CONTENTS

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 2013, 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 2013, the Group recorded a turnover of RMB9,468.10 million from its principal business activities, a decrease of 15.18% as compared with the same period last year. The Group recorded a net profit attributable to the equity shareholders of the Company of RMB375.23 million, a decrease of 46.48% as compared with the same period last year. Earnings per share were RMB0.27, a decrease of RMB0.24 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 RMB12,089.22 million, an increase of RMB235.30 million over the beginning of the year; and net assets per share were RMB8.78, an increase of RMB0.17 over the beginning of the year. The decrease in profit of Group during the period was mainly attributable to the decrease of revenue and gross profit margin.

INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2013.

INDUSTRY DEVELOPMENT AND BUSINESS REVIEW

In the first half of 2013, the global economy remained subdued while China's economic growth maintained at an expected rate, posting a year-on-year increase of 7.6% in GDP growth. Newly installed capacity of the power generating units in the PRC for the year was estimated to be approximately 90,000MW. According to the statistics in the supply and demand pattern analytical report for the first half of the year issued by CEC, newly installed capacity of the power generating units for the first half of the year was 32,430MW, an increase of 25.5% over the same period last year. Market demand for power generating unit witnessed a certain degree of growth, operating condition of the corporations investing in power industry was improved, but efficiency decreased in the equipment manufacturing industry. As the coal price decreased slowly, thermal power industry experienced a turnaround from the heavy loss in the past. Power equipment market showed signs of recovery.

Facing with a complex and volatile economic environment and the increasingly competitive market, in the first half of the year, the Group adhered to its goal set at the beginning of the year, with an emphasis on securing orders, honouring contracts and enhancing management. The Group also strengthened its judgment on situation and adjusted its strategy in a timely manner with careful planning and great efforts, resulted in certain progress in every aspects of its work. Major indicators have reached the expected level set out in the beginning of the year.

NEW CONTRACTS

During the first half of the year, the value of new contracts secured by the Group amounted to RMB25.194 billion, slightly increasing from the same period last year, to which export contract contributed RMB10.456 billion, an increase of 41.53% from the same period last year. Among the contracts in the first half of the year, thermal power accounted for 55.07%; hydropower accounted for 2.90%; power plant engineering services accounted for 26.48%; nuclear power accounted for 0.65%; gas power accounted for 5.27%; and the others accounted for 9.63%.

PRODUCTION AND SERVICES

The total capacity of the Group's power equipment produced during the first half of the year was 11,469.3MW, a year-on-year decrease of 8.64%, among which 3,233.30MW were generated by 28 water turbine generators, representing a year-on-year decrease of 3.73%; and 8,236MW by 29 steam turbine generators, representing a year-on-year decrease of 10.43%. 12 utility boilers with a total capacity of 4,085MW recorded a year-on-year decrease of 34.27%, while 21 steam turbines for power plants with a total capacity of 5,064.80MW recorded a year-on-year decrease of 37.93%.

TURNOVER AND COST

As at 30 June 2013, the Group recorded a turnover of RMB9,468.10 million from its principal business activities, a decrease of 15.18% as compared with the same period last year. In particular, turnover of main thermal power equipment was RMB5,690.92 million, a decrease of 12.97% as compared with the same period last year. Turnover of main hydropower equipment was RMB1,544.99 million, a decrease of 10.93% as compared with the same period last year. Turnover of engineering services for power stations was RMB687.97 million, a decrease of 54.11% as compared with the same period last year. Turnover of ancillary equipment for power stations was RMB392.15 million, a decrease of 0.05% as compared with the same period last year. Turnover of AC/DC motors and other products and services was RMB1,152.07 million, an increase of 15.48% as compared with the same period last year.

During the period, the Group recorded an export turnover of RMB985.77 million, accounting for 10.41% of the turnover of the principal business activities. The exports were mainly to Ecuador, Pakistan and India.

During the period, the cost of the principal business activities of the Group was RMB7,647.12 million, a decrease of 12.52% as compared with the same period last year.

GROSS PROFIT AND GROSS PROFIT MARGIN

As at 30 June 2013, the Group's gross profit from its principal business activities was RMB1,820.98 million, a decrease of 24.80% as compared with the same period last year. The gross profit margin was 19.23%, a decrease of 2.46 percentage points as compared with the same period last year.

Among them, the gross profit from main thermal power equipment was RMB1,052.75 million and the gross profit margin was 18.50%, a decrease of 3.1 percentage points as compared with the same period last year. The gross profit from main hydropower equipment was RMB356.65 million and the gross profit margin was 23.08%, a decrease of 12.48 percentage points as compared with the same period last year. The gross profit from engineering services for power stations was RMB154.09 million and the gross profit margin was 22.40%, an increase of 14.94 percentage points as compared with the same period last year. The gross profit from ancillary equipment for power stations was RMB68.34 million and the gross profit margin was 17.43%, a decrease of 25.29 percentage points as compared with the same period last year. The gross profit from AC/DC motors and other products and services was RMB189.15 million and the gross profit margin was 16.42%, an increase of 5.11 percentage points as compared with the same period last year.

EXPENSES FOR THE PERIOD

As at 30 June 2013, the Group's operational and administrative expenses amounted to RMB1,446.41 million, a decrease of RMB339.63 million or 19.02% as compared with the same period last year.

ASSETS AND LIABILITIES

As at 30 June 2013, the total assets of the Group amounted to RMB57,001.02 million, an increase of RMB2,368.61 million or 4.34% over the beginning of the year, among which the current assets were RMB48,663.02 million, representing 85.37% of the total assets, and the non-current assets were RMB8,338.00 million, representing 14.63% of the total assets.

The total liabilities of the Group amounted to RMB43,124.12 million, an increase of RMB2,155.91 million over the beginning of the year, among which the total current liabilities were RMB31,369.83 million, representing 72.74% of the total liabilities, and the total non-current liabilities were RMB11,754.29 million, representing 27.26% of the total liabilities. As at 30 June 2013, the gearing ratio of the Group was 75.65%.

DEPOSITS AND CASH FLOW

As at 30 June 2013, the bank deposits and cash of the Group amounted to RMB8,512.44 million, a decrease of RMB135.39 million over the beginning of the year, among which the time deposits amounted to RMB1,477.85 million. During the period, net cash outflow from operating activities of the Group amounted to RMB2,453.79 million, net cash inflow from financing activities amounted to RMB2,589.60 million, and net cash outflow from investment activities amounted to RMB159.74 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 2013, the Group's total borrowings amounted to RMB1,879.69 million, of which amount borrowed from various commercial banks and the state's policy banks with interest rates stipulated by the state amounted to RMB1,335.31 million. Among the borrowings, the amount due within one year was RMB979.44 million, a decrease of RMB172.16 million over the beginning of the year. The amount of the Group's borrowings due after one year was RMB900.25 million, a decrease of RMB81.07 million over the beginning of the year. The amounts received in advance were RMB13,011.86 million, an increase of RMB1,118.64 million over the beginning of the year.

On 11 March 2013, the Company successfully issued corporate bonds in a principal amount of RMB3 billion. Net proceeds raised amounted to RMB2.993 billion were used for general working capital and repayment of bank borrowings etc. In the reporting period, RMB1 billion out of the proceeds from the issuance of bonds has been utilized.

GEARING RATIO

As at 30 June 2013, gearing ratio of the Group (calculated as non-current liabilities over total shareholders' equity) was 0.97:1 as compared to 0.60:1 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 and were entitled to a 15% preferential income tax rate.

STAFF

As at 30 June 2013, the employees of the Group totaled at 19,387.

PROSPECTS

In the second half of the year, the global economy will still be difficult and complicated. Domestic economy will maintain its stable growing trend. However, the economic environment will be more complex, characterized by the co-existence of economic growing momentum and downward pressure.

At the beginning of the year, in the Twelfth Five-Year Plan for Energy Development issued by the country, it is estimated that in 2015, the total installed capacity of power generated in the PRC will reach 1,490,000MW, with 960,000MW for thermal power, 290,000MW for hydro power, 40,000MW for nuclear power, 56,000MW for natural gas power, 100,000MW for wind power and 21,000MW for solar power. It also proposed the development strategy of safe and efficient development of coal-fired power, active and progressive development of hydro power, safe and efficient development of nuclear power, step-up development of wind power and other renewable energy.

Facing the existing complex situation, the Group will focus on the development trend of the domestic power industry. Its main objective is to suppress downsizing, strive for progress without compromising stability, seize the opportunities and positive action and perform the following tasks: 1. carefully analyze and respond and adopt appropriate measures to suppress downsizing; 2. make use of the advantage of the Group to increase its branding effect and actively explore the market; 3. decrease the trade receivables and inventories, save cost and improve the efficiency to enhance operating quality; 4. strengthen its principal business and pay attention to emerging industries to optimize the business structure; 5. follow the market trend, increase investment in scientific research and reinforce self-innovation; 6. control the administrative system, reasonably optimize the workflow and realize the administrative enhancement.

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 2013, 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	651,562,597	47.32%	Long position

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

As at 30 June 2013, 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.

CONTINGENT LIABILITIES

In the reporting period, the Group did not have any significant contingent liabilities.

PLEDGE OF ASSETS

As at 30 June 2013, the Group pledged certain property, plant and equipment, prepaid lease payments and bank deposits having a net book value of approximately RMB32,465,000, RMB28,877,000 and RMB359,311,000 (at 31 December 2012: RMB6,131,000, RMB24,786,000 and RMB331,446,000) 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 contained in Appendix 14 of the Listing Rules of the Hong Kong Stock Exchange.

THE AUDIT COMMITTEE

The members of audit committee of the Company include Fan Fu-chun, 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 2013 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 2012 annual general meeting of the Company was held in Harbin, PRC on 10 May 2013 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 2013 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
Gao Xu-guang
Company Secretary

Harbin, PRC, 23 August 2013

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

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, 23 August 2013

Lau Kwok Hung
Practising Certificate No.: P04169

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS
FOR THE SIX MONTHS ENDED 30 JUNE 2013

		Six months ended	
		30.6.2013	30.6.2012
	Notes	***000***	*RMB'000*
		(unaudited)	(unaudited)
Revenue	*3*	**9,468,102**	11,163,078
Cost of sales		**(7,647,119)**	(8,741,619)
Gross profit		**1,820,983**	2,421,459
Other revenue and net income		**116,302**	140,836
Fair value gains on trading securities		**73,500**	86,600
Distribution expenses		**(249,470)**	(268,909)
Administrative expenses	*4*	**(1,196,936)**	(1,517,126)
Other operating expenses		**(46,843)**	(30,522)
Finance costs		**(98,130)**	(23,214)
Share of profits less losses of associates		**14,914**	17,075
Profit before taxation	*6*	**434,320**	826,199
Income tax	*5*	**(81,694)**	(131,541)
Profit for the period		**352,626**	694,658
Attributable to:			
Equity shareholders of the Company		**375,225**	701,034
Non-controlling interests		**(22,599)**	(6,376)
		352,626	694,658
Earnings per share			
— Basic and diluted	*8*	**RMB27.25cents**	RMB50.92cents

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2013

	Six months ended	
	30.6.2013	30.6.2012
	000	*RMB'000*
	(unaudited)	(unaudited)
Profit for the period	**352,626**	694,658
Other comprehensive (loss)/income for the period, net of income tax		
Item that may be subsequently reclassified to profit or loss:		
Cash flow hedges	**(2,641)**	12,127
Income tax relating to component of other comprehensive (loss)/income	**396**	(1,819)
	(2,245)	10,308
Total comprehensive income for the period	**350,381**	704,966

Attributable to:

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CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 30 JUNE 2013

	Notes	30.6.2013	31.12.2012
		000	*RMB'000*
		(unaudited)	(audited)
Non-current assets			
Investment properties		**4,448**	4,629
Property, plant and equipment	*9*	**6,438,122**	6,412,038
Prepaid lease payments		**414,858**	420,946
Intangible assets		**229,798**	233,393
Deferred tax assets		**288,634**	288,542
Interests in associates		**597,772**	583,840
Other non-current assets		**364,371**	357,964
		8,338,003	8,301,352
Current assets			
Inventories		**12,430,608**	12,356,211
Trade receivables	*10*	**15,466,254**	15,286,812
Bills receivable	*10*	**1,626,187**	1,278,348
Other receivables, deposits and prepayments		**5,791,221**	4,595,063
Prepaid lease payments		**12,300**	12,300
Amounts due from customers for contract work		**2,507,129**	2,079,367
Amounts due from fellow subsidiaries		**121,810**	111,832
Derivative financial instruments		**2,584**	15,422
Trading securities		**1,675,300**	1,601,800
Tax recoverable		**157,871**	–
Restricted bank deposits		**–**	14,631
Pledged bank deposits		**359,311**	331,446
Bank deposits		**361,463**	472,913
Cash and cash equivalents		**8,150,981**	8,174,912
		48,663,019	46,331,057

	Notes	30.6.2013 *000* (unaudited)	31.12.2012 *RMB'000* (audited)
Current liabilities			
Amounts due to customers for contract work		**1,246,990**	1,563,378
Trade payables	*11*	**16,830,655**	17,260,173
Bills payable		**3,303,331**	3,555,642
Other payables, accruals and provisions		**1,705,570**	1,655,720
Deposits received		**6,634,511**	7,238,055
Amounts due to fellow subsidiaries		**35,350**	73,953
Advance from holding company		**400,478**	400,478
Borrowings — due within one year	*12*	**979,437**	1,151,595
Tax payables		**186,208**	901,855
Obligations under finance leases — due within one year	*13*	**47,298**	36,988
		31,369,828	33,837,837
Net current assets		**17,293,191**	12,493,220
Total assets less current liabilities		**25,631,194**	20,794,572
Non-current liabilities			
Deposits received		**6,377,345**	4,655,159
Advance from holding company		**1,365,908**	1,357,108
Borrowings — due after one year	*12*	**900,251**	981,317
Obligations under finance leases — due after one year	*13*	**117,509**	136,391
Corporate bond	*14*	**2,993,280**	–
Deferred tax liabilities		**–**	396
		11,754,293	7,130,371
NET ASSETS		**13,876,901**	13,664,201
CAPITAL AND RESERVES			
Share capital	*15*	**1,376,806**	1,376,806
Reserves		**10,712,410**	10,477,111
Total equity attributable to equity shareholders of the Company		**12,089,216**	11,853,917
Non-controlling inpanE t0 m 6 p6			

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2013

	Attributable to equity shareholders of the Company									
	Share capital	**Share premium**	**Statutory capital reserve**	**Statutory surplus reserve**	**Other reserve**	**Hedging reserve**	**Retained profits**	**Total**	**Non-controlling interests**	**Total equity**
	'000	***'000***	***'000***	***'000***	***'000***	***'000***	***'000***	***'000***	***'000***	***'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**	**1,810,284**	**13,664,201**
Profit for the period	**–**	**–**	**–**	**–**	**–**	**–**	**375,225**	**375,225**	**(22,599)**	**352,626**
Other comprehensive loss:										
Cash flow hedges: reclassified to profit or loss — gross	**–**	**–**	**–**	**–**	**–**	**(2,641)**	**–**	**(2,641)**	**–**	**(2,641)**
Cash flow hedges: reclassified to profit or loss — tax	**–**	**–**	**–**	**–**	**–**	**396**	**–**	**396**	**–**	**396**
Other comprehensive loss for the period	**–**	**–**	**–**	**–**	**–**	**(2,245)**	**–**	**(2,245)**	**–**	**(2,245)**
Total comprehensive income for the period	**–**	**–**	**–**	**–**	**–**	**(2,245)**	**375,225**	**372,980**	**(22,599)**	**350,381**
Dividends *(note 7)*	**–**	**–**	**–**	**–**	**–**	**–**	**(137,681)**	**(137,681)**	**–**	**(137,681)**
At 30 June 2013 (unaudited)	**1,376,806**	**1,980,295**	**703,229**	**621,998**	**66,911**	**–**	**7,339,977**	**12,089,216**	**1,787,685**	**13,876,901**

	Attributable to equity shareholders of the Company									
	Share capital	Share premium	Statutory capital reserve	Statutory surplus reserve	Other reserve	Hedging reserve	Retained profits	Total	Non-controlling interests	Total equity
	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)	1,376,806	1,980,295	703,229	596,936	60,131	(17,462)	6,420,274	11,120,209	1,914,594	13,034,803

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED 30 JUNE 2013

	Six months ended	
	30.6.2013	30.6.2012
	000	*RMB'000*
	(unaudited)	(unaudited)
Net cash (used in) operating activities	**(2,453,793)**	(1,675,163)
Cash flows from investing activities		
Purchases of property, plant and equipment	**(387,138)**	(574,571)
Other investing cash flows	**227,401**	(404,615)
Net cash (used in) investing activities	**(159,737)**	(979,186)
Cash flows from financing activities		
New bank borrowings	**397,811**	148,000
Repayment of bank borrowings	**(611,642)**	(310,000)
Proceeds from issue of corporate bond	**2,992,800**	–
Other financing cash flows	**(189,370)**	347,901
Net cash generated from financing activities	**2,589,599**	185,901
Net (decrease) in cash and cash equivalents	**(23,931)**	(2,468,448)
Cash and cash equivalents at the beginning of the period	**8,174,912**	8,271,875
Cash and cash equivalents at the end of the period	**8,150,981**	5,803,427
Analysis of cash and cash equivalents at the end of the period		
Cash and bank balances	**7,034,591**	4,791,280
Bank deposits	**1,116,390**	1,012,147
	8,150,981	5,803,427

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 JUNE 2013

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 2013 are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2012, 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 year beginning on 1 January 2013.

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

The following new and revised HKFRSs are relevant to the Group's condensed consolidated financial statements.

Amendments to HKAS 1 Presentation of Items of Other Comprehensive Income

The amendments to HKAS 1 introduce new terminology for statement of comprehensive income and income statement. Under the amendments to HKAS 1, a statement of comprehensive income is renamed as a statement of profit or loss and other comprehensive income and an income statement is renamed as a statement of profit or loss. The amendments to HKAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements.

However, the amendments to HKAS 1 require additional disclosures to be made in the other comprehensive section such that items of other comprehensive income are grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss; and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis — the amendments do not change the existing option to present items of other comprehensive income either before tax or net of tax. The amendments have been applied retrospectively, and hence the presentation of items of other comprehensive income has been modified to reflect the changes.

The Group's "condensed consolidated income statement" and "condensed consolidated statement of comprehensive income" are renamed as "condensed consolidated statement of profit or loss" and "condensed consolidated statement of profit or loss and other comprehensive income" respectively and presentation of items of other comprehensive income has been modified accordingly.

HKFRS 13 Fair value measurement

HKFRS 13 replaces existing guidance in individual HKFRSs with a single source of fair value measurement guidance. HKFRS 13 also contains extensive disclosure requirements about fair value measurements for both financial instruments and non-financial instruments. Some of the disclosures are specifically required for financial instruments in the interim condensed consolidated financial statements. In accordance with the transitional provisions of HKFRS 13, the Group has applied the new fair value measurement requirements prospectively. The Group has provided these disclosures in note 20. The adoption of HKFRS 13 does not have any material impact on the fair value measurements of the Group's assets and liabilities.

The application of other new and revised HKFRSs in the current interim period has had no material effect on the amounts reported in these condensed consolidated financial statements and/or disclosures set out in 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 2013:

Amendments to HKFRS 7 and HKFRS 9	"Mandatory Effective Date of HKFRS 9 and Transition Disclosures" [2]
Amendments to HKFRS 10, HKFRS 12 and HKAS 27	"Investment Entities" [1]
HKFRS 9	"Financial Instruments" [2]
Amendments to HKAS 32	"Offsetting Financial Assets and Financial Liabilities" [1]
Amendments to HKAS 36	"Recoverable Amount Disclosures for Non-Financial Assets" [1]
Amendments to HKAS 39	"Novation of Derivatives and Continuation of Hedge Accounting" [1]
HK (IFRIC)-Int 21	"Levies" [1]

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

(2) 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 2013

	Main thermal power equipment	Main hydro power equipment	Engineering services for power stations	Ancillary equipment for power stations	AC/DC motors and others	Total
	'000	'000	'000	'000	'000	'000
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	775,392	–	–	–	–	775,392
Reportable segment revenue	6,466,312	1,544,989	687,966	392,151	1,152,076	10,243,494
Reportable segment profit	1,051,918	356,656	154,091	68,337	189,150	1,820,152
Elimination of inter-segment loss						831
Reportable segment profit derived from Group's external customers						1,820,983
Unallocated head office and corporate expenses						(1,303,447)
Finance costs						(98,130)
Share of profits less losses of associates						14,914
Consolidated profit before taxation						434,320

Six months ended 30 June 2012

	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	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	7,674,234	1,734,505	1,499,260	392,361	997,613	12,297,973
Reportable segment profit	1,439,507	616,806	111,770	167,603	112,811	2,448,497
Elimination of inter-segment (profits)						(27,038)
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						17,075
Consolidated profit before taxation						826,199

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 RMB219,017,000 (six months ended 30 June 2012: RMB422,444,000), 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 2013 and 2012.

(b) On 21 November 2008, the Company was named as one of the High and New Technology Enterprise ( ). 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 2012: 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 2012: 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	
	30.6.2013	30.6.2012
	000	*RMB'000*
Depreciation for property, plant and equipment	**330,974**	288,636
Amortisation of prepaid lease payments	**6,088**	6,104
Amortisation of intangible assets	**17,800**	16,143
Allowance against inventories	**12,739**	66,483
Impairment loss on doubtful debts	**219,017**	422,444
Interest and investment income	**(115,716)**	(117,411)
(Gain)/loss on disposal of property, plant and equipment	**(2,905)**	1,080

7. DIVIDENDS

	Six months ended	
	30.6.2013	30.6.2012
	000	*RMB'000*
Final dividends declared for 2012 of RMB 0.10 per share	**137,681**	–
Final dividends declared for 2011 of RMB 0.14 per share	**–**	192,753
	137,681	192,753

The directors do not recommend the payment of any interim dividend for the six months ended 30 June 2013 (six months ended 30 June 2012: nil).

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 RMB375,225,000 (six months ended 30 June 2012: RMB701,034,000) and on the weighted average number of 1,376,806,000 (six months ended 30 June 2012: 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 2013 and 2012, 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 2013, the Group disposed of certain plant and machinery with a carrying amount of RMB30,080,000 (six months ended 30 June 2012: RMB3,094,000) for proceeds of RMB32,985,000 (six months ended 30 June 2012: RMB2,014,000) resulting in a gain on disposal of RMB2,905,000 (six months ended 30 June 2012: loss of RMB1,080,000).

During the six months ended 30 June 2013, the Group spent approximately RMB387,138,000 (six months ended 30 June 2012: RMB574,571,000) mainly on construction in progress and plant and machinery for production process and to upgrade its manufacturing capabilities.

At 30 June 2013, carrying amount of plant and equipment held by the Group under finance leases amounted to RMB234,875,000 (at 31 December 2012: RMB227,750,000).

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:

	30.6.2013	31.12.2012
	000	*RMB'000*
Within 1 year	**10,514,358**	9,967,661
1 to 2 years	**2,553,117**	2,871,100
2 to 3 years	**2,118,357**	1,569,410
Over 3 years	**1,906,609**	2,156,989
	17,092,441	16,565,160

11. TRADE PAYABLES

Trade payables with the aging analysis is as follows:

	30.6.2013	31.12.2012
	000	*RMB'000*
Within 1 year	**13,419,213**	14,130,384
1 to 2 years	**2,680,649**	2,471,225
2 to 3 years	**282,428**	147,336
Over 3 years	**448,365**	511,228
	16,830,655	17,260,173

12. BORROWINGS

During the six months ended 30 June 2013, the Group obtained new bank borrowings in the amount of approximately RMB397,811,000 (six months ended 30 June 2012: RMB148,000,000) and made repayment of bank borrowings in the amount of approximately RMB611,642,000 (six months ended 30 June 2012: RMB310,000,000). 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

	30.6.2013	31.12.2012
	000	*RMB’000*
Obligation under finance leases *(Note)*	**164,807**	173,379
Current portion of obligations under finance leases	**(47,298)**	(36,988)
	117,509	136,391

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

	30.6.2013			31.12.2012		
	Present value of the minimum lease payments	**Interest expense relating to future period**	**Total minimum lease payments**	Present value of the minimum lease payments	Interest expense relating to future period	Total minimum lease payments
	000	***000***	***000***	*RMB’000*	*RMB’000*	*RMB’000*
Within 1 year	**47,298**	**11,109**	**58,407**	36,988	9,737	46,725
After 1 year but within 2 years	**40,492**	**6,233**	**46,725**	39,289	7,436	46,725
After 2 years but within 5 years	**77,017**	**4,752**	**81,769**	97,102	8,030	105,132
	117,509	**10,985**	**128,494**	136,391	15,466	151,857
	164,807	**22,094**	**186,901**	173,379	25,203	198,582

14. CORPORATE BOND

On 11 March 2013, the Company issued a corporate bond to the public on the Shanghai Stock Exchange with a par 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.

	000
At 1 January 2013	**—**
Corporate bond issued during the period	**2,992,800**
Effective interest recognised	**480**
At 30 June 2013	**2,993,280**

As at 30 June 2013, the bond issued is guaranteed by HE.

15. SHARE CAPITAL

	30.6.2013	31.12.2012
	000	*RMB'000*
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:

	30.6.2013	31.12.2012
	000	*RMB'000*
Capital expenditure for the acquisition of property, plant and equipment contracted for but not provided in the condensed consolidated financial statements	**439,236**	709,196

17. PLEDGE OF ASSETS

At 30 June 2013, the Group pledged certain property, plant and equipment, prepaid lease payments and bank deposits having a net book value of approximately RMB32,465,000, RMB28,877,000 and RMB359,311,000 (at 31 December 2012: RMB6,131,000, RMB24,786,000 and RMB331,446,000) to secure the banking facilities granted to the Group.

18. MATERIAL RELATED PARTY TRANSACTIONS

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

(a) Financing arrangement

	Amounts due from related parties		Amounts due to related parties	
	30.6.2013	31.12.2012	**30.6.2013**	31.12.2012
	.000	*RMB'000*	***.000***	*RMB'000*
Advance from holding company *(note (i))*	**–**	–	**1,765,908**	1,757,108
Cash and cash equivalent deposit with a fellow subsidiary *(note (ii))*	**356,475**	739,654	**–**	–
Borrowings with a fellow subsidiary *(note (iii))*	**–**	–	**53,000**	53,000

Notes:

(i) The balance of the advance from holding company comprises of non-interest bearing and interest bearing loans amounting to RMB375,230,000 (at 31 December 2012: RMB366,430,000) and RMB1,390,678,000 (at 31 December 2012: RMB1,390,678,000) respectively with effective interest rate of 5.4% (at 31 December 2012: 5.4%) 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.

(iii) The balance represents an interest bearing borrowings from a fellow subsidiary which is a non-bank financial institution within the HE Group with an effective interest rate of 4.8% per annum for a term of one year.

(iv) As at 30 June 2013, the corporate bond issued is guaranteed by HE.

(b) Trading transactions

Amount of trading transactions during the period:

	Six months ended	
	30.6.2013	30.6.2012
	000	*RMB'000*
Sales of goods		
— Fellow subsidiaries	**78**	23,895
Purchases of goods		
— Fellow subsidiaries	**82,919**	69,622
Service fee expenses		
— Fellow subsidiaries	**21,100**	23,587

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

	Amounts due from		Amounts due to	
	30.6.2013	31.12.2012	**30.6.2013**	31.12.2012
	000	*RMB'000*	***000***	*RMB'000*
Advance from holding company	**–**	–	**478**	478
Amounts due from fellow subsidiaries	**121,810**	111,832	**–**	–
Amounts due to fellow subsidiaries	**–**	–	**35,350**	73,953

(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.

19. EVENTS AFTER REPORTING PERIOD

(a) Pursuant to the announcement dated on 26 June 2013, the board of the Company has reviewed and approved the acquisition plan, by the Group, of the 42% equity interest in HE Finance Company Limited ("Finance Company") held by HE and the 4% equity interest in the Finance Company held by Jiamusi Electric Machine Company Limited ("Jiamusi") respectively. Upon completion of the acquisition, the Group will hold 91% equity interest in the Finance Company and HE will hold the remaining 9% equity interest in the Finance Company. The said transaction has not completed up to 23 August 2013.

(b) Pursuant to the announcement dated 26 June 2013, the board of the Company has approved the cross-acquisition of their respective 49% equity interests in joint ventures by Harbin Electrical Machinery Company Limited (the "Machinery Company", a subsidiary of the Company) and General Electric Company ("GE").

In 2010, Machinery Company in association with GE funded to formed the joint venture, namely HE-GE Wind Energy (Jiangsu) Company Limited (the "Jiangsu Company"). The registered capital of Jiangsu Company is RMB365 million of which Machinery Company contributed RMB186 million, representing a 51% equity interest, while GE contributed RMB179 million, representing a 49% equity interest. Meanwhile, by acquiring a 49% equity interest of GE Energy (Shenyang) Co., Ltd. at a consideration of RMB154 million (equivalent to US$23.4 million), Machinery Company obtained a 49% shareholding and GE controlled the remaining 51% upon completion of the acquisition. GE Energy (Shenyang) Co., Ltd. was renamed GE HE Wind Energy (Shenyang) Company Limited ("Shenyang Company").

Machinery Company has negotiated with GE and both parties agreed to terminate the joint venture agreement. Cross-acquisition of their respective equity interests in joint ventures by both parties will take place, i.e. the Machinery Company would acquire the 49% equity interest in Jiangsu Company from GE, at the same time, GE would acquire the 49% equity interest in Shenyang Company from Machinery Company. The above shareholding acquisition shall occur and take effect simultaneously, eventually turning the status of their respective joint venture companies into that of a wholly-owned subsidiary. The said transaction has not completed up to 23 August 2013.

20. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

Fair value of the Group's financial assets that are measured at fair value on a recurring basis

Some of the Group's financial assets are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets are determined (in particular, the valuation technique(s) and inputs used), as well as the level of the fair value hierarchy into which the fair value measurements are categorised (levels 1 to 3) based on the degree to which the inputs to the fair value measurements is observable.

— Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities;

— Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

— Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Financial asset	Fair value as at		Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)	Relationship of unobservable inputs to fair value
	30.6.13 *RMB'000*	**31.12.12** *RMB'000*				
1) Foreign exchange forward contracts classified as derivative financial instruments in the statement of financial position	Assets — 2,584	Assets — 15,422	Level 2	Discounted cash flow. Future cash flows are estimated based on forward exchange rates (from observable forward exchange rates at the end of the reporting period) and contracted forward rates, discounted at a rate that reflects the credit risk of various counterparties.	N/A	N/A
2) Held-for trading non-derivative financial assets classified as trading securities in the statement of financial position	1,675,300	1,601,800	Level 1	Quoted bid prices in an active market.	N/A	N/A

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

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values.

INFORMATION ON THE COMPANY

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哈爾濱電氣股份有限公司

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

DEPOSITARY
The Bank of New York

SHARE REGISTER AND TRANSFER OFFICE
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