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哈尔滨电气股份有限公司

HARBIN ELECTRIC COMPANY LIMITED

(A joint stock limited company incorporated in the People's Republic of China with limited liability)
(Stock Code: 1133)

INTERIM RESULTS ANNOUNCEMENT 2014

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

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS FOR THE SIX MONTHS ENDED 30 JUNE 2014

	Note	Six months ended	
		30.6.2014 RMB'000 (unaudited)	30.6.2013 RMB'000 (unaudited) (restated)
Revenue	3	11,390,242	9,468,102
Cost of sales		<u>(9,558,654)</u>	<u>(7,647,119)</u>
Gross profit		1,831,588	1,820,983
Other revenue and net income		237,232	153,287
Fair value (losses)/gains on trading securities		(137,800)	73,500
Distribution expenses		(216,828)	(253,623)
Administrative expenses	4	(1,308,580)	(1,196,735)
Other operating expenses		(42,476)	(46,843)
Finance costs		(149,491)	(95,159)
Share of profits less losses of associates		<u>9,321</u>	<u>1,516</u>
Profit before taxation	6	222,966	456,926
Income tax	5	(86,733)	(92,286)
Profit for the period		<u>136,233</u>	<u>364,640</u>

		Six months ended	
		30.6.2014	30.6.2013
	<i>Note</i>	RMB'000	RMB'000
		(unaudited)	(unaudited) (restated)
Attributable to:			
Equity shareholders of the Company		140,102	384,560
Non-controlling interests		(3,869)	(19,920)
		<u>136,233</u>	<u>364,640</u>
Earnings per share			
— Basic and diluted	8	<u>RMB10.18 cents</u>	<u>RMB27.93 cents</u>

**CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER
COMPREHENSIVE INCOME**

FOR THE SIX MONTHS ENDED 30 JUNE 2014

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

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 30 JUNE 2014

	<i>Note</i>	30.6.2014 RMB'000 (unaudited)	31.12.2013 <i>RMB'000</i> <i>(audited)</i>
Non-current assets			
Investment properties		4,448	4,448
Property, plant and equipment		6,557,510	6,633,287
Prepaid lease payments		489,256	492,512
Intangible assets		209,145	218,357
Deferred tax assets		308,979	297,354
Interests in associates		243,218	234,614
Other non-current financial assets		70,538	70,538
Other financial assets		–	51,095
		<hr/>	<hr/>
		7,883,094	8,002,205
Current assets			
Inventories		16,567,604	14,346,742
Trade receivables	9	14,787,989	14,452,023
Bills receivable	9	1,792,586	1,997,282
Discounted bills and loans receivable		181,668	21,855
Other receivables, deposits and prepayments		5,592,735	5,673,638
Prepaid lease payments		11,695	14,286
Amounts due from customers for contract work		1,945,017	970,378
Amounts due from fellow subsidiaries		254,806	175,206
Other financial assets		897,645	528,040
Trading securities		1,362,777	1,532,390
Tax recoverable		313,067	43,402
Restricted and pledged bank deposits		125,709	219,456
Deposits with central bank		541,004	519,145
Bank deposits		2,047,200	1,326,913
Cash and cash equivalents		7,268,440	10,538,171
		<hr/>	<hr/>
		53,689,942	52,358,927

	<i>Note</i>	30.6.2014 RMB'000 (unaudited)	31.12.2013 <i>RMB'000</i> (audited)
Current liabilities			
Amounts due to customers for contract work		3,046,032	1,128,844
Derivative financial instruments		36,095	–
Trade payables	<i>10</i>	15,856,931	15,071,799
Bills payable	<i>10</i>	3,589,853	4,018,619
Other payables, accruals and provisions		1,427,823	1,564,735
Deposits received		8,974,959	10,331,026
Amounts due to fellow subsidiaries		42,645	65,336
Advance from holding company		1,767,970	1,768,182
Customer deposits		817,152	454,236
Borrowings — due within one year		625,796	738,464
Tax payables		79,031	254,009
Obligations under finance leases — due within one year		40,492	39,289
		36,304,779	35,434,539
Net current assets		17,385,163	16,924,388
Total assets less current liabilities		25,268,257	24,926,593
Non-current liabilities			
Derivative financial instruments		41,819	–
Deposits received		6,955,928	6,533,021
Advance from holding company		3,500	3,500
Borrowings — due after one year		1,030,991	988,200
Obligations under finance leases — due after one year		76,735	97,245
Corporate bond		2,993,670	2,992,688
Deferred tax liabilities		–	17,690
		11,102,643	10,632,344
NET ASSETS		14,165,614	14,294,249
CAPITAL AND RESERVES			
Share capital		1,376,806	1,376,806
Reserves		11,019,689	11,150,277
Total equity attributable to equity shareholders of the Company		12,396,495	12,527,083
Non-controlling interests		1,769,119	1,767,166
TOTAL EQUITY		14,165,614	14,294,249

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 JUNE 2014

1. GENERAL INFORMATION

The Company was established as a joint stock company in the People's Republic of China (the "PRC") and its H shares are listed on The Stock Exchange of Hong Kong Limited. Its parent and ultimate parent company is Harbin Electric Corporation ("HE"), a state-owned enterprise established in the PRC. The addresses of the registered office of the Company is Block 3, Nangang High Technology Production Base, Harbin, Heilongjiang Province, PRC.

The condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). The condensed consolidated financial statements are presented in Renminbi ("RMB"), rounded to the nearest thousand unless otherwise indicated. RMB is the Company's functional and presentation currency.

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

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

2. SIGNIFICANT ACCOUNTING POLICIES

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

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

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

Amendments to HKFRS 10, HKFRS 12 and HKAS 27	Investment Entities
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities
Amendments to HKAS 36	Recoverable Amount Disclosures for Non-Financial Assets
Amendments to HKAS 39 HK (IFRIC)-Int 21	Novation of Derivatives and Continuation of Hedge Accounting Levies

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

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

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

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

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

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

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

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

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

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

3. REVENUE AND SEGMENT INFORMATION

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

Six months ended 30 June 2014

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

Six months ended 30 June 2013

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

4. ADMINISTRATIVE EXPENSES

Impairment of trade receivables and bills receivable

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

5. INCOME TAX

- (a) No provision has been made for Hong Kong Profits Tax as the Group did not earn any income subject to Hong Kong Profits Tax during the six months ended 30 June 2014 and 2013.
- (b) On 21 November 2008, the Company was named as one of the High and New Technology Enterprise (高新技術企業). According to the PRC Law on Enterprise Income Tax promulgated on 16 March 2007, the Company is entitled to a concessionary rate of Enterprise Income Tax at 15% over 3 years, beginning on 17 October 2011.

Except for certain subsidiaries which are subject to an Enterprise Income Tax rate of 15% (six months ended 30 June 2013: 15%), other subsidiaries located in the PRC are subject to the PRC Enterprise Income Tax at a rate of 25% (six months ended 30 June 2013: 25%) on its assessable profits.

- (c) According to Circular Guoshuihan 2008 No. 897 "Notice on the issue about withholding Enterprise Income Tax on the dividends paid by Chinese resident enterprises to overseas non-resident enterprises H-share holders" issued by State Administration of Taxation on 6 November 2008, where a Chinese resident enterprise pays dividends for the year of 2008 or any year thereafter to its H-share holders which are overseas non-resident enterprises, it shall withhold the Enterprise Income Tax on the basis of 10% of the dividends. In accordance with this circular, the Company would withhold the Enterprise Income Tax with tax rate of a 10% when it pays dividends for the year of 2008 or any year thereafter to its overseas non-resident enterprise H-shares holders.

6. PROFIT BEFORE TAXATION

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

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

7. DIVIDENDS

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

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

8. EARNINGS PER SHARE

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

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

9. TRADE RECEIVABLES AND BILLS RECEIVABLE

The credit terms given to the customers vary and are generally based on the financial strengths of individual customers. In order to effectively manage the credit risks associated with trade receivables, credit evaluations of customers are periodically performed.

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

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

10. TRADE PAYABLES AND BILLS PAYABLE

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

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

11. COMPARATIVE AMOUNTS

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

MANAGEMENT DISCUSSION AND ANALYSIS OPERATING RESULTS

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

INTERIM DIVIDEND

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

INDUSTRY DEVELOPMENT AND BUSINESS REVIEW

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

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

NEW CONTRACTS

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

PRODUCTION AND SERVICES

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

TURNOVER AND COST

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

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

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

GROSS PROFIT AND GROSS PROFIT MARGIN

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

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

EXPENSES FOR THE PERIOD

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

ASSETS AND LIABILITIES

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

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

DEPOSITS AND CASH FLOW

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

FUNDING AND BORROWINGS

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

GEARING RATIO

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

INCOME TAX

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

STAFF

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

PROSPECTS

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

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

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

THE SHAREHOLDINGS OF SUBSTANTIAL SHAREHOLDERS

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

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

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

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

MODEL CODE

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

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

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

CONTINGENT LIABILITIES

Pending litigation

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

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

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

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

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

PLEDGE OF ASSETS

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

CORPORATE GOVERNANCE CODE

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

THE AUDIT COMMITTEE

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

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

SHAREHOLDERS' MEETING

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

DOCUMENTS AVAILABLE FOR INSPECTION

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

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

Harbin, PRC, 15 August 2014

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