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## 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 2016, 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 currency mentioned in this report was Renminbi.

## OPERATING RESULTS

For the six months ended 30 June 2016, the Group recorded an operating revenue of RMB14,794.25 million, an increase of 23.79% as compared with the same period last year. The Group recorded a net profit attributable to the parent company of RMB130.34 million, an increase of 35.68% as compared with the same period last year. Earnings per share were RMB0.09, an increase of RMB0.02 as compared with the same period last year. The Company's total equity attributable to the owners of the parent company at the end of the period was RMB12,944.57 million, an increase of RMB237.18 million over the beginning of the period; and net assets per share were RMB9.40, an increase of RMB0.17 over the beginning of the period. The increase in profit of Group during the period was mainly attributable to the expansion of sales scale and an increase in gross profit margin.

## INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2016.

## INDUSTRY DEVELOPMENT AND BUSINESS REVIEW

During the first half of 2016, facing complications from both the international and domestic fronts with continuous relatively strong pressure of economic downturn, China's overall national economy sustained a steady and healthy growth, whereas the GDP went up by 6.7% as compared to the same period last year.

According to the statistics of China Electricity Council, during the first half of the year, newly installed capacity of power generating units in China reached 56,990 MW, representing an increase of 13,600 MW as compared with the same period last year, of which newly installed capacity of non–fossil fuel generating units reached 30,240 MW, accounting for 53.1% of newly installed generating units. Newly installed capacity of thermal power generating units was 27,110 MW (including coal power of 21,490 MW), a decrease of 6.4% in investment as compared with the same period last year; newly installed capacity of hydropower generating units was 4,370 MW, a decrease of 17.9% in investment as compared with the same period last year, which was recorded a decline for four consecutive years; wind power investment decreased by 38.4%; and nuclear power investment increased by 5.1% as compared with the same period last year.

Given the overcapacity in power market, utilization hours of thermal power generator equipment were 1964 hours, representing a decrease of 194 hours as compared with the same period last year, being the lowest for the same period in the last decade. The demand for power equipment was worsened due to power surplus. During the first half of the year, the number of new coal power project tenders dropped sharply, while demands for nuclear power products and fuel–fired power generators in the market were insufficient. As the market competition grew increasingly fierce, the prices of product orders decreased. On the other hand, with the gradual implementation of the policy of "cut overcapacity", execution risk in coal power projects in hand became higher.

Under the severe external environment, the Group addressed the following areas in the first half of this year:

Firstly, we were customer–oriented while securing more orders from the market. We strengthened connections with customers in order to understand their needs and solve their problems;

Secondly, we achieved breakthrough in quality while enhancing competitiveness. We extricated ourselves based on quality through strengthening our quality management as well as scientific and technological innovation, so as to ensure effectiveness in quality and acquire orders in science and technology segment;

Thirdly, we enhanced profitability based on effectiveness. We perfected our procurement system to enhance management, strengthen our control over expenses and reduce cost target in such areas as technology;

Fourthly, we focused on emerging industries while further intensifying structure adjustment. We emphasized on better integration and development of nuclear power and fuel–fired power generators.

In the meantime, we deepened our reform, facilitated our internal structure, adopted a more scientific and reasonable, simple and high–efficiency structure of headquarters and reinforced the headquarters' control and efficiency.

## NEW CONTRACTS

During the first half of the year, the value of new contracts secured by the Group amounted to RMB10.280 billion, a decrease of approximately 7.06% from the same period last year, to which export contract contributed RMB0.394 billion, a decrease of 74.73% from the same period last year. Among the contracts in the first half of the year, thermal power accounted for 66.03%; hydropower accounted for 9.02%; nuclear power accounted for 4.24%; conversion and spare parts accounted for 11.10%; and the others accounted for 9.61%.

## PRODUCTION AND SERVICES

The capacity of the Group's power equipment produced during the first half of the year was 13,180.1 MW, an increase of 29.9% as compared with the same period last year, among which 2,499.1 MW were generated by 24 water turbine generators, representing an increase of 29.6% as compared with the same period last year; 10,681.0 MW were generated by 28 steam turbine generators, representing an increase of 29.9% as compared with the same period last year; 6,800 MW were generated by 20 utility boilers, representing an increase of 11.9% as compared with the same period last year; while 5,134 MW were generated by 15 steam turbines for power plants, representing a decrease of 23.3% as compared with the same period last year.

## OPERATING REVENUE AND COST

As at 30 June 2016, the Group recorded an operating revenue of RMB14,794.25 million, an increase of 23.79% as compared with the same period last year. In particular, operating revenue of main thermal power equipment was RMB5,977.69 million, an increase of 15.34% as compared with the same period last year. Operating revenue of nuclear power equipment was RMB715.56 million, a decrease of 4.74% as compared with the same period last year. Operating revenue of main hydropower equipment was RMB1,452.34 million, an increase of 9.82% as compared with the same period last year. Operating revenue of engineering services for power stations was RMB4,994.19 million, an increase of 81.02% as compared with the same period last year. Operating revenue of ancillary equipment for power stations was RMB598.34 million, a decrease of 28.62% as compared with the same period last year. Operating revenue of AC/DC motors and other products and services was RMB1,056.13 million, a decrease of 3.77% as compared with the same period last year.

During the period, the Group recorded an export turnover of RMB5,177.96 million, accounting for 35.00% of the operating revenue. The exports were mainly to Turkey, Indonesia and Ecuador, among which exports to Asia accounted for 20.99% of the export turnover, whereas exports to Southern America accounted for 11.98% of the export turnover.

During the period, the operating cost of the Group was RMB13,007.45 million, an increase of 22.44% as compared with the same period last year, which is mainly attributable to the growth of scale of operation.

## GROSS PROFIT AND GROSS PROFIT MARGIN

As at 30 June 2016, the Group realized a gross profit from operating business of RMB1,786.80 million, an increase of 34.64% as compared with the same period last year. The gross profit margin was 12.08%, an increase of 0.98 percentage point as compared with the same period last year, which was mainly attributable to increase in gross profit margin of hydropower business segment.

Among them, the gross profit from main thermal power equipment was RMB947.34 million and the gross profit margin was 15.85%, a decrease of 1.68 percentage points as compared with the same period last year. The gross profit from nuclear power equipment was RMB118.15 million and the gross profit margin was 16.51%, an increase of 7.55 percentage points as compared with the same period last year. The gross profit from main hydropower equipment was RMB224.13 million and the gross profit margin was 15.43%, an increase of 7.64 percentage points as compared with the same period last year. The gross profit from engineering services for power stations was RMB281.77 million and the gross profit margin was 5.64%, an increase of 1.88 percentage points as compared with the same period last year. The gross profit from ancillary equipment for power stations was RMB94.37 million and the gross profit margin was 15.77%, an increase of 5.5 percentage points as compared with the same period last year. The gross profit from AC/DC motors and other products and services was RMB121.04 million and the gross profit margin was 11.46%, an increase of 4.86 percentage points as compared with the same period last year.

## EXPENSES FOR THE PERIOD

As at 30 June 2016, the Group's distribution expenses amounted to RMB262.56 million, a decrease of RMB1.94 million or 0.73% as compared with the same period last year. Administrative expenses incurred amounted to RMB948.90 million, an increase of RMB33.67 million or 3.68% as compared with the same period last year. Finance costs incurred was RMB83.38 million, a decrease of RMB6.51 million or 7.24% as compared with the same period last year.

The increase in expenses for the period is mainly attributable to the increase in expenses from technology research base in Jiangbei for the current period.

## ASSETS AND LIABILITIES

As at 30 June 2016, the total assets of the Group amounted to RMB63,032.15 million, a decrease of RMB1,131.10 million or 1.76% over the beginning of the period, among which the current assets were RMB54,985.96 million, representing 87.23% of the total assets, and the non–current assets were RMB8,046.19 million, representing 12.77% of the total assets.

The total liabilities of the Group amounted to RMB48,978.16 million, a decrease of RMB1,268.20 million or 2.52% over the beginning of the period, among which the current liabilities were RMB44,602.52 million, representing 91.07% of the total liabilities, and the non–current liabilities were RMB4,375.64 million, representing 8.93% of the total liabilities, including the five–year domestic corporate bonds with an issuing scale of RMB3.0 billion by the Company in March 2013. The balance of bonds payable for the current period was RMB2,997.08 million. As at 30 June 2016, the gearing ratio of the Group was 77.70%.

## MONETARY CAPITAL AND CASH FLOWS

As at 30 June 2016, the monetary capital of the Group was RMB15,380.84 million, representing a decrease of RMB2,856.17 million as compared to the beginning of the period. During the period, the negative net cash flow generated from operating activities of the Group was RMB2,294.93 million, while investing activities generated net cash flow of RMB274.74 million and financing activities generated negative net cash flow of RMB657.01 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 2016, the Group's total borrowings amounted to RMB2,765.14 million, all of which amounts were borrowed from various commercial banks and the state's policy banks with interest rates stipulated by the state. Among the borrowings, the amount due within one year was RMB2,765.14 million, a decrease of RMB413.26 million over the beginning of the period. There was no borrowing due after one year. The amounts received in advance were RMB21,093.20 million, a decrease of RMB374.09 million over the beginning of the period.

## GEARING RATIO

As at 30 June 2016, gearing ratio of the Group (calculated as non–current liabilities over total shareholders' equity) was 0.34:1 as compared to 0.35:1 at the beginning of the period.

## 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 2016, the employees of the Group totaled at 17,277 and the total remuneration amounted to RMB711.38 million.

## PROSPECTS

In 2016, the global economy remains in slow recovery amidst uncertainties and instabilities. China's economic development has entered the new normal module while the downward pressure keeps growing.

Despite the fact that there is overcapacity in domestic thermal power and thermal power market has entered a wintry stage, the potential of energy saving transformation market is great; meanwhile, the state's vigorous development of non–fossil fuel, hydropower, nuclear power, hybrid will bring about new opportunities. Besides, the implementation of "One Belt One Road" strategy will bring new market opportunities to the power equipment manufacturing entities.

The Group is in the critical moment of reform and development. In the face of harsh market environment and difficult tasks of production operations, the Group will adhere to its innovation–led strategy, accelerate its transformation and upgrading, as well as emphasize its principal operations to enhance effectiveness in marketing, cost cutting, quality, the "outbound" strategy and reformation. The Group will further reform its internal organization and motivate all parties to take initiative to capture the opportunities and attain subsisting healthy development.

The Board sincerely appreciates the continuous support and trust from all shareholders and the efforts of the management and all employees of the Company!

## THE SHAREHOLDINGS OF SUBSTANTIAL SHAREHOLDERS

As at 30 June 2016, the total issued share capital of the Company was 1,376,806,000 shares. The shareholdings of substantial shareholders were as follows:

| Name of Shareholders | Class of Shares | Number of Shares | Percentage to total share capital *(%)* | Position held |
|---|---|---|---|---|
| Harbin Electric Corporation | State–owned legal person shares | 701,235,000 | 50.93% | Long position |
| HKSCC Nominees Limited | H shares | 615,862,598 | 44.73% | Long position |

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

As at 30 June 2016, none of the Directors, Supervisors and senior management of the Company and their associates had any interest and short position in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance).

## MODEL CODE

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 set out in Appendix 10 of the Listing Rules throughout the period.

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

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

## CONTINGENT LIABILITIES

### PENDING LITIGATION

As at the end of the interim period, the Group has two pending litigations and the dispute has not been finalized. The Company had made a provision for loss of RMB175,546,019.36 based on possible liabilities relating to the dispute in a pending litigation. The details are set out in Note VIII.2.(2) to the condensed consolidated financial statements.

### PLEDGE OF ASSETS

As at 30 June 2016, the Group pledged its assets of RMB116.15 million to secure loans for liquidity.

## CORPORATE GOVERNANCE CODE

The Company is currently and has been at all times during the accounting period in compliance with the code provisions set out in the Corporate Governance Code and Corporate Governance Report contained in Appendix 14 of the Listing Rules of the Hong Kong Stock Exchange, save that the rotation of the seventh Board of Directors and Supervisory Committee has been delayed due to that the Company is still in the process of finding the candidates for the new session of Directors and Supervisors.

## THE AUDIT COMMITTEE

The members of audit committee of the Company include Liu Deng–qing, Yu Bo and Yu Wen–xing. The Board's audit committee has reviewed these interim results.

BDO China Shu Lun Pan Certified Public Accountants LLP, the Group's auditors, have carried out a review of the unaudited interim report for the six months ended 30 June 2016 in accordance with the requirements of "China Certified Public Accountant Review Standard No. 2101 — Review of Financial Statement".

## SHAREHOLDERS' MEETING

The extraordinary general meeting of the Company was held in Harbin, PRC on 29 January 2016, whereas the 2015 annual general meeting of the Company was held in Harbin, PRC on 27 May 2015, the results of which have been published on the websites of Hong Kong Stock Exchange and the Company.

## DOCUMENTS AVAILABLE FOR INSPECTION

The Articles of Association of the Company and the original copies of the interim report and reviewed financial statements as at 30 June 2016 will be available for inspection at the head office of the Company at 1399 Chuangxinyi Road, Songbei District, Harbin, the PRC.

By Order of the Board
**Harbin Electric Company Limited**
**Si Ze–fu**
*Chairman*

Harbin, PRC, 19 August 2016

*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. Yu Bo, Mr. Liu Deng–qing and Mr. Yu Wen–xing.*

# REVIEW REPORT

PCPAR(2016)No. 711911

**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 2016, 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 misstatement. 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:**

**Shanghai, China** **Certified Public Accountant of China:**

Date: 19 August 2016

## SUMMARY CONSOLIDATED BALANCE SHEET

*(Amount expressed in CNY unless otherwise stated.)*

| **Assets** | *Notes* | **30 June 2016** | 31 December 2015 |
|---|---|---|---|
| **Current assets:** | | | |
| Cash and cash equivalents | | **15,380,840,803.60** | 18,237,006,157.72 |
| Provision of settlement fund | | **–** | – |
| Funds lent | | **–** | – |
| Financial assets held for trading | | **–** | – |
| Derivative financial assets | | **–** | – |
| Notes receivable | *VII.(1)* | **2,324,166,210.24** | 2,308,409,073.94 |
| Accounts receivable | *VII.(2)* | **10,857,503,425.54** | 10,987,770,955.98 |
| Advances to suppliers | *VII.(3)* | **6,071,109,029.30** | 5,413,917,652.83 |
| Insurance premiums receivable | | **–** | – |
| Cession premiums receivable | | **–** | – |
| Provision of cession receivable | | **–** | – |
| Interests receivable | | **8,525,267.09** | 22,486,820.89 |
| Dividend receivable | | **144,453.39** | 144,453.39 |
| Other receivables | *VII.(4)* | **778,838,905.50** | 600,565,289.38 |
| Recoursable financial assets acquired | | **–** | – |
| Inventory | | **17,376,424,750.97** | 15,491,764,808.23 |
| Including: Raw material | | **3,805,284,732.77** | 3,340,904,291.94 |
| Finished goods | | **491,341,120.29** | 417,603,179.58 |
| Assets classified as held for sale | | **–** | – |
| Non-current assets maturing within one year | | **–** | – |
| Other current assets | *VII.(5)* | **2,188,409,498.47** | 3,067,298,497.06 |
| **Total current assets** | | **54,985,962,344.10** | 56,129,363,709.42 |

| **Assets** | *Notes* | **30 June 2016** | 31 December 2015 |
|---|---|---|---|
| **Non-current assets:** | | | |
| Loans and payments | | **170,000,000.00** | – |
| Available-for-sale financial assets | | **75,595,000.00** | 43,291,000.00 |
| Held-to-maturity investments | | **–** | – |
| Long-term receivables | | **18,000,000.00** | 18,000,000.00 |
| Long-term equity investments | | **217,404,494.93** | 233,131,424.38 |
| Investment real estates | *VII.(6)* | **19,825,193.34** | 20,444,982.56 |
| The original value of fixed assets | *VII.(6)* | **12,497,695,019.31** | 12,539,497,778.98 |
| Less: accumulated depreciation | | **6,658,652,632.67** | 6,495,336,454.10 |
| Net fixed assets | | **5,839,042,386.64** | 6,044,161,324.88 |
| Less: provision for impairment of fixed assets | | **20,554,152.94** | 20,908,593.04 |
| Fixed assets | | **5,818,488,233.70** | |

## SUMMARY CONSOLIDATED BALANCE SHEET *(Continued)*

*(Amount expressed in CNY unless otherwise stated.)*

| **Liabilities and owners' equity** | *Notes* | **30 June 2016** | 31 December 2015 |
|---|---|---|---|
| **Current liabilities:** | | | |
| Short-term borrowings | *VII.(7)* | **2,765,138,408.88** | 3,178,393,476.92 |
| Borrowings from central bank | | **–** | – |
| Deposits from customers and interbank | | **1,136,252,462.74** | 1,631,433,261.33 |
| Deposit funds | | **–** | – |
| Held for trading financial liabilities | | **5,426,473.71** | – |
| Derivative financial liabilities | | **–** | – |
| Notes payable | *VII.(8)* | **4,684,339,688.54** | 5,053,437,735.55 |
| Accounts payable | *VII.(9)* | **14,148,960,145.29** | 13,037,943,628.09 |
| Payments received in advance | | **21,093,195,494.21** | 21,467,290,314.26 |
| Funds from sales of financial assets with repurchasement agreement | | **–** | – |
| Handling charges and commission payable | | **–** | – |
| Employee benefits payable | | **168,133,357.79** | 193,672,471.77 |
| Including: Salary payable | | **3,692,435.85** | 587,317.52 |
| Welfare payable | | **6,203,313.95** | –2,950.00 |
| Taxes and surcharges payable | | **83,334,095.25** | 300,314,171.70 |
| Including: tax payable | | **71,390,272.70** | 278,237,897.53 |
| Interests payable | | **86,036,002.85** | 142,013,613.98 |
| Dividend Payable | | **24,933,165.23** | 5,292,426.30 |
| Other payables | | **226,243,892.95** | 266,222,231.62 |
| Cession insurance premiums payable | | **–** | – |
| Provision for insurance contracts | | **–** | – |
| Funds received as agent of stock exchange | | **–** | – |
| Funds received as stock underwrite | | **–** | – |
| Liabilities classified as held for sale | | **–** | – |
| Non-current liabilities maturing within one year | *VII.(12)* | **30,369,370.09** | 118,684,860.49 |
| Other current liabilities | *VII.(10)* | **150,156,033.85** | 375,043,853.00 |
| **Total current liabilities** | | **44,602,518,591.38** | 45,769,742,045.01 |
| **Non-current liabilities:** | | | |
| Long-term Borrowings | | | |
| Debt securities issued | *VII.(11)* | **2,997,075,000.00** | 2,996,197,500.00 |
| Long-term payables | *VII.(12)* | **4,295,193.85** | 12,257,889.40 |
| Long-term employee benefits payable | | **88,321,752.00** | 88,474,620.62 |
| Specific item payable | | **488,832,894.29** | 442,473,494.29 |
| Estimated Liabilities | | **600,577,046.31** | 726,862,346.89 |
| Deferred revenue | | **196,542,879.42** | 210,355,746.66 |
| Deferred tax liabilities | | **–** | – |
| Other non-current liabilities | | **–** | – |
| **Total non-current liabilities** | | **4,375,644,765.87** | 4,476,621,597.86 |
| **Total liabilities** | | **48,978,163,357.25** | 50,246,363,642.87 |

## SUMMARY CONSOLIDATED BALANCE SHEET *(Continued)*

*(Amount expressed in CNY unless otherwise stated.)*

| **Liabilities and owners' equity** | *Notes* | **30 June 2016** | 31 December 2015 |
|---|---|---|---|
| **Shareholders' equity:** | | | |
| share capital | *VII.(13)* | **1,376,806,000.00** | 1,376,806,000.00 |
| Other equity instruments | | **–** | – |
| Including: Preferred stock | | | |
| Perpetual bonds | | | |
| Capital reserves | | **2,754,717,835.61** | 2,749,914,774.17 |
| Less: Treasury Stock | | **–** | – |
| Other comprehensive income | | **–203,100,029.86** | –321,038,700.14 |
| Including: Foreign currency translation reserve | | **498,697.61** | 361,101.73 |
| Special reserve | | **15,875,914.78** | 11,122,854.40 |
| Surplus reserves | | **786,529,945.86** | 786,529,945.86 |
| Including: Legal accumulation fund | | **786,529,945.86** | 786,529,945.86 |
| Arbitrary accumulation fund | | | |
| Reserve fund | | | |
| Enterprise development fund | | | |
| Profit return investment | | | |
| Provision for normal risks | | **–** | – |
| Retained earnings | | **8,213,740,969.21** | 8,104,055,926.70 |
| **Total shareholders' equity attributable to parent company** | | **12,944,570,635.60** | 12,707,390,800.99 |
| Minority shareholders' equity | | **1,109,420,398.64** | 1,209,491,054.28 |
| **Total owners' equity** | | **14,053,991,034.24** | 13,916,881,855.27 |
| **Total liabilities and owners' equity** | | **63,032,154,391.49** | 64,163,245,498.14 |

The accompanying notes are an integral part of the financial statements.

## SUMMARY CONSOLIDATED INCOME STATEMENTS

*(Amount expressed in CNY unless otherwise stated.)*

| Items | Notes | January to June in 2016 | January to June in 2015 |
|---|---|---|---|
| **I. Total operating income** | *VII.(14)* | **14,975,830,143.82** | 12,132,563,481.45 |
| Including: Operating income | *VII.(14)* | **14,794,245,118.85** | 11,951,040,112.86 |
| Interest income | | **181,554,669.03** | 181,513,968.73 |
| Insurance premiums earned | | **–** | – |
| Handling charges and commission income | | **30,355.94** | 9,399.86 |
| **II. Total operating cost** | | **14,764,243,090.19** | 12,353,877,894.70 |
| Including: Operating cost | | **13,007,447,060.66** | 10,623,959,231.59 |
| Interest cost | | **6,886,583.21** | 9,077,640.63 |
| Handling charges and commission expenses | | **13,019.55** | 12,684.49 |
| Refund of insurance premiums | | **–** | – |
| Net payments for insurance claims | | **–** | – |
| Net provision for insurance contracts | | **–** | – |
| Commissions on insurance policies | | **–** | – |
| Cession charges | | **–** | – |
| Business taxes and surcharges | | **49,440,161.95** | 46,906,789.86 |
| Selling and distribution expenses | | **262,557,267.69** | 264,503,198.22 |
| General and administrative expenses | *VII.(15)* | **948,901,640.62** | 915,233,234.50 |
| Including: Research and development expense | | **113,016,852.75** | 127,268,890.72 |
| Financial expenses | | **83,384,749.24** | 89,894,855.88 |
| Including: Interest expense | | **118,905,690.12** | 147,888,740.62 |
| Including: Interest revenue | | **29,316,237.76** | 71,968,466.50 |
| Including: Exchange net loss | | **–21,066,590.14** | –2,037,683.52 |
| Assets impairment losses | *VII.(16)* | **405,612,607.27** | 404,290,259.53 |
| Add: Income from changes in fair value (loss listed as "–") | | **80,871,846.14** | –311,336,162.24 |
| Investment income (loss listed as "–") | | **–126,303,569.87** | 650,866,921.01 |
| Including: Investment income in associates and joint ventures | | **–11,219,150.71** | –1,164,121.22 |
| Foreign exchange gains (loss listed as "–") | | **–** | – |
| **III. Operating profit (loss listed as "–")** | | **166,155,329.90** | 118,216,345.52 |
| Add: Non-operating income | | **50,353,669.24** | 28,268,983.68 |
| Including: Gains from disposal of non-current assets | | **2,302,160.06** | 8,664,281.32 |
| Less: Non-operating expenses | | **–13,761,110.22** | 4,194,333.96 |
| Including: Loss from disposal of non-current assets | | **1,323,351.95** | 2,065,316.09 |

## SUMMARY CONSOLIDATED INCOME STATEMENTS *(Continued)*

*(Amount expressed in CNY unless otherwise stated.)*

| Items | Notes | **January to June in 2016** | January to June in 2015 |
|---|---|---|---|
| **IV. Profit before tax (loss listed as "–")** | | **230,270,109.36** | 142,290,995.24 |
| Less: Income tax expenses | | **114,320,805.08** | 135,417,139.82 |
| **V. Net profit (loss listed as "–")** | | **115,949,304.28** | 6,873,855.42 |
| Including: the combined party's realized net profit before combination in the business combination under common control | | | |
| Shareholders' net profit attributable to parent company | | **130,337,132.51** | 96,061,957.45 |
| Minority interests income/loss | | **–14,387,828.23** | –89,188,102.03 |
| **VI. Net income after tax of Other comprehensive income** | | **117,938,670.28** | 139,975,029.59 |
| Net of tax in other comprehensive income attributable to owners of parent company | | **117,938,670.28** | 139,975,029.59 |
| (I) Not recognized in profit or loss afterwards | | **–** | – |
| 1. Re-measurement of changes in net assets or liabilities of defined benefit plans | | **–** | – |
| 2. Corresponding shares in a investee's other comprehensive income not reclassified into profits and losses under the equity method | | **–** | – |
| (II) Recognized in profit or loss afterwards | | **117,938,670.28** | 139,975,029.59 |
| i. Corresponding shares in a investee's other comprehensive income reclassified into profits and losses afterwards under the equity method | | **–** | – |
| ii. Net gain arising from changes in fair value of available-for-sale financial assets | | **–** | – |
| iii. Net gain arising from reclassifying held-to-maturity investments to available-for-sale financial assets | | **–** | – |
| iv. Effective part of cash flow hedging | | **117,801,074.40** | 139,979,353.10 |
| v. Exchange differences on translating foreign operations | | **137,595.88** | –4,323.51 |
| vi. others | | **–** | – |
| Net of tax in other comprehensive income attributable to minority shareholders | | **–** | – |

## SUMMARY CONSOLIDATED INCOME STATEMENTS *(Continued)*

*(Amount expressed in CNY unless otherwise stated.)*

| Items | Notes | **January to June in 2016** | January to June in 2015 |
|---|---|---|---|
| **VII. Total comprehensive income** | | **233,887,974.56** | 146,848,885.01 |
| Attributable to shareholders of parent company | | **248,275,802.79** | 236,036,987.04 |
| Attributable to minority interests | | **–14,387,828.23** | –89,188,102.03 |
| **VIII. Earnings per share:** | | | |
| (I) Basic earnings per share (RMB/share) | *VII.(19)* | **0.09** | 0.07 |
| (II) Diluted earnings per share (RMB/share) | *VII.(19)* | **0.09** | 0.07 |

The accompanying notes are an integral part of the financial statements.

## SUMMARY CONSOLIDATED CASH FLOW STATEMENTS

*(Amount expressed in CNY unless otherwise stated.)*

| Items | Notes | January to June in 2016 | January to June in 2015 |
|---|---|---|---|
| **I. Cash Flows from operating activities** | | | |
| Cash received from sales of goods or rendering of services | | **13,325,461,120.95** | 11,974,007,154.90 |
| Net increase in customer bank deposits and due to banks and other financial institutions | | **–494,772,522.23** | 263,651,985.45 |
| Net increase in borrowings from central bank | | **–** | – |
| Net increase in placements from other financial institutions | | **–** | – |
| Premiums received from original insurance contracts | | **–** | – |
| Net cash received from reinsurance business | | **–** | – |
| Net increase in deposits from policyholders | | **–** | – |
| Net increase from disposal of tradable financial assets | | **–** | – |
| Interest, handling charges and commission received | | **179,883,052.78** | 180,764,097.84 |
| Net increase in placements from banks and other financial institutions | | **–** | – |
| Net increase in repurchase business capital | | **–** | – |
| Tax rebates received | | **330,435,996.33** | 73,384,099.20 |
| Cash received relating to other operating activities | | **310,698,607.89** | 1,396,856,515.79 |
| **Sub-total of cash inflows** | | **13,651,706,255.72** | 13,888,663,853.18 |
| Cash paid for goods and services | | **12,753,724,631.08** | 10,533,049,791.22 |
| Net increase in loans and advances to customers | | **174,107,267.10** | –71,876,362.93 |
| Net increase in deposits with central bank and other financial institutions | | **1,353,604.48** | 17,708,731.20 |
| Original insurance contract claims paid | | **–** | – |
| Interest, handling charges and commissions paid | | **4,269,617.83** | 60,372,521.24 |
| Policyholder dividends paid | | **–** | – |
| Cash paid to and on behalf of employees | | **1,346,580,224.71** | 1,260,304,204.10 |
| Cash paid for taxes and surcharges | | **732,719,773.97** | 827,093,785.75 |
| Cash paid relating to other operating activities | | **933,882,886.52** | 1,589,161,995.55 |
| **Sub-total of cash outflows** | | **15,946,638,005.69** | 14,215,814,666.13 |
| **Net cash flows from operating activities** | | **–2,294,931,749.97** | –327,150,812.95 |

## SUMMARY CONSOLIDATED CASH FLOW STATEMENTS *(Continued)*

*(Amount expressed in CNY unless otherwise stated.)*

| Items | Notes | **January to June in 2016** | January to June in 2015 |
|---|---|---|---|
| **II. Cash flows from investing activities** | | | |
| Cash received from disposal of investments | | **2,380,909,369.81** | 3,571,819,383.66 |
| Cash received from returns on investments | | **27,758,390.79** | 73,936,521.22 |
| Net cash received from disposal of fixed asses, intangible assets and other long-term assets | | **371,515.10** | 317,768.03 |
| Net cash received from disposal of subsidiaries and other business units | | **164,120,875.01** | 2,800,000.00 |
| Cash received relating to other investing activities | | **103,275,466.68** | 73,618,094.24 |
| **Sub-total of cash inflows** | | **2,676,435,617.39** | 3,722,491,767.15 |
| Cash paid for purchase and construction of fixed assets, intangible assets and other long-term assets | | **425,972,867.91** | 278,462,465.38 |
| Cash paid for acquisition of investments | | **1,770,115,643.84** | 3,266,852,852.66 |
| Net increase in pledge loans | | **–** | – |
| Net cash paid for acquisition of subsidiaries and other business units | | **–** | – |
| Cash paid relating to other investing activities | | **205,606,424.36** | –29,807,770.96 |
| **Sub-total of cash outflows** | | **2,401,694,936.11** | 3,515,507,547.08 |
| **Net cash flows from investing activities** | | **274,740,681.28** | 206,984,220.07 |

## SUMMARY CONSOLIDATED CASH FLOW STATEMENTS *(Continued)*

*(Amount expressed in CNY unless otherwise stated.)*

| Items | Notes | **January to June in 2016** | January to June in 2015 |
|---|---|---|---|
| **III. Cash flows from financing activities** | | | |
| Cash received from capital contributions | | **20,000,000.00** | – |
| Including: Cash received from minority shareholders' capital contributions to subsidiaries | | **20,000,000.00** | – |
| Cash received from borrowings | | **91,360,000.00** | 288,536,385.05 |
| Cash received from issue of bond | | **–** | – |
| Cash received relating to other financing activities | | **150,006,738.18** | 40,000,000.00 |
| **Sub-total of cash inflows** | | **261,366,738.18** | 328,536,385.05 |
| Cash repayments of borrowings | | **736,766,366.38** | 327,156,761.54 |
| Cash payments for interest expenses and distribution of dividends or profits | | **186,511,568.31** | 236,908,191.22 |
| Including: Subsidiaries' cash payments for distribution of dividends or profits to minority shareholders | | **–** | 10,990,313.80 |
| Cash paid relating to other financing activities | | **–4,898,184.16** | –1,765,984.63 |
| **Sub-total of cash outflows** | | **918,379,750.53** | 562,298,968.13 |
| **Net cash flows from financing activities** | | **–657,013,012.35** | –233,762,583.08 |
| **IV. Effect of foreign exchange rate changes on cash and cash equivalents** | | **10,505,915.64** | –2,017,510.17 |
| **V. Net increase/(decrease) in cash and cash equivalents** | | **–2,666,698,165.40** | –355,946,686.13 |
| Add: Cash and cash equivalents at beginning of the period | | **17,178,496,464.76** | 13,563,036,710.58 |
| **VI. Cash and cash equivalents at end of the period** | | **14,511,798,299.36** | 13,207,090,024.45 |

The accompanying notes are an integral part of the financial statements.

# SUMMARY CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

*(Amount expressed in CNY unless otherwise stated.)*

| Items | January to June in 2016 | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Shareholder's Equity attributable to parent company | | | | | | | | | | | | |
| | | Other equity instruments | | | | | Other | | | | | | |
| | Paid-in Capital (Share capital) | Preference shares | Perpetual debts | Others | Capital reserves | Less: Treasury stock | comprehensive income | Special reserves | Surplus reserves | General risk provision | Undistributed profits | Minority equity | Total equity |
| I. Balance at the end of prior year | 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 | 1,209,491,054.28 | 13,916,881,855.27 |
| Add: changes in accounting policies | | | | | | | | | | | | | - |
| Corrections of prior period errors | | | | | | | | | | | | | - |
| Business combination under common control | | | | | | | | | | | | | - |
| Others | | | | | | | | | | | | | - |
| II. Balance at the beginning of the year | 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 | 1,209,491,054.28 | 13,916,881,855.27 |
| III. Increases/decreases in current year ("-" decreases) | - | - | - | - | 4,803,061.44 | - | 117,938,670.28 | 4,753,060.38 | - | - | 109,685,042.51 | -100,070,655.64 | 137,109,178.97 |
| (I) Total comprehensive income | | | | | | | 117,938,670.28 | | | | 130,337,132.51 | -14,387,828.23 | 233,887,974.56 |
| (II) Shareholders' contribution and withdrawal | - | - | - | - | 4,803,061.44 | - | - | - | - | - | - | -86,388,779.63 | -81,585,718.19 |
| i. Capital contributed by owners | | | | | | | | | | | | | - |
| ii. Capital contributed by other equity instruments holders | | | | | | | | | | | | | - |
| iii. The amount of share-based payments recorded in owners' equity | | | | | | | | | | | | | - |
| iv. Others | | | | | 4,803,061.44 | | | | | | | -86,388,779.63 | -81,585,718.19 |
| (III) Profit distribution | - | - | - | - | - | - | - | - | - | - | -20,652,090.00 | - | -20,652,090.00 |
| i. Appropriations to surplus reserves | | | | | | | | | - | | - | | - |
| ii. Appropriations to general risk provisions | | | | | | | | | | - | - | | - |
| iii. Distributions to shareholders | | | | | | | | | | | -20,652,090.00 | | -20,652,090.00 |
| iv. Others | | | | | | | | | | | | | - |
| (IV) Transfers within owners' equity | - | - | - | - | - | - | - | - | - | - | - | - | - |
| i. Capital transferred from capital reserves | | | | | - | | | | | | | | - |
| ii. Capital transferred from surplus reserves | | | | | | | | | - | | | | - |
| iii. Recovery of losses by surplus reserve | | | | | | | | | - | | - | | - |
| iv. Others | | | | | | | | | | | | | - |
| (V) Special reserves | - | - | - | - | - | - | - | 2,300,356.75 | - | - | - | 44,068.93 | 2,344,425.68 |
| i. extraction in current period | | | | | | | | 2,890,187.20 | | | | 45,330.93 | 2,935,518.13 |
| ii. use in current period | | | | | | | | -589,830.45 | | | | -1,262.00 | -591,092.45 |
| (VI) Others | | | | | | | | 2,452,703.63 | | | | 661,883.29 | |

# SUMMARY CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

*(Continued)*

*(Amount expressed in CNY unless otherwise stated.)*

| Items | January to June in 2015 | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Shareholder's Equity attributable to parent company | | | | | | | | | | | | |
| | | Other equity instruments | | | | | Other | | | | | | |
| | Paid-in Capital (Share capital) | Preference shares | Perpetual debts | Others | Capital reserves | Less: Treasury stock | comprehensive income | Special reserves | Surplus reserves | General risk provision | Undistributed profits | Minority equity | Total equity |
| **I. Balance at the end of prior year** | 1,376,806,000.00 | – | – | – | 2,777,725,426.88 | – | -236,065,084.33 | 7,958,663.67 | 780,503,096.67 | – | 7,968,943,488.04 | 1,329,180,388.12 | 14,005,051,979.05 |
| Add: changes in accounting policies | | | | | | | | | | | | | – |
| Corrections of prior | | | | | | | | | | | | | |

# NOTES TO THE FINANCIAL STATEMENTS

*FOR THE YEAR ENDED ON 30 JUNE 2016*

## I. BASIC INFORMATION OF THE COMPANY

Harbin Electric Co., LTD (hereinafter as "The Company") was founded on 6 October 1994 which reorganized by Harbin Electric Corporation and Harbin Electric machinery Co. Ltd, Harbin Boiler Co. Ltd, and Harbin Turbine Co, Ltd in Harbin. The company's reorganization was approved by State Commission for Restructuring the Economic System and listed on Hong Kong stock exchange on 5 November 1994.

The company's parent company and ultimate holding company: Harbin Electric Corporation

Industry: Power generation equipment manufacturing industry.

Main businesses: produce and sale generator and general contracting of power plant project

## II. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

The financial statement of the company is based on continuity postulate. Since 1 January 2008, the Company has adopted the new CASs issued by the Ministry of Finance (MoF) in February 2006, and, in accordance with Articles 5 to 19 of Accounting Standard for Business Enterprises No. 38 — First-Time Adoption of Accounting Standards for Business Enterprises ("ASBE No.38") and other related regulations, made retrospective adjustments to the financial statements of the comparative year. Except for the retrospective adjustments on some items made under Articles 5 to 19 of ASBE No. 38 and other related regulations, the Group's financial statements of the comparative year are prepared in accordance with the accounting policies defined in the previous Accounting Standards for Business Enterprises and the Accounting System for Business Enterprises and other related regulations.

## III. STATEMENT OF COMPLIANCE WITH THE ASBE

The financial statements of the Company have been prepared in accordance with new CASs, and present truly and completely, the Company's financial position as of 31 December 2015, and the Company's results of operations and cash flows for the year.

## IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

**1. Enterprises Accounting Standards and Policies**

Since 1 January 2008, the Company has adopted the new CASs issued by the Ministry of Finance (MoF) in February 2006.

**2. Accounting year**

The Company has adopted the calendar year as its accounting year, i.e. from 1 January to 31 December.

**3. Functional currency**

The functional currency of the Company is RMB.

**4. Basis of accounting and principle of measurement**

The Company has adopted the accrual basis of accounting. Except for certain financial instruments, which are measured at fair value, the Company has adopted the historical cost as the principle of measurement of the financial statements. Where assets are impaired, provisions for asset impairment are made in accordance with relevant requirements.

## V. CHANGES IN ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND ERROR CORRECTION

**1. Changes in accounting policies**
None

**2. Changes in accounting estimates**
None

**3. Error correction**
None

**4. Other matters to adjust**
None

## VI. TAXES

**1. The main tax and tax rates**

| Items | Tax rate and basis |
|---|---|
| Value-added tax | Rate of output tax is 3% or 17%, tax base is taxable sales; the gap between the output taxes less the deductible input tax should be paid as VAT tax. |
| Business tax | 3% or 5% of taxable business income. |
| Urban construction tax | 7% of paid tax including VAT, Business tax and Consumption tax. |
| Educational Surtax | 5% of paid tax including VAT, Business tax and Consumption tax. |
| Enterprise income tax | 15% or 25% of taxable profits. |

## VI. TAXES *(Continued)*

**2. Tax preferences and official approval document**

The Company got the High-tech certificate number: GR20142300008 which issued on 5 August 2014 Valid for three years and the profits corporate tax rate was 15%. Besides, some subsidiary companies enjoyed income corporate tax rate 15%, the others should pay the tax by 25% profits corporate rate.

The company does not have Hong Kong Profit Tax to pay from January to June 2016.

Based on the nation tax documents [2008] No 897 of State Administration of Taxation "notes about withhold and remit tax of Chinese residents enterprise distribute dividend to overseas H-stock non-residents enterprises", Chinese residents enterprise distribute dividend which 2008 and the years after 2008 to overseas H-stock non-residents shareholders, should withhold and remit income corporate tax 10%.

## VII. NOTES TO THE MATERIAL ACCOUNTS FOR CONSOLIDATED FINANCIAL STATEMENTS

**1. Notes receivable**

| **Type** | **2016.6.30** | 2015.12.31 |
|---|---|---|
| Bank acceptance | **2,207,716,167.61** | 2,037,440,761.81 |
| Business acceptance | **116,450,042.63** | 270,968,312.13 |
| Total | **2,324,166,210.24** | 2,308,409,073.94 |

Explanation: as of 30 June 2016,The ending balance of notes receivable were within a year.

## VII. NOTES TO THE MATERIAL ACCOUNTS FOR CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

### 2. Accounts Receivable

| | 2016.6.30 | | | |
|---|---|---|---|---|
| | Carrying Amount | | Bad Debt Provision | |
| **Type** | **Amount** | **Percentage (%)** | **Amount** | **Proportion of providing (%)** |
| Accounts receivable with individual significance and accruing bad debt provision individually | **625,553,124.51** | **3.85** | **260,937,097.33** | **41.71** |
| Accounts receivable accruing bad debt provision in portfolio | **15,368,401,704.61** | **94.67** | **5,095,985,704.82** | **33.16** |
| Accounts receivable with individual insignificance but individually accruing bad debt provision | **240,920,874.51** | **1.48** | **20,449,475.94** | **8.49** |
| Total | **16,234,875,703.63** | **100.00** | **5,377,372,278.09** | |

| | 2015.12.31 | | | |
|---|---|---|---|---|
| | Carrying Value | | Bad debt Provision | |
| Type | Amount | Percentage (%) | Amount | Proportion of providing (%) |
| Accounts receivable with individual significance and individually accruing bad debt provision | 703,392,234.57 | 4.38 | 228,881,340.51 | 32.54 |
| Accounts receivable accruing bad debt provision in portfolio | 15,208,744,054.44 | 94.78 | 4,781,530,327.29 | 31.44 |
| Accounts receivable with individual insignificance and individually accruing bad debt provision | 134,051,478.31 | 0.84 | 48,005,143.54 | 35.81 |
| Total | 16,046,187,767.32 | 100.00 | 5,058,416,811.34 | |

## VII. NOTES TO THE MATERIAL ACCOUNTS FOR CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

### 2. Accounts Receivable *(Continued)*

*(1) Accounts receivable accruing bad debt provision based on a portfolio*

- Accounts receivables accruing bad debt provision by applying aging analysis

| | **2016.6.30** | | | 2015.12.31 | | |
|---|---|---|---|---|---|---|
| | **Carrying amount** | | | Carrying amount | | |
| **Aging** | **Amount** | **Bad Debt Provision** | **Proportion of providing (%)** | Amount | Bad Debt Provision | Proportion of providing (%) |
| Within one year (including one year) | **5,990,601,099.70** | **285,783,303.87** | **4.77** | 5,761,727,123.88 | 190,385,466.68 | 3.30 |
| One to two years (including two years) | **3,098,092,791.76** | **562,436,651.59** | **18.15** | 3,045,834,676.27 | 463,978,308.95 | 15.23 |
| Two to three years (including three years) | **1,927,318,200.70** | **754,355,098.97** | **39.14** | 1,971,078,876.27 | 759,626,960.26 | 38.54 |
| Three to four years (including four years) | **1,656,245,834.40** | **1,117,063,636.75** | **67.45** | 1,762,154,770.24 | 1,106,046,905.53 | 62.77 |
| Four to five years (including five years) | **1,092,486,665.29** | **859,857,794.89** | **78.71** | 969,299,735.66 | 666,066,005.90 | 68.72 |
| Over five years | **1,603,657,112.76** | **1,516,489,218.75** | **94.56** | 1,698,648,872.12 | 1,595,426,679.97 | 93.92 |
| Total | **15,368,401,704.61** | **5,095,985,704.82** | | 15,208,744,054.44 | 4,781,530,327.29 | |

## VII. NOTES TO THE MATERIAL ACCOUNTS FOR CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

**2. Accounts Receivable** *(Continued)*

*(2) Accounts receivable with individual significance and accrued bad debt provision individually at the year-end*

- Accounts receivable with individual significance but individually accruing bad debt provision at the year-end.

| Debtor Name | Carrying Amount | Bad Debt | Proportion of providing (%) | Reason |
|---|---|---|---|---|
| National water conservancy irrigation department of the republic of Sudan (Merowe project) etc | 625,553,124.51 | 260,937,097.33 | 41.71% | |
| Total | 625,553,124.51 | 260,937,097.33 | 41.71% | |

- Accounts receivable with individual insignificance but individually accruing bad debt provision at the year-end.

| Debtor Name | Carrying Amount | Bad Debt | Proportion of providing (%) | Reason |
|---|---|---|---|---|

## VII. NOTES TO THE MATERIAL ACCOUNTS FOR CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

### 3. Advance Payment

*(1) Categorized by aging*

| | 2016.6.30 | | | 2015.12.31 | | |
|---|---|---|---|---|---|---|
| | Carrying Amount | | Bad Debt Provision | Carrying Amount | | Bad Debt Provision |
| Aging | Amount | Percentage (%) | | Amount | Percentage (%) | |
| Within one year (including one year) | **3,838,672,441.70** | **63.23** | | 3,988,138,375.30 | 73.66 | |
| One to two years (including two years) | **1,533,668,517.30** | **25.26** | | 937,870,811.57 | 17.32 | |
| Two to three years (including three years) | **351,182,273.62** | **5.78** | | 244,641,455.98 | 4.52 | |
| Over three years | **347,585,796.68** | **5.73** | | 243,267,009.98 | 4.50 | |
| Total | **6,071,109,029.30** | **100.00** | | 5,413,917,652.83 | 100.00 | |

### 4. Other receivables

| | 2016.6.30 | | | |
|---|---|---|---|---|
| | Carrying Value | | Bad debt Provision | |
| Type | Amount | Percentage (%) | Amount | Proportion of providing (%) |
| Other receivables with individual significance and individually accruing bad debt provision | **515,073,360.92** | **52.77** | **13,995,000.00** | **2.72** |
| Other receivables accruing bad debt provision in portfolio | **240,054,737.47** | **24.60** | **164,952,506.54** | **68.71** |
| Other receivables without individual significance but individually accruing bad debt provision | **220,821,569.32** | **22.63** | **18,163,255.67** | **8.23** |
| Total | **975,949,667.71** | **100.00** | **197,110,762.21** | |

## VII. NOTES TO THE MATERIAL ACCOUNTS FOR CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

### 4. Other receivables *(Continued)*

(cont'd)

| | 2015.12.31 | | | |
|---|---|---|---|---|
| | Carrying Value | | Bad debt Provision | |
| Type | Amount | Percentage (%) | Amount | Proportion of providing (%) |
| Other receivables with individual significance and individually accruing bad debt provision | 385,233,233.65 | 48.99 | 13,995,000.00 | 3.63 |
| Other receivables accruing bad debt provision in portfolio | 219,355,726.24 | 27.89 | 159,380,221.07 | 72.66 |
| Other receivables without individual significance but individually accruing bad debt provision | 181,835,564.28 | 23.12 | 12,484,013.72 | 6.87 |
| Total | 786,424,524.17 | 100.00 | 185,859,234.79 | |

## VII. NOTES TO THE MATERIAL ACCOUNTS FOR CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

### 4. Other receivables *(Continued)*

*(1) Other receivables accruing bad debt provision based on a portfolio*

- ***Other receivables accruing bad debt provision by applying aging analysis***

| | 2016.6.30 | | | 2015.12.31 | | |
|---|---|---|---|---|---|---|
| | Carrying amount | | Proportion of | Carrying amount | | Proportion of |
| Aging | Amount | Bad debt Provision | providing (%) | Amount | Bad debt Provision | providing (%) |
| Within one year (including one year) | **67,355,817.26** | **3,365,595.09** | **5.00** | 46,974,288.14 | 2,335,075.61 | 4.97 |
| One to two years (including two years) | **1,016,933.77** | **251,764.45** | **24.76** | 8,254,574.11 | 2,061,174.53 | 24.97 |
| Two to three years (including three years) | **7,555,122.45** | **3,777,561.23** | **50.00** | 6,322,509.59 | 3,161,254.80 | 50.00 |
| Three to four years (including four years) | **14,759,299.45** | | | | | |

## VII. NOTES TO THE MATERIAL ACCOUNTS FOR CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

### 4. Other receivables *(Continued)*

*(2) Other receivables individually accruing bad debt profusion*

- ***Other receivables with individual significance and individually accruing bad debt provision***

| Debtor Name | Carrying Amount | Bad Debt | Aging | Proportion of providing (%) | Reason |
|---|---|---|---|---|---|
| HEC, etc | 501,078,360.92 | | | | Related party and export tax refund |
| Daqing Rehau Energy Technology Co., LTD | 13,995,000.00 | 13,995,000.00 | | 100% | Advance payment |
| Total | 515,073,360.92 | 13,995,000.00 | | 2.72% | |

- ***Other receivables with individual insignificance and individually accruing bad debt provision***

| Debtor Name | Carrying Amount | Bad Debt | Aging | Proportion of providing (%) | Reason |
|---|---|---|---|---|---|
| Petty cash | 220,821,569.32 | 18,163,255.67 | | 8.23% | |
| Total | 220,821,569.32 | 18,163,255.67 | | 8.23% | |

## VII. NOTES TO THE MATERIAL ACCOUNTS FOR CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

### 5. Other current assets

| Item | 30 June 2016 | 31 December 2015 |
|---|---|---|
| Available for sale financial assets | **200,000,000.00** | 1,350,000,000.00 |
| Loan by mandate | **210,000,000.00** | 210,000,000.00 |
| Bank financial products | **1,750,001,278.51** | 1,450,000,000.00 |
| Prepaid corporate income tax | **28,404,382.66** | 57,294,659.76 |
| Others | **3,837.30** | 3,837.30 |
| Total | **2,188,409,498.47** | 3,067,298,497.06 |

### 6. Changes of investment property, fixed assets, intangible assets and long-term assets

(1) From 1 January 2016 to 30 June 2016, the company has sold the plants and equipments which book value was CNY66,166,032.48(same period in 2015 was CNY28,983,000) and got the payment CNY67,144,840.59 (same period in 2015 was CNY38,261,000). The profit was CNY978,808.11 (same period in 2015 was CNY9,278,000).

(2) From 1 January 2016 to 30 June 2016, the company cost CNY383,704,581.64 on construction in process, machinery equipments, transportation equipments etc.

(3) the company uses the leaseback way to financial lease the plants and equipments which book value was CNY265,198,109.49 (same period in 2015 was CNY223,344,000) on 30 June 2016

## VII. NOTES TO THE MATERIAL ACCOUNTS FOR CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

### 7. Short-term borrowings

*(1) Classification of short-term borrowings*

| **Type** | **2016.6.30** | 2015.12.31 |
|---|---|---|
| Credit borrowings | **2,748,138,408.88** | 2,647,905,476.92 |
| Mortgage borrowings | **17,000,000.00** | 11,000,000.00 |
| Guaranteed borrowings | **–** | 519,488,000.00 |
| Fiduciary borrowings | **–** | – |
| Total | **2,765,138,408.88** | 3,178,393,476.92 |

*(2) Mortgage borrowings*

| **Loan bank** | **2016.6.30** | Collateral |
|---|---|---|
| Chengdu Rural Commercial Bank branch in Xindu Taixing | **17,000,000.00** | Land use right/ House property |
| Total | **17,000,000.00** | |

## VII. NOTES TO THE MATERIAL ACCOUNTS FOR CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

### 8. Notes Payable

| Type | 2016.6.30 | 2015.12.31 |
|---|---|---|
| Commercial Acceptance Bill | **4,049,343,853.20** | 4,562,398,513.21 |
| Bank Acceptance Bill | **634,995,835.34** | 491,039,222.34 |
| Total | **4,684,339,688.54** | 5,053,437,735.55 |

*Note:* as of 30 June 2016, The ending balance of notes payable were within a year.

### 9. Accounts payable

*(1) Aging of accounts payable*

| Aging | 2016.6.30 | 2015.12.31 |
|---|---|---|
| Within one year (including one year) | **9,911,163,452.12** | 9,717,159,710.65 |
| One to two years (including two years) | **2,512,865,775.56** | 2,098,735,142.36 |
| Two to three years (including three years) | **1,030,951,848.92** | 624,274,436.20 |
| Over three years | **693,979,068.69** | 597,774,338.88 |
| Total | **14,148,960,145.29** | 13,037,943,628.09 |

## VII. NOTES TO THE MATERIAL ACCOUNTS FOR CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

### 10. Other current liabilities

| Items | 2016.6.30 | 2015.12.31 |
|---|---|---|
| Forward contract effective hedging | **150,156,033.85** | 375,043,853.00 |
| Total | **150,156,033.85** | 375,043,853.00 |

Explanation: the fair value of forward foreign exchange contracts is determined at the end of the reporting period, and the calculated value is discounted to the present value.

### 11. Bonds payable

| Items | 2016.6.30 | 2015.12.31 |
|---|---|---|
| 12 HEC 01 | **2,997,075,000.00** | 2,996,197,500.00 |
| Total | **2,997,075,000.00** | 2,996,197,500.00 |

Changes of Bond payable:(exclude preferred shares which belong to financial liabilities and perpetual bond and other financial instrument)

| Items | Par value | Issued date | Bond deadline | Issued amount | Opening balance | Current period | Interests withdrawing | Amortization of bond's premium price and conversion into money | Payback of this period | Closing balance |
|---|---|---|---|---|---|---|---|---|---|---|
| 12 HEC 01 | 3,000,000,000.00 | 2013/3/11 | 5 years | 3,000,000,000.00 | 2,996,197,500.00 | – | 73,500,000.00 | 877,500.00 | 73,500,000.00 | 2,997,075,000.00 |
| Total | / | / | / | 3,000,000,000.00 | 2,996,197,500.00 | – | 73,500,000.00 | 877,500.00 | 73,500,000.00 | 2,997,075,000.00 |

## VII. NOTES TO THE MATERIAL ACCOUNTS FOR CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

### 11. Bonds payable *(Continued)*

The company issued its bond that par value was not exceeding 40 hundreds million Yuan to the public, which authorized by China Securities Regulatory Commission's regulatory permission [2013] NO.159 on 18 February 2013. The company issued 2012 company's bond(first phase) to the public and fundraising 30 hundreds million Yuan. The annual interest rate of bond is 4.9% and the company pays the interests on 11 March every year. The interest bearing period was 11 March 2013 to 11 March 2018. The current period bond use the simply interest way to calculate interests and disregard compound interest. The company pays the interests once a year, pays back the capital when the bond is mature. The company pays the interests and capital together at the last period. This bond is provided by the company in full unconditional irrevocable joint liability guarantee.

### 12. Financial leasing

*(1) the fixed assets get from financial leasing*

| Items | Original book value | Accumulated depreciation | Provision for diminution value | Book value |
|---|---|---|---|---|
| Buildings | 73,371,587.71 | 17,790,490.77 | – | 55,581,096.94 |
| Machinery equipments | 275,052,427.81 | 65,435,415.26 | – | 209,617,012.55 |
| Total | 348,424,015.52 | 83,225,906.03 | – | 265,198,109.49 |

## VII. NOTES TO THE MATERIAL ACCOUNTS FOR CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

### 12. Financial leasing *(Continued)*

*(2) Account payable of financial leasing*

| Items | 2016.6.30 | 2015.12.31 |
|---|---|---|
| Accounts payable for fixed assets financing lease matured within a year | **30,369,370.09** | 44,234,860.49 |
| More than a year of accounts payable for fixed assets financing lease | **3,295,193.85** | 11,257,889.40 |
| Including but more than one year to two years due accounts payable for fixed assets financing lease | **3,295,193.85** | 11,257,889.40 |
| Total | **33,664,563.94** | 55,492,749.89 |

### 13. Share capital

| | | Current period increase (+) decrease (-) | | | | | |
|---|---|---|---|---|---|---|---|
| Shareholder's name | 2015.12.31 | Capital increase | Stock dividend | Accumulation fund transfer to stock | Undistributed profit transfer to stocks | Sub-total | 2016.6.30 |
| Harbin Electric Corporation | 701,235,000.00 | – | – | – | – | – | **701,235,000.00** |
| Stocks listing and circulating overseas | 675,571,000.00 | – | – | – | – | – | **675,571,000.00** |
| Total | 1,376,806,000.00 | – | – | – | – | – | **1,376,806,000.00** |

## VII. NOTES TO THE MATERIAL ACCOUNTS FOR CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

### 14. Incomes and division's documents

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

The company confirmed five 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, ac/dc motor and other five divisions. The individual report of the company offer 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.

## VII. NOTES TO THE MATERIAL ACCOUNTS FOR CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

### 14. Incomes and division's documents *(Continued)*

*2) Financial Information of Divisions*

(1) Assets and liabilities of divisions

| Items | Thermal power host devices | Water and electricity host devices | Plant engineering services | Power plant auxiliary and supporting products | AC/DC motors and others | Total |
|---|---|---|---|---|---|---|
| **30 June 2016** | | | | | | |
| Total assets of divisions | 46,962,613,966.48 | 6,638,833,143.75 | 6,482,459,325.22 | 2,678,035,024.84 | 5,650,713,837.65 | 68,412,655,297.94 |
| Total liabilities of divisions | 40,067,953,131.70 | 3,872,623,133.85 | 5,917,611,691.78 | 2,092,860,874.61 | 4,832,544,958.12 | 56,783,593,790.06 |
| **January–June 2016** | | | | | | |
| Revenue of divisions | | | | | | |
| External customer | 6,693,250,825.16 | 1,452,332,536.52 | 4,994,191,857.24 | 598,341,687.31 | 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 | 7,383,914,053.79 | 1,452,332,536.52 | 5,094,301,949.14 | 598,341,687.31 | 1,059,065,257.49 | 15,587,955,484.25 |
| Reportable revenue of gross profit | 1,065,491,255.46 | 224,125,636.51 | 281,775,602.69 | 94,365,806.46 | 121,039,757.07 | 1,786,798,058.19 |

## VII. NOTES TO THE MATERIAL ACCOUNTS FOR CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

### 14. Incomes and division's documents *(Continued)*

*2) Financial Information of Divisions (Continued)*

(2) Assets, revenue and liabilities of divisions

| Items | 30 June 2016 | 31 December 2015 |
|---|---|---|
| **Assets** | | |
| Reportable assets of divisions | **68,412,655,297.94** | 71,586,706,288.10 |
| Offset division's accounts from related parties | **–26,324,894,843.99** | –27,474,455,403.86 |
| Reportable net assets of divisions | **42,087,760,453.95** | 44,112,250,884.24 |
| Deferred tax assets | **298,230,032.02** | 333,842,705.26 |
| 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 | **14,489,466,864.53** | 16,572,749,985.51 |
| Deposit in central bank | **841,423,747.46** | 827,070,142.98 |
| Cash and cash equivalents | **49,950,191.61** | 837,186,029.23 |
| Unallocated assets of head office and the company | **5,265,323,101.92** | 1,480,145,750.92 |
| Total assets | **63,032,154,391.49** | 64,163,245,498.14 |
| **Liabilities** | | |
| Reportable liabilities of divisions | **56,783,593,790.06** | 53,929,207,077.36 |
| Offset division's accounts from related parties | **–26,324,894,843.99** | –27,474,455,403.86 |
| Reportable net liabilities of divisions | **30,458,698,946.07** | 26,454,751,673.50 |
| Tax payable | | |
| Unallocated liabilities of head office and the company | **18,519,464,411.18** | 23,791,611,969.37 |
| Total liabilities | **48,978,163,357.25** | 50,246,363,642.87 |

## VII. NOTES TO THE MATERIAL ACCOUNTS FOR CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

### 14. Incomes and division's documents *(Continued)*

*2) Financial Information of Divisions (Continued)*

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

| Items | **January–June 2016** | January–June 2015 |
|---|---|---|
| Revenue | | |
| External revenue | **15,587,955,484.25** | 12,983,510,741.45 |
| Internal revenue | **–793,710,365.40** | –1,032,470,628.59 |
| Total revenue | **14,794,245,118.85** | 11,951,040,112.86 |
| Reportable gross profit | **1,786,798,058.19** | 1,327,080,881.27 |
| Offset losses between divisions | | 22,734,516.31 |
| External customers' reportable gross profit | **1,786,798,058.19** | 1,349,815,397.58 |
| Long-term equity investment account by equity method | **–7,126,120.71** | 4,145,961.84 |
| Interests income | **139,885,220.72** | 71,968,466.50 |
| Chinese government grants | **42,936,827.12** | 9,643,275.45 |
| Financial assets which measured by fair value and the changes reckon in current period profit/loss | **80,871,846.14** | –311,336,162.24 |
| Financial liabilities-cash flow hedge which measured by fair value and the changes reckon in current period profit/loss | | |
| Interest expenses | **–144,575,998.06** | –147,888,740.62 |
| Undistributed other revenue and net revenue | | |
| Undistributed expenses of head office and the company | **–1,668,519,724.04** | –834,057,203.27 |
| Total profit | **230,270,109.36** | 142,290,995.24 |

## VII. NOTES TO THE MATERIAL ACCOUNTS FOR CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

### 15. Management Expenses

From 1 January 2016 to 30 June 2016, the management expenses is CNY948,901,640.62 (same period in 2015 was CNY915,233,234.50) which consist of labor costs and amortization depreciation, etc.

### 16. Assets Impairment Loss

| **Items** | **January–June 2016** | January–June 2015 |
|---|---|---|
| Bad debt loss | **421,109,757.70** | 413,483,627.43 |
| Loss on inventory valuation | **–15,497,150.43** | –9,193,367.90 |
| Total | **405,612,607.27** | 404,290,259.53 |

Explanation: current period withdrawing account receivable and other account receivable provision for diminution in value CNY421,109,757.70. the provision will use to cancel after verification of account receivable and other account receivable.

### 17. profit before tax and amortization depreciation

| **Items** | **January–June 2016** |
|---|---|
| Net profit | 115,949,304.28 |
| Income tax expenses | 114,320,805.08 |
| Withdrawing depreciation of fixed assets | 351,114,600.93 |
| Withdrawing amortization intangible assets | 24,003,276.20 |
| Withdrawing long-term unamortized expenses | 5,811,867.52 |
| Interests and investment income | 16,115,485.97 |
| Interests income of finance company | –181,554,669.03 |
| Interests expenses | 118,905,690.12 |
| Interests expenses of finance company | 6,886,583.21 |
| Profit before tax and amortization depreciation | 571,552,944.28 |

## VII. NOTES TO THE MATERIAL ACCOUNTS FOR CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

### 18. Dividend

| **Items** | **January–June 2016** | January–June 2015 |
|---|---|---|
| Dividend of per share CNY0.0015 at the 2015 closing balance | **20,652,090.00** | – |
| Dividend of per share CNY0.04 at the 2014 closing balance | **–** | 55,072,240.00 |
| Total | **20,652,090.00** | 55,072,240.00 |

Director does not suggest pay any interim dividend from January to June 2016 (same period of 2015: CNY0).

### 19. Earnings Per Share

| | **January–June 2016** | January–June 2015 |
|---|---|---|
| Shareholders' net profit attributable to parent company | **130,337,132.51** | 96,061,957.45 |
| 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** | 0.07 |

Explanation: from 1 January–30 June 2016 and 2015, the company has not potential impaction of issued ordinary share, diluted earnings per share is the same as basic earnings per share.

## VII. NOTES TO THE MATERIAL ACCOUNTS FOR CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

### 20. Restricted assets of ownership or right to use

| Restricted assets of ownership category | 2015.12.31 | Increasing | Decreasing | 2016.6.30 |
|---|---|---|---|---|
| 1. Assets for collateral | 127,672,917.45 | – | 16,272,735.40 | **116,148,814.73** |
| (1) Fixed assets (buildings and plants) | 97,153,593.71 | – | 13,319,932.31 | **89,073,110.82** |
| (2) Intangible assets (land right to use) | 30,519,323.74 | – | 2,952,803.09 | **27,075,703.91** |
| (3) Fixed assets (machinery equipments) | – | – | – | **–** |
| 2. Restricted assets of ownership caused by other reasons | 5,578,210.73 | – | 5,578,210.73 | **–** |
| Including: currency | 5,578,210.73 | – | 5,578,210.73 | **–** |
| Total | 133,251,128.18 | – | 21,850,946.13 | **116,148,814.73** |

## VI. RELATED PARTIES AND RELATED TRANSACTION

### 1. Related party transactions

*(1) 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.

| Related parties | **January to June in 2016** | January to June in 2015 |
|---|---|---|
| Sales of goods | | |
| — company under common control | **505,241.09** | 5,471,773.88 |
| — joint venture | **12,820,512.82** | 13,199.99 |
| Procurement of goods | | |
| — company under common control | **18,983,055.58** | 68,370,577.70 |
| — joint venture | **91,929,501.71** | 67,147,849.69 |
| Service fee income | | |
| — holding company | **1,640,000.00** | 1,640,000.00 |
| Service fee expenses | | |
| — company under common control | **26,559,779.92** | 47,794,968.15 |

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

| **Related parties** | **January to June in 2016** | January to June in 2015 |
|---|---|---|
| Holding company | **3,286,195.43** | 8,612,410.64 |
| Company under common control | **969,509.05** | 367,543.73 |
| Joint venture | **65,431.17** | 16,699.94 |
| Total | **4,321,135.65** | 8,996,654.31 |

## VI. RELATED PARTIES AND RELATED TRANSACTION *(Continued)*

### 1. Related party transactions *(Continued)*

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

| Related parties | **January to June in 2016** | January to June in 2015 |
|---|---|---|
| Holding company | **1,484,381.55** | – |
| Company under common control | **711,411.66** | 606,666.67 |
| Total | **2,195,793.21** | 606,666.67 |

*(4) Fee and commission income*

| **Related parties** | **January to June in 2016** | January to June in 2015 |
|---|---|---|
| Company under common control | **9,269.64** | 9,399.86 |
| Total | **9,269.64** | 9,399.86 |

*(5) Transfers of related parties' assets*

| **Related parties** | **Content of related transactions** | **January to June in 2016** | January to June in 2015 |
|---|---|---|---|
| Harbin Electric Corporation | Harbin electric Machinery (Kunming) Company Limited | **169,090,630.19** | – |

## VI. RELATED PARTIES AND RELATED TRANSACTION *(Continued)*

### 1. Related party transactions *(Continued)*

*(6) Remuneration of key management*

| Items | **January to June in 2016** | January to June in 2015 |
|---|---|---|
| Remuneration of key management | **1,046,465.00** | 1,180,786.00 |

### 2. Receivables from and payable to related parties

*(1) Receivable items*

| | | 30 June 2016 | | 31 December 2015 | |
|---|---|---|---|---|---|
| **Name of items** | **Related parties** | **Book value** | **Bad debts** | Book value | Bad debts |
| Receivables | | | | | |
| | Company under common control | **27,072.00** | | 81,206.00 | |
| Advance to suppliers | | | | | |
| | Company under common control | **21,843,710.00** | | 21,602,210.00 | |
| Other receivables | | | | | |
| | Holding company | **169,090,630.19** | | | |
| | Company under common control | **58,887,945.29** | | 125,972,381.08 | |
| Interests receivable | | | | | |
| | Company under common control | | | 280,408.33 | |
| Other current assets | | | | | |
| | Company under common control | **210,000,000.00** | | 210,000,000.00 | |
| Loans and payments | | | | | |
| | Holding company | **170,000,000.00** | | | |

## VI. RELATED PARTIES AND RELATED TRANSACTION *(Continued)*

### 2. Receivables from and payable to related parties *(Continued)*

*(2) Payable items*

| Name of item | Related parties | Book value | |
|---|---|---|---|
| | | **30 June 2016** | 31 December 2015 |
| Short-term loan | | | |
| | Holding company | **2,748,138,408.88** | 2,529,078,408.88 |
| Absorbed deposits | | | |
| | Holding company | **975,916,072.20** | 1,443,444,464.98 |
| | Company under common control | **145,280,731.54** | 168,838,612.38 |
| Accounts payable | | | |
| | Holding company | **–** | 41,021.33 |
| | Company under common control | **36,430,880.69** | 32,454,281.22 |
| | Joint venture | **59,992,203.11** | – |
| Notes payable | | | |
| | Company under common control | **849,019.54** | 317,524.56 |
| Other payable | | | |
| | Holding company | **1,287,000.00** | 9,853,700.00 |
| | Company under common control | **–** | 406,920.17 |
| | Joint venture | **600,000.00** | 600,000.00 |
| Long-term payable | | | |
| | Holding company | **–** | 1,000,000.00 |
| Special payable | | | |
| | Holding company | **3,500,000.00** | 2,500,000.00 |
| Interest payable | | | |
| | Holding company | **16,079,825.94** | 2,600,135.41 |

## VI. RELATED PARTIES AND RELATED TRANSACTION *(Continued)*

**3. Commitments of related parties**

There is not.

**4. Guarantee of related parties**

By the end of 30 June 2016, HEC Group companies provide an unconditional and irrevocable joint liability guarantee to the Group

## VIII. COMMITMENTS AND CONTINGENCIES *(Continued)*

### 2. Contingencies

*(1) Guarantees within and outside the group*

| | | Company guaranteed | | | | | | Including: | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Number | Guarantee company | Name | Nature of company | Ways of guarantee | Kinds of guarantee | Ways of counter-guarantee | Amounts of actual guarantee | guarantee amounts added this year | Current condition of company guaranteed | Whether overdue | Whether being sued |
| | Total (to the company within the group) | | | | | | 3,086,134,937.53 | | | | |
| i | HEC Group Harbin Power Station Valve Co., Ltd. | Harbin electric power equipment company limited | State Holding | Joint responsibility to ensure | Compliance guarantee | No counter-guarantee | 4,290,000.00 | | Normal operation | no | no |
| ii | HEC Group Harbin Power Station Valve Co., Ltd. | Harbin electric power equipment company limited | State Holding | Joint responsibility to ensure | Compliance guarantee | No counter-guarantee | 5,220,852.00 | | Normal operation | no | no |
| iii | HEC Group Harbin Power Station Valve Co., Ltd. | Harbin electric power equipment company limited | State Holding | Joint responsibility to ensure | Compliance guarantee | No counter-guarantee | 727,741.00 | | Normal operation | no | no |
| iv | Harbin turbine company limited | Harbin boiler company limited | State Holding | Joint responsibility to ensure | Compliance guarantee | No counter-guarantee | 174,870,800.00 | | Normal operation | no | no |
| v | Harbin electric company limited | Harbin electric | | | | | | | | | |

## VIII. COMMITMENTS AND CONTINGENCIES *(Continued)*

**2. Contingencies** *(Continued)*

*(2) Pending litigation case*

(a) The company's second-level subsidiary Harbin Electric Machinery Co., Ltd. (hereinafter referred to as "HEM") signed an industrial products sell/purchase contract with Xinxiang lifting equipment factory's second selling department(hereinafter referred to as "Xinxiang Company") on 23 February 2006, purchased a 500 tons dual-beam bridge crane produced from Xinxiang Company, the contract price was CNY8.68 million, agreeing to pay a total of CNY7.1377 million in the agreement period from 2006 to 2009, the crane failed to deliver in time, and quality problems occurred repeatedly when the lift being used. Xinxiang Company repaired several times and the crane still can't be use. HEM signed a maintenance contract with Dalian Daqijiayi port lifting equipment Co., Ltd which provided maintenance services on 26 March 2009 to ensure normal production. Total cost of maintenance was CNY1.50 million. HEM refused to pay Xinxiang Company remaining funds CNY1.5423 millions. Xinxiang company instituted legal proceeding against with HEM in the people's court of Hongqi district Xinxiang to appeal HEM to pay the residue payment CNY154.23 millions, the interests of overdue payment and default CNY286.44 millions. The total payment was CNY440.67 millions. The people's court of Hongqi district Xinxiang sealed up HEM's cash in Bank CNY250 millions, HEM acted performed by war of counterclaim to the people's court of Hongqi district Xinxiang to appeal Xinxiang company to pay the liquidated damaged of overdue delivery CNY208.32 millions, the maintenance expenses CNY150 millions which had been occurred, the maintenance expenses CNY150 Millions in the future and legal fare of counter case. The people's court of Hongqi district Xinxiang made the civil judgment that HEM should pay the payment of goods CNY150 millions to Xinxiang company. HEM refused to obey the judgment and appellate petition to the intermediate people's court Xinxiang Henan province on 29 October 2014. Xinxiang Company applied for execute the contract disputes with HEM by (2015)XIPS No78 civil award, appropriate HEM's cash in bank CNY2512,208.96(include capital CNY1,500,000, interests CNY955,301.96, litigation fee CNY39,116, execution fee CNY17,791). Up to now, the case still pending.

## VIII. COMMITMENTS AND CONTINGENCIES *(Continued)*

**2. Contingencies** *(Continued)*

*(2) Pending litigation case (Continued)*

(b) The company's second subsidiary HEI Electric power generation assembly national engineering research center corporation (hereinafter as Engineering Center) signed the supply contract with Hanwei wind power generation complete equipment Co., Ltd (hereinafter as Hanwei Company), that Engineering Center buy ten 1.5MW wind power generation which total amount is CNY6,900 millions on April 2007. The two parties signed a supplemental agreement with and the total amount change to CNY7,484 millions on November 2007. Engineering company signed the supplemental contract with Hanwei company, Heilongjiang Ruihao technique group Co., Ltd (hereinafter as Ruihao Company) and Daqing Lonjiang wind power Co., Ltd which agree Hanwei company transfer all the ten generations' rights and obligation of the contract to Ruihao Company on June 2010. Engineering Center signed the three generations problem solving contract with Ruihao Company(total amount CNY1,866 millions) and the contract stipulate Engineering Center pay CNY1,399.5 millions to Ruihao Company and the residual payment CNY466.5 millions deduct from original Ruihao Company's payment for Engineering Center directly which equal to three of the ten wind generating sets are completed. Until now, the contract of Engineering Center and Ruihao Company include seven 1.5MW wind generating sets.

The wind generating sets installed successively from October 2007, Engineering Center debugged the sets one by one continually. But until now, the seven wind generating sets still not have the delivery to the customer and pass the acceptance of the customer.

## VIII. COMMITMENTS AND CONTINGENCIES *(Continued)*

**2. Contingencies** *(Continued)*

*(2) Pending litigation case (Continued)*

(b) (Continued)

Ruihao Company submitted the application for arbitration about Engineering Center's wind generating sets to Daqing arbitration committee to appeal Engineering Company still not delivery the wind generating sets to Ruihao Company and Ruihao Company cannot use the wind generating sets to produce its products, Ruihao Company lodged claim CNY1.92 hundred millions to Engineering Company on 8 October 2013. Engineering Company applied to confirming that 'Wind generating sets supply contract disputes of the two parties' arbitration agreement invalid' to the intermediate people's court of Daqing. the intermediate people's court of Daqing entered a judgment that 'affirm the arbitration agreement is valid'. When Engineering Company received the adjudication, it appealed to the superior people's court of Heilongjiang Province. The superior people's court of Heilongjiang Province delivered (2014) HSP Jian No.28 civil ruling paper to the two parties which repeal the adjudication of intermediate people's court of Daqing and affirm the adjudication is invalid. Until now, the two parties of the case are still negotiating.

Engineering Center invested total CNY9,169.45 millions to equipments of the project and signed a contract with Huahai wind power Co., Ltd (hereinafter as Huahai Company) which purchase 6 wind power generating sets from Huahai Company and the contract's amount was CNY3,681 million (totally not pay). Huahai company had installed 4 wind generating sets and had supplied some assembly units of other two sets.

## VIII. COMMITMENTS AND CONTINGENCIES *(Continued)*

**2. Contingencies** *(Continued)*

*(2) Pending litigation case (Continued)*

(b) (Continued)

Engineering Center signed a contract with Beijing Xinghang Equipment plant (hereinafter as Xinghang Plant) which bought two wind generating sets from Xinghang Plant, the contract price is CNY1,440 millions (totally not pay). The contract appointed the payment should be given after the sets are test running 168 hours through the Engineering Company. HEC financial company of power generation assembly national engineering research center Co., Ltd's cash in bank CNY2,780,830.73 was blocked by the people's court of Xiangfang District Harbin on 2014.

Until 30 June 2016, Engineering Company checks and ratifies the loss and details of the seven wind generating sets which supply to Ruihao Company, the presumed loss is CNY80,895,844.10. the wind generating sets are in the debugged mode in all time, and are not checked and received by the customer, Engineering Company withdrawing the inventory falling price reserves CNY76,735,175.26 of the sets. The handling expenses of three wind generating sets CNY1,791.50 millions cannot receive which pay to Ruihao Company and the expenses withdraw debt provision totally. The case leads to presumed loss CNY175,546,019.36.

iii. Other content, which should be disclosed according to corresponding financial, and accounting rules.

None.

## X. AFTER BALANCE SHEET EVENTS

There is not.