



**2017**  
**INTERIM REPORT**



**哈尔滨电气股份有限公司**  
**HARBIN ELECTRIC COMPANY LIMITED**

Stock Code: 1133

# Contents

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REPORT OF THE DIRECTORS	<b>2</b>
REVIEW REPORT	<b>15</b>
CONSOLIDATION BALANCE SHEET	<b>16</b>
CONSOLIDATION INCOME STATEMENTS	<b>21</b>
CONSOLIDATION CASH FLOW STATEMENT	<b>24</b>
CONSOLIDATION STATEMENTS OF CHANGES IN EQUITY	<b>27</b>
NOTES TO THE FINANCIAL STATEMENTS	<b>31</b>
INFORMATION ON THE COMPANY	<b>76</b>



## REPORT OF THE DIRECTORS

The Board of Directors (the “Board”) 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 2017, which were prepared in accordance with the Chinese Enterprises Accounting Standard. Such operating results have not been audited but have been reviewed by BDO China Shu Lun Pan Certified Public Accountants LLP.

The Board is of the view that the operating results of the Group for the six months ended 30 June 2017 do not deviate from any part of the Chinese Accounting Standards for Business Enterprises in material aspects.

The currency mentioned in this report was Renminbi.

## INDUSTRY DEVELOPMENT AND BUSINESS REVIEW

During the first half of 2017, the investment in domestic power supply in China remained sluggish with continuous reorganization and further optimization in layout. The newly installed capacity of power generating units for domestic infrastructure reached 50,560 MW, representing a decrease of 6,430 MW as compared with the same period last year. The proportion of newly installed capacity of non-fossil fuel generating units to the total number of newly installed generating units increased as compared with last year, while investment and production scale for coal power decreased significantly. The effect of a series of national policy and measure in promoting the orderly development of coal power industry was gradually reflected, resulting in continuous decline in the demand in domestic coal power market.

Under the severe external environment, the Group fully implemented its strategy, which was formulated early this year. The Group made every effort to expand its market, and monitored the fulfillment of sales orders. It also focused on quality improvement and efficiency enhancement, and strived to have innovation-driven operations. With the joint effort of the management team and staff, the overall operations of the Group remained steady, and most of the major indicators achieved more than 50% after the interim period.

## OPERATING RESULTS

For the six months ended 30 June 2017, the Group recorded an operating revenue of RMB16,778.05 million, an increase of 13.41% as compared with the same period last year. The Group recorded a net profit attributable to owners of the parent company of RMB124.59 million, a decrease of 4.41% as compared with the same period last year. Earnings per share were RMB0.09, which remained stable as compared with the same period last year. The Group's total equity attributable to the owners of the parent company at the end of the period was RMB13,521.47 million, an increase of RMB88.38 million over the beginning of the period; and net assets per share were RMB9.82, an increase of RMB0.06 over the beginning of the period. The decrease in profit of Group during the period was mainly attributable to the impairment loss for assets provided during the current period and the increase in expected contract loss as compared with the same period last year.

## NEW CONTRACTS

For the six months ended 30 June 2017, the value of new contracts secured by the Group amounted to RMB11.983 billion, representing an increase of approximately 16.57% from the same period last year, and to which the export contracts contributed RMB1.758 billion, an increase of approximately 346.19% from the same period last year. Among the contracts in the first half of the year, the new contract amount for thermal power amounted to RMB6.828 billion, accounting for 56.98% of the new contracts; the new contract amount for hydropower amounted to RMB1.303 billion, accounting for 10.87%; the new contract amount for nuclear power amounted to RMB0.824 billion, accounting for 6.87%; the new contract amount for conversion and spare parts amounted to RMB0.998 billion, accounting for 8.33%; and the new contract amount for other products amounted to RMB1.868 billion, accounting for 15.59%.

## PRODUCTION AND SERVICES

The capacity of the Group's power equipment produced during the six months ended 30 June 2017 was 9,284 MW, a decrease of 29.6% as compared with the same period last year, and among which 8 water turbine generators generated 1,294 MW, a decrease of 48.2% as compared with the same period last year; 24 steam turbine generators generated 7,990 MW, a decrease of 25.2% as compared with the same period last year; 21 utility boilers for power stations generated 9,685 MW, an increase of 42.4% as compared with the same period last year; and 16 steam turbines for power stations generated 6,701 MW, an increase of 30.5% as compared with the same period last year. The changes in production capacity of different kinds of products as compared with the same period last year were mainly attributable to the imbalance in production scheduling for existing orders of the Group.

## OPERATING REVENUE AND COST

For the six months ended 30 June 2017, the Group recorded an operating revenue of RMB16,778.05 million, an increase of 13.41% as compared with the same period last year. In particular, operating revenue of main thermal power equipment was RMB6,873.29 million, an increase of 14.98% as compared with the same period last year. Operating revenue of nuclear power equipment was RMB794.45 million, an increase of 11.02% as compared with the same period last year. Operating revenue of main hydropower equipment was RMB608.53 million, a decrease of 58.10% as compared with the same period last year. Operating revenue of engineering services for power stations was RMB6,725.57 million, an increase of 34.67% as compared with the same period last year. Operating revenue of ancillary equipment for power stations was RMB751.69 million, an increase of 25.63% as compared with the same period last year. Operating revenue of AC/DC motors and other products and services was RMB1,024.52 million, a decrease of 2.99% as compared with the same period last year.

During the period, the Group recorded an export turnover of RMB6,650.26 million, accounting for 39.64% of the operating revenue. The exports were mainly to Pakistan, Turkey, Emirates and Ecuador, and the exports to Asia accounted for 32.71% of the export turnover, whereas the exports to Southern America and Africa accounted for 5.10% and 1.83% of the export turnover, respectively.

During the period, the operating cost of the Group was RMB14,668.84 million, an increase of 12.77% as compared with the same period last year, which was mainly attributable to the growth of sales scale.

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

For the six months ended 30 June 2017, the Group realized a gross profit from operating business of RMB2,109.21 million, an increase of 18.04% as compared with the same period last year. The gross profit margin was 12.57%, an increase of 0.49 percentage point as compared with the same period last year.

In particular, the gross profit from main thermal power equipment was RMB1,340.29 million and the gross profit margin was 19.50%, an increase of 3.65 percentage points as compared with the same period last year; the gross profit from nuclear power equipment was RMB181.56 million and the gross profit margin was 22.85%, an increase of 6.34 percentage points as compared with the same period last year; the gross profit from main hydropower equipment was RMB104.19 million and the gross profit margin was 17.12%, an increase of 1.69 percentage points as compared with the same period last year; the gross profit from engineering services for power stations was RMB242.10 million and the gross profit margin was 3.60%, a decrease of 2.04 percentage points as compared with the same period last year; the gross profit from ancillary equipment for power stations was RMB32.62 million and the gross profit margin was 4.34%, a decrease of 11.43 percentage points as compared with the same period last year; and the gross profit from AC/DC motors and other products and services was RMB208.45 million and the gross profit margin was 20.35%, an increase of 8.89 percentage points as compared with the same period last year.



## EXPENSES FOR THE PERIOD

For the six months ended 30 June 2017, the Group incurred expenses for the period amounted to RMB1,350.54 million, an increase of RMB55.70 million or 4.30% as compared with the same period last year. In particular, distribution expenses amounted to RMB246.38 million, a decrease of RMB16.18 million or 6.16% as compared with the same period last year; administrative expenses incurred amounted to RMB935.42 million, a decrease of RMB13.48 million or 1.42% as compared with the same period last year; finance costs incurred amounted to RMB168.74 million, an increase of RMB85.36 million or 102.37% as compared with the same period last year.

The increase in expenses for the period was mainly attributable to the increase in net exchange loss for the current period.

## ASSETS AND LIABILITIES

As at 30 June 2017, the total assets of the Group amounted to RMB64,206.53 million, a decrease of RMB1,660.98 million or 2.52% over the beginning of the period, and among which the current assets were RMB55,578.37 million, accounting 86.56% of the total assets, and the non-current assets were RMB8,628.16 million, accounting 13.44% of the total assets.

The total liabilities of the Group amounted to RMB49,454.32 million, a decrease of RMB1,770.77 million or 3.46% over the beginning of the period, and among which the current liabilities were RMB48,043.46 million, accounting 97.15% of the total liabilities, and the non-current liabilities were RMB1,410.86 million, accounting 2.85% of the total liabilities, including the five-year domestic corporate bonds with an issuing size of RMB3.0 billion by the Company in March 2013. The balance of bonds payable for the current period was RMB2,998.83 million, which will mature in March 2018. Hence, the balance of bonds payable is reclassified as “non-current liabilities due within one year”. As at 30 June 2017, the gearing ratio of the Group was 77.02% as compared to 77.77% at the beginning of the period.

## GEARING RATIO

As at 30 June 2017, the gearing ratio of the Group (calculated as non-current liabilities over total shareholders' equity) was 0.10:1 as compared to 0.33:1 at the beginning of the period. Such change was primarily attributable to the significant decrease in total non-current liabilities as a result of reclassification of balance of bonds payable to "non-current liabilities due within one year" during the period.

## MONETARY CAPITAL AND CASH FLOWS

As at 30 June 2017, the monetary capital of the Group was RMB15,006.75 million, representing a decrease of RMB3,083.17 million or 17.04% as compared to the beginning of the period, primarily attributable to the payment for centralized material procurement during the first half of the year. During the period, the negative net cash flow generated from operating activities of the Group was RMB1,855.54 million, while investing activities generated negative net cash flow of RMB1,745.78 million and financing activities generated net cash flow of RMB671.38 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 2017, the Group's total borrowings amounted to RMB2,918.01 million, all of which were made by various commercial banks and the state's policy banks at interest rates stipulated by the state. Among the borrowings, the amount due within one year was RMB2,918.01 million, an increase of RMB828.67 million over the beginning of the period. There was no borrowing due after one year. The amounts received in advance were RMB19,839.99 million, a decrease of RMB2,863.54 million over the beginning of the period. The balance of corporate bonds was RMB2,998.83 million, which will mature in March 2018 and was reclassified as "non-current liabilities due within one year".



## **MAJOR INVESTMENTS HELD, MAJOR ACQUISITION OR DISPOSAL OF SUBSIDIARIES AND THE FUTURE PLAN ON MAJOR INVESTMENTS OR PURCHASE OF CAPITAL ASSETS**

For the six months ended 30 June 2017, the Group had made fixed assets investments of RMB505.65 million, which mainly were utilized for the technology upgrading project for nuclear pump motor units of Harbin Electric Power Equipment Company Limited, the manufacturing base improvement project for main nuclear pump motor units of Harbin Electric Power Equipment Company, the nuclear island main equipment manufacturing automation for nuclear power of Harbin Electric Corporation (QHD) Heavy Equipment Company Limited and other projects.

On 14 March 2017, the Company entered into the joint venture enterprise agreement with General Electric (China) Co., Ltd., accordingly, it was agreed that General Harbin Electric (Qinhuangdao) Gas Turbine Co., Ltd. (哈電通用(秦皇島)燃氣輪機有限公司) be established in Qinhuangdao, Hebei, the PRC, where it will be managed and operated pursuant to the terms of the joint venture enterprise agreement. The registered capital of the joint venture company is RMB667,000,000, with the Company and General Electric (China) Co., Ltd. each to contribute RMB333,500,000 and be entitled to 50% of the registered capital of the joint venture company. The joint venture enterprise agreement will come into effect on the date where the board of directors of each of the Company and General Electric (China) Co., Ltd. approves the joint venture enterprise agreement and transactions contemplated thereunder.

Save as disclosed above, the Group did not have any other major investment, significant acquisition or disposal of subsidiaries, or approve any other major investment or plan on acquisition of capital assets during the period.

## EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES AND RELATED HEDGES

The export business and the businesses settled in foreign currencies and all deposits denominated in foreign currencies of the Group are exposed to exchange risk. As at 30 June 2017, the Group's deposits denominated in foreign currencies were equivalent to approximately RMB1,418.77 million. All previous forward exchange contracts of the Group were settled in 2016. As at 30 June 2017, the Group did not enter into any new forward exchange contract.

## TAX POLICIES

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, corporations including the Company and five of its subsidiaries, namely Harbin Electrical Machinery Company Limited, Harbin Boiler Company Limited, Harbin Turbine Company Limited, Harbin Electric Power Equipment Company Limited and HE Harbin Power Plant Valve Company Limited were entitled to a 15% preferential income tax rate.

In accordance with regulations of the State Administration of Taxation, the average rate for tax rebate applicable to the Group's new export products contracts is 13% with effective from 15 October 2003.

Pursuant to the Implementation Measures of the Provisional Regulations of the PRC on Value-added Tax (《中華人民共和國增值稅暫行條例實施細則》), the Group is included in the general framework of the value-added tax system reform, which allows the Group to deduct the value-added tax incurred for the purchase of equipment.

Under the Opinions of Central Committee of the Communist Party of China and the State Council on the Revitalization Strategies for Historical Industrial Bases of the Northeast Regions (《中共中央、國務院關於實施東北地區等老工業基地振興戰略的若干意見》), the Group will continue to enjoy the relevant favorable policies in supporting such revitalization for historical industrial bases of the northeast regions.

## STAFF

As at 30 June 2017, the employees of the Group totaled at 16,278 and the total remuneration amounted to RMB729.91 million.

## INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2017.

## PROSPECTS

In 2017, the recovery of global economies has slowed down, while the economic development in China is stable in a slow pace with positive prospect. However, excess production capacity and the dilemma in demand structure still exist. The structural reform in the supply-side has entered into a year of “in-depth” development. In the industry, with the continuous and in-depth implementation of national policies such as the “Three Approvals”, the coal power market will remain sluggish, which will have a material impact on the development of power generation equipment enterprises. Among the major business segments of the Group, the coal power segment contributed approximately 41% and 64% of the operating income and operating gross profit, respectively. It is expected that the significant decline in demand in coal power market will have material adverse impact on the operating results of the Group.

The year 2017 is the key time for the reform and transformation of the Group, it is crucial for the implementation of our strategic planning, and laying the foundation for our future development. With the implementation of new policies, new business practice and new business model such as “One Belt One Road”, “China Manufacturing 2025” and “Internet+”, the fourth industrial revolution will soon occur, bringing new development opportunity to the Group. With the objective of starting its second business and returning to the top tier, the Group is committed to pursuing a new environment for sustainable and healthy development by gearing up against the recession based on the “13th Five-Year Plan”, focusing on industrial developments, starting new undertaking, driving with innovation, intensifying reforms, facilitating all-round transformation and upgrading, and disciplining the enterprise.

## SUBSTANTIAL SHAREHOLDERS’ INTERESTS IN SHARE CAPITAL

As at 30 June 2017, the total number of issued shares of the Company was 1,376,806,000 shares, which included 701,235,000 state-owned equity interest shares and 675,571,000 H shares. The interests and short positions of shareholders holding 5% or more of the issued share capital of relevant class of share of the Company, which were required to be recorded under the register of interests and short positions kept by the Company pursuant to Section 336 of the Securities and Futures Ordinance (the “SFO”), are set out as follows:

Long positions in the shares of the Company:

Name of shareholders	Class of shares	Number of shares	Capacity	Percentage to underlying share capital	Percentage to total share capital
Harbin Electric Corporation	State-owned legal person shares	701,235,000	Beneficial owner	100%	50.93%

Save as disclosed above, as at 30 June 2017, the Company did not receive any notification about the interests or short positions in shares or underlying shares of the Company, which are required to be entered in the register pursuant to Section 336 of the SFO.

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

As at 30 June 2017, none of the Directors, Supervisors and senior management of the Company and their associates had any interest and short position in the shares of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance).

## **CODE OF CONDUCT FOR SECURITIES TRANSACTIONS BY DIRECTORS AND RELEVANT COMPLIANCE**

As at 30 June 2017, the Company had adopted the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 of the Listing Rules as its code of conduct for securities transactions by Directors. The Company, having made enquiry, confirms that all Directors have complied with the provisions of the Model Code for Securities Transactions by Directors of Listed Issuers throughout the period.

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

During the six months ended 30 June 2017, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

## CONTINGENT LIABILITIES

As at 30 June 2017, the guarantees provided by the Company to its subsidiaries and the guarantees between subsidiaries of the Company amounted to RMB2,242.88 million in aggregate. There was no external guarantee of the Group. In addition, as at the end of the interim period, the Group had four pending litigations. For details, please refer to note VIII(2) “Contingency” of this interim report.

## PLEDGE OF ASSETS

As at 30 June 2017, the Group pledged its assets of RMB123.90 million (as at 30 June 2016: RMB116.15 million) to secure loans for liquidity.

## CORPORATE GOVERNANCE CODE

The Company is currently and had been at all times during the accounting period in compliance with the rules set out in the Corporate Governance Code and Corporate Governance Report contained in Appendix 14 of the Listing Rules, and, where appropriate, has adopted the recommended best practices as specified therein.

## THE AUDIT COMMITTEE

The audit committee has reviewed and approved the interim report of the Company for the six months ended 30 June 2017. The members of audit committee of the Company include Liu Deng-qing, Yu Wen-xing and Zhu Hong-jie.

## AUDITORS

BDO China Shu Lun Pan Certified Public Accountants LLP, the Company's auditors, have carried out a review of the unaudited interim report for the six months ended 30 June 2017 in accordance with the requirements of “China Certified Public Accountant Review Standard No. 2101 – Review of Financial Statement”.



## SHAREHOLDERS' MEETING

The 2016 annual general meeting of the Company was held in Harbin, PRC on 26 May 2017, the results of which had been published on the websites of Hong Kong Stock Exchange and the Company.

## OTHER DISCLOSEABLE INFORMATION

As at 30 June 2017, the Company did not have any information which was required to be disclosed pursuant to Rules 40.3(a) to (i) under Appendix 16 of the Listing Rules.

## DOCUMENTS AVAILABLE FOR INSPECTION

The Articles of Association of the Company and the original copies of the interim report and the reviewed financial statements as at 30 June 2017 are available for inspection at the head office of the Company at 1399 Chuangxinyi Road, Songbei District, Harbin, the PRC.

By Order of the Board

**Si Ze-fu**  
*Chairman*

Harbin, PRC, 11 August 2017

*As at the date of this report, the executive Directors of the Company are Mr. Si Ze-fu, Mr. Wu Wei-zhang, Mr. Zhang Ying-jian and Mr. Song Shi-qi; and the independent non-executive Directors of the Company are Mr. Liu Deng-qing, Mr. Yu Wen-xing, Mr. Hu Jian-min and Mr. Zhu Hong-jie.*

# REVIEW REPORT

PCPAR [2017] No. ZG12113

## To the Shareholders of Harbin Electric Company Limited

We have reviewed the accompanying financial statements of Harbin Electric Company Limited (Hereafter refer to as “HEC”), which comprise the consolidated balance sheet of the company as at 30 June 2017, and the consolidated income statement of the company, the consolidated cash flow statement of the company and consolidated statement of changes in owner’s equity for the year then ended, and the notes to the financial statements. Preparation and fair presentation of these financial statements is the responsibility of managements of HEC. Our responsibility is to issue review report based on the implementation of review work.

We conducted our review in accordance with Chinese Certified Public Accountants reviewing Standards No. 2101. Those standards require that we plan and perform the review to obtain reasonable assurance whether the financial statements are free from material misstatements. Review limits to inquiring about the staff and implementing financial data analysis program, the level of assurance provided is lower than the audit. We did not perform audit, and therefore do not express an audit opinion.

Based on our review, we did not notice any matter which causes us to believe that the financial statements is not prepared in accordance with International Accounting Standards, failure to fairly reflect the consolidated financial situation in, the consolidated results of operations and cash flow of the reviewed units in all material respects.

**BDO China Shu Lun Pan  
Certified Public Accountants LLP.**

**Certified Public Accountant of China:**

**Certified Public Accountant of China:**

Shanghai, China

Date: 10 August 2017

# CONSOLIDATION BALANCE SHEET

Made by: Harbin Electric Company Limited

Monetary unit: RMB YUAN

Items	Notes	30 June 2017	31 December 2016
<b>Current assets:</b>			
Cash and bank		15,006,745,131.45	18,089,913,079.54
△Settlement reserve		—	—
△Due from banks and other financial institutions		—	—
Financial assets at fair value through profit and loss		—	—
Derivative assets		—	—
Notes receivable	V.(I)	2,210,410,299.85	3,806,467,011.80
Accounts receivable	V.(II)	10,784,506,636.89	10,060,235,974.92
Advances paid	V.(III)	6,381,361,635.44	6,037,338,085.19
△Premium receivable		—	—
△Reinsurance premium receivable		—	—
△Reserve receivable for reinsurance		—	—
Interest receivable		8,644,923.72	2,295,674.89
Dividends receivable		241,249.61	241,249.61
Other receivables	V.(IV)	1,107,220,182.04	1,058,989,580.38
△Securities purchased under agreements to resell		—	—
Inventories		16,757,589,952.75	16,424,268,723.05
Including: Raw materials		3,541,551,193.33	3,146,035,799.07
Merchandise inventories			
(finished goods)		419,016,062.39	417,571,154.64
Held-for-sale assets		—	—
Current portion of non-current assets		—	—
Other current assets	V.(V)	3,321,647,141.01	2,138,487,236.92
<b>Total current assets</b>		<b>55,578,367,152.76</b>	<b>57,618,236,616.30</b>

## CONSOLIDATION BALANCE SHEET (CONTINUED)

Items	Notes	30 June 2017	31 December 2016
<b>Non-current assets:</b>			
△Loans and advances		214,055.93	6,551,087.18
Available-for-sale financial assets		90,595,000.00	90,595,000.00
Held-to-maturity investments		–	–
Long-term receivables		4,566,445.72	4,566,613.71
Long-term equity investments		201,487,889.54	214,352,573.92
Investment property	V.(VI)	27,623,875.08	27,972,824.42
Fixed asset-original cost	V.(VI)	13,240,877,922.29	12,802,272,968.29
Less: accumulated depreciation		7,279,834,544.85	6,952,523,075.51
Fixed asset-original cost net of depreciation		5,961,043,377.44	5,849,749,892.78
Less: provision for impairment of fixed assets		19,348,702.52	20,074,908.71
Fixed asset-net value		5,941,694,674.92	5,829,674,984.07
Construction in progress	V.(VI)	1,004,629,335.05	835,008,401.64
Construction materials		14,445,041.71	835,204.92
Fixed assets pending for disposal		–	–
Productive biological assets		–	–
Oil and gas assets		–	–
Intangible assets	V.(VI)	708,440,679.05	650,245,362.23
Development disbursements		234,757,248.98	197,203,075.79
Goodwill		–	–
Long-term deferred expenses		36,589,380.44	40,892,704.71
Deferred tax assets		363,117,191.26	351,373,269.10
Other non-current assets			
Including: Authorised reserve material		–	–
<b>Total non-current assets</b>		<b>8,628,160,817.68</b>	<b>8,249,271,101.69</b>
<b>Total assets</b>		<b>64,206,527,970.44</b>	<b>65,867,507,717.99</b>

## CONSOLIDATION BALANCE SHEET (CONTINUED)

Items	Notes	30 June 2017	31 December 2016
<b>Current liabilities:</b>			
Short-term borrowings	V.(VII)	2,918,008,542.78	2,089,338,408.88
△Borrowings from central bank		—	—
△Deposits and placements from other financial institutions		1,741,463,971.15	2,674,062,146.65
△Placement from banks and other financial institutions		—	—
Financial liabilities at fair value through profit and loss		—	—
Derivative liabilities		—	—
Notes payable	V.(VIII)	5,460,372,106.92	6,093,183,408.50
Accounts payable	V.(IX)	14,556,419,354.69	12,234,254,358.75
Advances from customers		19,839,992,895.37	22,703,536,765.04
△Securities sold under agreement to repurchase		—	—
△Fees and commissions payable		—	—
Employee benefits payable		200,703,527.51	184,279,812.72
Including: Salary payable		358,313.58	471,789.44
Welfare benefits payable		11,467,995.70	—
Including: Employee bonus and welfare fund		—	—
Taxes and surcharges payable		-117,945,096.37	367,490,729.90
Including: Taxes payable excluding surcharges		-123,636,848.33	345,874,898.24
Interest payable		92,649,867.58	136,755,117.01
Dividends payable		46,216,305.20	6,936,931.73
Other payables		306,618,024.09	307,070,933.98
△Reinsurance amounts payable		—	—
△Reserve of insurance contract		—	—
△Securities brokering		—	—
△Securities underwriting		—	—
Held-for-sale liabilities		—	—
Current portion of non-current liabilities	V.(XI)	2,998,830,000.00	—
Other current liabilities	V.(X)	134,893.80	134,893.80
<b>Total current liabilities</b>		<b>48,043,464,392.72</b>	<b>46,797,043,506.96</b>

## CONSOLIDATION BALANCE SHEET (CONTINUED)

Items	Notes	30 June 2017	31 December 2016
<b>Non-current liabilities:</b>			
Long-term borrowings		–	–
Bonds payable	V.(XI)	–	2,997,952,500.00
Long-term payable		1,000,000.00	1,000,000.00
Long-term employee benefits payable		72,394,718.75	80,192,909.50
Fees and commissions payable		505,919,894.29	485,919,894.29
Provisions		659,864,218.78	689,345,509.25
Deferred income		171,676,405.85	173,638,642.51
Deferred tax liabilities		–	–
Other non-current liabilities		–	–
Including: Authorised reserve fund		–	–
<b>Total non-current liabilities</b>		<b>1,410,855,237.67</b>	<b>4,428,049,455.55</b>
<b>Total liabilities</b>		<b>49,454,319,630.39</b>	<b>51,225,092,962.51</b>



## CONSOLIDATION BALANCE SHEET (CONTINUED)

Items	Notes	30 June 2017	31 December 2016
<b>Equity:</b>			
Paid-in capital	V.(XIII)	1,376,806,000.00	1,376,806,000.00
State-owned capital		701,235,000.00	701,235,000.00
Including: State-owned legal person's capital		701,235,000.00	701,235,000.00
Collectively owned capital		—	—
Private capital		—	—
Including: Individual capital		—	—
Foreign capital		675,571,000.00	675,571,000.00
Less: payback capital		—	—
Paid-in capital-net value		1,376,806,000.00	1,376,806,000.00
Other equity instruments		—	—
Including: Preferred stock		—	—
Perpetual debt		—	—
Capital reserve		2,764,208,480.41	2,764,208,480.41
Less: treasury shares		—	—
Other comprehensive income		-6,485,187.17	-6,938,794.70
Including: Currency translation reserve		1,758,777.27	3,417,340.36
Specialised reserve		20,436,600.42	15,801,148.88
Surplus reserve		786,529,945.86	786,529,945.86
Including: Statutory surplus reserve		786,529,945.86	786,529,945.86
Other surplus reserve		—	—
Reserve fund		—	—
Corporate development fund		—	—
Return of investment		—	—
△General risk reserve		—	—
Retained earnings		8,579,975,973.54	8,496,686,529.09
<b>Equity attributable to parent company</b>		<b>13,521,471,813.06</b>	<b>13,433,093,309.54</b>
Minority interests		1,230,736,526.99	1,209,321,445.94
<b>Total owner's equity</b>		<b>14,752,208,340.05</b>	<b>14,642,414,755.48</b>
<b>Total liabilities and owner's equity</b>		<b>64,206,527,970.44</b>	<b>65,867,507,717.99</b>

Corporate representative:

Chief Accountant:

Accounting Supervisor:

# CONSOLIDATION INCOME STATEMENTS

Made by: Harbin Electric Company Limited

Monetary unit: RMB YUAN

Items	Notes	January to June 2017	January to June 2016
<b>1. Revenue</b>		<b>16,976,905,559.55</b>	14,975,830,143.82
Including: Operating revenue	V.(XIV)	16,778,045,409.53	14,794,245,118.85
△ Interest income		198,855,999.08	181,554,669.03
△ Premium earned		—	—
△ Fees and commissions income		4,150.94	30,355.94
<b>2. Total cost</b>		<b>16,706,670,462.24</b>	14,764,243,090.19
Including: Operating cost		14,668,840,254.36	13,007,447,060.66
△ Interest expenses		12,918,952.95	6,886,583.21
△ Fees and commissions expenses		8,393.88	13,019.55
△ Cash surrender amount		—	—
△ Net expenses of claim settlement		—	—
△ Net provisions for insurance contract reserves		—	—
△ Policy dividend expenses		—	—
△ Reinsurance expenses		—	—
Business taxes and surcharges		76,606,057.62	49,440,161.95
Selling expenses		246,380,167.72	262,557,267.69
Administrative expenses	V.(XV)	935,418,967.16	948,901,640.62
Including: Research and development expenses		111,637,505.77	113,016,852.75
Finance expenses		168,742,077.55	83,384,749.24
Including: Interest expenses		116,904,853.63	118,905,690.12
Interest income		21,616,412.94	29,316,237.76
Net loss on foreign exchange ("—" for net gain)		58,995,702.41	-21,066,590.14
Impairment on assets	V.(XVI)	597,755,591.00	405,612,607.27
Other costs and expenses		—	—
Add: Gain from fair-value changes ("—" for loss)		-2,484,906.61	80,871,846.14
Investment income ("—" for loss)		38,315,566.76	-126,303,569.87
Including: Investment income from associates and joint ventures		20,089,218.32	-11,219,150.71
△ Gain on foreign exchange ("—" for loss)		203.78	—
Other income		3,369,003.80	—

## CONSOLIDATION INCOME STATEMENTS (CONTINUED)

Items	Notes	January to June 2017	January to June 2016
<b>3. Operating profits (“-” for loss)</b>		<b>309,434,965.04</b>	166,155,329.90
Add: non-operating income		11,455,710.68	50,353,669.24
Including: Gain from disposal of non-current assets		2,771,688.72	2,302,160.06
Gain from exchange of non-monetary assets		-	-
Government grants		6,664,120.88	42,303,877.31
Gain from debt restructuring		-	-
Less: non-operating expenses		96,826,582.11	-13,761,110.22
Including: Loss on disposal of non-current assets		613,601.40	1,323,351.95
Loss on exchange of non-monetary assets		-	-
Loss on debt restructuring		-	-
<b>4. Profit before tax (“-” for loss)</b>		<b>224,064,093.61</b>	230,270,109.36
Less: income tax		75,966,190.39	114,320,805.08
<b>5. Net profit (“-” for net loss)</b>		<b>148,097,903.22</b>	115,949,304.28
Net profit attributable to parent company		124,593,624.45	130,337,132.51
Profit/loss attributable to minority share-holders		23,504,278.77	-14,387,828.23

## CONSOLIDATION INCOME STATEMENTS (CONTINUED)

Items	Notes	January to June 2017	January to June 2016
<b>6. Other comprehensive income after tax</b>		<b>453,607.53</b>	117,938,670.28
(1) Comprehensive income not to be reclassified as profit or loss		—	—
Including: 1. Changes in remeasured defined benefit obligations or net assets		—	—
2. Portion of comprehensive income not to be reclassified as profit or loss under equity method		—	—
(2) Comprehensive income to be reclassified as profit or loss		<b>453,607.53</b>	117,938,670.28
Including: 1. Portion of comprehensive income to be reclassified as profit or loss under equity method		—	—
2. Gain or loss from fair value changes of available-for-sale financial assets		—	—
3. Gain or loss from reclassification of held-to-maturity investments as available-for-sale financial assets		—	—
4. Gain or loss on effective cash flow hedging		<b>2,112,170.62</b>	117,801,074.40
5. Currency translation reserve		<b>-1,658,563.09</b>	137,595.88
<b>7. Total comprehensive income</b>		<b>148,551,510.75</b>	233,887,974.56
Total comprehensive income attributable to parent company		<b>125,047,231.98</b>	248,275,802.79
Total comprehensive income attributable to minority shareholders		<b>23,504,278.77</b>	-14,387,828.23
<b>8. Earnings per share:</b>			
Basic earnings per share	V.(XIX)	<b>0.09</b>	0.09
Diluted earnings per share	V.(XIX)	<b>0.09</b>	0.09

Corporate representative:

Chief Accountant:

Accounting Supervisor:

# CONSOLIDATION CASH FLOW STATEMENT

Made by: Harbin Electric Company Limited

Monetary unit: RMB YUAN

Items	Notes	January to June 2017	January to June 2016
<b>1. Cash flows from operating activities:</b>			
Cash received from sales and services		15,343,445,033.41	13,325,461,120.95
△Net increase in deposits and placements from financial institutions		-932,598,175.50	-494,772,522.23
△Net increase in due to central banks		-	-
△Net increase in placement from financial institutions		-	-
△Cash received from premiums of original insurance contracts		-	-
△Net amount of reinsurance business		-	-
△Net increase in insured's deposits and investments		-	-
△Net increase in disposal of financial assets at fair value through profit and loss		-	-
△Cash received from interests, fees and commissions		215,734,524.85	179,883,052.78
△Net increase of placement from banks and other financial institutions		-	-
△Net increase in repurchasing		-	-
Taxes and surcharges refunds		309,261,201.06	330,435,996.33
Other cash receipts related to operating activities		329,251,903.71	310,698,607.89
<b>Total cash inflows from operating activities</b>		<b>15,265,094,487.53</b>	<b>13,651,706,255.72</b>
Cash paid for goods and services		14,335,482,416.02	12,753,724,631.08
△Net increase in loans and advances		-22,815,238.05	174,107,267.10
△Net increase in deposits with central banks and other financial institutions		-39,750,759.98	1,353,604.48
△Cash paid for claim settlements on original insurance contracts		-	-
△Cash paid for interest, fees and commissions		9,728,221.40	4,269,617.83
△Cash paid for policy dividends		-	-
Cash paid to and for employees		1,302,052,977.60	1,346,580,224.71
Taxes and surcharges cash payments		744,667,213.36	732,719,773.97
Other cash payments related to operating activities		791,272,613.26	933,882,886.52
<b>Total cash outflows from operating activities</b>		<b>17,120,637,443.61</b>	<b>15,946,638,005.69</b>
<b>Net cash flows from operating activities</b>		<b>-1,855,542,956.08</b>	<b>-2,294,931,749.97</b>

## CONSOLIDATION CASH FLOW STATEMENT (CONTINUED)

Items	Notes	January to June 2017	January to June 2016
<b>2. Cash flows from investing activities:</b>			
Cash received from withdraw of investments		910,000,000.00	2,380,909,369.81
Cash received from investment income		21,728,536.46	27,758,390.79
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		2,311,731.06	371,515.10
Net cash received from disposal of subsidiaries and other business units		–	164,120,875.01
Other cash receipts related to investing activities		–	103,275,466.68
<b>Total cash inflows from investing activities</b>		<b>934,040,267.52</b>	<b>2,676,435,617.39</b>
Cash paid for fixed assets, intangible assets and other long-term assets		579,820,899.94	425,972,867.91
△Cash payments for investments		2,100,000,000.00	1,770,115,643.84
Net increase in pledged loans		–	–
Net cash paid for acquiring subsidiaries and other business units		–	–
Other cash payments related to investing activities			205,606,424.36
<b>Total cash outflows from investing activities</b>		<b>2,679,820,899.94</b>	<b>2,401,694,936.11</b>
<b>Net cash flows from investing activities</b>		<b>-1,745,780,632.42</b>	<b>274,740,681.28</b>



## CONSOLIDATION CASH FLOW STATEMENT (CONTINUED)

Items	Notes	January to June 2017	January to June 2016
<b>3. Cash flows from financing activities:</b>			
Cash received from investments by others		—	20,000,000.00
Including: Cash received by subsidiaries from minority shareholder' investments		—	20,000,000.00
Cash received from borrowings		863,900,000.00	91,360,000.00
△Cash received from bond issues		—	—
Other cash receipts related to other financing activities		36,453.39	150,006,738.18
<b>Total cash inflows from financing activities</b>		<b>863,936,453.39</b>	<b>261,366,738.18</b>
Cash repayments for debts		15,229,866.10	736,766,366.38
Cash payments for distribution of dividends, profit and interest expenses		177,329,265.88	186,511,568.31
Including: Dividends or profit paid by subsidiaries to minority shareholders		—	—
Other cash payments related to financing activities		2,136.92	-4,898,184.16
<b>Total cash outflows from financing activities</b>		<b>192,561,268.90</b>	<b>918,379,750.53</b>
<b>Net cash flows from financing activities</b>		<b>671,375,184.49</b>	<b>-657,013,012.35</b>
<b>4. Effect of foreign exchange rate changes on cash and cash equivalents</b>		<b>-48,368,137.26</b>	<b>10,505,915.64</b>
<b>5. Net increase in cash and cash equivalents</b>		<b>-2,978,316,541.27</b>	<b>-2,666,698,165.40</b>
Add: Beginning balance of cash and cash equivalents		17,204,139,648.41	17,178,496,464.76
<b>6. Ending balance of cash and cash equivalents</b>		<b>14,225,823,107.14</b>	<b>14,511,798,299.36</b>

Corporate representative:

Chief Accountant:

Accounting Supervisor:

# CONSOLIDATION STATEMENTS OF CHANGES IN EQUITY

Made by: Harbin Electric Company Limited

Monetary unit: RMB YUAN

Items	January to June 2017												
	Equity attributable to parent company											Minority interests	Total owner's equity
	Paid-in capital	Other equity instruments	Capital reserve	Less: treasury shares	Other comprehensive income	Specialised reserve	Surplus reserve	Δ General risk provision	Retained earnings	Others	Subtotal		
<b>1. Ending balance of last year</b>	1,376,816,000.00	-	2,764,208,480.41	-	-6,938,794.70	15,801,148.88	786,529,945.86	-	8,496,686,529.09	-	13,433,093,309.54	1,209,321,445.94	14,642,414,755.48
Add: Increase(decrease due to changes in accounting policies	-	-	-	-	-	-	-	-	-	-	-	-	-
Increase(decrease due to corrections of errors in Prior Period	-	-	-	-	-	-	-	-	-	-	-	-	-
Others	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>2. Beginning balance of current year</b>	1,376,816,000.00	-	2,764,208,480.41	-	-6,938,794.70	15,801,148.88	786,529,945.86	-	8,496,686,529.09	-	13,433,093,309.54	1,209,321,445.94	14,642,414,755.48
<b>3. Increase(decrease for current year ("+" for decrease)</b>	-	-	-	-	453,607.53	4,635,451.54	-	-	80,289,444.45	-	88,378,503.52	21,415,081.05	109,793,584.57
<b>(1) Total comprehensive income</b>	-	-	-	-	453,607.53	-	-	-	124,593,624.45	-	125,047,231.89	23,594,278.77	148,551,510.75
<b>(2) Owner's contributions and withdrawals of capital</b>	-	-	-	-	-	-	-	-	-	-	-	-	-
1. Common stock contributed by owners	-	-	-	-	-	-	-	-	-	-	-	-	-
2. Capital contributed by other equity instruments holders	-	-	-	-	-	-	-	-	-	-	-	-	-
3. Share-based payment recorded in owner's equity	-	-	-	-	-	-	-	-	-	-	-	-	-
4. Others	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>(3) Accrual and utilisation of specialised reserve</b>	-	-	-	-	-	4,635,451.54	-	-	-	-	4,635,451.54	372,753.63	5,008,205.17
1. Accrual of specialised reserve	-	-	-	-	-	11,493,647.86	-	-	-	-	11,493,647.86	1,699,469.00	13,193,116.86
2. Utilization of specialised reserve	-	-	-	-	-	-6,858,196.32	-	-	-	-	-6,858,196.32	-1,326,715.37	-8,184,911.69

## CONSOLIDATION STATEMENTS OF CHANGES IN EQUITY (CONTINUED)

Items	January to June 2017											Minority interests	Total owner's equity
	Equity attributable to parent company												
	Paid-in capital	Other equity instruments	Capital reserve	Less: treasury shares	Other comprehensive income	Specialised reserve	Surplus reserve	Δ General risk provision	Retained earnings	Others	Subtotal		
<b>(4) Profits distribution</b>	-	-	-	-	-	-	-	-	-41,204,180.00	-	-41,204,180.00	-2,461,651.05	-43,766,131.35
1. Appropriation of surplus reserve	-	-	-	-	-	-	-	-	-	-	-	-	-
Including: Statutory surplus reserve	-	-	-	-	-	-	-	-	-	-	-	-	-
Discretionary surplus reserve	-	-	-	-	-	-	-	-	-	-	-	-	-
Reserve fund	-	-	-	-	-	-	-	-	-	-	-	-	-
Corporate development fund	-	-	-	-	-	-	-	-	-	-	-	-	-
Return of investment	-	-	-	-	-	-	-	-	-	-	-	-	-
2. Accrual of general risk reserve	-	-	-	-	-	-	-	-	-	-	-	-	-
3. Distribution to owner/ shareholder	-	-	-	-	-	-	-	-	-41,204,180.00	-	-41,204,180.00	-2,461,651.05	-43,766,131.35
4. Others	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>(5) Transfer within owner's equity</b>	-	-	-	-	-	-	-	-	-	-	-	-	-
1. Capital reserve transferred to paid-in capital	-	-	-	-	-	-	-	-	-	-	-	-	-
2. Surplus reserve transferred to paid-in capital	-	-	-	-	-	-	-	-	-	-	-	-	-
3. Recover of loss by surplus reserve	-	-	-	-	-	-	-	-	-	-	-	-	-
4. Changes in remeasurement of defined benefit net obligations/assets	-	-	-	-	-	-	-	-	-	-	-	-	-
5. Others	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>4. Ending balance of current year</b>	1,378,805,000.00	-	2,764,238,480.41	-	-4,465,187.17	20,456,600.42	786,529,646.86	-	6,579,976,973.54	-	13,521,471,613.06	1,220,736,526.99	14,752,208,340.05

Corporate representative:

Chief Accountant:

Accounting Supervisor:

# CONSOLIDATION STATEMENTS OF CHANGES IN EQUITY (CONTINUED)

Made by: Harbin Electric Company Limited

Monetary unit: RMB YUAN

Items	January to June 2016											Minority interests	Total owner's equity
	Equity attributable to parent company												
	Paid-in capital	Other equity instruments	Capital reserve	Less: treasury shares	Other comprehensive income	Specialised reserve	Surplus reserve	△General risk provision	Retained earnings	Others	Subtotal		
<b>1. Ending balance of last year</b>	1,376,806,000.00	-	2,749,914,774.17	-	-321,038,700.14	11,122,854.40	786,529,945.86	-	8,104,055,926.70	-	12,707,390,800.99	1,239,491,054.28	13,916,881,855.27
Add: increase(decrease due to changes in accounting policies	-	-	-	-	-	-	-	-	-	-	-	-	-
Increase(decrease due to corrections of errors in Prior Period	-	-	-	-	-	-	-	-	-	-	-	-	-
Others	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>2. Beginning balance of current year</b>	1,376,806,000.00	-	2,749,914,774.17	-	-321,038,700.14	11,122,854.40	786,529,945.86	-	8,104,055,926.70	-	12,707,390,800.99	1,239,491,054.28	13,916,881,855.27
<b>3. Increase(decrease for current year ("+" for increase)</b>	-	-	4,803,061.44	-	117,938,670.28	4,753,060.38	-	-	109,665,042.51	-	237,179,834.61	-100,070,655.64	137,108,178.97
<b>(1) Total comprehensive income</b>	-	-	-	-	117,938,670.28	-	-	-	130,337,132.51	-	248,275,802.79	-14,387,828.23	233,887,974.56
<b>(2) Owner's contributions and withdrawals of capital</b>	-	-	4,803,061.44	-	-	-	-	-	-	-	4,803,061.44	-86,388,779.63	-81,585,718.19
1. Common stock contributed by owners	-	-	-	-	-	-	-	-	-	-	-	-	-
2. Capital contributed by other equity instruments holders	-	-	-	-	-	-	-	-	-	-	-	-	-
3. Share-based payment recorded in owner's equity	-	-	-	-	-	-	-	-	-	-	-	-	-
4. Others	-	-	4,803,061.44	-	-	-	-	-	-	-	4,803,061.44	-86,388,779.63	-81,585,718.19
<b>(3) Accrual and utilisation of specialised reserve</b>	-	-	-	-	-	2,300,356.75	-	-	-	-	2,300,356.75	44,068.93	2,344,425.68
1. Accrual of specialised reserve	-	-	-	-	-	2,890,127.20	-	-	-	-	2,890,127.20	45,330.93	2,935,518.13
2. Utilization of specialised reserve	-	-	-	-	-	-589,830.45	-	-	-	-	-589,830.45	-1,262.00	-591,092.45

# CONSOLIDATION STATEMENTS OF CHANGES IN EQUITY (CONTINUED)

January to June 2016

Items	Equity attributable to parent company											Minority interests	Total owner's equity
	Paid-in capital	Other equity instruments	Capital reserve	Less: treasury shares	Other comprehensive income	Specialised reserve	Surplus reserve	Δ General risk provision	Retained earnings	Others	Subtotal		
<b>(4) Profits distribution</b>	-	-	-	-	-	2,452,703.63	-	-	-20,652,090.00	-	-16,199,366.37	661,863.29	-17,537,500.06
1. Appropriation of surplus reserve	-	-	-	-	-	-	-	-	-	-	-	-	-
Including: statutory surplus reserve	-	-	-	-	-	-	-	-	-	-	-	-	-
Discretionary surplus reserve	-	-	-	-	-	-	-	-	-	-	-	-	-
Reserve fund	-	-	-	-	-	-	-	-	-	-	-	-	-
Corporate development fund	-	-	-	-	-	-	-	-	-	-	-	-	-
Return of investment	-	-	-	-	-	-	-	-	-	-	-	-	-
2. Accrual of general risk reserve	-	-	-	-	-	-	-	-	-	-	-	-	-
3. Distribution to owner/ shareholder	-	-	-	-	-	-	-	-	-20,652,090.00	-	-20,652,090.00	-	-20,652,090.00
4. Others	-	-	-	-	-	2,452,703.63	-	-	-	-	2,452,703.63	661,863.29	3,114,566.92
<b>(5) Transfer within owner's equity</b>	-	-	-	-	-	-	-	-	-	-	-	-	-
1. Capital reserve transferred to paid-in capital	-	-	-	-	-	-	-	-	-	-	-	-	-
2. Surplus reserve transferred to paid-in capital	-	-	-	-	-	-	-	-	-	-	-	-	-
3. Recover of loss by surplus reserve	-	-	-	-	-	-	-	-	-	-	-	-	-
4. Changes in re-measurement of defined benefit net obligations/assets	-	-	-	-	-	-	-	-	-	-	-	-	-
5. Others	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>4. Ending balance of current year</b>	1,376,806,000.00	-	2,754,717,836.61	-	-203,100,029.86	15,875,914.78	786,529,945.86	-	8,213,740,969.21	-	12,944,670,635.60	1,109,420,398.64	14,053,991,034.24

Corporate representative:

Chief Accountant:

Accounting Supervisor:

# NOTES TO THE FINANCIAL STATEMENTS

*For the year ended on 30 June 2017*

*(Unless otherwise stated, all amounts are denominated in Renminbi)*

## **I. INFORMATION ABOUT THE COMPANY**

### (I) Company profile

Harbin Electric Company Limited (the “Company”) was initially and was formed through the restructuring of Harbin Electric Corporation (“HE Corporation”) and its three affiliates: Harbin Electrical Machinery Works, Harbin Boiler Works and Harbin Turbine Works (the “three major power factories”). The Company was established in Harbin on 6 October 1994. The reconstruction and listing of its shares in Hong Kong with limited liabilities has been approved by the State Commission for Restructuring the Economic Systems on 5 November 1994.

Parent and ultimate controller of the Company: Harbin Electric Corporation

The Company is engaged in manufacturing of power generator and generator units, its principal businesses are production and sales of power generator and turn-key construction of power station projects.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

*For the year ended on 30 June 2017*

*(Unless otherwise stated, all amounts are denominated in Renminbi)*

### **II. BASIS OF PREPARATION OF FINANCIAL STATEMENTS**

#### (I) Basis of preparation

Based on going concern and actual transactions and events, the Company prepared financial statements in accordance with the basic and specific standards of the Accounting Standards for Business Enterprises, and relevant regulations issued by the Ministry of Finance (hereinafter collectively referred to as "CAS"), and the disclosure requirements in the Preparation Convention of Information Disclosure by Companies Offering Securities to the Public No.15 – General Provisions on Financial Reporting (revised in 2014) issued by the China Securities Regulatory Commission, and Hong Kong Stock Exchange's Rules Governing the Listing of Securities and the Hong Kong Companies Ordinance.

#### (II) Going concern

For the reporting period and at least 12 months since the end of the reporting period, the Company's production and operation was stable with reasonable asset and liability structure, therefore it has ability to continue as a going concern and there's no significant risk affecting its ability to continue as a going concern.



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

*For the year ended on 30 June 2017*

*(Unless otherwise stated, all amounts are denominated in Renminbi)*

### III. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES

The following disclosures cover the specific accounting policies and accounting estimates formulated by the Company according to the characteristics of its production and operation.

Among them, the accounting policy for bad debts of trade receivables is:

1. Accounts receivable that are individually significant and subject to separate provision Individually significant accounts receivable:

Bases for making judgement and standard for calculation the amount for the accounts receivable that are individually significant The amount of accounts receivable of more than RMB30 million (including RMB30 million) and other receivables of more than RMB10 million (including RMB10 million) are recognized as accounts receivable that are individually significant.

Recognition of receivables with amounts that are individually significant and subject to separate assessment for provision for bad debts The Company assesses individually significant receivables for impairment on individual basis, financial assets which is not impaired on individual basis will be assessed for impairment collectively with a portfolio of financial assets which share similar credit risk characteristics. For receivables that are individually impaired, the receivable will not be assessed for impairment collectively with a portfolio of financial assets which share similar credit risk characteristics.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended on 30 June 2017

(Unless otherwise stated, all amounts are denominated in Renminbi)

### III. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES (CONTINUED)

2. Accounts receivable that are subject to provision by groups based on the credit risk characteristics:

#### **Recognition of receivables that are subject to provision by groups based on the credit risk characteristics**

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Aging Group	Except the receivables with separate impairment provision, the Company recognizes the group of receivables classified by specific credit risk for the current year according to actual loss ratio of the same or similar group of receivables classified by aging group with similar credit risk characteristics as well as the prevailing condition, and the provision for bad debt are measured in accordance with the ratio of the following table.
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## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended on 30 June 2017

(Unless otherwise stated, all amounts are denominated in Renminbi)

### III. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES (CONTINUED)

2. Accounts receivable that are subject to provision by groups based on the credit risk characteristics: (Continued)

Where aging analysis method is used for provision of bad debts for groups:

<b>Aging</b>	<b>Provision ratios for accounts Receivable (%)</b>	<b>Provision ratios for other Receivables (%)</b>
Within 1 year (including 1 year)	0–5	0–5
1 to 2 years	5–25	5–25
2 to 3 years	50	50
3 to 4 years	80	80
4 to 5 years	80	80
Over 5 years	100	100

The Company does not make provision for bad debt for retention monies.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended on 30 June 2017

(Unless otherwise stated, all amounts are denominated in Renminbi)

### III. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES (CONTINUED)

3. Accounts receivable which are individually insignificant but subject to separate bad debt provision:

For individually insignificant accounts receivable with the following characteristics, if there is objective evidence that the receivables are impaired, will be subject to separate impairment test. The impairment loss and the provision for bad debts are determined based on the amount of the present value of the future cash flows expected to be derived from the receivables below the carrying amount:

Accounts receivable not provided for bad debt:

- A. Accounts receivable between related parties.
  - B. For organisations such as the competent department for the relevant industry, industry associations, accounts receivable in guarantee and deposit nature. For internal department of enterprises or incurred by existing employees for the operating of business, accounts receivable in borrowing and reserve nature. Except there is evidence of impairment, no provision for impairment is required for the above accounts receivable.
- (I) Statement of compliance of accounting standards for business enterprises

The financial statements have been prepared by the Company in conformity with the China Accounting Standards for Business Enterprises, and present truly and completely the Company's financial position, operating results and cash flow and other related information in the reporting period.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

*For the year ended on 30 June 2017*

*(Unless otherwise stated, all amounts are denominated in Renminbi)*

### III. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES (CONTINUED)

(II) Accounting period

The accounting period of the Company is from 1 January to 31 December of each calendar year.

(III) Operating Cycle

The Group's operating cycle is 12 months.

(IV) Reporting currency

The reporting currency of the Company is Renminbi ("RMB").

(V) Measurement principle

Unless the financial instruments are measured at fair value, the consolidated financial statements are measured by historical cost method.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended on 30 June 2017

(Unless otherwise stated, all amounts are denominated in Renminbi)

### III. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES (CONTINUED)

(VI) Significant changes in accounting policies and accounting estimates

1. *Significant accounting policy changes*

The Ministry of Finance issued the Accounting Standards for Business Enterprises No. 42 – Non-current assets, Disposal Group and Termination of Operation held for Sale in 2017, with effect from 28 May 2017. For non-current assets, disposal groups and termination of operations held for sale exists on 28 May 2017, future applicable method is required to be used.

The Ministry of Finance revised the Accounting Standards for Business Enterprises No. 16 – Government grants in 2017. The revised guidelines came into effect on 12 June 2017. For government grants on 1 January 2017, future applicable method is required to be used, for new government grants from 1 January 2017 to 12 June 2017, also required to adjust in accordance with the revised guidelines.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended on 30 June 2017

(Unless otherwise stated, all amounts are denominated in Renminbi)

### III. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES (CONTINUED)

#### (VI) Significant changes in accounting policies and accounting estimates (Continued)

##### 1. Significant accounting policy changes (Continued)

The main impact of implementing the above two criteria are as follows:

<b>The content and reasons of accounting policy changes</b>	<b>Affected report item name and amount</b>
(1) In the income statement, operating profit or loss of continuing operations and operating profit or loss of termination listed respectively	Listed on the profit or loss of continuing operations amount of 0.00 yuan; listed operating profit or loss of termination this year, the amount of 0.00 yuan.
(2) Part of the assets related to government subsidies, offsetting the book value of the relevant assets	Fixed assets : 0.00 yuan decreased.
(3) Part of the revenue-related government subsidies, offset the relevant costs	Management costs : 0.00 yuan decreased.
(4) Government grants related to the daily activities of the Company are included in other income and are not included in non-operating income	Other income : 3,369,003.80 yuan increased.



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended on 30 June 2017

(Unless otherwise stated, all amounts are denominated in Renminbi)

### III. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES (CONTINUED)

(VI) Significant changes in accounting policies and accounting estimates (Continued)

2. *Significant accounting estimates changes*

None.

### IV. TAXATION

(I) Main types of taxes and corresponding rates

<b>Tax Type</b>	<b>Tax basis</b>	<b>Tax rate</b>
Value-added Tax	Output VAT is calculated on product sales and taxable services revenue, based on tax laws. The remaining balance of output VAT, after subtracting the deductible input VAT of the period, is VAT payable	6%、17%
City maintenance and construction tax	Based on business tax paid, VAT and sale tax	7%
Enterprise income tax	Based on taxable profits	15%、25%

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended on 30 June 2017

(Unless otherwise stated, all amounts are denominated in Renminbi)

### IV. TAXATION (CONTINUED)

#### (II) Tax Preference

Under the EIT Law, high and new technology enterprises that require key state support are subject to the applicable enterprise income tax rate with a reduction of 15%.

On 5 August 2014, the Company obtained the High and New Technology Enterprise certificate (Number: GR20142300008) jointly issued by the Heilongjiang Science and Technology Bureau, Heilongjiang Finance Bureau, Heilongjiang State Tax Bureau and Heilongjiang Local Tax Bureau, for an effective period of three years, pursuant to which enterprise income tax will be charged at the rate of 15% during the period.

In addition to several subsidiaries are charged the corporate income tax rate of 15% (for the six months ended 30 June 2016), other subsidiaries in China shall be 25% (for the six months ended 30 June 2016) to pay Chinese corporate income tax.

#### (III) Hong Kong profits tax

The Group did not earn any income tax on Hong Kong profits tax from January to June 2017, and there was no provision for Hong Kong profits tax

#### (IV) In accordance with the Circular of the State Administration of Taxation on the issue of the payment of corporate income tax on dividends paid by the Chinese resident enterprises to the shareholders of non-resident enterprises of overseas H shares on 6 November 2008 [2008] No. 897 issued by the State Administration of Taxation. The Chinese resident enterprises shall pay the enterprise income tax at the rate of 10% of the annual dividend of the H-share non-resident enterprise shareholders. Accordingly, the Company shall pay the enterprise income tax at the rate of 10% of the annual dividend of H shares non-resident enterprise shareholders.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended on 30 June 2017

(Unless otherwise stated, all amounts are denominated in Renminbi)

### V. NOTES TO KEY ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS

#### (I) Notes receivable

##### 1. Classified by types of notes receivable

Items	30 June 2017	31 December 2016
Bank promissory notes	1,861,731,373.40	3,273,397,093.42
Commercial promissory notes	348,678,926.45	533,069,918.38
Total	2,210,410,299.85	3,806,467,011.80

*Explanation:* as of 30 June 2017, the ending balance of notes receivable were within a year.

#### (II) Accounts receivable

##### 1. Disclosure by types of accounts receivable

Type	30 June 2017					31 December 2016				
	Remaining carrying amount		Provision for bad debt			Remaining carrying amount		Provision for bad debt		
	Amount	Ratio (%)	Amount	Provided Ratio (%)	Carrying Value	Amount	Ratio (%)	Amount	Provided Ratio (%)	Carrying Value
Accounts receivable which are individually significant and provided for bad debt separately	995,993,065.51	6.04	517,800,465.66	51.97	478,362,619.65	610,218,963.59	3.97	445,127,622.43	72.95	165,091,341.16
Accounts receivable provided for bad debt by credit risk characteristics	15,312,264,672.99	92.83	5,096,308,982.18	33.28	10,215,955,690.81	14,624,270,379.72	95.17	4,793,300,619.20	32.78	9,830,969,760.52
Accounts receivable which are individually not significant but provided for bad debt separately	168,648,420.87	1.03	78,460,394.44	46.52	90,188,026.43	131,727,172.05	0.66	67,562,298.81	51.28	64,174,873.24
Total	16,476,876,479.37	100.00	5,692,369,842.48	/	10,784,506,636.89	15,366,216,515.36	100.00	5,305,960,540.44	/	10,060,255,974.92

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended on 30 June 2017

(Unless otherwise stated, all amounts are denominated in Renminbi)

### V. NOTES TO KEY ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

#### (II) Accounts receivable (Continued)

##### 1. Disclosure by types of accounts receivable (Continued)

Accounts receivable which are individually significant and provided for bad debt separately at the end of the period

Accounts receivable (By Unit)	30 June 2017			Reasons for provision
	Accounts receivable	Provision for bad debt	Provided Ratio (%)	
Ministry of Irrigation & Water Resources of Republic of Sudan (Merowe Project) ect.	995,963,085.51	517,600,465.86	51.97	/
<b>Total</b>	<b>995,963,085.51</b>	<b>517,600,465.86</b>	<b>51.97</b>	<b>/</b>

Accounts receivable which are individually not significant but provided for bad debt separately:

Accounts receivable (By units)	30 June 2017			Reasons for provision
	Accounts receivable	Provision for bad debt	Provided Ratio (%)	
National Electricity Corporation of Sudan ect.	168,648,420.87	78,460,394.44	46.52	/
<b>Total</b>	<b>168,648,420.87</b>	<b>78,460,394.44</b>	<b>46.52</b>	<b>/</b>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended on 30 June 2017

(Unless otherwise stated, all amounts are denominated in Renminbi)

### V. NOTES TO KEY ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

#### (II) Accounts receivable (Continued)

##### 1. Disclosure by types of accounts receivable (Continued)

In a portfolio, accounts receivable are provided for a bad debt based on aging analysis:

Age	30 June 2017			31 December 2016		
	Accounts receivable	Provision for bad debt	Provided ratio (%)	Accounts receivable	Provision for bad debt	Provided ratio (%)
Within 1 year	6,122,567,184.51	222,277,637.53	3.63	5,538,254,545.50	220,086,989.91	3.97
1-2 years	2,795,417,515.53	430,208,971.88	15.39	2,857,332,797.39	468,046,907.64	16.38
2-3 years	2,006,643,850.66	666,864,478.49	33.23	1,929,698,891.66	620,933,912.81	32.18
3-4 years	1,165,591,455.47	853,890,685.53	73.26	1,144,009,712.50	721,633,912.83	63.08
4-5 years	1,166,060,092.83	867,082,334.76	74.36	1,213,096,657.82	862,219,191.86	71.08
Over 5 years	2,055,984,873.99	2,055,984,873.99	100.00	1,941,877,774.85	1,900,379,804.15	97.86
Total	15,312,264,972.99	5,096,308,982.18	33.28	14,624,270,379.72	4,793,300,619.20	32.78

##### 2. Provision, transfer and recovery of bad debts in the period

Net value of provision, transfer and recovery of bad debts in the period was RMB464,069,415.34.

##### 3. Accounts receivable effectively verified in the period

Accounts receivable effectively verified in the period was RMB77,680,113.30.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended on 30 June 2017

(Unless otherwise stated, all amounts are denominated in Renminbi)

### V. NOTES TO KEY ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(III) Advances paid

*Advances paid by age*

Age	30 June 2017		31 December 2016	
	Remaining carrying amount	Ratio (%)	Remaining carrying amount	Ratio (%)
Within 1 year	4,359,731,377.14	68.32	4,321,621,334.17	71.58
1-2 years	937,479,788.71	14.69	859,561,287.28	14.24
2-3 years	733,226,471.74	11.49	710,850,531.94	11.77
Over 3 years	350,923,997.85	5.50	145,304,931.80	2.41
Total	6,381,361,635.44	100.00	6,037,338,085.19	100.00

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended on 30 June 2017

(Unless otherwise stated, all amounts are denominated in Renminbi)

### V. NOTES TO KEY ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

#### (IV) Other receivables

##### 1. Disclosure of other receivables classified by type:

Type	30 June 2017				31 December 2016					
	Remaining carrying amount		Provision for bad debt		Remaining carrying amount		Provision for bad debt		Carrying Value	
	Amount	Ratio (%)	Amount	Provided ratio (%)	Amount	Ratio (%)	Amount	Provided ratio (%)		
Other receivables which are individually significant and provided for bad debt separately	929,649,671.62	70.57	13,995,000.00	1.51	915,654,671.62	868,109,891.66	68.57	30,353,741.38	3.50	887,756,150.28
Other receivables provided for bad debt by credit risk characteristics	247,020,495.41	18.75	166,595,486.63	75.54	60,425,008.78	224,146,968.59	17.70	163,349,606.41	72.88	60,797,162.18
Other receivables which are individually not significant but provided for bad debt separately	140,763,632.74	10.68	9,623,131.10	6.84	131,140,501.64	173,785,835.99	13.73	13,349,568.07	7.68	160,436,267.92
Total	1,317,433,799.77	100.00	210,213,617.73	/	1,107,220,182.04	1,266,042,696.24	100.00	207,053,115.86	/	1,058,989,580.38

Other receivables which are individually significant and provided for bad debt separately

Other receivables (By Unit)	30 June 2017			Reasons for provision
	Other receivables	Provision for bad debt	Provided ratio (%)	
Harbin Electric Corporation ect.	915,654,671.62	-	/	related parties, refunded export tax receivables ect.
Daqing Rehav Energy Technology Limited	13,995,000.00	13,995,000.00	100.00	Advances
Total	929,649,671.62	13,995,000.00	1.51	/



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended on 30 June 2017

(Unless otherwise stated, all amounts are denominated in Renminbi)

### V. NOTES TO KEY ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

#### (IV) Other receivables (Continued)

1. *Disclosure of other receivables classified by type:*  
(Continued)

Other receivables which are individually not significant but provided for bad debt separately:

Other receivables (By Unit)	30 June 2017		
	Other receivables	Provision for bad debt	Reasons for provision (%)
Reserves ect.	140,763,632.74	9,623,131.10	6.84 /
Total	140,763,632.74	9,623,131.10	6.84 /

In the portfolio, other receivables provided for bad debt according to aging analysis are as follows:

Age	30 June 2017			31 December 2016		
	Other receivables	Provision for bad debt	Provided ratio (%)	Other receivables	Provision for bad debt	Provided ratio (%)
Within 1 year	51,953,403.74	2,597,670.20	5.00	57,519,545.37	2,875,977.27	5.00
1-2 years	3,411,293.45	852,823.36	25.00	1,910,350.69	477,587.67	25.00
2-3 years	169,416.58	84,708.29	50.00	198,421.00	99,210.50	50.00
3-4 years	16,613,441.68	13,290,753.34	80.00	16,323,096.04	13,058,476.83	80.00
4-5 years	25,517,042.57	20,413,634.05	80.00	6,785,006.70	5,428,005.36	80.00
Over 5 years	149,355,897.39	149,355,897.39	100.00	141,410,548.79	141,410,548.78	100.00
Total	247,020,495.41	186,595,486.63	75.54	224,146,968.59	163,349,806.41	72.88

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended on 30 June 2017

(Unless otherwise stated, all amounts are denominated in Renminbi)

### V. NOTES TO KEY ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

#### (IV) Other receivables (Continued)

2. *Provision, return and recovery of bad debts in this period*

Net value of provision, return and recovery of bad debts in this period is RMB3,160,501.87.

3. *In this period, there are no other receivables that have been written off.*

#### (V) Other current assets

Items	30 June 2017	31 December 2016
Bank financial products	2,950,000,000.00	1,800,000,000.00
Entrusted loans	200,000,000.00	210,000,000.00
Input tax and prepaid VAT to be deducted	138,649,457.38	117,684,693.53
Enterprise Income Tax paid in advance	32,779,205.14	10,783,896.46
Others	218,478.49	18,646.93
Total	3,321,647,141.01	2,138,487,236.92

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended on 30 June 2017

(Unless otherwise stated, all amounts are denominated in Renminbi)

### V. NOTES TO KEY ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

- (VI) Changes of investment property, fixed assets, intangible assets and long-term assets

From 1 January 2017 to 30 June 2017, the company has sold the plants and equipments which book value was RMB11,754,431.51 (same period in 2016 was RMB66,166,032.48) and got the payment RMB13,105,170.83 (same period in 2016 was RMB67,144,840.59). The profit was RMB1,350,739.32 (same period in 2016 was RMB978,808.11).

From 1 January 2017 to 30 June 2017, the company cost RMB627,443,709.47 (same period in 2016 was RMB383,704,581.64) on construction in process, machinery equipments, transportation equipments etc.

The company uses the leaseback way to financial lease the plants and equipments which book value was RMB0 (same period in 2016 was RMB265,198,109.49) on 30 June 2017.

- (VII) Short-term borrowings

1. *Type of short-term borrowings*

Items	30 June 2017	31 December 2016
Secured borrowings	15,900,000.00	17,000,000.00
Unsecured borrowings	2,902,108,542.78	2,072,338,408.88
Total	2,918,008,542.78	2,089,338,408.88

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended on 30 June 2017

(Unless otherwise stated, all amounts are denominated in Renminbi)

### V. NOTES TO KEY ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

#### (VII) Short-term borrowings (Continued)

##### 2. Secured borrowings

<b>Creditor</b>	<b>30 June 2017</b>	31 December 2016
Chengdu Rural Commercial Bank Co., Ltd (Xindu Taixing branch)	15,900,000.00	17,000,000.00
<b>Total</b>	<b>15,900,000.00</b>	17,000,000.00

#### (VIII) Notes payable

<b>Type</b>	<b>30 June 2017</b>	31 December 2016
Bank promissory notes	4,228,172,445.76	5,033,282,115.86
Commercial promissory notes	1,232,199,661.16	1,059,901,292.64
<b>Total</b>	<b>5,460,372,106.92</b>	6,093,183,408.50

*Explanation:* as of 30 June 2017, the ending balance of notes payable was within a year.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended on 30 June 2017

(Unless otherwise stated, all amounts are denominated in Renminbi)

### V. NOTES TO KEY ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

#### (IX) Accounts payable

*List of accounts payable*

Items	30 June 2017	31 December 2016
Within 1 year	11,363,187,090.13	10,083,783,935.67
1-2 years	2,348,597,549.69	1,241,059,335.61
2-3 years	235,406,971.32	485,773,094.77
Over 3 years	609,227,743.55	423,637,992.70
Total	14,556,419,354.69	12,234,254,358.75

#### (X) Other current liabilities

Items	30 June 2017	31 December 2016
Other	134,893.80	134,893.80
Total	134,893.80	134,893.80

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended on 30 June 2017

(Unless otherwise stated, all amounts are denominated in Renminbi)

### V. NOTES TO KEY ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

#### (XI) Bonds payable

##### 1. Breakdown of bonds payable

Items	30 June 2017	31 December 2016
12 HE 01	/	2,997,952,500.00
Total	/	2,997,952,500.00

##### 2. Changes in bonds payable: (excluding: other financial instrument classified as financial liabilities, such as Premium share, Perpetual bond)

Name	Nominal value	Value date	Term	Principal amount	Opening balance	Issue during the period	Interest credited on nominal value	Amortisation of premium	Repayment during the period	Other decrease	Closing balance
12 HE 01	3,000,000,000.00	2013/3/11	5 years	3,000,000,000.00	2,997,952,500.00		73,500,000.00	877,500.00	73,500,000.00	2,998,630,000.00	
Total	/	/	/	3,000,000,000.00	2,997,952,500.00		73,500,000.00	877,500.00	73,500,000.00	2,998,630,000.00	

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended on 30 June 2017

(Unless otherwise stated, all amounts are denominated in Renminbi)

### V. NOTES TO KEY ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

#### (XI) Bonds payable (Continued)

2. *Changes in bonds payable: (excluding : other financial instrument classified as financial liabilities, such as Premium share, Perpetual bond) (Continued)*

*Explanation 1:* On 18 February 2013, the China Securities Regulatory Commission issued “Zhengjianxuke [2013] No. 159”, in which the public issuance of Corporate Bonds of not exceeding RMB4 billion by the Company has been approved. On 11 March 2013, the Company launched the public issuance of 2012 Corporate Bonds (First Tranche). The issuance amount of the Bonds is RMB3 billion and its coupon rates is 4.9%. The interest payment date should be every 11 March from 11 March 2013 to 11 March 2018. The coupon rate of the Corporate Bonds is calculated annually by simple annualized interest rate without any compound interest. Interest will be payable annually, and principal will be repaid upon maturity together with the interest payable for the last period. The current bonds will be wholly and irrevocably guaranteed by HE Group.

*Explanation 2:* Other decrease reason is that the corporate bonds expire on 11 March 2018, so reclassified the balance of bonds payable at the end of the period to “non-current liabilities due within one year”



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended on 30 June 2017

(Unless otherwise stated, all amounts are denominated in Renminbi)

### V. NOTES TO KEY ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

#### (XII) Financial leasing

1. *The fixed assets get from financial leasing*

None.

2. *Account payable of financial leasing*

None.

#### (XIII) Share capital

Name of shareholders	31 December 2016	Changes during the period (increase(+), decrease (-))					Sub-total	30 June 2017
		Capital increase	Bonus share	Conversion of the accumulation funds into shares	Conversion of the undistributed profit into shares			
Harbin Electric Corporation	701,235,000.00	/	/	/	/	/	701,235,000.00	
Overseas-listed shares	675,571,000.00	/	/	/	/	/	675,571,000.00	
<b>Total</b>	<b>1,376,806,000.00</b>	<b>/</b>	<b>/</b>	<b>/</b>	<b>/</b>	<b>/</b>	<b>1,376,806,000.00</b>	

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended on 30 June 2017

(Unless otherwise stated, all amounts are denominated in Renminbi)

### V. NOTES TO KEY ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

#### (XIV) Incomes and division's documents

1. *Account policies and gist of confirmation of the divisions' report*

The company confirmed six reports' division which was based on inter-corporation structure and corporate governance as following: Thermal power host equipment division, hydropower stations in the host equipment division, engineering services division, power plant auxiliary and supporting products, nuclear power products division, ac/dc motor and other six divisions. The individual report of the company offers the different products and services, or operating activities in different area. Due to different divisions need different technique and market strategy, the company's managements report the operating activities of every division respectively and evaluate the operating outcomes regularly to decide how to allocate the resources and evaluate its performance.

The transfer price of divisions should decided by the actual price and the indirectly expenses of divisions should allocated by ratios. The assets should allocated by the operating of the divisions and its locations. The liabilities of divisions include the liabilities which related to the operating activities of the divisions. If several divisions bear the related expenses together, the divisions bear the liabilities together.

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended on 30 June 2017

(Unless otherwise stated, all amounts are denominated in Renminbi)

## V. NOTES TO KEY ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(XIV) Incomes and division's documents (Continued)

### 2. Financial information of divisions

(1) Assets, liabilities and income of divisions

Items	Thermal power host devices	Water and electricity host devices	Plant engineering services	Power plant auxiliary and supporting products	Nuclear power products division	Ac/dc motors and others	Total
<b>30 June 2017</b>							
Reportable assets of divisions	40,776,554,679.76	3,551,624,267.97	7,449,131,122.67	3,299,179,953.61	8,099,292,771.67	6,060,165,427.16	69,235,948,222.84
Reportable liabilities of divisions	34,388,952,764.57	2,050,928,331.65	6,573,895,069.83	2,636,112,856.07	6,343,863,043.58	4,683,653,955.20	56,677,406,020.90
<b>January to June 2017</b>							
Revenue of divisions							
External customer	6,873,286,545.93	608,525,656.18	6,725,575,156.17	751,690,250.97	794,447,194.83	1,024,520,605.45	16,778,045,409.53
Internal customer	1,203,096,164.61		-141,400,613.00			9,460,770.84	1,071,156,322.45
Reportable revenue of divisions	8,076,382,710.54	608,525,656.18	6,584,174,543.17	751,690,250.97	794,447,194.83	1,033,981,376.29	17,849,201,731.98
Reportable revenue of gross profit	1,337,062,213.85	104,190,663.00	236,059,946.36	32,619,761.77	181,555,253.96	210,515,977.78	2,102,003,836.72

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended on 30 June 2017

(Unless otherwise stated, all amounts are denominated in Renminbi)

### V. NOTES TO KEY ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(XIV) Incomes and division's documents (Continued)

2. Financial information of divisions (Continued)

(1) Assets, liabilities and income of divisions (Continued)

Items	Thermal power host devices	Water and electricity host devices	Plant engineering services	Power plant auxiliary and supporting products	Nuclear power products division	Ac/dc motors and others	Total
<b>31 December 2016</b>							
Reportable assets of divisions	38,030,404,792.05	5,979,796,389.77	7,675,231,930.97	3,320,119,102.81	7,678,373,899.76	6,643,649,020.23	69,327,575,135.59
Reportable liabilities of divisions	31,926,028,088.07	3,511,695,625.85	6,841,646,490.62	2,557,255,351.24	5,999,714,106.18	5,906,267,939.92	56,742,607,601.88
<b>January to June 2016</b>							
Revenue of divisions							
External customer	5,977,688,310.14	1,452,332,536.52	4,994,191,857.24	598,341,687.31	715,562,515.02	1,056,128,212.62	14,794,245,118.85
Internal customer	690,663,228.63		100,110,091.90			2,937,044.87	793,710,365.40
Reportable revenue of divisions	6,668,351,538.77	1,452,332,536.52	5,094,301,949.14	598,341,687.31	715,562,515.02	1,059,065,257.49	15,587,955,484.25
Reportable revenue of gross profit	947,343,864.96	224,125,636.51	281,775,602.69	94,365,806.46	118,147,390.50	121,039,757.07	1,786,798,058.19

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended on 30 June 2017

(Unless otherwise stated, all amounts are denominated in Renminbi)

### V. NOTES TO KEY ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(XIV) Incomes and division's documents (Continued)

2. Financial information of divisions (Continued)

(2) Assets, revenue and liabilities of divisions

Items	30 June 2017	31 December 2016
<b>Assets</b>		
Reportable assets of divisions	69,235,948,222.84	69,327,575,135.59
Offset division's accounts from related parties	-17,641,536,422.39	-19,045,066,245.01
Reportable net assets of divisions	51,594,411,800.45	50,282,508,890.58
Deferred tax assets	363,117,191.26	351,373,269.10
Other non-current assets		
Financial assets which measured by fair value and the changes reckon in current period profit/loss		
Restricted and mortgaged bank loan		
Deposit in bank	10,773,040,660.22	13,700,127,972.66
Deposit in central bank	755,795,504.18	784,356,734.69
Cash and cash equivalents	744.17	9,428,115.83
Unallocated assets of head office and the company	720,162,070.16	739,712,735.13
<b>Total assets</b>	<b>64,206,527,970.44</b>	<b>65,867,507,717.99</b>
<b>Liabilities</b>		
Reportable liabilities of divisions	56,677,406,020.90	56,742,607,601.91
Offset division's accounts from related parties	-8,892,821,570.49	-8,566,004,447.68
Reportable net liabilities of divisions	47,784,584,450.41	48,176,603,154.23
Tax payable	-117,945,096.37	367,490,729.90
Unallocated liabilities of head office and the company	1,787,680,276.35	2,680,999,078.38
<b>Total liabilities</b>	<b>49,454,319,630.39</b>	<b>51,225,092,962.51</b>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended on 30 June 2017

(Unless otherwise stated, all amounts are denominated in Renminbi)

### V. NOTES TO KEY ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

#### (XIV) Incomes and division's documents (Continued)

##### 2. Financial information of divisions (Continued)

##### (2) Assets, revenue and liabilities of divisions (Continued)

Items	January to June 2017	January to June 2016
<b>Revenue</b>		
External revenue	16,778,045,409.53	14,794,245,118.85
Internal revenue	1,071,156,322.45	793,710,365.40
Total revenue	17,849,201,731.98	15,587,955,484.25
Reportable gross profit	2,102,003,836.72	1,786,798,058.19
Offset losses between divisions	-7,201,318.45	
External customers' reportable gross profit	2,109,205,155.17	1,786,798,058.19
Long-term equity investment account by equity method	20,089,218.32	-7,126,120.71
Interests income	220,472,412.02	139,885,220.72
Chinese government grants	6,664,120.88	42,936,827.12
Financial assets which measured by fair value and the changes reckon in current period profit/loss	-2,484,906.61	80,871,846.14
Financial liabilities-cash flow hedge which measured by fair value and the changes reckon in current period profit/loss		
Interest expenses	-129,823,806.58	-144,575,998.06
Undistributed other revenue and net revenue	17,707,274.8	
Undistributed expenses of head office and the company	-2,017,765,374.39	-1,668,519,724.04
Total profit	224,064,093.61	230,270,109.36

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended on 30 June 2017

(Unless otherwise stated, all amounts are denominated in Renminbi)

### V. NOTES TO KEY ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

#### (XV) Administrative expenses

From 1 January 2016 to 30 June 2017, the management expenses are RMB935,418,967.16 (same period in 2016 was RMB948,901,640.62) which consists of labor costs and amortization depreciation, etc.

#### (XVI) Impairment on assets

Items	January to June 2017	January to June 2016
Bad debt loss	475,215,588.84	421,109,757.70
Loss on inventory valuation	122,449,138.90	-15,497,150.43
Impairment loss of intangible assets	90,863.26	
Total	597,755,591.00	405,612,607.27

*Explanation:* Provision for impairment of accounts receivables and other receivables was RMB475,215,588.84 in this period, the provision for impairment will be used to write off accounts receivable and other receivables, only when this amount is less likely to be withdrawn.



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended on 30 June 2017

(Unless otherwise stated, all amounts are denominated in Renminbi)

### V. NOTES TO KEY ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(XVII) Profit before tax and amortization depreciation

Items	January to June 2017
Net profit	148,097,903.22
Income tax expenses	75,966,190.39
Withdrawing depreciation of fixed assets	340,708,931.95
Withdrawing amortization intangible assets	27,965,830.99
Withdrawing long-term unamortized expenses	5,352,044.33
Interests and investment income	-57,447,073.09
Interests income of finance company	-198,855,999.08
Interests expenses	116,904,853.63
Interests expenses of finance company	12,918,952.95
Profit before tax and amortization depreciation	471,611,635.29

(XVIII) Dividend

Items	January to June 2017	January to June 2016
Dividend of per share RMB0.03 at the 2016 closing balance	41,304,180.00	
Dividend of per share RMB0.015 at the 2015 closing balance		20,652,090.00
Total	41,304,180.00	20,652,090.00

Director does not suggest pay any interim dividend from January to June 2017 (same period of 2016: RMB0).

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended on 30 June 2017

(Unless otherwise stated, all amounts are denominated in Renminbi)

### V. NOTES TO KEY ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(XIX) Earnings per share:

	January to June 2017	January to June 2016
Shareholders' net profit attributable to parent company	124,593,624.45	130,337,132.51
During the period of the weighted average number of shares of common shares outstanding	1,376,806,000.00	1,376,806,000.00
Earnings per share	0.09	0.09

*Explanation:* from 1 January to 30 June 2017 and 2016, the company has not potential impact of issued ordinary share, diluted earnings per share is the same as basic earnings per share.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended on 30 June 2017

(Unless otherwise stated, all amounts are denominated in Renminbi)

### V. NOTES TO KEY ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(XX) Restricted assets of ownership or right to use

Restricted assets of ownership category	31 December		30 June 2017
	2016	Increasing	
I Assets for collateral			
1. Fixed assets (buildings and plants)	87,419,164.68	7,936,457.36	1,653,946.14
2. Intangible assets (land right to use)	27,375,988.97	3,722,057.64	900,855.18
3. Fixed assets (machinery equipments)			
II Restricted assets of ownership or use caused by other reasons			
Including: currency (statutory deposit reserve, ect deposited on the central bank)	885,773,431.13	273,854,962.97	378,726,226.72
<b>Total</b>	<b>1,000,568,584.78</b>	<b>285,513,477.97</b>	<b>381,281,028.04</b>
			<b>904,801,034.71</b>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended on 30 June 2017

(Unless otherwise stated, all amounts are denominated in Renminbi)

### VI. RELATED PARTIES AND RELATED TRANSACTIONS

#### (I) Related party transactions

The transaction price between the Company and related parties is the price of the agreement, the price is consistent with transaction prices with a non-related party.

##### 1. *Continuing related party transactions*

The “Continuing related party transaction – Products and Services Framework Agreement”, the “Continuing related party transaction – Financial Services Framework Agreement” Announcement issued by the Company on 9 December 2016 and the “Continuing related party transaction – Financial The Supplement to the Announcement of the Framework Agreement and the Supplement to the Financial Services Framework Agreement issued on 22 February 2017, the Company entered into the Agreement on Product and Service with Harbin Electric Group Company, which is valid from 1 January, 2017 to 31 December 2019. The Company entered into the Financial Services Framework Agreement with Harbin Electric Group Company. The agreement is valid from 31 December 2016 to 30 December 2019.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended on 30 June 2017

(Unless otherwise stated, all amounts are denominated in Renminbi)

### VI. RELATED PARTIES AND RELATED TRANSACTIONS (CONTINUED)

#### (I) Related party transactions (Continued)

##### 1. Continuing related party transactions (Continued)

##### (1) Products and services transactions

Related parties	January to June in 2017	January to June in 2016
Sales of goods		
– company under common control	4,913,971.87	505,241.09
– joint venture		12,820,512.82
Procurement of goods		
– company under common control	35,659,138.82	18,983,055.58
– joint venture		91,929,501.71
Service fee income		
– holding company	1,640,000.00	1,640,000.00
Service fee expenses		
– company under common control	26,745,249.12	26,559,779.92

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended on 30 June 2017

(Unless otherwise stated, all amounts are denominated in Renminbi)

### VI. RELATED PARTIES AND RELATED TRANSACTIONS (CONTINUED)

#### (I) Related party transactions (Continued)

##### 1. Continuing related party transactions (Continued)

##### (2) Interests to be paid for absorbing deposits

<b>Related parties</b>	<b>January to June in 2017</b>	January to June in 2016
Holding company	9,152,857.43	3,286,195.43
Company under common control	565,548.95	969,509.05
Joint venture	4,730.62	65,431.17
<b>Total</b>	<b>9,723,137.00</b>	<b>4,321,135.65</b>

##### (3) Interest income from loans and discounted bills

<b>Related parties</b>	<b>January to June in 2017</b>	January to June in 2016
Holding company		1,484,381.55
Company under common control	4,887.43	711,411.66
<b>Total</b>	<b>4,887.43</b>	<b>2,195,793.21</b>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended on 30 June 2017

(Unless otherwise stated, all amounts are denominated in Renminbi)

### VI. RELATED PARTIES AND RELATED TRANSACTIONS (CONTINUED)

#### (I) Related party transactions (Continued)

##### 1. Continuing related party transactions (Continued)

#### (4) Fee and commission income

<b>Related parties</b>	<b>January to June in 2017</b>	January to June in 2016
Company under common control		9,269.64
Joint venture	<b>4,150.94</b>	
<b>Total</b>	<b>4,150.94</b>	9,269.64

#### (5) Remuneration of key management

<b>Items</b>	<b>January to June in 2017</b>	January to June in 2016
Remuneration of key management	<b>1,655,915.19</b>	1,046,465.00



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended on 30 June 2017

(Unless otherwise stated, all amounts are denominated in Renminbi)

### VI. RELATED PARTIES AND RELATED TRANSACTIONS (CONTINUED)

#### (II) Receivables from and payable to related parties

##### 1. Receivable items

Items	Related parties	30 June 2017		31 December 2016	
		Remaining carrying amount	Provision for bad debt	Remaining carrying amount	Provision for bad debt
Trade receivables	Company under common control			30,000.00	
Prepayments	Company under common control	56,244,827.00		27,238,070.00	
Other receivables	Holding company	162,095,125.59		162,095,125.59	
	Company under common control	56,617,740.12		69,139,698.98	
Interest receivable	Company under common control	3,776,498.00		251,212.50	
Other current asset	Company under common control	200,000,000.00			

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended on 30 June 2017

(Unless otherwise stated, all amounts are denominated in Renminbi)

### VI. RELATED PARTIES AND RELATED TRANSACTIONS (CONTINUED)

#### (II) Receivables from and payable to related parties (Continued)

##### 2. Payable items

Items	Related parties	Remaining carrying amount	
		30 June 2017	31 December 2016
Short-term borrowings			
	Holding company	2,854,108,542.78	1,920,864,747.00
Absorbed deposits			
	Holding company	1,593,909,807.57	2,454,002,626.55
	Company under common control	145,832,842.94	218,168,055.13
Accounts payable			
	Holding company	1,543,500.00	
	Company under common control	17,282,472.55	37,193,319.70
Notes payable			
	Company under common control	246,690.92	1,321,946.57
Payments received in advance			
	Company under common control		792.00
Other payables			
	Holding company	52,787,000.00	4,787,000.00
	Company under common control		247,459.07
Interests payable			
	Holding company	25,850,861.25	

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended on 30 June 2017

(Unless otherwise stated, all amounts are denominated in Renminbi)

### VI. RELATED PARTIES AND RELATED TRANSACTIONS (CONTINUED)

(III) Commitments of related parties

None.

(IV) Guarantee of related parties

By the end of 30 June 2017, HEC Group companies provide an unconditional and irrevocable joint liability guarantee to the Group companies' corporate bonds with a face value of 3 billions. Detailed information referred to "Notes V.(XI)".

### VII. SHARE-BASED PAYMENT

None.

### VIII. COMMITMENTS AND CONTINGENCIES

(I) Important commitments

1. *Capital commitments*

*Unit: ten thousands RMB*

Item	30 June 2017	31 December 2017
Having been signed but not yet recognized in the financial statements – Commitment to purchase long-term assets	23,595.06	17,699.54

2. *By the end of 30 June 2017, the company does not have other commitments which need to be disclosed.*

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended on 30 June 2017

(Unless otherwise stated, all amounts are denominated in Renminbi)

## VIII. COMMITMENTS AND CONTINGENCIES (CONTINUED)

### (II) Contingencies

#### 1. Guarantees within and outside the group

Number	Guarantee company	Name	Company guaranteed			Ways of counter-guarantee	Amounts of actual guarantee	Including: Current amounts added this year	Current condition of company guaranteed	Whether being overdue	Whether being sued
			Nature of company	Ways of guarantee	Kinds of guarantee						
		Total (to the company within the group)				2,242,880,485.96	100,000,000.00				
1	Harbin electric company limited	Harbin electric international company limited	State Holding	Joint responsibility	Other guarantee	No counter-guarantee	492,939,381.51	Normal operation	no	no	
2	Harbin electric company limited	Harbin electric international company limited	State Holding	Joint responsibility	Other guarantee	No counter-guarantee	334,334,629.47	Normal operation	no	no	
3	Harbin electric company limited	Harbin electric international company limited	State Holding	Joint responsibility	Other guarantee	No counter-guarantee	331,481,443.79	Normal operation	no	no	
4	Harbin electric company limited	Harbin electric international company limited	State Holding	Joint responsibility	Compliance guarantee	No counter-guarantee	174,921,495.17	Normal operation	no	no	
5	Harbin Turbine Factory Limited Liability Company	Harbin Boiler Factory Co., Ltd	State Holding	Joint responsibility	Compliance guarantee	No counter-guarantee	174,870,800.00	Normal operation	no	no	
6	Harbin electric company limited	Harbin electric international company limited	State Holding	Joint responsibility	Compliance guarantee	No counter-guarantee	155,262,000.00	Normal operation	no	no	
7	Harbin electric company limited	Harbin electric international company limited	State Holding	Joint responsibility	Other guarantee	No counter-guarantee	140,835,000.00	Normal operation	no	no	
8	Harbin electric company limited	Harbin electric international company limited	State Holding	Joint responsibility	Other guarantee	No counter-guarantee	140,835,000.00	Normal operation	no	no	
9	Harbin Electric Machinery Co., Ltd.	Harbin Electrical Machinery Plant (Zhenjiang) Co., Ltd.	State-owned	Normal guarantee	Other	No counter-guarantee	100,000,000.00	100,000,000.00	Normal operation	no	no
10	Harbin electric company limited	Harbin electric international company limited	State Holding	Joint responsibility	Other guarantee	No counter-guarantee	82,870,360.91	Normal operation	no	no	
11	Harbin electric company limited	Harbin electric international company limited	State Holding	Joint responsibility	Other guarantee	No counter-guarantee	82,870,360.91	Normal operation	no	no	
12	Harbin electric company limited	Harbin electric international company limited	State Holding	Joint responsibility	Other guarantee	No counter-guarantee	20,990,579.45	Normal operation	no	no	
13	HEC Group Harbin Power Station Valve Co., Ltd.	Harbin electric power equipment company limited	State Holding	Joint responsibility	Compliance guarantee	No counter-guarantee	5,220,852.00	Normal operation	no	no	
14	HEC Group Harbin Power Station Valve Co., Ltd.	Harbin electric power equipment company limited	State Holding	Joint responsibility	Compliance guarantee	No counter-guarantee	4,290,000.00	Normal operation	no	no	
15	HEC Group Harbin Power Station Valve Co., Ltd.	Harbin electric power equipment company limited	State Holding	Joint responsibility	Compliance guarantee	No counter-guarantee	727,741.00	Normal operation	no	no	
16	Harbin electric company limited	Harbin electric international company limited	State Holding	Joint responsibility	Other guarantee	No counter-guarantee	430,841.75	Normal operation	no	no	

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended on 30 June 2017

(Unless otherwise stated, all amounts are denominated in Renminbi)

### VIII. COMMITMENTS AND CONTINGENCIES (CONTINUED)

#### (II) Contingencies (Continued)

##### 2. Pending litigation

- (1) Owned two level enterprise Harbin Boiler Factory Co., Ltd (Hereinafter referred to as the “boiler company”) got a contract dispute with Beijing Iron and Steel Co., Ltd. Because Beijing Iron and Steel Co., Ltd entered into liquidation phase, the boiler company has declared to the liquidation group of 7.3485 million yuan of claims, but the liquidation group has not been liquidated, the boiler company in November 2011 made a mandatory liquidation application to Beijing Fangshan District Peoplecourt, the court accept the case on 13 July 2012, formally filed on 23 August 2013. The litigation has not yet been settled.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended on 30 June 2017

(Unless otherwise stated, all amounts are denominated in Renminbi)

### VIII. COMMITMENTS AND CONTINGENCIES (CONTINUED)

#### (II) Contingencies (Continued)

##### 2. Pending litigation (Continued)

- (2) 2008–2009, the boiler company and China Seventy Metallurgical Group Equipment Manufacturing Company (hereinafter referred to as the seventeen ye company) signed three rigid beams, steel subcontract production contract. The product was delivered to Sri Lanka at the Putram power plant site, but serious corrosion quality problems happen, but the company was unable to solve the on-site quality problems. The boiler company was forced to commission a third-party unit to repair the rusted product. Up to now, the loss of paint and labor costs has reached 7,128,000 yuan. To this end, the boiler company has to Harbin Intermediate People's Court prosecution the seventeen ye company, requiring the company to compensate for construction costs, materials fees, liquidated damages, etc. a total of 7,137,300 yuan. Harbin City Intermediate People's Court of First Instance ruling the seventeen ye company to compensate for the loss of the company related to the boiler, the company then appeal to the Heilongjiang Provincial Higher People's Court, the Heilongjiang Provincial Higher People's Court on 16 March 2017, the second instance ruling rejected the seventeen ye company's appealing. The seventeen ye company applied for retrial to the Supreme People's Court, the boiler company submitted a plea and other materials according to the law. The litigation has not yet been settled.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended on 30 June 2017

(Unless otherwise stated, all amounts are denominated in Renminbi)

### VIII. COMMITMENTS AND CONTINGENCIES (CONTINUED)

#### (II) Contingencies (Continued)

##### 2. Pending litigation (Continued)

- (3) 24 April 2015, the boiler company received Wuxi City Huishan District People's Court notice of complaint, Wuxi City Zhenda Special Steel Pipe Manufacturing Co., Ltd. (hereinafter referred to as "Wuxi Zhenda") on the boiler company in arrears of its payment to the court, ask for Boiler Company to pay the purchase price of 390.12 million and interest. After received the relevant materials, the boiler company put forward the jurisdiction of the objection, rejected by the court, immediately the boiler company counterclaim the quality problems of Zhenhai's waste heaters. The court on 12 January 2016, 18 October 2016 conducted two trials, 13 March 2017 the court issued a verdict, to support the request of Wuxi Zhenda, rejected the boiler company counterclaim application. After the boiler company received the verdict, immediately filed an appeal according to law, the boiler company is currently awaiting notice of the court of second instance. The litigation has not yet been settled.



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended on 30 June 2017

(Unless otherwise stated, all amounts are denominated in Renminbi)

### VIII. COMMITMENTS AND CONTINGENCIES (CONTINUED)

#### (II) Contingencies (Continued)

##### 2. Pending litigation (Continued)

- (4) Boiler Company and Jinhui Zhaofeng in February 2011 signed the “Xinjiang Jinhui Zhaofeng Energy Co., Ltd. owned power plant 2x350MW supercritical unit boiler and denitrification equipment supply contract”, arranging the boiler company provide Jinhui Zhaofeng with two boilers and denitrification equipment, the total contract price of 365.1 million yuan. After the signing of the contract, the boiler company fulfilled the delivery obligation according to the contract, but Jinhua Zhaofeng owed to the boiler company RMB139.05 million. In September 2016, the boiler company filed a lawsuit to the Urumqi High People’s Court in Xinjiang in accordance with the contract. The court held its first trial in January 2017 and the boiler company is currently awaiting court notification. The litigation has not yet been settled.
3. As of 30 June 2017, the Company does not have any other significant contingencies which need to be disclosed.

### IX. MATTERS AFTER THE BALANCE SHEET DATE

None.

**Harbin Electric Company Limited**

10 August 2017

## 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  
Taxpayer's Identification Number:  
91230100127575573H

### OFFICE ADDRESS OF THE COMPANY

1399 Chuangxinyi Road  
Songbei District  
Harbin  
Heilongjiang Province  
People's Republic of China  
Postcode: 150028  
Tel: 86-451-82135727 or 58590777  
Fax: 86-451-82162088

### 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. Si Ze-fu

### 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

**BDO China Shu Lun Pan**  
**Certified Public Accountants LLP**

### LEGAL ADVISORS

*as to PRC Law*

**Haiwen Partners**

### LISTING INFORMATION

H Shares

**The Stock Exchange of Hong Kong Limited**

Stock Code: 1133

### DEPOSITARY

**The Bank of New York**

### SHARE REGISTER AND TRANSFER OFFICE

**Hong Kong Registrars Limited**