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HARBIN ELECTRIC LUTON

( Harbin P

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## REPORT OF THE DIRECTORS

The Board of Directors of Harbin Electric Company Limited (the "Company") is with

China's GDP achieved a 9.6% year on year increase with steady and rapid growth maintained. China's CPI increased by 5.4% year on year. In order to curb the anticipated inflation, Chinese government tightened its monetary policy, and the source of funds were tightened as well. In terms of power plants construction, as the impact of the earthquake in Japan and the subsequent Fukushima Daiichi nuclear power plant breakout gradually subsidised and eased, the development of nuclear power remains on the fast track. According to preliminary statistics, China has increased the investment ratio of these new energy and renewable energy industries such as hydropower, nuclear power and wind power to 65%, while the ratio of thermal power kept decreasing. The power equipment industry of China is undergoing an adjustment. All these new energy and renewable energy industries are the driving force of the power equipment industry.

Facing the complicated situation and keen market competitions brought along by the everchanging economies, the Group accelerates its adjustment, and managed to make notable progress in aspects such as nuclear power, wind power and gas turbine power. Increase has been witnessed in various economic indicators which reflected steady development of the industry.

## **NEW CONTRACTS**

During the first half of the year, the value of new contracts secured by the Group increased sharply as compared with the same period last year. It is mainly the results of the contributions from international market and the hydropower equipment market. The value of new contracts secured in the first half of the year amounted to RMB25.47 billion, representing an increase of 65.07% as compared with the same period last year, in which thermal power accounted for 41.81%; hydropower accounted for 11.12%; power plant engineering services accounted for 30.01%; nuclear power accounted for 0.88%; others accounted for 8.59%. The demand for gas turbine power significantly increased and its contracts accounted for 7.59% among the new contracts.

## **PRODUCTION AND SERVICES**

The total output of the Group during the first half of the year remained relatively high, including 18 sets of hydro generator unit with a total capacity of 2,799MW, representing an year on year increase of 51.46%; 29 utility boilers with a total capacity of 12,710MW, representing an year on year increase of 3.50%; 25 steam turbine generators with a total capacity of 8,641MW, representing an year on year decrease of 0.85%; 28 steam turbine for power stations with a total capacity of 10,465.8MW, representing an year on year decrease of 2.57%.

## TURNOVER AND COST

As at 30 June 2011, the Group recorded a turnover of RMB14,614.48 million from its principal business activities, representing an increase of 0.59% as compared with the same period last year. In particular, turnover of main thermal power equipment was RMB9,938.57 million, a decrease of 1.90% as compared with the same period last year; turnover of main hydro power equipment was RMB1,433.15 million, an increase of 45.23% over the same period last year; turnover of power plant engineering services was RMB1,752.91 million, a decrease of 13.80% over the same period last year; turnover of power plant auxiliary equipment was RMB413.31 million, an increase of 1.87% over the same period last year; and the turnover of AC/DC motors and other products and services was RMB1,076.54 million, an increase of 10.78% over the same period last year.

During the period, the export sales of the Group amounted to RMB2,336.43 million and accounted for 15.99% of the Group's total turnover. India and Pakistan were among the major destinations for the Group's export.

During the period, the cost of the principal businesses of the Group was RMB12,131.57 million, a decrease of 3.48% over the same period last year and lower than growth in income from principal businesses.

## GROSS PROFIT AND GROSS PROFIT MARGIN

As at 30 June 2011, the Group's gross profit from its principal business activities was RMB2,482.91 million, an increase of 26.69% as compared with the same period last year. The gross profit margin was 16.99%, an increase of 3.5 percent as compared with the same period last year.

Among them, the gross profit from thermal power main equipment was RMB1,643.64 million and the gross profit margin was 16.54%, an increase of 2.31 percent as compared with the same period last year. The gross profit from hydro power main equipment was RMB421.46 million and the gross profit margin was 29.41%, an increase of 6.57 percent as compared with the same period last year. The gross profit from power plant engineering service was RMB166.43 million and the gross profit margin was 9.49%, an increase of 8.29 percent as compared with the same period last year. The gross profit from power plant auxiliary equipment was RMB101.70 million and the gross profit margin was 24.60%, an increase of 0.68 percent as compared with the same period last year. The gross profit from AC/DC motors and other products and services was RMB149.69 million and the gross profit margin was 13.91%, a decrease of 3.7 percent as compared with the same period last year.

## EXPENSES DURING THE PERIOD

As at 30 June 2011, the Group's operational and administrative expense amounted to RMB1,609.03 million, an increase of RMB318.96 million or 24.72% as compared with the same period last year.

## ASSETS AND LIABILITIES

As at 30 June 2011, the total assets of the Group amounted to RMB47,869.04 million, a decrease of RMB2,887.07 million or 5.69% over the beginning of 2011, among which the current assets were RMB41,209.06 million, representing 86.09% of the total assets. The non-current assets were RMB6,659.98 million, representing 13.91% of the total assets.

The Group's total liabilities amounted to RMB36,058.22 million, a decrease of RMB3,534.05 million over the beginning of the year, among which the current liabilities amounted to RMB24,447.34 million, representing 67.80% of the total liabilities. The non-current liabilities were RMB11,610.88 million, representing 32.20% of the total liabilities. As at 30 June 2011, the Group's assets/liabilities ratio was 75.33%.

## DEPOSITS AND CASH FLOW

As at 30 June 2011, the bank deposits and cash of the Group amounted to RMB8,667.22 million, a decrease of RMB3,882.96 million over the beginning of the year, among which time deposits accounted for RMB420 million. During the period, the Group's net cash outflow from operating activities amounted to RMB3,131.88 million. The net cash outflow from financing activities amounted to RMB251.82 million and the net cash inflow from investment activities was RMB171.60 million.

## FUNDING AND BORROWING

The Group has three major sources for operation and development funding, namely shareholders' capital, trade receivable and bank borrowings. The Group arranges borrowings for each specific project. Except for some special situations, financing will be raised individually by the Group's subsidiaries. However, advance approval from the parent company for capital investment borrowings is required. As at 30 June 2011, the Group's total bank borrowings amounted to RMB1,996.69 million, all of which were borrowed from various commercial banks and the state's policy banks of interest rates stipulated by the state. Among the Group's borrowings, the amounts due within one year was RMB393.35 million, a decrease of RMB233.66 million as compared with the beginning of the year. The amount of the Group's borrowings due after one year was RMB1,603.34 million, an increase of RMB20.38 million as compared with the beginning of the year. The Group's amounts received in advance were RMB15,008.80 million, a decrease of RMB4,475.29 million over the beginning of the year.

## GEARING RATIO

As at 30 June 2011, the Group's gearing ratio (calculated as non-current liabilities over total shareholders' equity) was 1.16:1, as compared to 1.05:1 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-recognised as High and New technology enterprises, which entitles the Company to a 15% preferential income tax rate. The tax holiday expired this year, and the Group is now applying for re-recognition.

## STAFF

As at 30 June 2011, the employees of the Group totaled at 19,552.

## PROSPECTS

In the second half of 2011, the global economy is still gathering momentum to recovery and growth and the electricity demand from international markets remains robust. The price of electricity generating equipment made in China is comparatively low taking its performance into consideration and is winning attention from overseas buyers.

In the domestic market, given the continuous structural adjustment on the power industry, the construction of power plants will focus on the areas of effective, energy-saving, environmental and renewable energy and thus significant increase of demand is expected from new energy markets.

Currently, the market situation which is complex and full of uncertainties indicates the coexistence of opportunities and challenges. The Group will enhance internal management and market development, and focus on the following aspects in the second half of 2011:

1. Devote more efforts into market development, actively expand the international markets, continuously consolidate the domestic market and intensively explore emerging markets.
2. Accelerate the structural adjustment of the industry, upgrade the manufacturing structure and enhance commercialisation of nuclear power products, increase the pace of the construction of Zhenjiang Wind Power Plant and roll out wind power products.
3. Increase research and development resources for emerging products and generally enhance self-innovation of high technology.
4. Enhance the consolidation of internal resources and the cost control, and improve the operation efficiency.
5. Implement comprehensive risk management, establish the internal control system on an ongoing basis, push forward the management system with finely divided sections, strengthen the process supervision and enhance sustainable development.

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

## THE SHAREHOLDINGS OF SUBSTANTIAL SHAREHOLDERS

As at 30 June 2011, 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 shares	701,235,000	50.93%	Long position
HKSCC Nominees Limited	H shares	669,538,598	48.63%	Long position



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

As at 30 June 2011, none of the Directors, Supervisors and senior management of the Company and their associates had any interest or short position in the shares, underlying shares and debentures of the Company or of its associated corporations (within the meaning of Part XV of the SFO).

### **THE MODEL CODE**

After making enquiries to the Directors, all Directors has complied with the provisions of the Model Code set out in Appendix 10 of the Listing Rules during the period.

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

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

### **CODE ON CORPORATE GOVERNANCE PRACTICES**

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

### **THE AUDIT COMMITTEE**

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

### **THE AUDITOR**

The Board of the Company appointed Crowe Horwath (HK) CPA Limited as the auditor for the interim period of the year 2011 according to the authority granted at the General Meeting. This interim results was reviewed by the auditor.

## SHAREHOLDERS MEETING

The 2010 Annual General Meeting and the 2011 Extraordinary General Meeting of the Company were convened in Harbin, PRC on 13 May 2011 and 6 July 2011 respectively. The results of the Meetings were published on the Hong Kong Stock Exchange website and the Company's website.

## CHANGE OF COMPANY NAME

With the approval at the Shareholders' meeting of the Company and from relevant competent authorities, the name of the Company has been changed from “哈爾濱動力設備股份有限公司 Harbin Power Equipment Company Limited” to “哈爾濱電氣股份有限公司 Harbin Electric Company Limited” with effect from 1 July 2011.

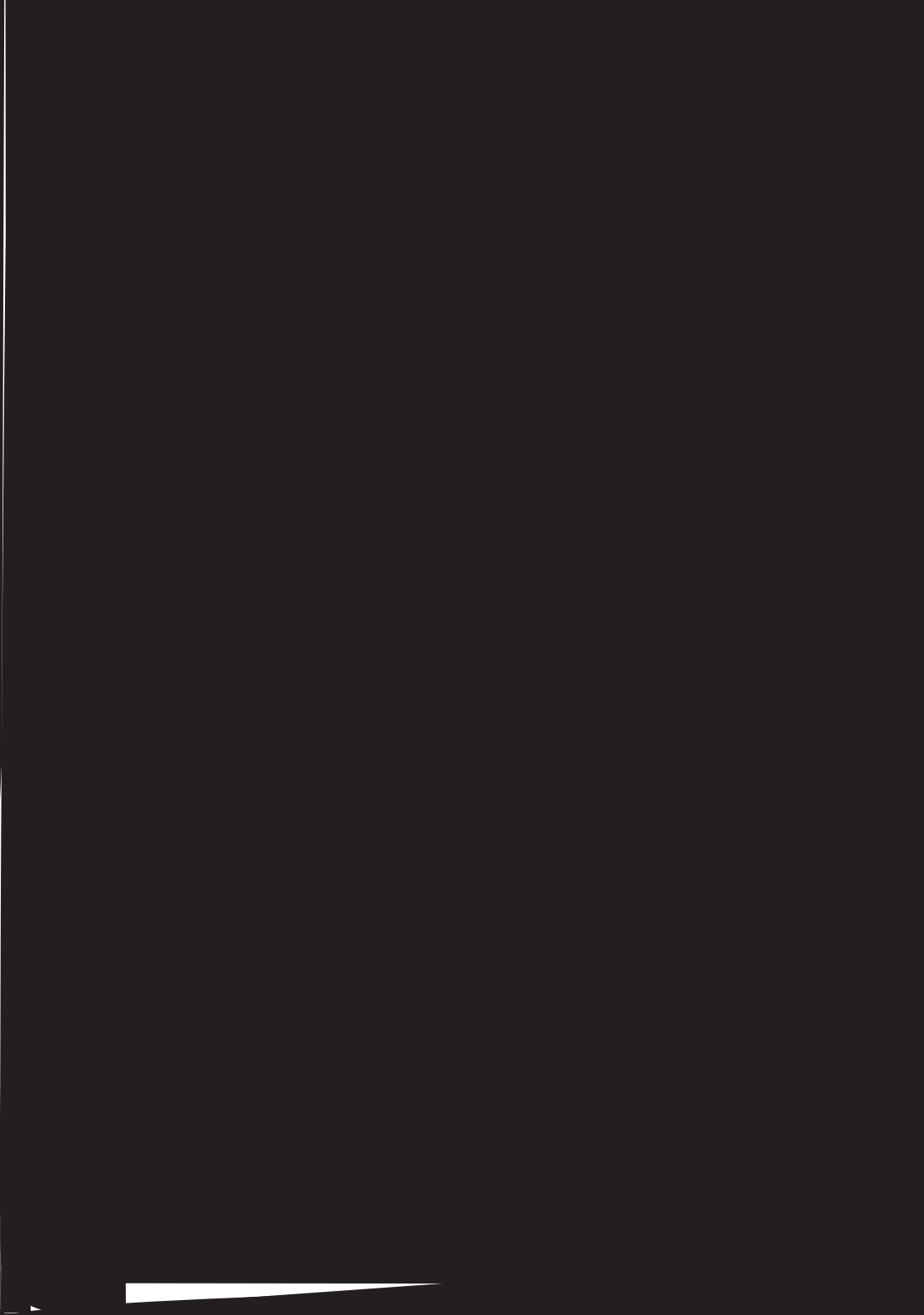
## DOCUMENTS AVAILABLE FOR INSPECTION

The office of the Company is located at Block B, 39 Sandadongli Road, Xiangfang District, Harbin, the PRC, at where the Articles of Association of the Company and the original copies of interim report and reviewed financial statements as at 30 June 2011 will be available for inspection.

By order of the Board  
**Gong Jing-kun**  
Chairman

Harbin, the PRC, 19 August 2011

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



## 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, 19 August 2011

### **Lau Kwok Hung**

Practising Certificate No.: P04169

# CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2011

	Notes	Six months ended	
		30.6.2011 RMB'000 (unaudited)	30.6.2010 RMB'000 (unaudited)
<b>Revenue</b>	3	<b>14,614,477</b>	14,529,321
Cost of sales		<u>(12,131,566)</u>	<u>(12,569,532)</u>
<b>Gross profit</b>		<b>2,482,911</b>	1,959,789
Other revenue and net income		<b>290,685</b>	173,865
Fair value losses on trading securities		<b>(290,800)</b>	—
Distribution expenses		<b>(258,368)</b>	(229,173)
Administrative expenses	4	<b>(1,350,659)</b>	(1,060,893)
Other operating expenses		<b>(58,140)</b>	(110,616)
Finance costs		<b>(30,874)</b>	(77,790)
Share of results of associates		<b>4,193</b>	7,574
<b>Profit before taxation</b>	6	<b>788,948</b>	662,756
Income tax	5	<b>(113,146)</b>	(141,338)
<b>Profit and total comprehensive income for the period</b>		<b><u>675,802</u></b>	<u>521,418</u>
<b>Attributable to:</b>			
Equity shareholders of the Company		<b>577,356</b>	446,658
Non-controlling interests		<b>98,446</b>	74,760
		<b><u>675,802</u></b>	<u>521,418</u>
<b>Earnings per share</b>			
— Basic and diluted	8	<b><u>RMB41.93 cents</u></b>	<u>RMB32.44 cents</u>

# CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 30 JUNE 2011

	Notes	30.6.2011 RMB'000 (unaudited)	31.12.2010 RMB'000 (restated)
<b>Non-currents assets</b>			
Investment properties		4,901	4,991
Property, plant and equipment	9	5,237,151	4,890,113
Prepaid lease payments		443,624	419,466
Intangible assets		117,013	90,321
Deferred tax assets		205,260	205,071
Interests in associates		498,738	328,640
Available-for-sale investments		52,687	53,637
Held-to-maturity bonds		100,605	—
		<u>6,659,979</u>	<u>5,992,239</u>
<b>Current assets</b>			
Inventories		11,141,900	12,824,895
Trade receivables	10	12,445,807	11,270,063
Bills receivable	10	921,084	982,083
Other receivables, deposits and prepayments		4,397,482	4,541,796
Prepaid lease payments		12,591	13,242
Amounts due from customers for contract work		1,034,453	894,923
Amounts due from fellow subsidiaries		147,953	112,920
Derivative financial instruments		120,922	104,276
Trading securities		2,117,600	1,188,000
Restricted bank deposits		—	5,000
Pledged bank deposits		202,046	276,493
Bank deposits		420,000	1,090,860
Cash and cash equivalents		8,247,219	11,459,319
		<u>41,209,057</u>	<u>44,763,870</u>

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

AT 30 JUNE 2011

	Notes	30.6.2011 RMB'000 (unaudited)	31.12.2010 RMB'000 (restated)
<b>Current liabilities</b>			
Amounts due to customers for contract work		1,432,234	1,274,290
Trade payables	11	14,281,953	11,867,247
Other payables and accrued charges		1,631,071	2,852,629
Deposits received		6,065,331	11,891,531
Amounts due to fellow subsidiaries		62,986	24,418
Advance from holding company		20,478	20,478
Borrowings — due within one year	12	393,350	627,005
Tax payables		559,934	816,233
		<u>24,447,337</u>	<u>29,373,831</u>
<b>Net current assets</b>		<u>16,761,720</u>	15,390,039
<b>Total assets less current liabilities</b>		<u>23,421,699</u>	<u>21,382,278</u>
<b>Non-current liabilities</b>			
Deposits received		8,943,471	7,592,559
Advance from holding company		1,064,078	1,042,918
Borrowings — due after one year	12	1,603,336	1,582,959
		<u>11,610,885</u>	<u>10,218,436</u>
<b>NET ASSETS</b>		<u>11,810,814</u>	<u>11,163,842</u>
<b>CAPITAL AND RESERVES</b>			
Share capital	13	1,376,806	1,376,806
Reserves		8,609,846	8,324,642
		<u>9,986,652</u>	<u>9,701,448</u>
Equity attributable to equity shareholders of the Company		9,986,652	9,701,448
Non-controlling interests		1,824,162	1,462,394
		<u>11,810,814</u>	<u>11,163,842</u>
<b>TOTAL EQUITY</b>		<u>11,810,814</u>	<u>11,163,842</u>

# CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2011

	Attributable to equity shareholders of the Company								Non-controlling interests	Total equity
	Share capital	Share premium	Statutory capital reserve	Statutory surplus reserve	Other reserve	Merger reserve	Retained profits	Total		
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2011 (as original stated)	1,376,806	1,980,295	709,850	596,936	74,421	—	4,899,475	9,637,783	1,395,411	11,033,194
Effect of business combination under common control	—	—	—	—	—	87,055	(23,390)	63,665	66,983	130,648
At 1 January 2011 (as restated)	1,376,806	1,980,295	709,850	596,936	74,421	87,055	4,876,085	9,701,448	1,462,394	11,163,842
Profit and total comprehensive income for the period	—	—	—	—	—	—	577,356	577,356	98,446	675,802
Dividends paid to non-controlling interests	—	—	—	—	—	—	—	—	(2,190)	(2,190)
Capital contribution by non-controlling interests	—	—	—	—	—	—	—	—	166,113	166,113
Arising on business combination under common control	—	—	—	—	—	(99,399)	—	(99,399)	99,399	—
Dividends (Note 7)	—	—	—	—	—	—	(192,753)	(192,753)	—	(192,753)
At 30 June 2011 (unaudited)	1,376,806	1,980,295	709,850	596,936	74,421	(12,344)	5,260,688	9,986,652	1,824,162	11,810,814

	Attributable to equity shareholders of the Company								Non-controlling interests	Total equity
	Share capital	Share premium	Statutory capital reserve	Statutory surplus reserve	Other reserve	Merger reserve	Retained profits	Total		
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2010 (audited)	1,376,806	1,980,295	709,850	569,714	6,539	—	3,995,822	8,639,026	1,578,236	10,217,262
Profit and total comprehensive income for the period	—	—	—	—	—	—	446,658	446,658	74,760	521,418
Acquisition of additional interest in the subsidiaries	—	—	—	—	67,882	—	—	67,882	(281,561)	(213,679)
Dividends (Note 7)	—	—	—	—	—	—	(93,623)	(93,623)	—	(93,623)
At 30 June 2010 (unaudited)	1,376,806	1,980,295	709,850	569,714	74,421	—	4,348,857	9,059,943	1,371,435	10,431,378



## CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED 30 JUNE 2011

	<b>Six months ended</b>	
	<b>30.6.2011</b>	30.6.2010
	<b>RMB'000</b>	RMB'000
	<b>(unaudited)</b>	(unaudited)
<b>Net cash (used in) operating activities</b>	<b>(3,131,879)</b>	(1,159,921)
<b>Cash flows from investing activities</b>		
Purchases of property, plant and equipment	(589,091)	(444,626)
Other investing cash flows	<b>760,692</b>	1,069,119
<b>Net cash generated from investing activities</b>	<b>171,601</b>	624,493
<b>Cash flows from financing activities</b>		
Increase in bank borrowings	50,000	53,000
Repayment of bank borrowings	(265,699)	(697,735)
Other financing cash flows	<b>(36,123)</b>	353,316
<b>Net cash (used in) financing activities</b>	<b>(251,822)</b>	(291,419)
<b>Net (decrease) in cash and cash equivalents</b>	<b>(3,212,100)</b>	(826,847)
Cash and cash equivalents		
at the beginning of the period (restated)	<b>11,459,319</b>	10,612,136
Cash and cash equivalents at the end of the period	<b>8,247,219</b>	9,785,289
<b>Analysis of cash and cash equivalents</b>		
<b>at the end of the period</b>		
Cash and bank balances	5,440,239	6,195,289
Bank deposits	<b>2,806,980</b>	3,590,000
	<b>8,247,219</b>	9,785,289

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 JUNE 2011

## 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 corporate information 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 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.

Pursuant to a special resolution passed at the extraordinary general meeting held on 13 May 2011, the name of the Company was changed from "Harbin Power Equipment Company Limited" to "Harbin Electric Company Limited".

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.

In May 2011, the Group completed its acquisition by the capital contribution of RMB250,000,000 to 哈爾濱電機廠(昆明)有限責任公司 ("Kunming Generator"). Kunming Generator is principally engaged in the business of manufacturing of small-scale hydro power equipment. After the capital contribution, a subsidiary of the Group holds an equity interest of 55.64% in Kunming Generator. Kunming Generator is a company incorporated in the PRC and previously held 78.07% of equity interest by HE. Kunming Generator holds 40% of the equity interest of 昆明科賽爾電氣有限公司 ("昆明科賽爾"), a company incorporated in the PRC, is principally engaged in the business of manufacturing of small-scale hydro power equipment. Kunming Generator controls the composition of the board of directors of 昆明科賽爾 and therefore 昆明科賽爾 is classified as a subsidiary of Kunming Generator.

Kunming Generator and 昆明科賽爾 were established in 17 December 1996 and 2 June 2005 respectively. The capital contribution to Kunming Generator is regarded as a business combination under common control. The principles of merger accounting have therefore been applied, under which the consolidated financial statements have been prepared as if Kunming Generator had been a subsidiary of the Group since September 2010 when HE obtained an equity interest of 78.07% in Kunming Generator by the approval from the State-owned Assets Supervision and Administration Commission of the State Council (“SASAC”) of the PRC and Kunming SASAC. The condensed consolidated statement of financial position and condensed consolidated statements of changes in equity have been prepared as if Kunming Generator and its subsidiary had been subsidiaries of the Group for the year ended 31 December 2010, or since their respective dates of incorporation/establishment or acquisition where this is a shorter period. The condensed consolidated statements of financial position of the Group as at 31 December 2010 has been prepared to present the assets and liabilities of the companies now comprising to Group taking into account the effective dates of acquisitions of entities from outsiders.

The Group has reassessed the effect of the changes in the accounting policy on the Entities under Common Control Combinations and the adoption of Merger Accounting in accordance with the guidance of the Accounting Guideline 5 — “Merger Accounting for Common Control Combinations” issued by the HKICPA. The guidance requires a retrospective application and the effect of which was disclosed below. However, such changes have no material effect on the financial position of the Group as at 31 December 2009 and the results of the Group for the six months ended 30 June 2010, and hence comparative figures have not been restated.

The effects of the combination of Kunming Generator on the Group's condensed statement of financial position at 31 December 2010 are summarized below:

	<b>31.12.2010</b> <i>RMB'000</i> (previously reported)	<b>Combination of Kunming Generator</b> <i>RMB'000</i>	<b>Elimination adjustments</b> <i>RMB'000</i>	<b>31.12.2010</b> <i>RMB'000</i> (restated)
<b>NON-CURRENT ASSETS</b>				
Investment properties	4,991	—	—	4,991
Property, plant and equipment	4,815,171	74,942	—	4,890,113
Prepaid lease payments	367,348	52,118	—	419,466
Intangible assets	90,321	—	—	90,321
Deferred tax assets	193,878	11,193	—	205,071
Interests in associates	328,490	150	—	328,640
Available-for-sale investments	35,941	17,696	—	53,637
	<u>5,836,140</u>	<u>156,099</u>	<u>—</u>	<u>5,992,239</u>
<b>CURRENT ASSETS</b>				
Inventories	12,562,801	262,094	—	12,824,895
Trade receivables	11,122,830	152,220	(4,987)	11,270,063
Bills receivable	980,496	1,587	—	982,083
Other receivables, deposits and prepayments	4,506,705	69,319	(34,228)	4,541,796
Prepaid lease payments	12,058	1,184	—	13,242
Amounts due from customers for contract work	894,923	—	—	894,923
Amounts due from fellow subsidiaries	112,920	—	—	112,920
Derivative financial instruments	104,276	—	—	104,276
Trading securities	1,188,000	—	—	1,188,000
Restricted bank deposits	—	5,000	—	5,000
Pledged bank deposits	249,294	27,199	—	276,493
Bank deposits	1,090,000	860	—	1,090,860
Cash and cash equivalents	11,425,774	33,545	—	11,459,319
	<u>44,250,077</u>	<u>553,008</u>	<u>(39,215)</u>	<u>44,763,870</u>

	<b>31.12.2010</b> <i>RMB'000</i> (previously reported)	<b>Combination of Kunming Generator</b> <i>RMB'000</i>	<b>Elimination adjustments</b> <i>RMB'000</i>	<b>31.12.2010</b> <i>RMB'000</i> (restated)
<b>CURRENT LIABILITIES</b>				
Amounts due to customers for contract work	(1,274,290)	—	—	(1,274,290)
Trade payables	(11,746,026)	(126,208)	4,987	(11,867,247)
Other payables and accrued charges	(2,799,289)	(53,340)	—	(2,852,629)
Deposits received	(11,681,047)	(214,712)	4,228	(11,891,531)
Amounts due to fellow subsidiaries	(24,418)	—	—	(24,418)
Advance from holding company	(20,478)	—	—	(20,478)
Borrowings — due within one year	(507,005)	(150,000)	30,000	(627,005)
Tax payables	(815,084)	(1,149)	—	(816,233)
	<u>(28,867,637)</u>	<u>(545,409)</u>	<u>39,215</u>	<u>(29,373,831)</u>
<b>NET CURRENT ASSETS</b>	<u>15,382,440</u>	<u>7,599</u>	<u>—</u>	<u>15,390,039</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>	<u>21,218,580</u>	<u>163,698</u>	<u>—</u>	<u>21,382,278</u>
<b>NON-CURRENT LIABILITIES</b>				
Deposits received	(7,592,559)	—	—	(7,592,559)
Advance from holding company	(1,042,918)	—	—	(1,042,918)
Borrowings — due after one year	(1,549,909)	(33,050)	—	(1,582,959)
	<u>(10,185,386)</u>	<u>(33,050)</u>	<u>—</u>	<u>(10,218,436)</u>
<b>NET ASSETS</b>	<u>11,033,194</u>	<u>130,648</u>	<u>—</u>	<u>11,163,842</u>
<b>CAPITAL AND RESERVES</b>				

The effects of the combination of Kunming Generator on the Group's equity as at 31 December 2010 are summarized below:

	<b>31.12.2010</b>	<b>Combination of Kunming Generator</b>	<b>Elimination adjustments</b>	<b>31.12.2010</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	(previously reported)			(restated)
Share capital	1,376,806	38,840	(38,840)	1,376,806
Share premium	1,980,295	—	—	1,980,295
Statutory capital reserve	709,850	72,381	(72,381)	709,850
Statutory surplus reserve	596,936	20,259	(20,259)	596,936
Other reserve	74,421	—	—	74,421
Merger reserve	—	—	87,055	87,055
Retained profits	4,899,475	(3,819)	(19,571)	4,876,085
Non-controlling interests	1,395,411	2,987	63,996	1,462,394
	<u>11,033,194</u>	<u>130,648</u>	<u>—</u>	<u>11,163,842</u>

## 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 used in the condensed consolidated financial statements for the six months ended 30 June 2011 are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2010, except as described in note 1 and below.

**(a) Adoption of new and revised standards, amendments and interpretations (“new and revised HKFRSs”)**

In the current interim period, the Group has applied, for the first time, the following new or revised standards, amendments and interpretations (“new or revised HKFRSs”) issued by the HKICPA, which are effective for the Group’s financial year beginning on 1 January 2011.

HKFRSs (Amendments)	“Improvements to HKFRSs issued in 2010”
HKAS 24 (as revised in 2009)	“Related Party Disclosures”
HKAS 32 (Amendments)	“Classification of Rights Issues”
HK(IFRIC)-INT 14	“Prepayments of a Minimum Funding Requirement”
HK(IFRIC)-INT 19	“Extinguishing Financial Liabilities with Equity Instruments”

Except as described below, the application of these new or revised HKFRSs has had no material effect on the amounts reported in the condensed consolidated financial statements and/or disclosures set out in the condensed consolidated financial statements.

HKAS 24 “Related Party Disclosures” (as revised in 2009) has been revised on the following two aspects: (a) HKAS 24 (as revised in 2009) introduces a partial exemption from the disclosure requirements for government-related entities and (b) HKAS 24 (as revised in 2009) has changed the definition of a related party.

The Group is a government entity. In its annual consolidated financial statements for the year ended 31 December 2010, the Group had early applied the partial exemption from the disclosure requirements for government-related entities. In the current interim period, the Group applied for the first time the revised definition of a related party as set out in HKAS 24 (as revised in 2009).

HKAS 24 (as revised in 2009) requires retrospective application. The application of HKAS 24 (as revised in 2009) has had no effect on the amounts recognised or recorded in the condensed consolidated financial statements for the current and prior periods.

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 2011:

HKAS 12 (Amendments)	“Deferred tax: Recovery of Underlying Assets” <sup>(1)</sup>
HKAS 27 (Revised)	“Separate Financial Statements” <sup>(3)</sup>
HKAS 28 (Revised)	“Investments in Associates and Joint Ventures” <sup>(3)</sup>
HKFRS 7 (Amendments)	“Financial Instruments: Disclosures — Transfers of Financial Assets” <sup>(2)</sup>
HKFRS 9	“Financial Instruments” <sup>(3)</sup>
HKFRS 10	“Consolidated Financial Statements” <sup>(3)</sup>
HKFRS 11	“Joint Arrangements” <sup>(3)</sup>
HKFRS 12	“Disclosure of Interests in Other Entities” <sup>(3)</sup>
HKFRS 13	“Fair Value Measurement” <sup>(3)</sup>

<sup>(1)</sup> Effective for annual periods beginning on or after 1 January 2012.

<sup>(2)</sup> Effective for annual periods beginning on or after 1 July 2011.

<sup>(3)</sup> Effective for annual periods beginning on or after 1 January 2013.

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



### 3. 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 2011

	Main thermal power equipment RMB'000	Main hydro power equipment RMB'000	Engineering services for power stations RMB'000	Ancillary equipment for power stations RMB'000	AC/DC motors and others RMB'000	Total RMB'000
<b>SEGMENT REVENUE</b>						
Revenue from external customers	9,938,568	1,433,150	1,752,905	413,312	1,076,542	14,614,477
Inter-segment revenue	<u>1,043,614</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>1,043,614</u>
Reportable segment revenue	<u>10,982,182</u>	<u>1,433,150</u>	<u>1,752,905</u>	<u>413,312</u>	<u>1,076,542</u>	<u>15,658,091</u>
Reportable segment profit	<u>1,643,640</u>	<u>421,458</u>	<u>166,425</u>	<u>101,695</u>	<u>149,693</u>	<u>2,482,911</u>
Unallocated head office and corporate expenses						(1,667,282)
Finance costs						(30,874)
Share of results of associates						<u>4,193</u>
Consolidated profit before taxation						<u><u>788,948</u></u>

## Six months ended 30 June 2010

	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
<b>SEGMENT REVENUE</b>						
Revenue from external customers	10,131,511	986,845	2,033,463	405,706	971,796	14,529,321
Inter-segment revenue	1,109,889	—	—	—	88,028	1,197,917
Reportable segment revenue	<u>11,241,400</u>	<u>986,845</u>	<u>2,033,463</u>	<u>405,706</u>	<u>1,059,824</u>	<u>15,727,238</u>
Reportable segment profit	<u>1,441,793</u>	<u>225,444</u>	<u>24,412</u>	<u>97,026</u>	<u>171,114</u>	1,959,789
Unallocated head office and corporate expenses						(1,226,817)
Finance costs						(77,790)
Share of results of associates						<u>7,574</u>
Consolidated profit before taxation						<u>662,756</u>

## 4. ADMINISTRATIVE EXPENSES

### Impairment of trade receivables and bills receivable

Included in administrative expenses is the provision of impairment losses for the current period of RMB380,235,000 (six months ended 30 June 2010: RMB301,112,000), 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 2011 and 2010.
- (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 1 January 2008. The Company is in the progress to renew the qualification as the High and New Technology Enterprise (高新技術企業).

Except for certain subsidiaries which are subject to an enterprise income tax rate of 15% (six months ended 30 June 2010: 15%), other subsidiaries located in the PRC are subject to the PRC corporate income tax at a rate of 25% (six months ended 30 June 2010: 25%) on its assessable profits.

- (c) According to Circular Guoshuihan [2008] No. 897 “Notice on the issue about withholding Corporate 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 corporate income tax on the basis of 10% of the dividends. In accordance with this circular, the Company would withhold the corporate 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	
	30.6.2011	30.6.2010
	<i>RMB'000</i>	<i>RMB'000</i>
Depreciation for property, plant and equipment	241,117	216,824
Depreciation for investment properties	90	7,964
Amortisation of prepaid lease payments	6,012	4,888
Amortisation of intangible assets	5,284	7,013
Allowance/(write back of allowance) against inventories	5,741	(37,830)
Interest and investment income	(174,123)	(155,198)
Gain on disposal of property, plant and equipment	(3,399)	(2,164)
	<u>                    </u>	<u>                    </u>

## 7. DIVIDENDS

	Six months ended	
	30.6.2011	30.6.2010
	<i>RMB'000</i>	<i>RMB'000</i>
Final dividend declared for 2010 of RMB0.14 per share	192,753	—
Final dividends declared for 2009 of RMB0.068 per share	<u>                    </u>	<u>                    </u>
	<u>                    </u>	<u>                    </u>
	<u>192,753</u>	<u>93,623</u>

The Directors do not recommend the payment of any interim dividend for the six months ended 30 June 2011 (six months ended 30 June 2010: nil).



## 11. TRADE PAYABLES

Trade payables with the aging analysis is as follows:

	<b>30.6.2011</b> <b>RMB'000</b>	31.12.2010 <i>RMB'000</i> (restated)
Within 1 year	<b>12,506,475</b>	9,971,940
1 to 2 years	<b>522,533</b>	1,204,136
2 to 3 years	<b>750,438</b>	549,873
Over 3 years	<b>502,507</b>	141,298
	<b><u>14,281,953</u></b>	<u>11,867,247</u>

## 12. BORROWINGS

During the six months ended 30 June 2011, the Group obtained new bank borrowings in the amount of approximately RMB50,000,000 (six months ended 30 June 2010: RMB53,000,000) and made repayment of bank borrowings in the amount of approximately RMB266,000,000 (six months ended 30 June 2010: RMB698,000,000). The borrowings bear interest at market rate and have fixed terms of repayment. The proceeds were used for working capital of operation.

## 13. SHARE CAPITAL

	<b>30.6.2011</b> <b>RMB'000</b>	31.12.2010 <i>RMB'000</i>
Registered, issued and fully paid:		
State owned equity interest shares of		
RMB1 each	<b>701,235</b>	701,235
H shares of RMB1 each	<b>675,571</b>	675,571
	<b><u>1,376,806</u></b>	<u>1,376,806</u>

## 14. CONTINGENT LIABILITIES

	<b>30.6.2011</b>	31.12.2010
	<b>RMB'000</b>	RMB'000
Guarantee given to bank and financial institution in respect of general banking facilities granted to external parties	<b>5,000</b>	5,000

## 15. CAPITAL COMMITMENTS

- (i) On 26 September 2010, a subsidiary of the Company entered into an agreement with an independent third party to acquire 49% equity interest of GE Energy (Shenyang) Co., Ltd. at a total consideration of RMB160,000,000. GE Energy (Shenyang) Co., Ltd is principally engaged in the wind power business in the PRC. After the acquisition, the company will change its name as GE & HE Wind Power (Shenyang) Co., Ltd. Such transaction was completed during the six months ended 30 June 2011.
- (ii) On 26 September 2010, a subsidiary of the Company entered into an agreement with an independent third party to form a new subsidiary, namely Harbin Electric and General Electric Wind Power (Jiangsu) Co., Ltd. According to the agreement, the contribution of 51% equity interest of the new subsidiary amounting to RMB186,000,000. Such formation was completed during the six months ended 30 June 2011.
- (iii) Save as disclosed above, the Group has capital commitments in respect of the acquisition for property, plant and equipment contracted for but not provided in the condensed consolidated financial statements as follows:

	<b>30.6.2011</b>	31.12.2010
	<b>RMB'000</b>	RMB'000
Capital expenditure for the acquisition of property, plant and equipment:		
— contracted for but not provided in the consolidated financial statements	<b>591,804</b>	758,051 (restated)

## 16. PLEDGE OF ASSETS

At 30 June 2011, the Group pledged certain property, plant and equipment, investment properties, prepaid lease payments, bank deposits and inventories having a net book value of approximately RMB8,989,000, RMB4,227,000, RMBnil, RMB202,046,000, and RMBnil (at 31 December 2010 (restated): RMB55,751,000, RMB4,227,000, RMB51,851,000, RMB276,493,000 and RMB15,539,000) to secure the banking facilities granted to the Group.

## 17. MATERIAL RELATED PARTY TRANSACTIONS

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

### (a) Financing arrangement

	Amounts due from related parties		Amounts due to related parties	
	30.6.2011 RMB'000	31.12.2010 RMB'000 (restated)	30.6.2011 RMB'000	31.12.2010 RMB'000
Advance from holding company (note 17(a)(i))	—	—	<b>1,064,078</b>	1,042,918
Cash and cash equivalent deposit with a fellow subsidiary (note 17(a)(ii))	<b>752,321</b>	759,381	—	—

Notes:

- (i) The balance of the advance from holding company comprises of non-interest bearing and interest bearing loans amounting to RMB80,980,000 (at 31 December 2010: RMB73,400,000) and RMB983,098,000 (at 31 December 2010: RMB969,518,000) respectively with effective interest rate of 5.23% (at 31 December 2010: 4.78%) 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 Harbin Electric Corporation ("HE"), the ultimate parent company, and its subsidiaries (together the "HE Group") to facilitate handling of the corporate funding and related finance activities of the HE Group.



**(b) Trading transactions**

Amount of trading transactions during the period:

	Six months ended	
	30.6.2011 <i>RMB'000</i>	30.6.2010 <i>RMB'000</i>
Sales of goods		
— Fellow subsidiaries	<b>17,027</b>	11,225
Purchases of goods		
— Fellow subsidiaries	<b>75,022</b>	65,716
Service fee income		
— Fellow subsidiaries	<b>4,371</b>	5,472
Service fee expenses		
— Fellow subsidiaries	<b>19,521</b>	20,800

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

	Amounts due from		Amounts due to	
	30.6.2011 <i>RMB'000</i>	31.12.2010 <i>RMB'000</i>	30.6.2011 <i>RMB'000</i>	31.12.2010 <i>RMB'000</i>
Advance from holding company	—	—	<b>20,478</b>	20,478
Amounts due from fellow subsidiaries	<b>147,953</b>	112,920	—	—
Amounts due to fellow subsidiaries	—	—	<b>62,986</b>	24,418

**(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.

## INFORMATION ON THE COMPANY

### REGISTERED NAME OF THE COMPANY

哈爾濱電氣股份有限公司

### ENGLISH NAME OF THE COMPANY

**Harbin Electric Company Limited**

### REGISTERED ADDRESS OF THE COMPANY

Block 3  
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PRC  
Registration No. 2301001003796

### OFFICE ADDRESS OF THE COMPANY

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### LEGAL REPRESENTATIVE

Gong Jing-kun

### AUTHORISED REPRESENTATIVES

Wu Wei-zhang  
Ma Sui

### COMPANY SECRETARY

Ma Sui

### AUDITORS

**Crowe Horwath (HK) CPA Limited**

### LEGAL ADVISORS

*as to PRC Law*

**Haiwen Partners**

*as to Hong Kong Law*

**Reed Smith Richards Butler**

### LISTING INFORMATION

H Shares

**The Stock Exchange of Hong Kong Limited**

Code: 1133

### DEPOSITARY

**The Bank of New York**

### SHARE REGISTER AND TRANSFER OFFICE

**Hong Kong Registrars Limited**