

REPORT **2015**

CONTENTS

	<i>Page(s)</i>
REPORT OF THE DIRECTORS	2
REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION	12
CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS	14
CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME	15
CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION	16
CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY	19
CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS	20
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS	22
INFORMATION ON THE COMPANY	46

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 2015, 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 2015, the Group recorded a turnover of RMB11,815.91 million from its principal business activities, an increase of 3.74% as compared with the same period last year. The Group recorded a net profit attributable to the equity shareholders of the Company of RMB96.06 million, a decrease of 31.43% as compared with the same period last year. Earnings per share were RMB0.07, a decrease of RMB0.03 as compared with the same period last year. Net

power generating peak load, the capacity of thermal power generation decreased by 3.2% as compared to the same period last year, and recorded a negative growth for twelve consecutive months since July 2014; investments in hydro power generation was half of that in the same period in 2012 (the period when most of the investments in hydro power were finalized); the nuclear generation business entered into large scale production, where the generating capacity of nuclear power increased rapidly; the wind power grid-connected installed capacity reached 100,000MW, and the solar power grid-connected installed capacity also increased rapidly. As the domestic economy development enters into new normal, the electricity consumption shall shift gear from a rapid growth rate to medium or even slow-to-medium growth rate.

In the face of harsher market environment and difficult tasks of production operations, during the first half of the year, the Group focused on the three major battlegrounds in terms of the market, quality and efficiency, and united all our work forces to overcome any challenges, resulting in a relatively smooth production operation. Meanwhile, the Group put full efforts in reforms and adjustments, and strengthened the cooperation with renowned international companies in pursue of the development in fuel-fired power generating business; and implemented the eco-friendly business integration, which enhanced the Group's competitive power within the green industry.

NEW CONTRACTS

During the first half of the year, the value of new contracts secured by the Group amounted to RMB11.061 billion, a decrease of 54.97% from the same period last year, to which export contract contributed RMB1.559 billion, a decrease of 83.39% from the same period last year. Among the contracts in the first half of the year, thermal power accounted for 64.88%; hydropower accounted for 15.94%; nuclear power accounted for 1.19%; and the others accounted for 17.99%.

PRODUCTION AND SERVICES

The total capacity of the Group's power equipment produced during the first half of the year was 10,148.4MW, a decrease of 18.41% as compared with the same period last year, among which 1,928.4MW were generated by 50 water turbine generators, representing a decrease of 30.03% as compared with the same period last year; 8,220MW were generated by 18 steam turbine generators, representing a decrease of 15% as compared with the same period last year; 6,075MW were generated by 16 utility boilers, representing an increase of 96.60% as compared with the same period last year; while 6,690MW were generated by 18 steam turbines for power plants, representing a decrease of 7.26% as compared with the same period last year.

TURNOVER AND COST

As at 30 June 2015, the Group recorded a turnover of RMB11,815.91 million from its principal business activities, an increase of 3.74% as compared with the same period last year. In particular, turnover of main thermal power equipment was RMB5,182.80 million, a decrease of 4.05% as compared with the same period last year. Turnover of nuclear power equipment was RMB751.17 million, an increase of 18.96% as compared with the same period last year. Turnover of main hydropower equipment was RMB1,322.46 million, a decrease of 19.78% as compared with the same period last year. Turnover of engineering services for power stations was RMB2,758.92 million, an increase of 51.14% as compared with the same period last year. Turnover of ancillary equipment for power stations was RMB838.24 million, an increase of 6.53% as compared with the same period last year. Turnover of AC/DC motors and other products and services was RMB962.32 million, a decrease of 12.24% as compared with the same period last year.

During the period, the Group recorded an export turnover of RMB2,815.00 million, accounting for 23.82% of the turnover of the principal business activities. The exports were mainly to Turkey, Indonesia and Ecuador, among which exports to Europe accounted for 35.15% of the export turnover, exports to Asia accounted for 32.14% of the export turnover, whereas Southern America accounted for 25.76% of the export turnover.

During the period, the cost of the principal business activities of the Group was RMB10,484.04 million, an increase of 9.68% as compared with the same period last year, which is mainly attributable to the growth of scale of operation and the increase in project costs.

GROSS PROFIT AND GROSS PROFIT MARGIN

As at 30 June 2015, the Group's gross profit from its principal business activities was RMB1,331.87 million, a decrease of 27.28% as compared with the same period last year. The gross profit margin was 11.27%, a decrease of 4.81 percentage points as compared with the same period last year, which was mainly attributable to keen competition within the market and decrease in product prices.

Among them, the gross profit from main thermal power equipment was RMB908.35 million and the gross profit margin was 17.53%, a decrease of 0.73 percentage points as compared with the same period last year. The gross profit from nuclear power equipment was RMB67.29 million and the gross profit margin was 8.96%, a decrease of 0.18 percentage points as compared with the same period last year. The gross profit from main hydropower equipment was RMB102.97 million and the gross profit margin was 7.79%, a decrease of 17.51 percentage points as compared with the same period last year. The gross profit from engineering services for power stations was RMB103.69 million and the gross profit margin was 3.76%, a decrease of 3.53 percentage points as compared with the same period last year. The gross profit from ancillary equipment for power stations was RMB86.05 million and the gross profit margin was 10.27%, a decrease of 7.81 percentage points as compared with the same period last year. The gross profit from AC/DC motors and other products and services was RMB63.52 million and the gross profit margin was 6.60%, a decrease of 2.11 percentage points as compared with the same period last year.

EXPENSES FOR THE PERIOD

As at 30 June 2015, the Group's operational and administrative expenses amounted to RMB1,552.64 million, an increase of RMB27.23 million or 1.79% as compared with the same period last year, which is mainly attributable to the increase in provisions.

ASSETS AND LIABILITIES

As at 30 June 2015, the total assets of the Group amounted to RMB59,767.47 million, a decrease of RMB2,426.49 million or 3.90% over the beginning of the period, among which the current assets were RMB51,877.42 million, representing 86.80% of the total assets, and the non-current assets were RMB7,890.05 million, representing 13.20% of the total assets.

The total liabilities of the Group amounted to RMB45,691.63 million, a decrease of RMB2,522.21 million or 5.23% over the beginning of the period, among which the total current liabilities were RMB32,907.32 million, representing 72.02% of the total liabilities, and the total non-current liabilities were RMB12,784.31 million, representing 27.98% of the total liabilities. As at 30 June 2015, the gearing ratio of the Group was 76.45%.

INVESTMENTS IN LISTED SHARES

During the reporting period, the Company disposed of all of its investments in equity shares in Datang International Power Generation Co., Ltd., GD Power Development Co., Ltd. and Inner Mongolia MengDian HuaNeng Thermal Power Corporation Limited.

DEPOSITS AND CASH FLOW

As at 30 June 2015, the bank deposits and cash of the Group amounted to RMB13,843.02 million, an increase of RMB199.60 million over the beginning of the period, among which the time deposits amounted to RMB5,705.00 million. During the period, net cash outflow from operating activities of the Group amounted to RMB295.22 million, net cash outflow from investing activities amounted to RMB3,147.35 million, and net cash inflow from financing activities amounted to RMB23.48 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 2015, the Group's total borrowings amounted to RMB1,184.54 million, all of which amounts were borrowed from various commercial banks and the state's policy banks with interest rates stipulated by the state. Among the borrowings, the amount due within one year was RMB1,110.09 million, an increase of RMB4.39 million over the beginning of the period. The amount of the Group's borrowings due after one year was RMB74.45 million, same as the beginning of the period. The amounts received in advance were RMB15,743.80 million, a decrease of RMB2,484.81 million over the beginning of the period.

GEARING RATIO

As at 30 June 2015, gearing ratio of the Group (calculated as non-current liabilities over total shareholders' equity) was 1.00:1 as compared to 1.14:1 at the beginning of the period.

PROSPECTS

Presently, China's economic development has entered into the new normal module, with a larger pressure of economic downturn and an obvious structural struggle in terms of lack of new motivators of economic growth and weakening of existing economic drives. With adequate domestic supply of electricity, and shall steadily transform to green electricity, whereas the traditional thermal power generation industry shall transform into a highly efficient and clean utility, and the upgrading and conversion business of power generating equipment shall face better development opportunities; the proportion of non-fossil installed generators shall further increase, creating both opportunities and challenges for the power equipment manufacturing industry; at the same time, the State has introduced the "One Belt and One Road" strategic notion, creating new possibilities for overseas market development.

As the lowering of product prices in recent years still cast a negative impact on the

THE SHAREHOLDINGS OF SUBSTANTIAL SHAREHOLDERS

As at 30 June 2015, 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	629,576,597	45.73%	Long position

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

As at 30 June 2015, none of the Directors, Supervisors and senior management of the Company and their associates had any interest and short position in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO).

MODEL CODE

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

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

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

CONTINGENT LIABILITIES

PENDING LITIGATION

As at the end of the interim period, the Group has pending litigations, details of which are also set out in note 19 of the interim report.

PLEDGE OF ASSETS

As at 30 June 2015, the Group pledged certain property, plant and equipment, prepaid lease payments and bank deposits having a net book value of approximately RMB95.75 million, RMB30.25 million and RMB253.50 million (at 31 December 2014: RMB116.52 million, RMB30.58 million and RMB330.42 million) to secure the banking facilities granted to the Group.

CORPORATE GOVERNANCE CODE

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

THE AUDIT COMMITTEE

The members of audit committee of the Company include Liu Deng-qing, Yu Bo and Yu Wen-xing. 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 2015 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 2014 annual general meeting of the Company was held in Harbin, PRC on 15 May 2015, whereas the extraordinary general meeting, the H shares class meeting and the domestic shares class meeting of the Company were held in Harbin, PRC on 28 August 2015, 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 2015 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
Zou Lei
Chairman

Harbin, PRC, 28 August 2015

As at the date of this report, the executive directors of the Company are Mr. Wu Wei-zhang, Mr. Zhang Ying-jian and Mr. Song Shi-qi; the non-executive director of the Company is Mr. Zou Lei; and the independent non-executive directors of the Company are Mr. Yu Bo, Mr. Liu Deng-qing and Mr. Yu Wen-xing.

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, 28 August 2015

Lau Kwok Hung

Practising Certificate No.: P04169

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

FOR THE SIX MONTHS ENDED 30 JUNE 2015

	Note	Six months ended	
		30.6.2015 RMB'000 (unaudited)	30.6.2014 RMB'000 (unaudited)
Revenue	3	11,815,909	11,390,242
Cost of sales		<u>(10,484,040)</u>	<u>(9,558,654)</u>
Gross profit		1,331,869	1,831,588
Other revenue and net income		337,785	237,232
Fair value gains/(losses) on trading securities		261,252	(137,800)
Distribution expenses		(235,151)	(216,828)
Administrative expenses	4	(1,317,486)	(1,308,580)
Other operating expenses		(83,144)	(42,476)
Finance costs		(156,979)	(149,491)
Share of profits less losses of associates		<u>4,146</u>	<u>9,321</u>
Profit before taxation	5	142,292	222,966
Income tax	6	<u>(135,417)</u>	<u>(86,733)</u>
Profit for the period		<u>6,875</u>	<u>136,233</u>
Attributable to:			
Equity shareholders of the Company		96,063	140,102
Non-controlling interests		<u>(89,188)</u>	<u>(3,869)</u>
		<u>6,875</u>	<u>136,233</u>
Earnings per share			
— Basic and diluted	8	<u>RMB6.98 cents</u>	<u>RMB10.18 cents</u>

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2015

	Six months ended	
	30.6.2015 <i>RMB'000</i> (unaudited)	30.6.2014 <i>RMB'000</i> (unaudited)
Profit for the period	6,875	136,233
Other comprehensive income/(loss) for the period, net of income tax		
Item that may be subsequently reclassified to profit or loss:		
Cash flow hedges:		
Gains/(losses) arising during the period	183,093	(193,207)
Less: Reclassification adjustments for amounts transferred to profit or loss	(18,412)	–
Income tax relating to items that may be reclassified subsequently to profit or loss	(24,702)	28,981
	<hr/>	<hr/>
Other comprehensive income/(loss) for the period, net of income tax	139,979	(164,226)
	<hr/>	<hr/>
Total comprehensive income/(loss) for the period	146,854	(27,993)
	<hr/>	<hr/>
Attributable to:		
Equity shareholders of the Company	236,042	(24,124)
Non-controlling interests	(89,188)	(3,869)
	<hr/>	<hr/>
	146,854	(27,993)
	<hr/>	<hr/>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 30 JUNE 2015

	<i>Note</i>	30.6.2015 <i>RMB'000</i> (unaudited)	31.12.2014 <i>RMB'000</i> (audited)
Non-current assets			
Investment properties		21,073	21,701
Property, plant and equipment	9	6,563,357	6,701,041
Prepaid lease payments		486,113	493,517
Intangible assets		188,117	200,333
Deferred tax assets		324,908	349,580
Interests in associates		245,193	242,769
Other non-current assets		61,291	49,292
		<hr/> 7,890,052	<hr/> 8,058,233
Current assets			
Inventories		15,052,379	15,471,226
Trade receivables	10	11,440,442	12,567,552
Bills receivable	10	1,886,485	2,144,792
Discounted bills and loans receivable		19,550	19,550
Other receivables, deposits and prepayments	11	6,582,961	5,627,510
Prepaid lease payments		14,275	14,009
Amounts due from customers for contract work		1,320,932	1,263,968
Amounts due from fellow subsidiaries		555,095	336,530
Trading securities		–	1,909,300
Tax recoverable		165,179	87,548
Restricted and pledged bank deposits		259,084	339,540
Deposits with central bank		738,016	710,781
Bank deposits		5,705,000	2,086,312
Cash and cash equivalents		8,138,020	11,557,109
		<hr/> 51,877,418	<hr/> 54,135,727

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(Continued)*

AT 30 JUNE 2015

	<i>Note</i>	30.6.2015 RMB'000 (unaudited)	31.12.2014 <i>RMB'000</i> (audited)
Current liabilities			
Amounts due to customers for contract work		2,901,665	2,219,009
Derivative financial instruments		37,860	139,410
Trade payables	12	13,559,924	13,997,053
Bills payable	12	3,883,501	4,162,470
Other payables, accruals and provisions		1,352,494	1,304,964
Deposits received		6,803,436	7,701,437
Amounts due to fellow subsidiaries		44,455	57,734
Advance from holding company		1,895,196	1,854,550
Customers' deposits		1,049,860	796,680
Bank borrowings	13	1,110,094	1,105,704
Tax payables		225,770	347,831
Obligations under finance leases — due within one year	14	43,061	41,733
		32,907,316	33,728,575
Net current assets		18,970,102	20,407,152
Total assets less current liabilities		26,860,154	28,465,385

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(Continued)*

AT 30 JUNE 2015

	<i>Note</i>	30.6.2015 <i>RMB'000</i> (unaudited)	31.12.2014 <i>RMB'000</i> (audited)
Non-current liabilities			
Derivative financial instruments		72,345	153,889
Deposits received		8,940,361	10,527,167
Advance from holding company		3,500	3,500
Bank borrowings	13	74,450	74,450
Obligations under finance leases			
— due after one year	14	33,691	55,597
Corporate bonds	15	2,995,320	2,994,443
Other non-current liabilities		664,648	676,223
		<u>12,784,315</u>	<u>14,485,269</u>
NET ASSETS		<u>14,075,839</u>	<u>13,980,116</u>
CAPITAL AND RESERVES			
Share capital	16	1,376,806	1,376,806
Reserves		11,459,911	11,274,130
		<u>12,836,717</u>	<u>12,650,936</u>
Total equity attributable to equity shareholders of the Company		12,836,717	12,650,936
Non-controlling interests		1,239,122	1,329,180
		<u>14,075,839</u>	<u>13,980,116</u>
TOTAL EQUITY		<u>14,075,839</u>	<u>13,980,116</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2015

	Attributable to equity shareholders of the Company										Non-controlling interests	Total equity
	Share capital	Share premium	Statutory capital reserve	Statutory surplus reserve	Special reserve	Other reserves	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	RMB'000	RMB'000
At 1 January 2015 (audited)	1,376,806	1,980,295	703,229	780,502	7,959	69,251	(236,052)	7,968,946	12,650,936	1,329,180	13,980,116	
Profit for the period	-	-	-	-	-	-	-	96,063	96,063	(89,188)	6,875	
Other comprehensive income for the period:												
Cash flow hedges, net of tax	-	-	-	-	-	-	139,979	-	139,979	-	139,979	
Total comprehensive income for the period	-	-	-	-	-	-	139,979	96,063	236,042	(89,188)	146,854	
Dividends distributed to non-controlling shareholders	-	-	-	-	-	-	-	-	-	(1,855)	(1,855)	
Dividends (note 7)	-	-	-	-	-	-	-	(55,072)	(55,072)	-	(55,072)	
Net increase in special reserve for the period	-	-	-	-	4,831	-	-	-	4,831	985	5,816	
Others	-	-	-	-	-	(20)	-	-	(20)	-	(20)	
At 30 June 2015 (unaudited)	1,376,806	1,980,295	703,229	780,502	12,790	69,231	(96,073)	8,009,937	12,836,717	1,239,122	14,075,839	

	Attributable to equity shareholders of the Company										Non-controlling interests	Total equity
	Share capital	Share premium	Statutory capital reserve	Statutory surplus reserve	Special reserve	Other reserves	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	RMB'000	
At 1 January 2014 (audited)	1,376,806	1,980,295	703,229	647,740	4,485	68,843	100,243	7,645,442	12,527,083	1,767,166	14,294,249	
Profit for the period	-	-	-	-	-	-	-	140,102	140,102	(3,869)	136,233	
Other comprehensive loss for the period:												
Cash flow hedges, net of tax	-	-	-	-	-	-	(164,226)	-	(164,226)	-	(164,226)	
Total comprehensive loss for the period	-	-	-	-	-	-	(164,226)	140,102	(24,124)	(3,869)	(27,993)	
Acquisition of a subsidiary	-	-	-	-	-	-	-	-	-	5,374	5,374	
Dividends (note 7)	-	-	-	-	-	-	-	(110,144)	(110,144)	-	(110,144)	
Net increase in special reserve for the period	-	-	-	-	3,680	-	-	-	3,680	448	4,128	
At 30 June 2014 (unaudited)	1,376,806	1,980,295	703,229	647,740	8,165	68,843	(63,983)	7,675,400	12,396,495	1,769,119	14,165,614	

The annexed notes form part of these financial statements.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED 30 JUNE 2015

	Six months ended	
	30.6.2015	30.6.2014
	<i>RMB'000</i>	<i>RMB'000</i>
	(unaudited)	(unaudited)
Net cash (used in) operating activities	(295,218)	(1,912,367)
Cash flows from investing activities		
Purchases of property, plant and equipment	(242,839)	(270,970)
(Increase) in bank deposits	(3,618,688)	(720,287)
Purchase of held-to-maturity investments	–	(750,835)
Redemption of held-to-maturity investments	–	400,779
Proceeds from disposal of trading securities	2,170,552	–
Proceeds from disposal of wealth management products	710,563	–
Purchases of wealth management products from banks	(2,250,000)	–
Proceeds from disposal of property, plant and equipment	38,261	3,167
Other investing cash flows	44,800	64,803
Net cash (used in) investing activities	(3,147,351)	(1,273,343)
Cash flows from financing activities		
New bank borrowings	294,429	437,844
Repayment of bank borrowings	(290,039)	(507,721)
Other financing cash flows	19,090	(14,144)
Net cash generated from/(used in) financing activities	23,480	(84,021)
Net (decrease) in cash and cash equivalents	(3,419,089)	(3,269,731)
Cash and cash equivalents at the beginning of the period	11,557,109	10,538,171
Cash and cash equivalents at the end of the period	8,138,020	7,268,440

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

(Continued)

FOR THE SIX MONTHS ENDED 30 JUNE 2015

	Six months ended	
	30.6.2015	30.6.2014
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Analysis of cash and cash equivalents at the end of the period		
Cash and bank balances	1,815,575	2,390,506
Bank deposits, matured within 3 months	2,441,790	637,190
Amounts receivable from banks for wealth management products purchased, matured within 3 months	700,000	–
Deposit with interbank	3,180,655	4,240,744
	<u>8,138,020</u>	<u>7,268,440</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 JUNE 2015

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 2015 are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2014, except as described in below.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

30 JUNE 2015

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

30 JUNE 2015

3. REVENUE AND SEGMENT INFORMATION *(Continued)*

(a) Segment results, assets and liabilities

For the purposes of assessing segment performance and allocating resources between segments, the Company's directors monitor the results, assets and liabilities attributable to each reportable segment on the following bases:

Segment assets include all tangible, intangible assets and current assets with the exception of interests in associates, other non-current assets, trading securities, deferred tax assets, restricted and pledged bank deposits, bank deposits, deposits with central bank, cash and cash equivalents and other head office and corporate assets. Segment liabilities include trade payables, bills payable, other payables and accruals, amounts due to fellow subsidiaries, customers' deposits, deposits received and amounts due to customers for contract work attributable to the manufacturing and sales activities of the individual segments.

Revenue and expenses are allocated to the reportable segments with reference to sales generated by those segments and the expenses incurred by those segments or which otherwise arise from the depreciation or amortisation of assets attributable to those segments.

The measure used for reporting segment profit is "adjusted operating profit/(loss)". To arrive at "adjusted operating profit/(loss)", the Group's profit/(loss) are further adjusted for items not specifically attributed to individual segments, such as share of profits less losses of associates, interest income, PRC government subsidies, fair value gains/(losses) on trading securities, fair value gain — cash flow hedge (transfer from equity), finance costs, unallocated other revenue and net income and other head office and corporate expenses. Taxation charge is not allocated to reporting segments. Inter-segment sales are charged at terms agreed between the relevant parties.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

30 JUNE 2015

3. REVENUE AND SEGMENT INFORMATION *(Continued)*

(a) Segment results, assets and liabilities *(Continued)*

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 2015

	Main thermal power equipment RMB'000 (unaudited)	Main hydro power equipment RMB'000 (unaudited)	Engineering services for power stations RMB'000 (unaudited)	Ancillary equipment for power stations RMB'000 (unaudited)	AC/DC motors and others RMB'000 (unaudited)	Total RMB'000 (unaudited)
SEGMENT REVENUE						
Revenue from external customers	5,933,973	1,322,456	2,758,919	838,242	962,319	11,815,909
Inter-segment revenue	1,032,471	-	-	-	-	1,032,471
Reportable segment revenue	<u>6,966,444</u>	<u>1,322,456</u>	<u>2,758,919</u>	<u>838,242</u>	<u>962,319</u>	<u>12,848,380</u>
Reportable segment profit	<u>952,906</u>	<u>102,968</u>	<u>103,690</u>	<u>86,047</u>	<u>63,523</u>	<u>1,309,134</u>

Six months ended 30 June 2014

	Main thermal power equipment RMB'000 (unaudited)	Main hydro power equipment RMB'000 (unaudited)	Engineering services for power stations RMB'000 (unaudited)	Ancillary equipment for power stations RMB'000 (unaudited)	AC/DC motors and others RMB'000 (unaudited)	Total RMB'000 (unaudited)
SEGMENT REVENUE						
Revenue from external customers	6,032,904	1,648,613	1,825,361	786,879	1,096,485	11,390,242
Inter-segment revenue	901,684	-	-	-	-	901,684
Reportable segment revenue	<u>6,934,588</u>	<u>1,648,613</u>	<u>1,825,361</u>	<u>786,879</u>	<u>1,096,485</u>	<u>12,291,926</u>
Reportable segment profit	<u>1,041,856</u>	<u>417,068</u>	<u>133,034</u>	<u>142,273</u>	<u>95,507</u>	<u>1,829,738</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

30 JUNE 2015

3. REVENUE AND SEGMENT INFORMATION *(Continued)*

(a) Segment results, assets and liabilities *(Continued)*

	30.6.2015	31.12.2014
	<i>RMB'000</i>	<i>RMB'000</i>
	(unaudited)	(audited)
SEGMENT ASSETS		
Main thermal power equipment	31,986,333	31,971,154
Main hydro power equipment	5,284,494	5,226,341
Engineering services for power stations	2,675,953	2,710,586
Ancillary equipment for power stations	2,644,123	3,050,889
AC/DC motor and others	3,645,112	5,534,629
	<hr/>	<hr/>
Reportable segment assets	46,236,015	48,493,599
	<hr/>	<hr/>
	30.6.2015	31.12.2014
	<i>RMB'000</i>	<i>RMB'000</i>
	(unaudited)	(audited)
SEGMENT LIABILITIES		
Main thermal power equipment	27,160,502	27,755,381
Main hydro power equipment	4,051,145	4,298,796
Engineering services for power stations	4,651,725	4,317,490
Ancillary equipment for power stations	2,630,881	2,919,926
AC/DC motor and others	2,430,167	4,408,274
	<hr/>	<hr/>
Reportable segment liabilities	40,924,420	43,699,867
	<hr/>	<hr/>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

30 JUNE 2015

3. REVENUE AND SEGMENT INFORMATION *(Continued)*

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

	Six months ended	
	30.6.2015 <i>RMB'000</i> (unaudited)	30.6.2014 <i>RMB'000</i> (unaudited)
Revenue		
Reportable segment revenue	12,848,380	12,291,926
Elimination of inter-segment revenue	(1,032,471)	(901,684)
	11,815,909	11,390,242
Profit		
Reportable segment profit	1,309,134	1,829,738
Elimination of inter-segment losses	22,735	1,850
Reportable segment profit derived from		
Group's external customers	1,331,869	1,831,588
Share of profits less losses of associates	4,146	9,321
Interest income	253,492	179,104
PRC government subsidies	9,643	1,928
Fair value gains/(losses) on trading securities	261,252	(137,800)
Fair value gain — cash flow hedge (transfer from equity)	18,412	—
Finance costs	(156,979)	(149,491)
Unallocated other revenue and net income	56,238	56,200
Unallocated head office and corporate expenses	(1,635,781)	(1,567,884)
Consolidated profit before taxation	142,292	222,966

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

30 JUNE 2015

3. REVENUE AND SEGMENT INFORMATION *(Continued)*

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

	30.6.2015 <i>RMB'000</i> (unaudited)	31.12.2014 <i>RMB'000</i> (audited)
Assets		
Reportable segment assets	46,236,015	48,493,599
Elimination of inter-segment receivables	<u>(4,701,744)</u>	<u>(5,020,546)</u>
	41,534,271	43,473,053
Interests in associates	245,193	242,769
Deferred tax assets	324,908	349,580
Other non-current assets	61,291	49,292
Trading securities	–	1,909,300
Restricted and pledged bank deposits	259,084	339,540
Bank deposits	5,705,000	2,086,312
Deposits with central bank	738,016	710,781
Cash and cash equivalents	8,138,020	11,557,109
Unallocated head office and corporate assets	<u>2,761,687</u>	<u>1,476,224</u>
Consolidated total assets	<u>59,767,470</u>	<u>62,193,960</u>
Liabilities		
Reportable segment liabilities	40,924,420	43,699,867
Elimination of inter-segment payables	<u>(4,701,744)</u>	<u>(5,020,546)</u>
	36,222,676	38,679,321
Income tax payables	41,897	108,423
Derivative financial instruments	110,205	293,299
Advance from holding company	1,898,696	1,858,050
Bank borrowings	1,184,544	1,180,154
Other non-current liabilities	664,648	676,223
Obligations under finance leases	76,752	97,330
Corporate bonds	2,995,320	2,994,443
Unallocated head office and corporate liabilities	<u>2,496,893</u>	<u>2,326,601</u>
Consolidated total liabilities	<u>45,691,631</u>	<u>48,213,844</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

30 JUNE 2015

4. ADMINISTRATIVE EXPENSES

Impairment of trade, bills and other receivables

Included in administrative expenses is the provision of impairment losses for the current period of RMB413,484,000 (six months ended 30 June 2014: RMB279,437,000), in respect of trade, bills and other receivables 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, bills and other receivables directly.

5. PROFIT BEFORE TAXATION

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

	Six months ended	
	30.6.2015	30.6.2014
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Depreciation for property, plant and equipment	351,540	343,247
Amortisation of prepaid lease payments	7,138	5,847
Amortisation of intangible assets	14,324	14,423
(Reversal of)/allowance against inventories	(9,193)	26,917
Allowance for doubtful debts	413,484	279,437
Interest and investment income	(99,402)	(90,651)
Interest income from Finance Company	(181,523)	(115,640)
(Gains)/losses on disposal of property, plant and equipment	(9,278)	333
Fair value (gains)/losses on trading securities	(261,252)	137,800

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

30 JUNE 2015

6. 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 2015 and 2014.
- (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 5 August 2014.

Except for certain subsidiaries which are subject to an Enterprise Income Tax rate of 15% (six months ended 30 June 2014: 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 2014: 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.

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

30 JUNE 2015

7. DIVIDENDS

	Six months ended	
	30.6.2015	30.6.2014
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Final dividends declared for 2014 of RMB0.04 per share	55,072	–
Final dividends declared for 2013 of RMB0.08 per share	–	110,144
	55,072	110,144

The directors do not recommend the payment of any interim dividend for the six months ended 30 June 2015 (six months ended 30 June 2014: 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 RMB96,063,000 (six months ended 30 June 2014: RMB140,102,000) and on the weighted average number of 1,376,806,000 (six months ended 30 June 2014: 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 2015 and 2014, and diluted earnings per share is the same as basic earnings per share.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

30 JUNE 2015

9. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2015, the Group disposed of certain plant and machinery with a carrying amount of approximately RMB28,983,000 (six months ended 30 June 2014: RMB3,500,000) for proceeds of approximately RMB38,261,000 (six months ended 30 June 2014: RMB3,167,000) resulting in a gain on disposal of approximately RMB9,278,000 (six months ended 30 June 2014: loss of RMB333,000).

During the six months ended 30 June 2015, the Group spent approximately RMB242,839,000 (six months ended 30 June 2014: RMB270,970,000) mainly on construction in progress, furniture, fixtures and equipment and plant and machinery for production process and to upgrade its manufacturing capabilities.

At 30 June 2015, the net carrying amount of plant and machinery held under finance lease in the form of sale and leaseback arrangements of the Group amounted to approximately RMB223,344,000 (at 31 December 2014: RMB232,122,000).

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:

	30.6.2015	31.12.2014
	<i>RMB'000</i>	<i>RMB'000</i>
	(unaudited)	(audited)
Within 1 year	8,009,107	8,955,086
1 to 2 years	1,981,261	2,731,996
2 to 3 years	1,913,241	1,415,246
Over 3 years	1,423,318	1,610,016
	<hr/> 13,326,927	<hr/> 14,712,344

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

30 JUNE 2015

11. OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

Included in other receivables are receivables from banks for RMB wealth management products with aggregate principal amounts of RMB1,550,000,000 purchased with determinable returns and are over three months of maturity at date of purchase. These receivables are stated at amortised cost using the effective interest method.

12. TRADE PAYABLES AND BILLS PAYABLE

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

	30.6.2015	31.12.2014
	<i>RMB'000</i>	<i>RMB'000</i>
	(unaudited)	(audited)
Within 1 year	15,102,194	15,490,004
1 to 2 years	1,065,284	1,632,085
2 to 3 years	790,310	532,491
Over 3 years	485,637	504,943
	<hr/> 17,443,425	<hr/> 18,159,523

13. BANK BORROWINGS

During the six months ended 30 June 2015, the Group obtained new bank borrowings in the amount of approximately RMB294,429,000 (six months ended 30 June 2014: RMB437,844,000) and made repayment of bank borrowings in the amount of approximately RMB290,039,000 (six months ended 30 June 2014: RMB507,721,000). The borrowings bear interest at market rate and have fixed terms of repayment. The proceeds were used for working capital of operation.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

30 JUNE 2015

14. OBLIGATIONS UNDER FINANCE LEASES

	30.6.2015 <i>RMB'000</i> (unaudited)	31.12.2014 <i>RMB'000</i> (audited)
Obligation under finance leases (<i>Note</i>)	76,752	97,330
Current portion of obligations under finance leases	(43,061)	(41,733)
	33,691	55,597

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

	30.6.2015			31.12.2014		
	Present value of the minimum lease payments <i>RMB'000</i> (unaudited)	Interest expense relating to future period <i>RMB'000</i> (unaudited)	Total minimum lease payments <i>RMB'000</i> (unaudited)	Present value of the minimum lease payments <i>RMB'000</i> (audited)	Interest expense relating to future period <i>RMB'000</i> (audited)	Total minimum lease payments <i>RMB'000</i> (audited)
Within 1 year	43,061	3,330	46,391	41,733	4,992	46,725
After 1 year but within 2 years	33,691	1,825	35,516	44,329	2,396	46,725
After 2 years but within 5 years	-	-	-	11,268	414	11,682
	33,691	1,825	35,516	55,597	2,810	58,407
	76,752	5,155	81,907	97,330	7,802	105,132

15. CORPORATE BOND

On 11 March 2013, the Company issued a corporate bond to the public on the Shanghai Stock Exchange with a nominal value of RMB3 billion. The bond carries interest at 4.9% per annum with a term of five years, which is payable annually in arrears on 11 March each year. The bond will be fully repaid by the Company upon maturity in March 2018. As at 30 June 2015, the bond issued is guaranteed by HE Corporation.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

30 JUNE 2015

16. SHARE CAPITAL

	30.6.2015 <i>RMB'000</i> (unaudited)	31.12.2014 <i>RMB'000</i> (audited)
Registered, issued and fully paid:		
State owned equity interest shares of		
RMB1 each	701,235	701,235
H shares of RMB1 each	675,571	675,571
	<u>1,376,806</u>	<u>1,376,806</u>

17. CAPITAL COMMITMENTS

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

	30.6.2015 <i>RMB'000</i> (unaudited)	31.12.2014 <i>RMB'000</i> (audited)
Capital expenditure for the acquisition of property, plant and equipment contracted for but not provided in the condensed consolidated financial statements	<u>217,340</u>	<u>221,405</u>

18. PLEDGE OF ASSETS

At 30 June 2015, the Group pledged certain property, plant and equipment, prepaid lease payments and bank deposits having a net book value of approximately RMB95,754,000, RMB30,250,000 and RMB253,500,000 (31 December 2014: RMB116,520,000, RMB30,581,000 and RMB330,422,000) to secure the banking facilities granted to the Group.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

30 JUNE 2015

19. CONTINGENT LIABILITIES

Litigation

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

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

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

In 2014, Henan Provincial Xinxiang City Hongqi District People's Court held that Harbin Electrical Machinery Company Limited was liable to pay the purchase amounts of an aggregate of RMB1,500,000 and the interests on overdue payments (calculated according to the bank's lending rate over the same period) to Plaintiff 1. Subsequently, Harbin Electrical Machinery Company Limited made an application to appeal against the decision.

In 2015, Henan Provincial Xinxiang City Intermediate People's Court held the previous decision that Harbin Electrical Machinery Company Limited was liable to pay the purchase amounts of an aggregate of RMB1,500,000 and the interests on overdue payments to Plaintiff 1 and hence the freezing order of approximately RMB2,500,000 was transferred to the Court.

Subsequently in July 2015, Harbin Electrical Machinery Company Limited made a further application to appeal against the decision.

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

30 JUNE 2015

19. CONTINGENT LIABILITIES *(Continued)*

Litigation *(Continued)*

- (ii) In 2014, a litigation was brought against the Group's subsidiary, namely Harbin Electric Power Equipment Company Limited, by one of its suppliers ("Plaintiff 2") in relation to a dispute in a purchase transaction claiming for an amount of approximately RMB1,571,000 and default interest of RMB10,000 in respect of the delayed payment. The purchase amount of RMB1,571,000 had been accrued by Harbin Electric Power Equipment Company Limited in 2014.

Subsequently in July 2015, Heilongjiang Province Harbin City People's Court held that Harbin Electric Power Equipment Company Limited was liable to pay the purchase amounts of an aggregate of RMB1,571,000 to Plaintiff 2 and Plaintiff 2 was liable to pay the late delivery penalty amounts of approximately RMB96,000 (calculated at 1.5 times to the bank's lending rate over the same period) to Harbin Electric Power Equipment Company Limited. The resulting net amount of approximately RMB1,475,000 had been paid to Plaintiff 2 accordingly and the directors of the Company considered that the case was settled.

- (iii) In 2014, 5 litigations were brought against the Group's subsidiary, namely Harbin Power Equipment National Engineering Research Centre Co., Ltd., by one of its suppliers ("Plaintiff 3") in relation to disputes in several purchase transactions claiming for an aggregate amount of approximately RMB2,798,000 in respect of the delayed payment.

Plaintiff 3 was granted freezing orders by Henan Provincial Xixia County People's Court over the bank deposit of Harbin Power Equipment National Engineering Research Centre Co., Ltd. amounting to approximately RMB2,797,000.

The purchase amounts of RMB2,094,000 had been accrued by Harbin Power Equipment National Engineering Research Centre Co., Ltd. in 2014.

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

30 JUNE 2015

19. CONTINGENT LIABILITIES (Continued)

Litigation (Continued)

- (iv) During the year 2014, the Group's subsidiary, Harbin Power Equipment National Engineering Research Centre Co., Ltd., was involved in a legal dispute with one of its customers regarding its sales transaction and being claimed for an amount of approximately RMB192,057,000. The subsidiary's bank account of amount approximately RMB2,781,000 was freezed by the PRC court.

The dispute has not been finalised, the Company had made a provision for loss of RMB80,896,000 in 2014 based on their best estimation of possible liabilities relating to this dispute. The directors of the Company considered that no further provision is required.

20. MATERIAL RELATED PARTY TRANSACTIONS

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

(a) Financing arrangement

	30.6.2015 <i>RMB'000</i> (unaudited)	31.12.2014 <i>RMB'000</i> (audited)
Advance from holding company (note (i))	<u>1,844,239</u>	<u>1,844,239</u>

Note:

- (i) The balance of the advance from holding company comprises of non-interest bearing loans amounting to RMB3,500,000 (31 December 2014: RMB3,500,000) and interest-bearing loans of RMB1,840,739,000 (31 December 2014: RMB1,840,739,000) respectively with annual interest rate ranging from 5.04% to 5.4% (31 December 2014: 5.04% to 5.4%).
- (ii) During the six months ended 30 June 2015, the Group paid interest expenses for the advance from holding company of approximately RMB45,947,000 (six months ended 30 June 2014: RMB45,438,000).

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

30 JUNE 2015

20. MATERIAL RELATED PARTY TRANSACTIONS *(Continued)*

(b) Trading transactions

	Six months ended	
	30.6.2015 RMB'000 (unaudited)	30.6.2014 RMB'000 (unaudited)
Sales of goods		
— Fellow subsidiaries	5,472	13,679
Purchases of goods		
— Fellow subsidiaries	68,371	89,081
Service fee income		
— Holding company	1,640	1,640
Service fee expenses		
— Fellow subsidiaries	47,795	28,839

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

30 JUNE 2015

20. MATERIAL RELATED PARTY TRANSACTIONS *(Continued)*

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

	Six months ended	
	30.6.2015	30.6.2014
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Interest expenses for customer deposits:		
— Holding company	8,612	5,231
— Fellow subsidiaries	368	314
— Associates	17	5
	8,997	5,550
Interest income for loans and bills discounting:		
— Fellow subsidiaries	666	583
Discounted bills and loans receivables due from related parties as detailed below:		
	30.6.2015	31.12.2014
	RMB'000	RMB'000
	(unaudited)	(audited)
Fellow subsidiaries	19,550	19,550

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

30 JUNE 2015

20. MATERIAL RELATED PARTY TRANSACTIONS *(Continued)*

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

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

	30.6.2015 <i>RMB'000</i> (unaudited)	31.12.2014 <i>RMB'000</i> (audited)
Deposits from holding company	1,001,069	

Dep

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

30 JUNE 2015

20. MATERIAL RELATED PARTY TRANSACTIONS *(Continued)*

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

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

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

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

21. FINANCIAL INSTRUMENTS

(i) **Financial assets and liabilities measured at fair value**

Fair value hierarchy

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

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

30 JUNE 2015

21. FINANCIAL INSTRUMENTS *(Continued)*

(i) Financial assets and liabilities measured at fair value *(Continued)*

	Fair value measurements as at 30 June 2015 categorised into			
	Fair value at 30 June 2015 RMB'000 (unaudited)	Level 1 RMB'000 (unaudited)	Level 2 RMB'000 (unaudited)	Level 3 RMB'000 (unaudited)
Recurring fair value measurements				
Assets:				
Trading securities	—	—	—	—
	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Liabilities:				
Derivative financial instruments				
— foreign currency forward contracts	110,205	—	110,205	—
	<u>110,205</u>	<u>—</u>	<u>110,205</u>	<u>—</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

30 JUNE 2015

21. FINANCIAL INSTRUMENTS (Continued)

(i) Financial assets and liabilities measured at fair value (Continued)

Fair value at 31 December 2014 RMB'000 (audited)	Fair value measurements as at 31 December 2014 categorised into			
	Level 1 RMB'000 (audited)	Level 2 RMB'000 (audited)	Level 3 RMB'000 (audited)	
Recurring fair value measurements				
Assets:				
Trading securities	1,909,300	1,909,300	-	-
	<u>1,909,300</u>	<u>1,909,300</u>	<u>-</u>	<u>-</u>
Liabilities:				
Derivative financial instruments — foreign currency forward contracts	293,299	-	293,299	-
	<u>293,299</u>	<u>-</u>	<u>293,299</u>	<u>-</u>

There were no transfers between Level 1 and Level 2, or transfers into or out of Level 3 during the period.

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

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

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

The carrying amounts of the Group's financial instruments carried at cost or amortised cost are not materially different from their fair values as at 30 June 2015 and 31 December 2014.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

30 JUNE 2015

22. EVENT AFTER THE END OF THE REPORTING PERIOD

- (a) Pursuant to the Company's announcement dated 15 May 2015, the board of directors of the Company has reviewed and approved the acquisition plan for the Group to acquire the entire equity interest in HE Electric (HE) Corporation ("Harbin Electric (HE)") held by HE at a cash consideration of RMB28,077,000. Upon completion of the acquisition, the Group will hold entire equity interest in the Harbin Electric (HE) and the said acquisition has not completed up to the date of this report.

- (b) Pursuant to the Company's announcement dated 13 July 2015, a H Shares class meeting will be held on 28 August 2015 to consider special resolutions, amongst others, to authorize the board of directors of the Company to repurchase, on one or more occasions, as it deems appropriate and through The Stock Exchange of Hong Kong Limited, H Shares with a total number not exceeding 10% of the total number of the Company's issued H Shares.

INFORMATION ON THE COMPANY

REGISTERED NAME OF THE COMPANY

哈爾濱電氣股份有限公司

ENGLISH NAME OF THE COMPANY

Harbin Electric Company Limited

REGISTERED ADDRESS OF THE COMPANY

Block 3
Nangang District High Technology
Production Base
Harbin
Heilongjiang Province
People's Republic of China
Registration No. 230100100004252(1-1)

OFFICE ADDRESS OF THE COMPANY

Block B, 39 Sandadongli Road,
Xiangfang District
Harbin
Heilongjiang Province
People's Republic of China
Postcode: 150040
Tel: 86-451-82135727 or 87998510
Fax: 86-451-82135700 or 82162088

PLACE OF BUSINESS IN HONG KONG

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

WEBSITE

www.hpec.com

LEGAL REPRESENTATIVE

Mr. Zou Lei

AUTHORISED REPRESENTATIVES

Mr. Wu Wei-zhang
Mr. Ai Li-song

COMPANY SECRETARY

Mr. Ai Li-song

JOINT COMPANY SECRETARY

Mr. Tung Tat Chiu, Michael

AUDITORS

Crowe Horwath (HK) CPA Limited

LEGAL ADVISORS

as to PRC Law

Haiwen Partners

LISTING INFORMATION

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

DEPOSITARY

The Bank of New York

SHARE REGISTER AND TRANSFER OFFICE

Hong Kong Registrars Limited