4) Effective for annual periods beginning on or after 1 January 2015.

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 2012

	Main thermal power equipment <i>RMB'000</i>	Main hydro power equipment <i>RMB'000</i>	Engineering services for power stations <i>RMB'000</i>	Ancillary equipment for power stations <i>RMB'000</i>	AC/DC motors and others <i>RMB'000</i>	Total <i>RMB'000</i>
SEGMENT REVENUE						
Revenue from external customers	6,539,339	1,734,505	1,499,260	392,361	997,613	11,163,078
Inter-segment revenue	1,134,895	—	—	—	—	1,134,895
Reportable segment revenue	<u>7,674,234</u>	<u>1,734,505</u>	<u>1,499,260</u>	<u>392,361</u>	<u>997,613</u>	<u>12,297,973</u>
Reportable segment profit	<u>1,439,507</u>	<u>616,806</u>	<u>111,770</u>	<u>167,603</u>	<u>112,811</u>	<u>2,448,497</u>
Elimination of inter-segment profits						<u>(27,038)</u>
Reportable segment profit derived from Group's external customers						2,421,459
Unallocated head office and corporate expenses						(1,589,121)
Finance costs						(23,214)
Share of profits less losses of associates						<u>17,075</u>
Consolidated profit before taxation						<u>826,199</u>

## Six months ended 30 June 2011

	Main thermal power equipment RMB'000	Main hydro power equipment RMB'000	Engineering services for power stations RMB'000	Ancillary equipment for power stations RMB'000	AC/DC motors and others RMB'000	Total RMB'000
SEGMENT REVENUE						
Revenue from external customers	9,938,568	1,433,150	1,752,905	413,312	1,076,542	14,614,477
Inter-segment revenue	1,043,614	—	—	—	—	1,043,614
Reportable segment revenue	<u>10,982,182</u>	<u>1,433,150</u>	<u>1,752,905</u>	<u>413,312</u>	<u>1,076,542</u>	<u>15,658,091</u>
Reportable segment profit	<u>1,663,446</u>	<u>421,458</u>	<u>166,425</u>	<u>101,695</u>	<u>149,693</u>	2,502,717
Elimination of inter-segment profits						<u>(19,806)</u>
Reportable segment profit derived from Group's external customers						2,482,911
Unallocated head office and corporate expenses						(1,667,282)
Finance costs						(30,874)
Share of profits less losses of associates						<u>4,193</u>
Consolidated profit before taxation						<u>788,948</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 RMB422,444,000 (six months ended 30 June 2011: RMB380,235,000), 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 2012 and 2011.
- (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 2011: 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 2011: 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 1 s 2 n9ut witinon yeae of 200 forpanyyteae

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## 6. PROFIT BEFORE TAXATION

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

	Six months ended	
	30.6.2012	30.6.2011
	RMB'000	RMB'000
Depreciation for property, plant and equipment	288,636	241,117
Depreciation for investment properties	—	90
Amortisation of prepaid lease payments	6,104	6,012
Amortisation of intangible assets	16,143	5,284
Allowance against inventories	66,483	5,741
Interest and investment income	(117,411)	(174,123)
Loss/(gain) on disposal of property, plant and equipment	1,080	(3,399)

## 7. DIVIDENDS

	Six months ended	
	30.6.2012	30.6.2011
	RMB'000	RMB'000
Final dividends declared for 2011 of RMB0.14 per share	192,753	—
Final dividends declared for 2010 of RMB0.14 per share	—	192,753

The directors do not recommend the payment of any interim dividend for the six months ended 30 June 2012 (six months ended 30 June 2011: 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 RMB701,034,000 (six months ended 30 June 2011: RMB577,356,000) and on the weighted average number of 1,376,806,000 (six months ended 30 June 2011: 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 2012 and 2011, 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 2012, the Group disposed of certain plant and machinery with a carrying amount of RMB3,094,000 (six months ended 30 June 2011: RMB935,000) for proceeds of RMB2,014,000 (six months ended 30 June 2011: RMB4,334,000) resulting in a loss on disposal of RMB1,080,000 (six months ended 30 June 2011: gain of RMB3,399,000).

During the six months ended 30 June 2012, the Group spent approximately RMB574,571,000 (six months ended 30 June 2011: RMB589,090,000) mainly on construction in progress and plant and machinery for production process and to upgrade its manufacturing capabilities.

At 30 June 2012, carrying amount of plant and equipment held by the Group under finance leases amounted to RMB242,575,000 (at 31 December 2011: RMBNil).

## 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:

	<b>30.6.2012</b>	31.12.2011
	<i>RMB'000</i>	<i>RMB'000</i>
Within 1 year	<b>7,633,453</b>	7,824,717
1 to 2 years	<b>3,932,455</b>	2,430,624
2 to 3 years	<b>1,258,502</b>	1,374,045
Over 3 years	<b>2,314,029</b>	2,341,275
	<b><u>15,138,439</u></b>	<u>13,970,661</u>

## 11. TRADE PAYABLES

Trade payables with the aging analysis is as follows:

	<b>30.6.2012</b>	31.12.2011
	<i>RMB'000</i>	<i>RMB'000</i>
Within 1 year	<b>13,851,706</b>	13,684,001
1 to 2 years	<b>1,177,684</b>	278,938
2 to 3 years	<b>249,700</b>	389,386
Over 3 years	<b>680,670</b>	293,863
	<b><u>15,959,760</u></b>	<u>14,646,188</u>

## 12. BORROWINGS

During the six months ended 30 June 2012, the Group obtained new bank borrowings in the amount of approximately RMB148,000,000 (six months ended 30 June 2011: RMB50,000,000) and made repayment of bank borrowings in the amount of approximately RMB310,000,000 (six months ended 30 June 2011: RMB266,000,000). 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

	<b>30.6.2012</b> <i>RMB'000</i>	31.12.2011 <i>RMB'000</i>
Obligation under finance leases ( <i>Note</i> )	<b>200,000</b>	—
Current portion of obligations under finance leases	<b>(44,079)</b>	—
	<b>155,921</b>	—

*Note:* The Group's finance lease liabilities were repayable as follows:

	<u>30.6.2012</u>			<u>31.12.2011</u>		
	Present value of the minimum lease payments <i>RMB'000</i>	Interest expense relating to future period <i>RMB'000</i>	Total minimum lease payments <i>RMB'000</i>	Present value of the minimum lease payments <i>RMB'000</i>	Interest expense relating to future period <i>RMB'000</i>	Total minimum lease payments <i>RMB'000</i>
Within 1 year	<u>44,079</u>	<u>12,792</u>	<u>56,871</u>	—	—	—
After 1 year but within 2 years	37,936	7,949	45,885	—	—	—
After 2 years but within 5 years	<u>117,985</u>	<u>10,184</u>	<u>128,169</u>	—	—	—
	<u>155,921</u>	<u>18,133</u>	<u>174,054</u>	—	—	—
	<u>200,000</u>	<u>30,925</u>	<u>230,925</u>	—	—	—

### 14. SHARE CAPITAL

	<b>30.6.2012</b> <i>RMB'000</i>	31.12.2011 <i>RMB'000</i>
Registered, issued and fully paid:		
State owned equity interest shares of RMB1 each	<b>701,235</b>	701,235
H shares of RMB1 each	<b>675,571</b>	675,571
	<b>1,376,806</b>	1,376,806

## 15. CAPITAL COMMITMENTS

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

	<b>30.6.2012</b>	31.12.2011
	<i>RMB'000</i>	<i>RMB'000</i>
Capital expenditure for the acquisition of property, plant and equipment contracted for but not provided in the condensed consolidated financial statements	<b>628,728</b>	567,068

## 16. PLEDGE OF ASSETS

At 30 June 2012, the Group pledged certain property, plant and equipment, prepaid lease payments and bank deposits having a net book value of approximately RMB6,238,000, RMB25,075,000 and RMB447,335,000 (at 31 December 2011: RMB6,389,000, RMB25,363,000 and RMB131,155,000) to secure the banking facilities granted to the Group.

## 17. MATERIAL RELATED PARTY TRANSACTIONS

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

### (a) Financing arrangement

	<u>Amounts due from related parties</u>		<u>Amounts due to related parties</u>	
	<b>30.6.2012</b>	31.12.2011	<b>30.6.2012</b>	31.12.2011
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Advance from holding company (note 17(a)(i))	—	—	<b>1,295,238</b>	1,169,838
Cash and cash equivalent deposit with a fellow subsidiary (note 17(a)(ii))	<b>752,261</b>	730,843	—	—

Notes:

- (i) The balance of the advance from holding company comprises of non-interest bearing and interest bearing loans amounting to RMB304,560,000 (at 31 December 2011: RMB179,160,000) and RMB990,678,000 (at 31 December 2011: RMB990,678,000) respectively with effective interest rate of 5.68% (at 31 December 2011: 5.23%) per annum and have no fixed repayment term. The amount will not be demanded for repayment in the next twelve months of the end of the reporting period and, accordingly, the amounts have been classified as non-current liabilities.
- (ii) The amount represents cash and cash equivalents deposit with a fellow subsidiary which is a non-bank financial institution within HE and its subsidiaries (together the “HE Group”) to facilitate handling of the corporate funding and related finance activities of the HE Group.
- (b) Trading transactions**

Amount of trading transactions during the period:

	<b>Six months ended</b>	
	<b>30.6.2012</b>	30.6.2011
	<b>RMB'000</b>	RMB'000
Sales of goods		
— Fellow subsidiaries	<b>23,895</b>	17,027
Purchases of goods		
— Fellow subsidiaries	<b>69,622</b>	75,022
Service fee expenses		
— Fellow subsidiaries	<b>23,587</b>	19,521

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

	<b>Amounts due from</b>		<b>Amounts due to</b>	
	<b>30.6.2012</b>	31.12.2011	<b>30.6.2012</b>	31.12.2011
	<b>RMB'000</b>	RMB'000	<b>RMB'000</b>	RMB'000
Advance from holding company	—	—	<b>478</b>	2,785
Amounts due from fellow subsidiaries	<b>202,104</b>	59,929	—	—
Amounts due to fellow subsidiaries	—	—	<b>43,324</b>	36,266

**(c) 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, which is controlled by the PRC government. Apart from the transactions with HE 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.

In addition, the Group has entered into various transactions, including deposits placements, borrowings and other general banking facilities, with certain banks and financial institutions which are state-controlled entities in its ordinary course of business. In view of the nature of those banking transactions, the directors are of the opinion that separate disclosure would not be meaningful.

## 18. CONTINGENT LIABILITIES

### **Pending litigation**

In 2010, a litigation was brought against the Group's subsidiary namely, 哈爾濱電機廠(昆明)有限公司 (Kunming Generator"), by one of its customers (the "Plaintiff") in relation to a dispute in sales transaction for a compensation of



## 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  
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Registration No. 2301001003796

### OFFICE ADDRESS OF THE COMPANY

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### LEGAL REPRESENTATIVE

Mr. Gong Jing-kun

### AUTHORISED REPRESENTATIVES

Mr. Wu Wei-zhang  
Mr. Liu Zhi-quan

### COMPANY SECRETARY

Mr. Liu Zhi-quan  
Mr. Tung Tat Chiu, Michael

### AUDITORS

**Crowe Horwath (HK) CPA Limited**

### LEGAL ADVISORS

*as to PRC Law*

**Haiwen Partners**

*as to Hong Kong Law*

**Reed Smith Richards Butler**

### 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**