



哈尔滨电气股份有限公司

HARBIN ELECTRIC COMPANY LIMITED

Stock Code: 1133



ANNUAL REPORT
2016

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Overview of the Company

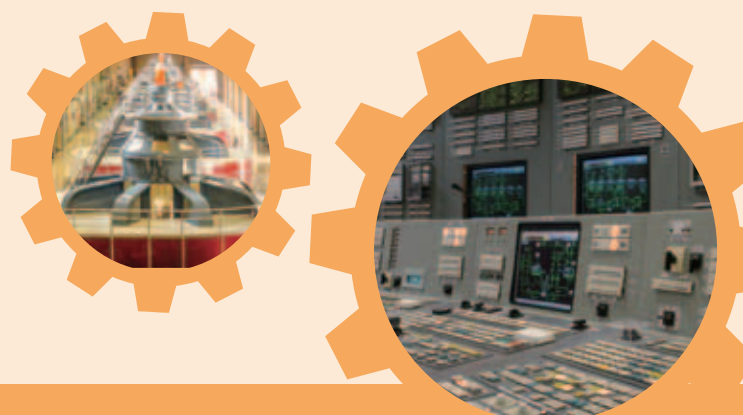
Harbin Electric Company Limited (the “Company”) was formed through the restructuring of relevant entities including Harbin Electrical Machinery Works, Harbin Boiler Works and Harbin Turbine Works (the “three major power factories”).

The Company is located in Harbin, the PRC and was incorporated on 6 October 1994. The Company was listed on the Stock Exchange of Hong Kong Limited on 16 December 1994, its stock code being “01133”.

As at 31 December 2016, the total share capital of the Company comprised of 1,376,806,000 shares, of which 675,571,000 shares were H shares traded on the HKSE.

The Company and its subsidiaries (the “Group”) are one of the largest manufacturers of power plant equipment in the PRC, with a workforce of around 20,000 current employees and power plant equipment of a production capacity of 30,000 MW per annum. The Group’s principal activities and products include:

- Thermal power main equipments: boilers, steam turbines and steam turbine generators with single unit capacity up to 1,000MW class, the largest manufacturing base in the PRC for clean coal combustion equipment, accounting for over 30% of the installed capacity of thermal power in the PRC;
- Hydro power main equipments: hydro power generators units with single unit capacity up to 1,000MW class, accounting for 50% of the installed capacity of large-scale hydro power in the PRC;
- Nuclear power main equipments: nuclear island and conventional island equipments for nuclear power plants with single unit capacity up to 1,400MW class;
- Complete set of steam power equipment: 9F/9H class gas turbine and combined gas and steam cycle set;
- Clean energy: R&D and production of products such as solar energy, hydro power and desalination;
- Other products: ancillary equipment for power stations, industrial boilers, industrial steam turbines, control devices, AC/DC motors, valves for power stations, pressure vessels and axial compressor, etc;
- Turnkey construction of power station projects;
- Contract supply of complete sets of thermal and hydro power equipment;
- Import and export of equipment for power stations;



Overview of the Company (continued)



- After-sales service for power station equipment products;
- R&D of engineering technology for turnkey power equipment;
- R&D of power equipment and its ancillary products;
- Technology transfer, technical consultation and services;
- Environmental protection engineering services, such as desulfation, denitrification and dust removal.

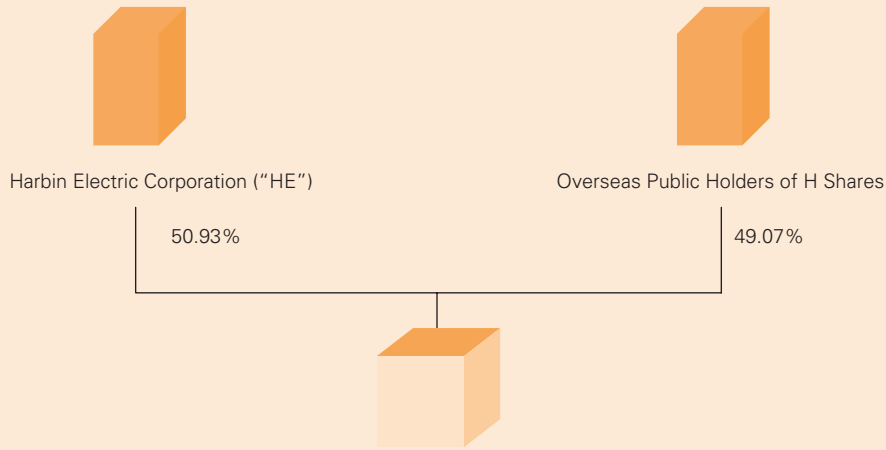
As well as positioning itself in the PRC market, the Group actively adopts an “outbound” strategy, exporting its main equipment and ancillary equipment products for thermal power, hydro power and nuclear power etc. to more than 40 countries and regions such as India, Pakistan, Russia, Indonesia, Vietnam, Laos, the Philippines, Sudan, Brazil, Iran and Bangladesh. At the same time, it is engaged in the turnkey construction of thermal power stations, wind farms, hydro power station equipment and power transportation and transformation both in the PRC and overseas, as well as BOT and BOO businesses.

The Group possesses a pool of top talents in scientific research, technology and management, as well as a comprehensive systems for quality assurance and quality control with a range of advanced production and research facilities. Its capabilities in research and development, production and manufacturing and power station construction are among the best in the power plant equipment manufacturing industry in the PRC.

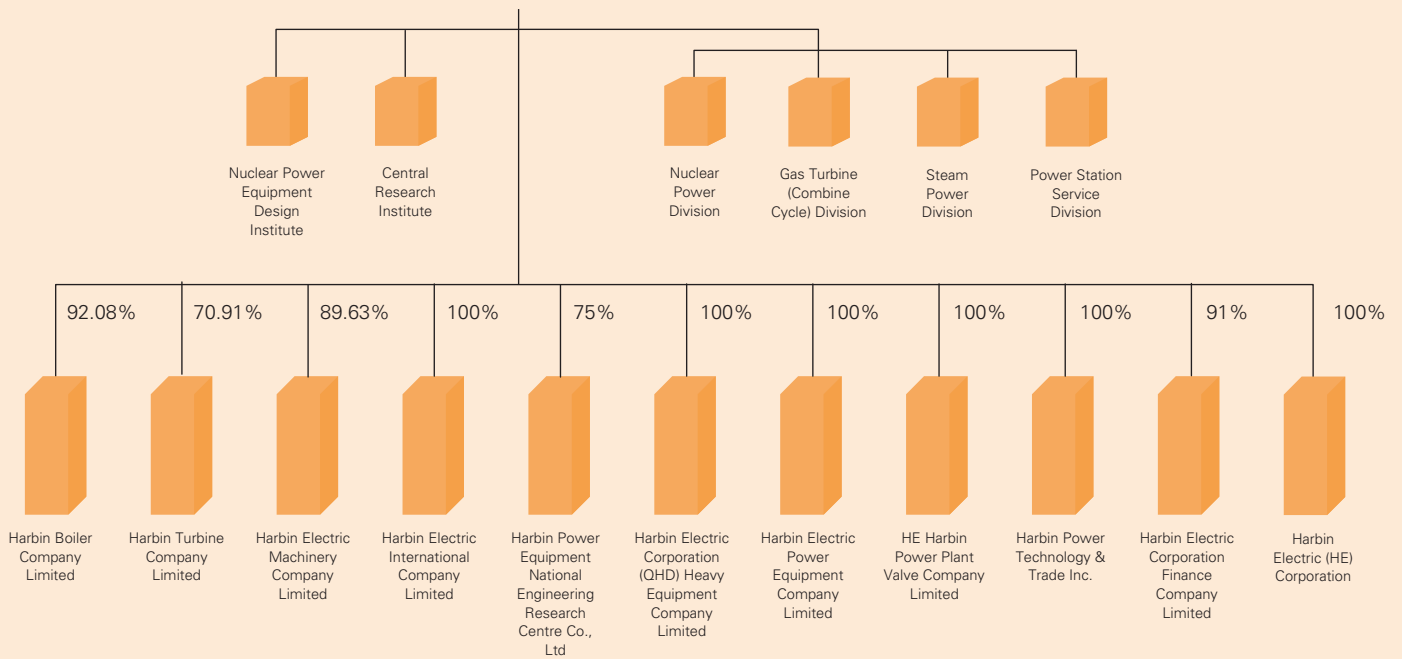


Overview of the Company (continued)

CORPORATE STRUCTURE AND MAIN BUSINESS LINE

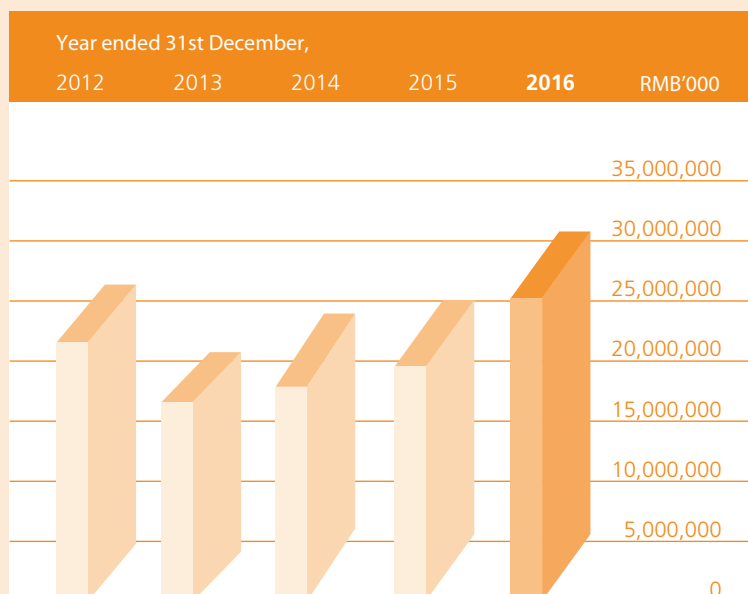


Harbin Electric Company Limited (the "Company")

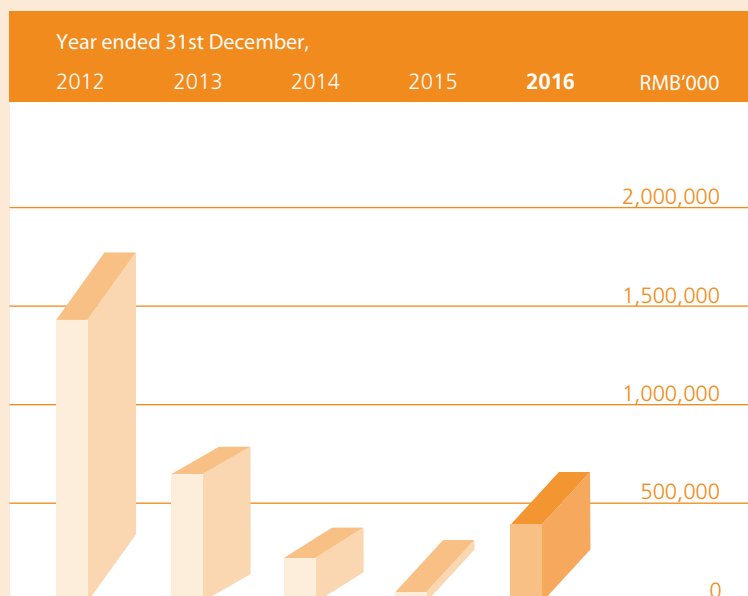


Financial Highlights

Operating Income



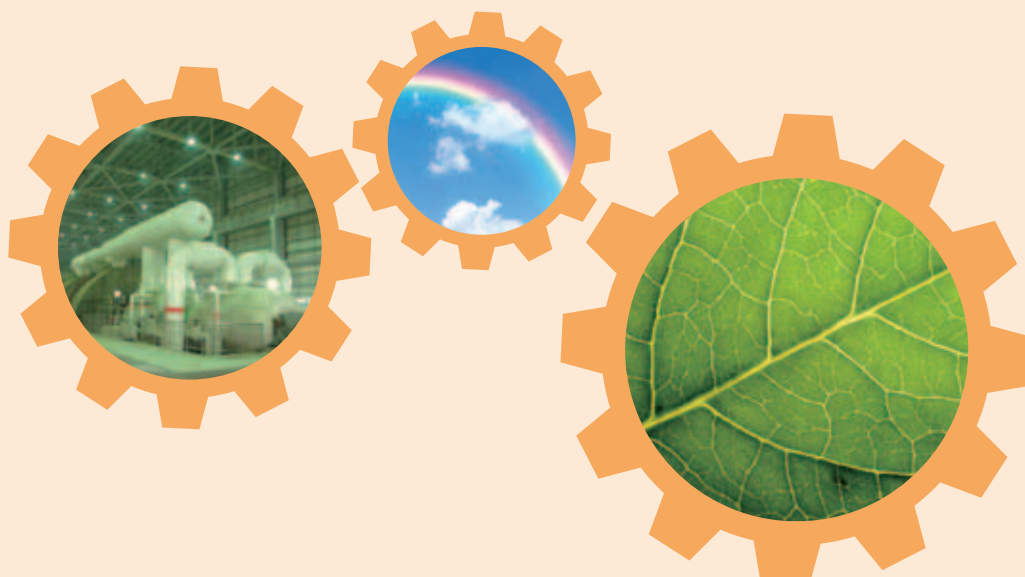
Total Profits



Financial Highlights (continued)

Summary of Results, Assets and Liabilities of the Past Five Years

	Unit	2016	Year ended 31 December,			
			2015	2014 (restated)	2013	2012 (restated)
Operating Income	RMB'000	30,929,421	25,097,225	24,026,534	20,752,889	26,267,910
Total Profits	RMB'000	657,169	307,860	364,910	778,094	1,770,826
Net profits attributable to owners of parent	RMB'000	413,283	196,212	566,409	705,814	1,420,947
Total assets	RMB'000	65,867,508	64,163,245	62,161,482	60,320,723	54,949,888
Total Liabilities	RMB'000	51,225,093	50,246,364	48,156,430	46,026,474	41,083,704
Interests of minority shareholders	RMB'000	1,209,321	1,209,491	1,329,180	1,767,166	1,842,189
Interests attributable to owners of parent	RMB'000	13,433,093	12,707,391	12,675,872	12,527,084	12,023,995
Net assets per share	RMB	9.757	9.230	9.207	9.099	8.733
Earnings per share	RMB	0.300	0.143	0.411	0.513	1.032



Financial Highlights (continued)

	Year ended 31 December 2016		Year ended 31 December 2015	
	Income <i>RMB'000</i>	Contribution to operating income <i>RMB'000</i>	Income <i>RMB'000</i>	Contribution to operating income <i>RMB'000</i>
Main thermal power equipment	12,169,546	2,283,434	9,331,656	1,994,201
Main hydro power equipment	2,484,169	189,792	2,705,715	47,336
Nuclear power	2,009,616	291,820	1,723,865	191,650
Engineering services for power stations	9,912,653	789,977	6,819,315	490,599
Ancillary equipment for power stations	1,437,706	228,039	1,747,544	280,938
AC/DC motors and other products and services	2,915,731	519,484	2,769,130	321,908
Total	30,929,421	4,302,545	25,097,225	3,326,631
Expenses not allocated to major products		-3,645,376		-3,018,771
Total Profits		657,169		307,860



Chairman's Statement

Dear shareholders,

On behalf of the Board, I hereby present the 2016 annual report of Harbin Electric Company Limited and its subsidiaries (hereinafter referred to as the "Group").

2016 is my first year in the Company, it is also a crucial year of strategy planning, reform and overcoming difficulties, improving quality and efficiency as well as innovation and development for the Group. In 2016, difficult environment internally and externally brought new opportunities and challenges to the transformation and development of the Group. The Group made significant achievement in the expansion of all its business segments by sticking to its formulated strategy, persisting in innovation as a driving force, focusing on quality and efficiency improvement, devoting to carry out in-depth reform.

In the reporting period, economies of scale were expanded and improvement was achieved in both the sales order and production volume. Our operation kept improving in stability and managed to reverse the declining trend in recent years successfully. Turnover for the year was RMB30.929 billion, an increase of 23.24% as compared with the corresponding period last year; Net profit attributable to the parent company was RMB413 million, an increase of 110.63% as compared with the corresponding period last year.

In the reporting period, the Group carried forward its reform and development actively, it also procured innovation in technology and business model, as well as incubated new functions. Reform for the formation of business department commenced, Steam Power Division and Power Station Service Division was established. The Group also preceded an optimization for management of Nuclear Power Division and Gas Turbine (Combine Cycle) Division. We explored the possibility to change the management model from product-oriented to market-oriented and prepared the formation of investment company and finance leasing company so as to construct a strategic investment platform, accelerate an innovative business model and facilitate the expansion of new business. The Group achieved structural reform and rationalized functions and authorities with an integration of functional departments to strengthen performance appraisal of departments of the headquarters and stimulate the endogenous dynamics. The Group pushed forward the mix-ownership reform. In respect of gas turbine industry, the Group fortified the comprehensive and deep-level cooperation with GE Company, to speed up our innovation and development by external force.



Chairman's Statement (continued)



In the reporting period, we “fire-up” quality to improve our brand image. Since the start of my appointment, I proposed to “fire-up the quality since the start of my job” which is regarded as “fire-up” quality by the staffs of the Company. We seized sales order to improve our business operation in an on-going basis and strengthened our development ability in the future. We focused on the rationalization of our procurement team and quality inspection team, tightening the management of supplier and forming the project team to facilitate our effort to “fire-up” quality. There was no material quality incident in the Group for the whole year. Quality loss rate for the year decreased by 27.7% as compared with the corresponding period last year when external loss rate recorded an year-on-year decrease of 30.86%. The success rates in the bidding of utility boiler, power plant turbine and turbine generator increased by 13.8%, 11.5% and 11.5%, respectively. The success rate in the bidding of utility boiler reached 47.2%. The Group expect to win the tender of turnkey contract for Gandian Changle MW ultra-supercritical generating unit of 4 sets, achieving a breakthrough in securing MW-grade projects. Supply contracts were signed for Hassyan Project in Dubai (迪拜哈翔項目) which marked our success in entering into the high-end power market in the Middle-East. We expect to win the bids of Huadian Junliangcheng 9HA Class Gas Turbine Project (華電軍糧城9HA 重型燃機項目) and obtained the certificate of first registration for the gas turbine. We entered into Large-scale camera and Million Desulfurization Contract for the first time. New breakthroughs were achieved in new industry and products.

In 2017, recovery of global economies slows 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 entered into a year of “in-depth” development. In the industry, policies such as the “Three Approval” were introduced, development of coal power is pessimistic.

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 maximize the return to investors 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, as well as disciplining the enterprise to pursue a new environment for sustainable and healthy development.

I would like to express my gratitude to our shareholders for their trust and support, to my colleagues on the Board of Directors and Board of Supervisors for their assistance and contribution, and to all of our staff members for their efforts and dedication.

Si Ze-fu
Chairman

Harbin, the PRC, 28 March 2017



Management Discussion and Analysis

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

Please read this section in conjunction with financial statements and notes set out in other sections in this annual report.

MACRO ECONOMY AND INDUSTRY DEVELOPMENT

In 2016, the global economy remains in slow recovery amidst uncertainties and instabilities. The downward pressure on China's economic development keeps growing. Amid complex and volatile environment, over-capacity in contradiction with demands for structural upgrades remained evident. The overall power consumption in China recorded a year-on-year increase of 5.0%, which was 4.0% higher than the growth rate in the previous year. The overall supply of electricity has easily met the demand, but this led to an oversupply of electricity in certain regions. The national power generation installed capacity reached 1.65 billion KW, representing an increase of 8.2% over the corresponding period last year. The problem of excess capacity of power supply in certain regions is further intensified. The non-fossil energy generation maintained rapid growth continuously. The utilization hours for coal-fired power generating facilities further dropped to 4,165 hours, which was the lowest since 1964. The consumption ratio of clean energy grew by 1.7% while that of coal decreased by 2%.

NEW CONTRACTS

Facing a complex and challenging environment in both the PRC and the rest of the world during the year 2016, Harbin Electric Company Limited and its subsidiaries (the "Group") managed to make progress in market development by overcoming obstacles and working together, thereby realizing RMB34.485 billion worth of duly signed contracts, of which RMB8.649 billion (or 25.08% of total contract value) for thermal power equipment, RMB1.653 billion (or 4.79% of total contract value) for hydropower equipment, RMB2.721 billion (or 7.89% of total contract value) for nuclear power equipment, RMB899 million (or 2.61% of total contract value) for hybrid equipment, RMB15.725 billion (or 45.60% of total contract value) for power engineering, RMB2.359 billion (or 6.84% of total contract value) for renovation and accessories, and RMB2.479 billion (or 7.19% of total contract value) for other products.

The success rate in the bidding of thermal power was fully enhanced. The success rates in the bidding of utility boiler, power plant turbine and turbine generator increased by 13.8%, 11.5% and 11.5%, respectively. The success rate in the bidding of utility boiler reached 47.2%.

The Group has continued to make new achievements in securing MW-grade projects. It is expected that the successful bidding of turnkey contract for Gandian Changle MW ultra-supercritical generating unit will be confirmed. Contracts were signed for two sets of MW ultra-supercritical and two sets of ultra-supercritical double reheat turbine generators in connection with such projects as Phase II of Datang Binchang (大唐彬長二期) and Guodian Boxing (國電博興), respectively.

International market served as strong support. Supply contracts were signed for Hassyan Project in Dubai (迪拜哈翔項目) and Tanjun general contracting project in Indonesia (印尼坦竣電站總承包項目). International orders amounted to RMB16.872 billion, accounting for 48.93%.

New breakthroughs were achieved in new industry and products. It is expected that we will win the bids of Huadian Junliangcheng 9HA Class Gas Turbine Project (華電軍糧城9HA重型燃機項目) with the certificate of first registration for the gas turbine and China Nuclear ACP100 Small Pile Turbine Generator Project (中核ACP100小堆汽輪發電機組項目). We entered into Nuclear Island Main Equipment Contract, and Large-scale camera and Million Desulfurization Contract for the first time. During the year, we completed our first Environmental BOT Project- Shanxi Huaze Aluminum Environmental Protection Island Renovation Project.

Management Discussion and Analysis (continued)

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

PRODUCTION AND SERVICES

Addressing the negative impact of repeated suspension and disruption of projects and the frequent occurrence of adversities, we continue to strengthen the process control of projects, and come up with a more systematic and scientific production plan. We paid more visits to customers for an update information of the projects, intensified necessary precautionary measures to manage risks and promoted punctual delivery measures, so as to meet the new needs of customers and accomplish the production target for the year in a better way.

In 2016, the total output of the Group's power equipment reached 23,850 MW, up by 13.8% over the previous year. Total output of water turbine generators amounted to 4,130 MW, down by 18.5% over the corresponding period last year, representing 77.0% of the designed capacity. Total output of steam turbine generators amounted to 19,720 MW, up by 24.1% over the corresponding period last year, representing 103% of the designed capacity. Total output of steam turbine for power stations amounted to 15,510 MW, up by 12.1% over the corresponding period last year, representing 101% of the designed capacity. Total output of boilers for power stations amounted to 16,960 MW, up by 14.7% over the corresponding period last year, representing 101% of the designed capacity.

R&D AND TECHNOLOGY INTRODUCTION

In 2016, the Group incurred a R&D expenditure of RMB1.42 billion to complete 302 R&D projects and 80 new products, receiving 27 awards for technology achievements and being granted 409 patents, 139 of which were related to inventions, representing an year-on-year increase of 41.84%. It also hosted the formulation of 7 international standards, 16 national standards and 24 industry standards.

Supercritical (ultra-supercritical) boiler development and engineering application demonstration project for Zhundong coal was awarded its first industrial award in China's power generation equipment industry and industrial sector in Heilongjiang Province. The remote diagnostic system for power plant equipment was recognized as the only intelligent manufacturing demonstration project in Heilongjiang Province by Ministry of Industry and Information. We have successfully developed the independent research of major national technology project "Prototype of CAP1400 Main Pump Shielded Motor (CAP1400主泵屏蔽电机样机)". The MSR independent research and development technology for ultra-supercritical two-stage reheat boiler and VVER MW-capacity large nuclear power generation turbine is among the world's top performers. All air-cooling large-scale camera, 300MW nuclear power plant reactor coolant pump technology filled the void of the domestic market. Sanmen, Haiyang AP1000 nuclear power turbine generating units underwent non-nuclearised process successfully, further certifying our third generation nuclear power technology.

REFORM AND MANAGEMENT

Through downsizing management level, reducing inefficient assets and the number of excessive employees, the Group further streamlined its management. In 2016, the Group completed the disposal of Harbin Electrical Machinery (Kunming) Company Limited, which recorded significant losses, and thereby reduced one of our corporate enterprises. In the meantime, we strengthened the management of other enterprises with significant losses, and started allocating excessive employees. A total of 2,077 employees had been resettled.

In 2016, the Group carried out reform of procurement and product quality, and rationalized procurement team and quality inspection team. The turnover rate of quality inspection team, procurement team and outsourcing team were 8%, 12% and 21.5%, respectively. As of the end of 2016, there is no material quality incident in the Group. Quality loss rate for the year decreased by 27.7% over the corresponding period last year when external loss rate recorded an year-on-year decrease of 30.86%.

Management Discussion and Analysis (continued)

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

The Group carried forward the reform of divisional organization system by setting up Steam Power Division and Power Station Service Division, and actively explored the changes in management, which led by the change in orientation from products to market. To strengthen industrialization development approach, the Group preceded an optimization for management of Nuclear Power Division and Gas Turbine (Combine Cycle) Division.

The Group accelerated innovation of business models, actively expanded the business scopes, and prepared to establish an investment company, aiming at building strategic investment platform, new industry incubation platform, major project investment platform and asset and resource integration platform. Besides, The Group prepared to form a finance leasing company, boosting the leading product sales and main business development.

The Group achieved structural reform and rationalized functions and authorities with an integration of functional departments to strengthen performance appraisal of departments of the headquarters and stimulate the endogenous dynamics.

In respect of gas turbine industry, the Group managed to drive forward the comprehensive and deep-level cooperation with GE Company.

PROFIT

In 2016, net profit attributable to the shareholders of the parent was RMB413.28 million, representing an year-on-year increase of 110.63%. Earnings per share were RMB0.30, representing an year-on-year increase of RMB0.16. The increase in the Group's profits is mainly due to the increase in scale of income, resulting in higher gross profit.

DIVIDEND

A final dividend of RMB0.03 per share (appropriate tax included) for 2016 was proposed by the Board.

OPERATING INCOME

In 2016, the Group recorded an operating income of RMB30,929.42 million, an increase of 23.24% over the corresponding period last year, of which operating income from the main thermal power equipment was RMB12,169.55 million (or 39.34% of the total operating income), representing an year-on-year increase of 30.41%. Operating income from main hydropower equipment was RMB2,484.17 million (or 8.03% of the total operating income), representing an year-on-year decrease of 8.19%. Operating income from engineering services for power stations was RMB9,912.65 million (or 32.05% of the total operating income), representing an year-on-year increase of 45.36%. Operating income from ancillary equipment for power stations was RMB1,437.70 million (or 4.65% of the total operating income), representing an year-on-year decrease of 17.73%. Operating income from AC/DC motors and other products and services was RMB2,915.73 million (or 9.43% of the total operating income), representing an year on-year increase of 5.29%. Operating income from nuclear power products was RMB2,009.62 million (or 6.50% of the total operating income), representing an year-on-year increase of 16.58%.

In 2016, the Group recorded an income of export of RMB10,101.64 million (or 32.66% of the total operating income), increasing by RMB3,484.78 million over the previous year. The export was dominated by Asia and South America, in which export to Asia amounting to RMB7,316.91 million when export to South America amounting to RMB2,351.30 million.

COSTS

In 2016, the operating costs of the Group were RMB26,626.88 million, representing an increase of 22.31% over the previous year, mainly attributable to the expansion of sales scale.

Management Discussion and Analysis (continued)

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

GROSS PROFIT AND GROSS PROFIT MARGIN

In 2016, the Group realized a gross profit from operating business of RMB4,302.55 million, representing an year-on-year increase of 29.34%. The gross profit margin was 13.91%, representing an year-on-year increase of 0.66%. The gross profit from main thermal power equipment was RMB2,283.43 million, increasing by RMB289.23 million over the previous year. The corresponding gross profit margin was 18.76%, representing an year-on-year decrease of 2.61%. The gross profit from main hydropower equipment was RMB189.79 million, increasing by RMB142.46 million over the previous year. The corresponding gross profit margin was 7.64%, representing an year-on-year increase of 5.89%. The gross profit from engineering services for power stations was RMB789.98 million, increasing by RMB299.38 million over the previous year. The corresponding gross profit margin was 7.97%, representing an year-on-year increase of 0.78%. The gross profit from ancillary equipment and products for power stations was RMB228.04 million, decreasing by RMB52.90 million over the previous year. The corresponding gross profit margin was 15.86%, representing an year-on-year decrease of 0.22%. The gross profit from the AC/DC motors and other products and services was RMB519.49 million, increasing by RMB197.58 million over the previous year. The corresponding gross profit margin was 17.82%, representing an year on-year increase of 6.20%. The gross profit from the nuclear products was RMB291.82 million, increasing by RMB100.17 million over the previous year. The corresponding gross profit margin was 14.52%, representing an year-on-year increase of 3.40%.

EXPENSES FOR THE PERIOD

In 2016, the Group's distribution expenses amounted to RMB638.23 million, representing an decrease of RMB40.56 million or 5.98% over the corresponding period last year. Administrative expenses incurred amounted to RMB2,136.69 million, representing an year-on-year decrease of RMB30.44 million or 1.40%. Finance costs incurred was RMB127.51 million, representing an year-on-year decrease of RMB34.74 million or 21.41%.

The decrease in expenses during the period was mainly due to the facts that the Group further strengthened its expenses control, quality assurance fee and bidding fee included in sales expenses as well as tax and research and development fee included in administration expenses for the year recorded an year-on-year decrease, and exchange gains included in finance costs recorded an year-on-year increase.

FUNDING SOURCES AND BORROWINGS STATUS

The Group financed its operation and development with four major funding sources, namely shareholder's funds, trade receivables from customers, bank borrowings and corporate bonds. The Group arranges borrowings for each specific project. Except for some exceptions, loans are usually raised individually by the Group's subsidiaries, while prior approval from the parent company is required in respect of borrowings raised for capital investments. As at 31 December 2016, the Group's total borrowings amounted to RMB2,089.34 million (31 December 2015: RMB3,297.08 million) all of which amounts were borrowed from various financial Institutions, such as commercial banks, at interest rates stipulated by the state. Among those borrowings, the amount repayable within one year was RMB2,089.34 million, representing an decrease of RMB1,207.74 million as compared to the beginning of the year. There was no amount due after one year at the end or in the beginning of the year.

Management Discussion and Analysis (continued)

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

MONETARY CAPITAL AND CASH FLOWS

As at 31 December 2016, the monetary capital of the Group was RMB18,089.91 million, representing a decrease of RMB147.09 million as compared to the beginning of the year. During the period, the net cash flow generated from operating activities of the Group was RMB1,587.77 million, while investing activities generated negative net cash flow of RMB290.08 million and financing activities generated negative net cash flow of RMB1,328.84 million.

ASSET STRUCTURE AND MOVEMENTS

As at 31 December 2016, total assets of the Group amounted to RMB65,867.51 million, representing an increase of RMB1,704.26 million (or 2.66%) as compared to the beginning of the year, of which current assets were RMB57,618.24 million, representing 87.48% of the total assets, while non-current assets were RMB8,249.27 million, representing 12.52% of the total assets.

LIABILITIES

As at 31 December 2016, total liabilities of the Group amounted to RMB51,225.09 million, representing an increase of RMB978.73 million as compared to the beginning of the year, of which current liabilities were RMB46,797.04 million, representing 91.36% of the total liabilities, while non-current liabilities were RMB4,428.05 million, representing 8.64% of the total liabilities. As at 31 December 2016, the gearing ratio of the Group was 77.77%.

OWNERS' INTERESTS

As at 31 December 2016, the total equity attributable to the owners of the parent company amounted to RMB13,433.09 million, representing an increase of RMB725.70 million as compared to the beginning of the year; the net asset per share was RMB9.76, representing an increase of RMB0.53 as compared to the beginning of the year. During the period, the net return rate on assets of the Group was 3.16%.

GEARING RATIO

As at 31 December 2016, gearing ratio of the Group (non-current liabilities over total shareholders' equity) was 0.33:1 as compared to that of 0.35:1 at the beginning of the year.

CONTINGENT LIABILITIES AND PLEDGES

As at 31 December 2016, the Group pledged its assets of RMB114.80 million to secure loans for liquidity.

CAPITAL EXPENDITURES AND MAJOR INVESTMENTS HELD

In 2016, the Group had a total capital expenditure of RMB1.124 billion being invested in major construction projects and technological upgrades. The progress of those projects is as follows:

HE International Trade Tower project of Harbin Power Technology & Trade Inc., the newly-built production base (Phase I) of HE(Harbin) Haguo Boiler Manufacturing Technology Company Limited were substantially completed. The constructing technology upgrading project for nuclear turbine core capacity of Harbin Turbine Company Limited and manufacturing base improvement project for main nuclear pump motor units of Harbin Electric Power Equipment Company Limited have completed protection measures with heating system for the exterior of the building. The manufacturing capacity enhancement project for key nuclear pump and key equipment for long-distance natural gas pipeline of Harbin Electric Power Equipment Company Limited started purchasing equipment.

Management Discussion and Analysis (continued)

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

In 2017, the Group intends to commit an investment of RMB1.076 billion, which will mainly finance the constructing technology upgrading project for nuclear turbine core capacity of Harbin Turbine Company Limited, the manufacturing base improvement project for main nuclear pump motor units of Harbin Electric Power Equipment Company Limited, the manufacturing capacity enhancement project for key nuclear pump and key equipment for long-distance natural gas pipeline of Harbin Electric Power Equipment Company Limited, the technology development and product manufacturing projects of HTR steam generator, reheater and main body testing of Harbin Electric Corporation (QHD) Heavy Equipment Company Limited, the nuclear island main equipment manufacturing automation for nuclear power of Harbin Electric Corporation (QHD) Heavy Equipment Company Limited, the acquisition of properties and land items of Harbin Boiler Company Limited, and the acquisition of apartment in Dubai of Harbin Electric International Company Limited for Hassyan project.

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES AND RELATED HEDGES

Some of the deposits of the Group are denominated in foreign currencies. As at 31 December 2016, the amount of the Group's deposits in foreign currencies was equivalent to RMB1,584.56 million. The export business and foreign currencies settled businesses expose the Group to exchange risk. In 2016, the Group completed forward exchange contracts amounting to US\$ 810 million. As at 31 December 2016, all forward exchange contracts of the Group were completed.

USE OF FUND-RAISING PROCEEDS

The Group has fully utilized its proceeds from issuance of shares and bonds in previous years, and no other fund-raising activities was proceeded in this year.

STAFF AND REMUNERATION

As at 31 December 2016, the Group had a workforce of 18,261 employees and the total remuneration for 2016 amounted to RMB1.708 billion. The Group holds nurturing talents in high regard. A total of three employees were recognized as national "million people plan" experts, one employee won the Chinese Skills Award for the first time, and three were admitted as the "national technical experts". A total of over 800 courses covering various aspects have been organized with an accumulated attendance of over 75,000.

PROSPECTS

In 2017, the global economy will remain in slow recovery. The trends of major economies' policy and spillover effects are fraught with increasing uncertainties. It is expressly stated in the Report on the Work of the Government of China, that coal power capacity should be released, stopped, retarded by more than 50,000 MW in order to prevent from risk of overcapacity of coal energy, increase the industry efficiency of coal energy, thereby maximize the utilization rate of clean energy. With the continuous and in-depth implementation of the "Three Approvals" policy, coal power market will remain sluggish, which constitutes a material and profound impact on the development of power generation equipment enterprises. At the same time, China will accelerate the structural reform on the supply side, continue to intensify its policy of downsize in state-owned enterprise to enhance its quality and efficiency. Based on "One Belt One Road" strategy, the Group intends to deepen international capacity cooperation, contributing to the "going-out" of Chinese equipment, technology, standards and service. These policies have brought new impetus into enterprise developments. In face of challenges and opportunities, with the objective of starting its second business and returning to the top tier, the Group is committed to maximize the return to investors 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, as well as disciplining the enterprise.

Management Discussion and Analysis (continued)

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

The Group will focus on the following areas in 2017:

Expanding markets by all means

The Group will implement integrated marketing approach with strong marketing team, fully exert our competitive edge of centralized marketing and industrial management. Besides, an incentive and accountability system will be adopted to stimulate initiative. By enhancing marketing planning, we will be able to have a more thorough and in-depth understanding of the needs of users with a detailed project analysis for us to establish a prompt response system for users to provide feedback, so as to improve our service attitude, efficiency and quality. We will continue to accelerate our “going-out” strategy and strengthen our development in international market by driving EPC general contracting through investment and financing policy, so as to boost the export of main equipment. We will devote more resources on development of international reconstruction and maintenance business, with an aim at hastening its pace of development of international service industry, and expanding industry chain of offshore projects.

Scientific planning and production

We lay down our production schedule based on scientific production planning and communication with users. The Group closely monitors the fulfillment of sales orders, establishes on-hand project accounting and implements sales management. A strict assessment of rewards and punishments is adopted along with regular supervision and inspection. We promote performance-linked salary to break egalitarianism. The Group has always attached great importance to prevention of risks, sticking to “Three Approvals” policy which divided in to three categories: A, B and C, so as to establish a dynamic adjustment system and further eliminate the execution risks of project. To make full use of technology and enhance processing efficiency and quality, the Group will devote more resources on the research and usage of new material, skills and testing technology, as well as the technology of redeveloping traditional equipment with advanced technology and information technology to improve the working efficiency and quality.

Technology development powered by innovation

We will perfect the technology innovation system by preparing and implementing of the “13th Five-Year” scientific and technological development (innovation) planning, completing the establishment of the Central Research Institute, carrying out system integration, undergoing complete sets of transformation, intelligent micro-network, new energy, gas turbine and other technical research. The Group will speed up the development of major technology in relation to conventional island welding rotor technology, 630-650 °C efficient ultra-supercritical unit technology, environmental island design, solar thermal technology, new energy complementary decentralized power generation technology and other aspects, with an aim at achieving new breakthroughs. We intend to perfect and upgrade our laboratory and testing facilities, making up our weakness on laboratory and examination ability. The Group will accelerate the cooperation with GE Company in fuel-fired generator industry, the introduction of technology localization, and the work on independent intellectual property rights.

Enhancing quality decisively

The Group vigorously implements its business initiatives. For the major quality improvement project, we adopt comprehensive examination and inspection in a strict manner to monitor its quality. Besides, we strengthen our quality inspection and procurement team building by improving their capacity, optimizing their structure, providing more training, so as to improve our quality and technology continuously. We establish a comprehensive quality data base and life-long accountability system, and link the remuneration package with performance and title. The Group strengthens its supplier management and system review supply chain management, and continues to promote rectification on the procurement and outsourcing by implementing in-depth six dimensions evaluation of supplier, in order to create a strategic mutually-beneficial situation with the suppliers.

Management Discussion and Analysis (continued)

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

To strengthen our control over expenses

To reduce the cost of technology, the Group relies on technological advancement and design optimization, focusing on design optimization of coal steam turbine generators. To reduce the cost of procurement, the Group strives to achieve on-line procurement rate of 100% in its e-commerce platform, and increases the proportion of bundled tender, making use of scale for discounted price. Besides, the Group cooperates with e-commerce companies, procuring office supplies and other low-value consumables via internet. To reduce the cost of quality, the Group aims at reducing quality loss by improving manufacturing quality, design quality and service quality. To reduce the cost of management, the Group implements target cost management, improves target cost difference analysis, and formulates targeted protective measures.

Controlling capital with various measures

The Group put great emphasis on balancing sources of funds by enhancing centralized management of funds, budgeting and monitoring fund approvals in strict manner, as well as strictly managing unplanned expenses. We formulated a specific “Two Gold” pressure relief policy. Our ultimate goal is making each of the trade receivables due more than three years and inventory to be reduced by 15% in 2017. In order to make full use of the idle assets and replenish cash flow, the Group will lease and transfer the idle assets in society-oriented and market-oriented way.

Unswervingly carrying out reform

The Group will intensify the reforms of three systems. Adhering to its performance-oriented principal, we promote the reform on total wages, remuneration of officers and personnel system. The operating process will be modified by combining with the actual situation of enterprise and allocating resources into major business. We will speed up the innovation of business models, achieve high working efficiency in Power Division and Power Station Service Division, complete the adjustments to the internal organization and business staff of Nuclear Power Division and Gas Turbine (Combine Cycle) Division, in order to strengthen industrialization development with business models.

Accelerating transformation

The Group will accelerate the transformation in the following areas: products; from traditional manufacturing industry to manufacturing services industry; from manufacturer to integrated systems provider; from traditional coal products to clean energy and new energy products; from domestic market orientation to domestic and international market orientation. We will speed up the industrial development, develop marine engineering industry, and consolidate our ability of the research and development of ship engine to guarantee our status. Marine engineering industry planning will be developed with focus on the development of marine energy island construction projects and ship power market. We adopted an innovative investment model to step up the establishment of investment company, in order to generate and enlarge investment returns as soon as possible. We also adopted an innovative business model to step up the establishment of finance leasing company, so as to further increase the number of capital operation methods.

Harbin, PRC,
28 March 2017

Directors, Supervisors and Senior Management

DIRECTORS

Executive Directors

Mr. Si Ze-fu, born in 1958, holds an MBA degree and the title of senior engineer. He now serves as the chairman and party secretary of HE, and executive director, chairman and party secretary of the Company. Mr. Si graduated from Tsinghua University School of Economics and Management majoring in management science and engineering studies. He was the deputy factory manager, factory manager and party committee secretary of Dongfang Electrical Works, the deputy mayor of Deyang city, Sichuan province and deputy general manager, general manager, director, vice chairman and chairman of Dongfang Electrical Machinery Company Limited. He had served as vice chairman, general manager and deputy party group secretary of China Dongfang Electric Corporation since 2003, the chairman of Dongfang Electrical Machinery Company Limited from December 2006 to January 2008, the director, general manager and deputy party group secretary of China Dongfang Electric Corporation since 2008, the chairman of Dongfang Electric Corporation Limited since October 2007, the legal representative of China Dongfang Electric Corporation since April 2009. Mr. Si Ze-fu has been the chairman and party committee secretary of HE since May 2016 as well as the chairman and party committee secretary of the Company since July 2016.

Mr. Wu Wei-zhang, born in July 1962, is a senior engineer at researcher level with a doctor's degree. He now serves as the director, general manager, deputy party secretary of HE, and executive director, President and standing committee member of the Party Committee of the Company. Majoring in Hydraulics and River Dynamics, Mr. Wu graduated from Tsinghua University with a master's degree in 1988 and subsequently obtained a doctorate degree at Tsinghua University in 2002. Mr. Wu joined HE in 1988. Mr. Wu has been a deputy director and deputy head of the turbine department of Electrical Machinery Institute, a deputy manager of hydropower workshop, a deputy chief engineer and a deputy manager of the product design department of the Electrical Machinery Company of the Group. Mr. Wu was appointed as the deputy general manager of the Electrical Machinery Company since 1999 and then the chairman and general manager since October 2000 respectively. He also holds various social posts, including the director general of the large electrical equipment branch of China Electrical Equipment Industrial Association, a directorate member of the water turbine special committee of China Power Project (中國動力工程), a directorate member and secretary general of China Water Turbine Standardized Technology Committee (中國水輪機標準化技術委員會) as well as an adjunct professor of Harbin Institute of Technology and Huazhong University of Science and Technology. He was appointed as an executive director of the Company since September 2000 and has been serving as the general manager of the Company since February 2010. He has been the President of the Company since March 2013.

Mr. Zhang Ying-jian, born in November 1964, a master's degree holder and senior engineer, is currently the deputy general manager of HE, an executive director and a senior Vice-president of the Company, and a director of Jiamusi Electric Machine Company Limited. Mr. Zhang graduated from the Department of Thermal Engineering at Tsinghua University with a bachelor's degree in gas turbines in July 1988 and subsequently obtained a master's degree from Harbin Institute of Technology. Mr. Zhang joined HE in 1991. He was formerly a project engineer, project manager, business representative, deputy controller of Harbin Power Station Equipment Import and Export Company, deputy chief engineer, deputy manager of financial planning division and deputy general manager of Harbin Power Engineering Company Limited. He became the deputy general manager of HE since September 2007, a non-executive director of the Company since January 2013, and an executive director and the senior Vice-president of the Company since March 2013.

Directors, Supervisors and Senior Management (continued)

Mr. Song Shi-qi, born in December 1958, a senior engineer, is currently the deputy general manager of HE, an executive director and senior Vice-president of the Company. Mr. Song graduated from Harbin Electrical Machinery Plant Technical School in 1980 and subsequently attained post-graduate qualification in economic management from Heilongjiang Provincial Committee Party School. Mr. Song joined HE in 1980. He was formerly a youth league committee member, deputy secretary, secretary of Harbin Electrical Machinery Works and a secretary of the party sub-division at the specialized equipment factory, a party standing committee member of both Harbin Power Plant Equipment Group Corporation and the Company, the head of the Company's Organization Department, as well as an assistant to the general manager of the Company. He has been the deputy party secretary and a secretary of the disciplinary committee, director, deputy managing director, party secretary and deputy chairman of the machinery division of the Group since 1998. He became the deputy general manager of HE since August 2009 and has been a non-executive director of the Company since January 2013, and an executive director and the senior Vice-president of the Company since March 2013.

Non-executive Directors

Mr. Zou Lei, born in June 1966, a senior economist with a doctor's degree, now the chairman and party secretary of China Dongfang Electric Corporation. Mr. Zou graduated from Jiamusi Technical College in July 1988, and then he obtained a doctorate degree from Harbin Institute of Technology. Mr. Zou joined Harbin Electric Corporation ("HE") in 1988 and was the league deputy secretary, secretary in the former Harbin Boiler Works, factory director of heavy vessel workshop, factory director of Pingshan branch factory, production director, deputy general manager, chairman, general manager and Party committee deputy secretary of Harbin Boiler Company Limited, standing committee member of the Party Committee, director, general manager, party secretary of HE. He was a director of the Company since February 2009 and the deputy chairman of the Company since December 2009. He was the chairman and party secretary of the Company since February 2015 and chairman and party secretary of the Company since March 2015, and resigned in July 2016.

Independent non-executive directors

Mr. Yu Bo, born in October 1960, is a professor with a doctor degree, tutor for doctoral candidates, independent non-executive director of the Company, director of the Development Strategy Research Centre and director of Research Institute for Higher Education at Harbin Institute of Technology. Mr. Yu graduated from industrial electric automation, Harbin Institute of Technology in 1981, and began his career from 1982. He was a tutor, lecturer, associate professor, professor of School of Management at Harbin Institute of Technology (SMHIT). He became director of Management Department of SMHIT in 2000, director of MBA School of SMHIT in 2002, and assistant to dean of SMHIT, director of MBA School in 2003, dean of SMHIT in 2008. He has been a director of the Development Strategy Research Centre and director of Research Institute for Higher Education at Harbin Institute of Technology since 2015. Mr. Yu is also a deputy director of Energy System Engineering Committee of China Energy Research Society, a member of National MBA Education Committee, a member of Military Technology Administration of China Ordnance Society, a councilor of Chinese Society of Technology Economics, a member of Space Technology Committee of Beijing Society of Astronautics, a councilor of Aerospace Research Society, a councilor of Heilongjiang Provincial Budgetary Council, an industrial expert of Heilongjiang Science and Technology Consultation Committee. He has been appointed as independent non-executive director of the Company since December 2009 and resigned in March 2017.

Directors, Supervisors and Senior Management (continued)

Mr. Liu Deng-qing, born in November 1970, is a doctor in management studies of Tsinghua University, a CREA, CPV, and CMRA (Certified Mining Rights Appraiser) of China. He now serves as an independent non-executive director of the Company, and president and chief executive officer of China Enterprise Appraisal Company. He is an independent director of China Spacesat Company Limited, independent director of Hebei Baoshuo Co., Ltd., independent director of Hebei Hengxin Mobile Business Co., Ltd., independent supervisor of Qingdao Port International Co., Ltd., councilor of China Appraisal Society, project appraisal expert of financial institution state assets appraisal project of the Ministry of Finance, member of Project Appraisal Expert Group of State-owned Assets Supervision and Administration Commission of the State Council (“SASAC”), member of China Merger and Acquisition Trader Assessment and Certification Committee, member of Disciplinary Committee, Education and Training Committee, Appraisal Standard Committee of China Appraisal Society, chairman of Enterprise Valuation Committee. He was a member of the Tenth China Youth Federation, member of the tenth and eleventh Issuance Verification Committee of the China Securities Regulatory Commission (“CSRC”), member of the fourth and fifth Merger and Reorganization Committee of CSRC. He has been an independent non-executive director of the Company since December 2009.

Mr. Yu Wen-xing, born in October 1953, is a retired senior engineer at professor level with a bachelor’s degree, independent non-executive director of the Company. Mr. Yu was graduated from North China University of Water Resources and Electric Power, majoring in water resources and hydropower engineering and construction. Mr. Yu started his career in 1971. He has worked at “Wu-qi” Youth Farm (「五七」青年農場) in Jiegou, Boai County, Henan Province, studied geology at Changsha Metallurgy Industry College (長沙冶金工業學校) under the Ministry of Metallurgical Industry and worked at Handan-Xingtai Administrative Bureau for Metallurgy and Mine (邯邢冶金礦山管理局) under the Ministry of Metallurgical Industry. He has also been a cadre of academic exchange division of the China Water Resources Association (中國水利協會學術交流組), secretary of the secretariat and engineer of general office at the Ministry of Water Resources and Electric Power (水電部), deputy secretary at division grade of general office at the Ministry of Energy (能源部), deputy director and director of comprehensive office at the Agriculture and Electricity Department (農電司) and chief secretary at division grade of Water Resources and Electric Power Department of Ministry of Energy and Industry (電力工業部水電司). He has served as a deputy director of Beijing representative office of China Three Gorges Corporation since 1993, and has subsequently been head of international cooperation department, head of general management department, head of construction department at Xiangjiaba Dam and assistant to the general manager. He has also served as a party committee member and head of discipline department of China Three Gorges Corporation since March 2006 and party committee member, head of discipline department and director of China Three Gorges Corporation since December 2010, and retired in June 2014. He has been an independent director of China XD Electric Co., Ltd. since December 2014. He has been appointed as independent non-executive director of the Company since March 2015.

Mr. Zhu Hong-jie, born in July 1954, holds a bachelor degree and the title of senior economist, and is now retired and serves as independent non-executive director of the Company. Mr. Zhu was graduated from the Department of Planning and Statistics, Xiamen University. Mr. Zhu started his career in 1978. He has been the General Planning Division Statistics Officer, Deputy Director, Director, Director of Planning and Finance Division (Deputy Secretary) of the Ministry of Foreign Trade and Economic Co-operation, responsible for the establishment of The Export-Import Bank of China. He held various positions at The Export-Import Bank of China, such as head of the Preparatory and Business Team, general manager of the Project Fund Department and chief representative of Shanghai office, general manager of the External Concessional Loan and chief representative of Shanghai office, general manager of the Vendor Credit Department (Division I), assistant to the Governor of The Export-Import Bank of China. He has been the Vice Governor, party committee member, deputy secretary of the party committee, secretary of the party committee and principal of party school of The Export-Import Bank of China since 2001, and retired in September 2014. He has been an external director of State Power Investment Corporation since January 2016. He has been appointed as independent non-executive director of the Company since March 2017.

Directors, Supervisors and Senior Management (continued)

Mr. Hu Jian-min, born in July 1954, holds a bachelor degree and the title of senior engineer, is now retired and serves as independent non-executive director of the Company. Mr. Hu was graduated from Shandong Institute of Technology, majoring in power system relay protection and automation. Mr. Hu started his career in 1974. He has been deputy division leader, deputy director and director of Shandong Jining Power Plant (山東濟寧發電廠), deputy head, chief engineer, party committee member and head of Shandong Liaocheng Power Plant (山東聊城發電廠), general manager of Shandong Liaocheng Thermal Power Company Limited (山東聊城熱電有限責任公司), head and secretary of the party committee of Shandong Shiheng Power Plant (山東石橫發電廠), head and secretary of the party committee of Shandong Zouxian Power Plant (山東鄒縣發電廠), chief engineer of Shandong Electric Power Industry Bureau (Shandong Electric Power Group Corporation), deputy general manager and party leadership group member of Huaneng Power International, Inc., deputy chief engineer and program development manager, assistant to general manager and planning development director of China Huaneng Group, executive director and general manager of Huaneng Hulunbuir Energy Development Co., Ltd.. He has been the chief engineer, deputy general manager, party leadership group member of China Huaneng Group since 2009, and retired in September 2014. He has been an independent director of China First Heavy Industries since May 2015. He has been appointed as independent non-executive director of the Company since March 2017.

SUPERVISORS

Supervisors representing shareholders

Mr. Feng Yong-qiang, born in September 1963, is a professor level senior policy advisor with a master degree. He is currently the vice secretary of the Party Committee of HE and the Company and the Chairman of the Supervisory Committee of the Company. He graduated from Harbin Institute of Electrical Engineering specializing in Electric Machinery in 1985, and later obtained a master degree in Business Administration from Harbin Institute of Technology. Mr. Feng joined HE in 1985, and has worked as a technician of the machinery department of the Boiler Company of the Group, the secretary of the Party Committee office, the vice secretary of the Communist Youth League, secretary, director of No. 1 Pipe Workshop, director of heavy vessel workshop, as well as the vice secretary of the Party Committee, the secretary of the Party Committee and vice chairman of the Boiler Company. He was appointed as a standing committee member of the City Committee and deputy mayor (acting) of Tongliao, Inner Mongolia Autonomous Region since November 2001. He has been the deputy general manager of the Company since April 2004, the vice secretary of the Party Committee of HE since October 2008, and the vice secretary of the Party Committee of the Company since January 2009. He has been appointed as a supervisor representing shareholders and Chairman of the Supervisory Committee of the Company since November 2014.

Mr. Chen Guang, born in August 1964, a senior economist with a postgraduate degree, is a supervisor representing shareholders of the Company and head of the organization department under the Party Committee and head of the United Work Front Department of the Boiler Company of the Group. Mr. Chen graduated from Xi'an Jiaotong University in 1986 and joined HE in the same year. He was appointed as a designer of the Design Department of the Boiler Company of the Group, secretary of factory office, deputy manager of the spare parts company, deputy secretary and chairman of Labor Union of No. 2 Pipe Workshop, secretary and head of Drum Workshop, head, director of Security Department and secretary of No.1 Pipe Workshop. He has been the head and secretary of Safe Technology and Environmental Protection Office, and the director and secretary of Corporate Management and Development Department. He has been appointed as the head of the organization department under the Party Committee and head of the United Work Front Department of the Boiler Company since June 2016. He has been a supervisor representing shareholders of the Company since December 2009.

Directors, Supervisors and Senior Management (continued)

Supervisors representing staff and workers

Mr. Zhang Wen-ming, born in September 1974, a senior engineer with a master degree, now a supervisor representing staff and workers of the Company and the head of Organization Department of the Party Committee of the Turbine Company of the Group. Mr. Zhang graduated from Anshan Institute of Iron and Steel Technology, majoring in metal press processing. Then he obtained a master degree in engineering from Harbin Institute of Technology. Mr. Zhang started his career in July 2000. He was the engineer of the material research center, secretary to the general manager, deputy director of the technology and management division and deputy director and director of the corporate development center of the Turbine Company of the Group. He has been the head of Organization Department of the Party Committee of the Turbine Company of the Group since January 2013 and has been a supervisor representing staff and workers of the Company since January 2013.

Mr. Zhang Jun-quan, born in February 1964, is a senior engineer with a bachelor degree. He is currently a supervisor representing staff and workers of the Company and the head of the Party Committee of the Organization Department of Electric Machinery Company of the Group. Mr. Zhang graduated from Shenyang Architectural and Civil Engineering Institute specializing in Machinery Engineering and Equipment. Mr. Zhang joined HE in 1986, and has worked as a technician, the deputy head of technical room, deputy director and director of the Coil Factory of Electric Machinery Company of the Group and head of equipment department of Electric Machinery Company. He has been the head of the Organization Department of Party Committee of Electric Machinery Company since March 2013 and a supervisor representing staff and workers of the Company since November 2014.

Independent Supervisor

Mr. Xu Er-ming, born in December 1949, holds a doctorate degree, and is currently a professor and a doctoral tutor of Renmin University of China. He is entitled to the State Council's special government allowances, and now serves as independent supervisor of the Company, independent non-executive director of China Telecom Corporation Limited, vice chairman of the Chinese Enterprise Management Research Association. Mr. Xu graduated from the Department of Industrial Economics of Renmin University of China in 1978 and stayed at the university after his graduation, where he worked as a tutor, lecturer, associate professor and professor. He was appointed as the director of office for Canada-China Management Education Program of the Renmin University of China in 1991, and later the deputy director of the Department of Industrial Economics, the deputy director of the Center for Business Administration Education and the deputy director of Institute of Foreign Economic Management of the Renmin University of China at the same time. He was appointed as the Deputy Dean of Business Administration School of the Renmin University of China in 1996 and the Dean in 1997. He has been appointed as the Deputy Dean of the Graduate School of the Renmin University of China since June 2006. He was Deputy Secretary-General of the Tenth Session of the Academic Committee, and a member of the Third Session of the University Affairs Committee of the Renmin University of China, and served as associate convener of the Fifth Session of the Business Administration Academic Appraisal Group of the Academic Degree Committee of the State Council, member of the Sixth Session of the Business Administration Academic Appraisal Group of the Academic Degree Committee of the State Council, member of the Advisory Committee of National MBA Education, director of the Advisory Committee for University Business Administration Education led by Ministry of Education, chairman of Beijing Contemporary Enterprise Research Association. Professor Xu Er-ming is an adjunct professor at over 10 universities in China including Zhejiang University, and has been participated in Fulbright Visiting Scholar Program of U.S.A. twice. He has been teaching at New York State University at Buffalo, the University of Scranton, the University of Technology, Sydney, Australia, the Kyushu University, Japan, Panyapiwat institute of management, Thailand and Hong Kong Polytechnic University. He has been an independent supervisor of the Company since December 2009.

Directors, Supervisors and Senior Management (continued)

SENIOR MANAGEMENT

Mr. Miao Li-jie, born in June 1956, holds a doctorate degree and the title of researcher-grade senior engineer, is currently retired. Mr. Miao graduated from the Automatic Control Engineering Department of Harbin University of Science and Technology (哈爾濱科技大學自動控制專業) in 1982, and obtained a master degree from Shenyang University of Technology and a doctorate degree from Tsinghua University. He obtained a post-doctorate diploma from the post-doctorate research centre of Harbin University of Engineering. Mr. Miao joined HE in 1985, and worked as the engineer, senior engineer, department supervisor, manager of operation department, assistant to general manager and deputy chief engineer of Harbin Electrical Machinery of the Group, and general manager and chairman of Harbin National Engineering Research Center Co., Ltd (哈爾濱國家工程研究中心有限公司), as well as assistant to general manager, deputy general manager and a standing committee member of the Party Committee of the Company. He has been a director, a deputy general manager and a standing committee member of the Party Committee of HE since 2009, and a Senior Vice-President of the Company since March 2013. He has retired since September 2016.

Mr. Liu Zhi-quan, born in July 1968, is a senior accountant and certified public accountant in China with a doctor's degree. He now serves as the chief accountant of HE and Senior Vice-President of the Company. Mr. Liu graduated from Harbin Institute of Technology, majoring in industrial accounting with a bachelor's degree. He subsequently obtained a doctorate degree from the same university. Mr. Liu joined HE in 1991. He has been an assistant to the director of finance department of the Boiler Company of the Group, the deputy director and the director, and the deputy chief accountant and head of finance department of the Group. He was appointed as the deputy general manager of the Harbin Boiler Company Limited in April 2001. Mr. Liu has been serving as deputy general manager of the Company since September 2006, Vice-President of the Company since March 2013 and Senior Vice-President of the Company since November 2014. He assumed the post as the company secretary of the Company from January 2012 to January 2013.

Mr. Wang De-xing, born in September 1959, is a holder of a master's degree in business administration and a senior economist of researcher level. He is currently the chief economist of HE, and the Vice President of the Company. Mr. Wang was graduated from the School of Materials Science and Engineering of Beijing Steel and Iron Institute 北京鋼鐵學院 and obtained an MBA degree from the Harbin Institute of Technology. Mr. Wang joined HE in 1982 and held various positions ever since, such as a technician of the central laboratory, secretary and acting manager of the heavy vessel factory of Harbin Boiler Works which used to be a member of the Group, as well as a secretary, factory manager, head of water wall branch, deputy chief economist and director of labor affairs, deputy general manager, deputy managing director, chairman and general manager of pipe first branch factory of Harbin Boiler Company Limited, before taking the position of the chief economist of HE in October 2016. He has been the Vice President of the Company since October 2016.

Directors, Supervisors and Senior Management (continued)

Mr. Zhang Hai-quan, born in September 1961, is a senior engineer with an MBA degree. He now serves as an assistant to the general manager of HE and Vice-president of the Company. Mr. Zhang graduated from Harbin Institute of Electrical Engineering in 1984 and joined HE in the same year. He has been an engineer of the enginery repairing workshop, the secretary and an assistant to the director of the Communist Party Committee Office of the former Boiler Works of the Group. In 1994, Mr. Zhang participated in the reorganization of HE to be a shareholding enterprise and the issuance and listing of the Company's shares. Since November 1994, he has been appointed as the deputy director of the general manager office, the deputy director of the planning department and director of the enterprise management department, and the director of the auditing and law department of the Boiler Company of the Group. Since 1998, he was a member of the HE's and the Company's Standing Communist Party Committee and director of the organization department. Since 1999, Mr. Zhang was appointed as the secretary of the Communist Party Committee and vice chairman of Archeng Relay Group Company and Archeng Relay Company Limited. He has been serving as the deputy general manager of the Company since October 2000 and the Vice-President of the Company since March 2013.

Mr. Qu Zhe, born in July 1962, is a senior engineer with a postgraduate degree. He now serves as an assistant to the general manager of HE and the Vice-president of the Company. Mr. Qu graduated from Harbin Shipbuilding Engineering Institute with a master's degree in August 1988 and joined HE in the same year. He has been an assistant engineer, business representative in Pakistan and engineer of Harbin Power Station Equipment Import And Export Company, and served as the deputy general manager of the company since February 1994. Since November 1994, he was appointed as the deputy manager of operation and development department of Harbin Power Engineering Company Limited, deputy general manager and deputy manager of operation and development department of cycle power plant project in UCH, Pakistan, deputy chief engineer, assistant to general manager of the company. He served as the executive deputy general manager of Harbin Power Engineering Company Limited since November 1999, general manager of the company since April 2003, and chairman and Party Secretary since September 2007 respectively. Mr. Qu has been serving as deputy general manager of the Company since June 2010 and Vice-President of the Company since March 2013.

COMPANY SECRETARY

Mr. Ai Li-song, born in March 1970, is a senior economist with a master degree. He is currently a company secretary, deputy manager of the securities and legal department and a deputy director of the secretariat of the Board of the Company. Mr. Ai graduated from Jilin University of Technology majoring in technical economics and he obtained a master degree from Harbin Institute of Technology. Mr. Ai has been a staff of the former Harbin Electric Machinery Works, a subsidiary of the Company, General Manager of the Sales Office of Shenyin & Wanguo Securities Co., Ltd. (申銀萬國證券公司) at Nanma Road, Harbin, deputy manager of the investment and reforming department and manager of investment management department of HE Corporation, manager of the planning and development department of HE Corporation and the Company, and director of the secretariat of the Board. Mr. Ai has been deputy manager of the securities and legal department and a deputy director of the secretariat of the Board since February 2016, and a company secretary of the Company since May 2015.

Report of the Directors



PRINCIPAL ACTIVITIES

The Group is mainly engaged in the manufacture and sales of various kinds of power equipment and power station engineering services, details of which are set out in note I(l) to the financial statements.

All the activities of the Group are based in the PRC, where around two-third of the turnover is derived from.

As of 31 December 2016, the revenue from export of products of the Group amounted to USD10,101.64 million, representing 32.66% of the Group's total operating income. The Group's major regions for export included Asia and South America, which respectively accounted for 23.66% and 7.60% of the Group's total turnover, while major countries for export included Pakistan, Ecuador and Turkey, which respectively accounted for 8.85%, 7.60% and 6.63% of the Group's total turnover.

LIST OF SUBSIDIARIES AND DIRECTORS OF SUBSIDIARIES

Details of major subsidiaries of the Company and directors of the subsidiaries as at 31 December 2016 are set out in note 7 to the financial statements of this annual report.

RESULTS

The results of the Group for the year ended 31 December 2016 are set out in the consolidated income statement of the annual report.

DIVIDEND

A final dividend of RMB0.03 per share (appropriate tax included) for 2016 was proposed by the Board. The total dividend payable amounted to RMB41.3042 million (dividend paid for 2015 by the Company was RMB0.015 per share, total dividend paid was RMB20.5621 million).

Dividends payable to shareholders of H shares will be paid in Hong Kong dollars at the average exchange rate as quoted by the People's Bank of China for the five days preceding 28 March 2017, which is RMB1 to HK\$1.1277. Each shareholder of H shares will receive a dividend of HK\$0.0338 per H share.

As at 31 December 2016, the Company received no notification from any shareholders to waive or agree to waive any dividends.

CLOSURE OF REGISTER FOR THE PURPOSE OF DIVIDEND PAYMENT

The register of members of the Company will be closed from 5 June 2017 to 9 June 2017 (both dates inclusive). Final dividends for the year 2016 will be distributed on 28 July 2017 to shareholders whose names appear in the register of members of the Company on 5 June 2017. In order to qualify for the final dividends for 2016, all completed transfer documents accompanied with the relevant share certificates must be lodged with the Company's share registrar and transfer office in Hong Kong, namely Hong Kong Registrars Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong no later than 4:30 p.m. on 2 June 2017.



Report of the Directors (continued)

DIVIDEND TAX

Pursuant to the relevant requirement of “PRC Individual Income Tax Law” (《中華人民共和國個人所得稅法》), “PRC Implementation Regulations of the Individual Income Tax Law” (《中華人民共和國個人所得稅法實施條例》) and “Notice of the State Administration of Taxation in relation to the Administrative Measures on Preferential Treatment Entitled by Non-residents under Tax Treaties (Tentative)” (《國家稅務總局關於印發〈非居民享受稅收協議待遇管理辦法(試行)〉的通知》), the Company will withhold and pay the individual income tax in respect of the dividend (bonus) received by individual shareholders of H shares from the Company. Individual shareholders of H shares of the Company may be entitled to certain tax preferential treatments pursuant to the tax treaties between the PRC and the countries in which the individual shareholders of H shares are domiciled and the tax arrangements between Mainland China and Hong Kong (Macau). The Company will determine the residence of the individual shareholders of H shares based on the registered address as recorded in the register of shareholders on the book closure date, i.e. 5 June 2017. The specific arrangement will be as follows:

For individual shareholders of H shares who are residents of Hong Kong or Macau and countries which entered into a tax treaty with the PRC stipulating a dividend tax rate of 10%, the Company will withhold and pay individual income tax at the rate of 10% on their behalf;

For individual shareholders of H shares who are residents of countries which entered into a tax treaty with the PRC stipulating a dividend tax rate of less than 10%, the Company will withhold and pay individual income tax at the rate of 10% on their behalf. Individual shareholders of H shares may apply for refund of excess amount of individual income tax withheld by providing relevant information for approval by taxation authority;

For individual shareholders of H shares who are residents of countries which entered into a tax treaty with the PRC stipulating a dividend tax rate of more than 10% but less than 20%, the Company will withhold and pay individual income tax at the effective rate stipulated by the relevant tax treaty on behalf of the relevant shareholders;

For individual shareholders of H shares who are residents of countries which entered into a tax treaty with the PRC stipulating a dividend tax rate of 20% or has not entered into any tax treaties with the PRC, the Company will withhold and pay individual income tax at the rate of 20% on behalf of the relevant shareholders;

According to the “PRC Individual Income Tax Law” (《中華人民共和國個人所得稅法》), the Company will withhold and pay dividend income tax at the rate of 10% on behalf of the non-resident corporate shareholders.

INFORMATION ABOUT DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Details of Directors and Supervisors are set out in the section headed “Directors, Supervisors and Senior Management” in this annual report.

CONFIRMATION OF INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company confirmed to have received annual confirmation of independence from each independent non-executive directors pursuant to Rule 3.13 of the Rules Governing The Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”), confirming all independent non-executive Directors are independent.



Report of the Directors (continued)

INTERESTS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT IN THE SHARE CAPITAL

As at 31 December 2016, none of the directors, supervisors and senior management of the Company had any interest or short position in the shares, underlying shares and debentures (as the case may be) of the Company and of any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (SFO)) which was required to be notified to the Company and the Hong Kong Stock Exchange (including interest or short position which any such director, supervisor or senior management is taken or deemed to have under such provisions of the SFO) or which was required to be recorded in the Register kept by the Company pursuant to section 352 of the SFO or which was required to be notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as contained in Appendix 10 to the Listing Rules.

SERVICE CONTRACTS OF DIRECTORS AND SUPERVISORS

As at 31 December 2016, there is no service contract specified in Rule 14 of Appendix 16 of the Listing Rules between directors and supervisors of the Company and the Company.

INTERESTS OF DIRECTORS AND SUPERVISORS IN CONTRACTS OF SIGNIFICANCE

As at 31 December 2016, none of the Directors or Supervisors has any interest, whether directly or indirectly, in the contracts of significance entered into by the Group.

CONTRACTS OF SIGNIFICANCE WITH THE CONTROLLING SHAREHOLDERS OR THEIR SUBSIDIARIES

As at 31 December 2016, no contract of significance was entered into between the Group and the controlling shareholders or their subsidiaries.

REMUNERATION OF DIRECTORS AND SUPERVISORS

Remuneration of directors and supervisors of the Company was approved at the general meeting of the Company, in which executive directors, non-executive directors and shareholder representative supervisors, employee supervisors will not receive any remuneration as directors and supervisors. The remuneration of independent non-executive directors and independent supervisors was determined with reference to remuneration of the relevant personnel of companies engaging in similar business or with similar scale as the Company.

Details of the remuneration of directors and supervisors of the Company as at 31 December 2016 are set out in note X(V) to the financial statements in the annual report.



Report of the Directors (continued)

FIVE HIGHEST PAID PERSONNEL

As at 31 December 2016, the five highest paid personnel in the Company are senior management of subsidiaries of the Company. Remuneration of three of them was under HK\$1 million, two of them received remuneration over HK\$1 million but below \$1.5 million.

	Fees	Wages and other benefits	Contribution to retirement benefits scheme	Total
Total remuneration of the five highest paid personnel	HK\$0	HK\$4.278 million	HK\$0.662 million	HK\$4.94 million

CONTINGENT LIABILITIES – GUARANTEES

As at 31 December 2016, total internal guarantees in favour of the Group made by the Company and its subsidiaries amounted RMB2,442.44 million. No external guarantee was provided. Details of guarantees are set out in note XII(2) to the financial statement of this annual report.

PERMITTED INDEMNITY PROVISION

As provided by applicable laws, each directors of the Company is entitled to be indemnified by respective companies for all costs, charges, losses, fees and liabilities which arise in or are connected to the execution or performance of their duties according to the Articles of Association of the Company. The provision becomes effective in the financial year ended 31 December 2016 and is in effect as at the date of this report.

The Company purchased directors' liability insurance for all directors during the year.

SIGNIFICANT INVESTMENT IN SECURITIES

As at 31 December 2016, the Company has no significant investment in securities.

STAFF REMUNERATION, RETIREMENT AND BENEFITS SCHEME

The Group continuously improves its performance-based system from remuneration distribution. Income distribution matches growth of economic efficiency and labour efficiency. Currently, the Group has no long-term award scheme.

Details of the staff retirement and benefits scheme are set out in Note V(27) to the financial statements in the annual report.

FIXED ASSETS

Details of the movements in fixed assets of the Group are set out in Note V(15) to the financial statements in the annual report.

PROFITS AVAILABLE FOR DISTRIBUTION

As at 31 December 2016, the Company's undistributed profits available for distribution are RMB1,211.49 million. Movements in the undistributed profits of the Company during the year are set out in the statement of changes in equity to the financial statements.

Report of the Directors (continued)



FINANCIAL HIGHLIGHTS

The financial highlights of the Group for the last five years are set out in the section headed “Financial Highlights” in the annual report.

BORROWINGS

Details of bank loans and other borrowings of the Group as at 31 December 2016 are set out in Notes V(22) to the financial statements in the annual report.

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

As at 31 December 2016, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Articles of Association or PRC Law, which would require the Company to offer issuance of new shares to existing shareholders according to their respective proportions of shareholding.

MAJOR LITIGATION

Details of major litigation of the Group in 2016 are set out in the note XII(2) to the financial statements in the annual report.

MAJOR SUPPLIERS AND CUSTOMERS

1. As at 31 December 2016, the Group's five largest suppliers attributed 21.16% of the Group's total purchases. Among which GE Energy Products France, SNC was the largest supplier, representing 10.71% of the total purchases.
2. As at 31 December 2016, the Group's five largest customers attributed 22.69% of the Group's total turnover. Among which Quaid-E-Azam Thermal Power (Private) Limited was the largest customer, representing 5.96% of the total turnover. Amongst the other major customers, China Datang Corporation, National Power Company (國有電力控股公司) of Ecuador, State Power Investment Corporation and Owners of Turkey Suma Project, Kolin Company (土耳其速馬項目業主 Kolin 公司) represent 4.91%, 4.19%, 3.90% and 3.74% respectively.
3. None of the Directors, Supervisors, their associates or any shareholders of the Company (which to the knowledge of the Directors own more than 5% of the Company's share capital) has any interest in the above-mentioned suppliers or customers.



Report of the Directors (continued)

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 its affiliates, including 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 re-recognised as High and New Technology Enterprises, and shall continue to enjoy a 15% preferential income tax rate, which is significant to their long-term development.

In accordance with regulations of the State Administration of Taxation, the rate for tax rebate applicable to the Group's new export products contracts is 13% 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 has been 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》) in 2016, the Group will continue to enjoy the relevant favourable policies in supporting such revitalization for historical industrial bases of the northeast regions.

CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS

Details of connected transactions and continuing connected transactions of the Company as at 31 December 2016 are set out Note X(5) to the financial statements in the annual report.

The Group has established Measures for Managing Connected Transactions (《關連交易管理辦法》) to regulate performance of connected transactions and continuing connected transactions. As at 31 December 2016, the Group carried out the following connected transactions and continuing connected transactions (other than connected transactions that are exempted under Rule 14A.33 of the Listing Rules):

CONTINUING CONNECTED TRANSACTIONS

1. *Product and Service Framework Agreement with Harbin Electric Corporation ("HE")*

On 31 December 2013, the Company entered into the a product and service framework agreement with HE, pursuant to which, the Group and HE (together with its subsidiaries excluding the Group, "the Unlisted Harbin Electric Group") will provide products and services to each other during the three financial years from 1 January 2014 to 31 December 2016.

As at 31 December 2016, the transaction cap for providing services by the Company to the Unlisted Harbin Electric Group was RMB2 million, while the actual transaction amount was zero; the transaction cap for selling products to the Unlisted Harbin Electric Group was RMB65.30 million, while the actual transaction amount was RMB17.64 million. The transaction cap for receiving services by the Company from the Unlisted Harbin Electric Group was RMB90.15 million, while the actual transaction amount was RMB58.99 million; the transaction cap for purchasing products to the Unlisted Harbin Electric Group was RMB253.37 million, while the actual transaction amount was RMB45.22 million. The amounts of such transactions did not exceed the cap.

Report of the Directors (continued)



2. Financial Service Framework Agreement between the Company and HE

On 31 December 2013, HE Finance Company Limited (the "Finance Company"), a subsidiary of the Company, and HE entered into a financial service framework agreement (the "Original Agreement"), pursuant to which, the Finance Company will provide financial services including depository services, loan services and other financial services to the Unlisted Harbin Electric Group, from 31 December 2013 to 30 December 2016. As the Original Agreement expired, the Company entered into a new financial service framework agreement with HE on 9 December 2016 for the period from 31 December 2016 to 30 December 2019.

During the year from 1 January 2016 to 31 December 2016, the transaction cap of loan services provided by the Finance Company to the Unlisted Harbin Electric Group was RMB250.00 million (transaction cap was RMB220.00 million on 31 December), while the actual transaction amount was RMB170.00 million. The transaction amount of such transaction did not exceed the cap.

3. Management Entrustment Agreement entered into by the Company with HE

On 23 March 2013, the Company entered into the Management Entrustment Agreement with HE, pursuant to which, the Company will provide management services to HE, including but not limited to administration management, human resources and compensation management (including external affairs management), technology and quality control, assets and financial management, integrated organization management, statistic and economic operations management, auditing and internal control management, investments management, strategic developments management, legal affairs management, communications management, marketing management, projects management, production safety management, procedure monitoring management, political affairs and other affairs management. Terms of the agreement was from 23 March 2013 to 22 March 2016 and HE shall pay an annual management entrustment fee of RMB3.28 million to the Company. As the original agreement expired, the Company entered in to a new management entrustment agreement with HE on 29 January 2016, the required annual management fee remained to be RMB3.28 million.

As at 31 December 2016, HE has fully paid the management fee of RMB3.28 million.

CONNECTED TRANSACTION

1. ACQUISITION OF PROPERTIES AND LAND OF SUBSIDIARIES OF HE BY A SUBSIDIARY

On 29 January 2016, the Board resolved to approve the acquisition of properties and lands of Harbin Boiler Industrial Company (哈爾濱哈鍋實業開發總公司), a subsidiary of HE, by Harbin Boiler Company Limited, a subsidiary of the Company acquiring properties and building with an aggregated area of 14,121.21 square metres and land of aggregated area of 12,292.16 square metres, at a consideration not exceeding RMB55.00 million. The transaction was not completed as at 31 December 2016.

2. TRANSFER OF EQUITY INTEREST IN CONTROLLING COMPANY BY A SUBSIDIARY TO HE

In April 2016, Harbin Electrical Machinery Company Limited, a subsidiary of the Company, transferred 55.64% equity interests of Harbin Electrical Machinery (Kunming) Company Limited (哈爾濱電機廠(昆明)有限責任公司) held by it to HE at a price of RMB169.0906 million (including transitional profit or loss).



Report of the Directors (continued)

CONFIRMATION ON CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS

The Independent Directors of the Company have reviewed the connected transactions and continuing connected transactions (as defined in the Listing Rules) set out in Note X to the financial statements and confirmed that:

1. Such transactions have been entered into by the Company in the ordinary and usual course of its business;
2. Such transactions have been entered into either (I) on normal commercial terms (which term shall be applied by reference to transactions of a similar nature and to be made by similar entities within the PRC) or (II) (where there is no available comparison) on terms that are fair and reasonable so far as the shareholders of the Company are concerned;
3. Such transactions have been entered into either (I) in accordance with the terms of the relevant agreements governing such transactions or (II) (where there is no such agreement) on terms no less favourable than those available to third parties.

The auditors of the Company have issued their unqualified letter containing their findings and conclusions in respect of the continuing connected transactions disclosed above by the Group in accordance with Rule 14A.38 of the Listing Rules. A copy of the auditors' letter has been provided by the Company to the Stock Exchange.

SHAREHOLDING STRUCTURE

As at 31 December 2016, the total share capital of the Company comprised 1,376,806,000 shares, of which 701,235,000 shares were held by the promoter (representing 50.93% of the entire share capital) and 675,571,000 shares were held by overseas holders of H shares (representing 49.07% of the entire share capital).

Report of the Directors (continued)



NUMBER OF SHAREHOLDERS

The Company has sufficient public float. As at 31 December 2016, the ten registered shareholders holding the largest quantity of shares were as follows:

Number	Name of Shareholder	Number of Shares	Percentage of Shares Held	Remarks
1.	Harbin Electric Corporation	701,235,000	50.93%	state-owned equity interest shares
2.	HKSCC NOMINEES LIMITED	615,808,598	44.73%	H shares
3.	TANG KEUNG LAM	27,000,000	1.96%	H shares
4.	TANG'S INVESTMENTS LIMITED	17,000,000	1.23%	H shares
5.	HIGH SUMMIT GROUP LIMITED	13,000,000	0.94%	H shares
6.	YIP CHOK CHIU	360,000	0.03%	H shares
7.	LU NIM KWOK ALBERT	250,000	0.02%	H shares
8.	CHEUNG YUM TIN	200,000	0.01%	H shares
9.	HO YUN HUNG	200,000	0.01%	H shares
10.	NG KAM WAN	110,000	0.01%	H shares



Report of the Directors (continued)

ANALYSIS OF SHAREHOLDING OF HOLDERS OF H SHARES (AS RECORDED IN REGISTER OF MEMBERS AS AT 31 DECEMBER 2016)

Range	Number of Shareholders	Number of Shares Held	Percentage to Issued H Shares
1-1,000	4	402	0.00%
1,001-5,000	51	142,000	0.02%
5,001-10,000	45	364,000	0.05%
10,001-100,000	37	1,136,000	0.17%
100,001 and above	9	673,928,598	99.76%
Rounding (to whole numbers)			0
Total	146	675,571,000	100%

MODEL CODE

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

CORPORATE GOVERNANCE CODE

The Company has been actively enhancing the Company's corporate governing structure and standardized the Company's operations through strictly complying with relevant provisions such as the Company Law of the People's Republic of China and the Securities Law of the People's Republic of China. Directors of the Company strived to maintain corporate governance of high standard and believe quality governance is a key to long-term success and sustainable development of the Company's business.

In 2016, the Company has fully complied with the Corporate Governance Code and Corporate Governance Report contained in Appendix 14 of the Listing Rules of the Hong Kong Stock Exchange. However, the Company is identifying new directors and supervisors, resulting in a delay of renewal of the Seventh Board and supervisory Committee. Details of which are set out in the section headed "Corporate Governance Report" in the annual report.

AUDIT COMMITTEE

The Audit Committee has reviewed the audited financial statements, connected transactions, internal control and risk management of the Group for the year ended 31 December 2016, and discussed with the Board the financial reporting procedures as well as the internal control system of the Group.



Report of the Directors (continued)

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The Company continued to realise its social responsibility of “Friendly environment, Warm Home” to highlight scientific development as the main principle, taking all stakeholders’ interests into consideration and enhancing the harmonic relationship between human and nature, with a view to actively promote healthy sustainable development of the corporate. The 2016 Environmental, Social and Governance Report of the Company will be disclosed separately by 30 June 2017.

AUDITORS

According to the requirement of the financial auditing engagement period stipulated by the State owned Assets Supervision and Administration Commission of the State Council of the People’s Republic of China, in December 2015, the Company appointed BDO China Shu Lun Pan Certified Public Accountants LLP to replace the original PRC auditors, Ruihua Certified Public Accountants, and the Hong Kong auditors, Crowe Horwath (HK) CPA Limited.

The financial statement of the Company for the year ended 31 December 2016 has been audited by BDO China Shu Lun Pan Certified Public Accountants LLP, which was appointed at the 2015 annual general meeting of the Company. Its annual remuneration for the year was RMB2.50 million. The auditor is eligible and willing to offer itself for re-appointment. The resolution to re-appoint the auditor and to authorise the Board to determine its remuneration will be proposed at the 2016 annual general meeting of the Company.

By order of the Board

Harbin Electric Company Limited

Ai Li-song

Company Secretary

28 March 2017

Report of the Supervisory Committee

To all shareholders:

For the year ended 31 December 2016 (“the Year”), all members of the Supervisory Committee (“the Supervisory Committee”) of Harbin Electric Company Limited (“the Company”) duly performed their Supervisory Committee functions in the best interests of the Company and all shareholders as a whole in accordance with the relevant regulations of the PRC Company Law, the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and the Articles of Association of the Company. The Supervisory Committee has carried out an all-round supervision on areas including operation management, financial conditions and senior management’s performance of the Company. In addition, the Supervisory Committee actively participated in significant events of the Company, such as the Company’s production and operation etc., which pushed forward the Company’s work in a smooth manner.

For the Company’s work, the Supervisory Committee convened two meetings and attended four Board meetings in person during the Year.

Attendance of supervisors at meetings for the year 2016

Name of Supervisor	Number of attendance required in the Supervisory Committee meetings	No. of meetings attended in person	Attendance rate	Number of attendance required in the Board meetings	No. of meetings attended in person	Attendance rate
Mr. Feng Yong-qiang	2	2	100%	4	4	100%
Mr. Chen Guang	2	2	100%	4	4	100%
Mr. Zhang Wen-ming	2	2	100%	4	4	100%
Mr. Zhang Jun-quan	2	2	100%	4	4	100%
Mr. Xu Er-ming	2	2	100%	4	3	75%

For the year of 2016, the Supervisory Committee presents the following independent opinions:

1. During the Year, the Company strictly complied with the nation’s laws and regulations, operated in accordance with the procedures regulating listing companies, and duly executed various resolutions passed at the general meetings. The Company achieved satisfying results from all works during the year, resulting in a strong and excellent company which laid a solid foundation for the smooth and faster development.

Report of the Supervisory Committee (continued)



2. The Supervisory Committee is aware that the directors and its senior management of the Company have duly and actively carried out their duties and protected the best interests of the shareholders. They have seriously carried out the resolutions and decisions passed at the general meetings and meetings of the Board. In addition, no violation against the nation's laws and rules and the Articles of Association of the Company or acts against the interests of the Company, the shareholders and the employees were reported.
3. The Supervisory Committee has reviewed the Company's financial system and conditions and concludes that the Company's financial system has an integrated structure and a sound system, and the financial works have been operated orderly according to the internal control system and risk management. Relevant information such as the annual financial report and the dividend payment scheme proposed by the Board of Directors for approval at the Annual General Meeting, has objectively and comprehensively reflected the financial position and operating results of the Company. The dividend payment scheme has taken into account both the interests of the shareholders and the Company's long-term development. Statutory surplus reserve fund provided in the year have observed the provisions of the laws and regulations and the Articles of Association of the Company.
4. The Supervisory Committee has reviewed the Report of the Directors and concludes that the report gives an objective and true picture of the works performed by the Company during the Year.

The Supervisory Committee sincerely appreciates the trust and support from every colleague and the shareholders of the Company. While continue to explore new supervisory approaches and methods, the Supervisory Committee will further consolidate resources for supervision so as to enhance our management, helping and ensuring the realization of the Company's targets for all works in 2017.

By order of the Supervisory Committee

Feng Yong-qiang

Chairman

Harbin, the PRC

28 March 2017



Corporate Governance Report

CORPORATE GOVERNANCE PRACTICES

The Company has been actively enhancing the Company's corporate governing structure and standardized the Company's operations through strictly complying with relevant provisions such as the Company Law of the People's Republic of China and the Securities Law of the People's Republic of China. The Board of the Company is committed to maintain a high standard of corporate governance, and believes that good corporate governance practices is crucial to the success and sustainable development of the Company's operation in the long run.

During 2016, the Company has fully complied with all code provisions set out in the Corporate Governance Code and Corporate Governance Report in Appendix 14 of the Listing Rules of the Stock Exchange of Hong Kong and, where appropriate, adopted the recommended best practices as specified therein, save that the rotation of the seventh Board of Directors and Supervisory Committee has been delayed due to that the Company is in the process of finding the candidates for the new session of Directors and Supervisors. The Company has confirmed candidates for the new session of Directors and Supervisors and will seek approval from shareholders at the annual general meeting on 26 May 2017.

The Board of the Company is responsible for the corporate governance functions. In 2016, the Board of the Company has strictly observed the policies and practices in compliance with laws and regulatory requirement, and also enacted and amended its regulations with reference to those policies and practices, with an aim to perfect our corporate governance policies and practices. The Company continues to focus on the training and continuing professional development of directors and senior management, and actively carries out internal review and rectification work to improve the level of the Company's governance.

CODE OF CONDUCT REGARDING DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 of the Listing Rules of the Stock Exchange of Hong Kong as the code of conduct regarding directors' securities transactions. In response to a specific enquiry by the Company, all Directors confirmed that they complied with the Model Code for Securities Transactions by Directors of Listed Issuers at all applicable times during 2016.

BOARD OF DIRECTORS

The major duties of the Board of Directors of the Company are to exercise the discretion in management decision according to the authorization by the general meeting with respect to the development strategies, management structure, investment and financing, planning and management and financial control, which are set out in details in the Articles of Association.

1. Composition

In 2016, the Board of Directors of the Company is the seventh session Board since its establishment, which is comprised of eight Directors, three of whom are independent non-executive Directors. Members of the Board are:

Executive directors: Si Ze-fu (Current Chairman), Wu Wei-zhang, Zhang Ying-jian, Song Shi-qi

Non-executive directors: Zhou Lei (former Chairman, resigned)

Independent non-executive directors: Yu Bo, Liu Deng-qing, Yu Wen-xing

Corporate Governance Report (continued)

During the period, Mr. Zhou Lei, former chairman, non-executive director and chairman of the nomination committee of the Company ceased to be Chairman and party secretary of the Company's controlling shareholder, Harbin Electric Corporation, in accordance with the decision of state cadre management, and at the same time tendered to the Company his resignation from the position of chairman, non-executive director and chairman of the nomination committee of the Company. On 8 July 2016, the Company convened its 30th Board meeting of the seventh session of Board of Directors, at which Mr. Si Ze-fu was appointed as the executive director of the Company and elected as the new Chairman of the Company.

As at 31 December 2016, members of the Board of Directors of the Company were:

Executive directors: Si Ze-fu (Chairman), Wu Wei-zhang, Zhang Ying-jian, Song Shi-qi

Independent non-executive directors: Yu Bo, Liu Deng-qing, Yu Wen-xing

Biographies of the members of the Board of Directors are included in the section headed "Directors, Supervisors and Senior Management" in the annual report.

There were no financial, business, family or other material or relevant relationships among members of the Company's Board of Directors.

2. Independent non-executive directors

During 2016, the Board of Directors of the Company is currently comprised of 3 independent non-executive directors, namely Yu Bo, Liu Deng-qing and Yu Wen-xing.

During the reporting period, all the Independent non-executive Directors attended the meetings of the Board of Directors with a prudent and responsible attitude. They fully utilized their experiences and expertise, made substantial contribution towards the improvement and perfection of the corporate governance mechanism, the important decision-making process and the review of connected transactions. They also provided balanced and objective advice with regard to important decisions and connected transactions of the Company, further standardized the decision-making process of the Board of Directors and made this process more scientific, thereby protecting the interests of the Company and all shareholders as a whole.

The Company confirmed that it has received annual confirmation from each independent non-executive director in respect of his/her independence.

In 20 March 2017, the Company appointed Mr. Zhu Hong-jie and Mr. Hu Jian-min as the independent non-executive directors, while Mr. Yu Bo resigned from the position of the independent non-executive director of the Company.

Corporate Governance Report (continued)

3. Meetings of the Board of Directors

During 2016, the Board of the Company convened 12 meetings to discuss and make decision on the major issues in the production and operation of the Company, including the Company's overall strategy, investment plan, operation and financial performance, appointment and removal of major personnel, and major institutional adjustments, 4 of which were regular meetings that directors presented in person or by authorized proxy. The Independent non-executive Directors of the Company did not have dissenting opinions regarding any of the Company's decisions. Attendances of the meetings are as follows:

Attendance of Directors at meetings of the Board of Directors in 2016

Name of Director	Number of Attendance Required	Number of Attendance in Person	Number of Attendance by Alternate Director	Attendance rate
Mr. Zou Lei	6	6	0	100%
Mr. Si Ze-fu	6	6	0	100%
Mr. Wu Wei-zhang	12	12	0	100%
Mr. Zhang Ying-jian	12	12	0	100%
Mr. Song Shi-qi	12	12	0	100%
Mr. Yu Bo	12	11	1	92%
Mr. Liu Deng-qing	12	12	0	100%
Mr. Yu Wen-xing	12	11	1	92%

During 2016, the meetings convened by the special committees under the Board of the Company included 4 Audit Committee meetings; 2 Nomination Committee meetings; 1 Strategy Development Committee meeting; and 1 Remuneration Committee meeting. Each Director has attended the meeting of the committee in which he/she acted as a member, and had a thorough discussion on the related issues, providing quality, constructive opinions and advices. Attendances of the meetings are as follows:

Attendance of Directors at meetings of special committees under the Board in 2016

Name of Director	Audit Committee			Nomination Committee			Remuneration Committee			Strategy Development Committee		
	Number of Attendance Required	Number of Attendance in Person	Attendance Rate	Number of Attendance Required	Number of Attendance in Person	Attendance Rate	Number of Attendance Required	Number of Attendance in Person	Attendance Rate	Number of Attendance Required	Number of Attendance in Person	Attendance Rate
Mr. Zou Lei												
Mr. Si Ze-fu				2	2	100%						
Mr. Wu Wei-zhang										1	1	100%
Mr. Zhang Ying-jian										1	1	100%
Mr. Song Shi-qi							1	1	100%			
Mr. Yu Bo	4	4	100%	2	2	100%	1	1	100%			
Mr. Liu Deng-qing	4	4	100%	2	2	100%	1	1	100%			
Mr. Yu Wen-xing	4	4	100%				1	1	100%	1	1	100%

Corporate Governance Report (continued)

The relevant information and latest development of the statutory, regulatory and other continuous responsibilities of the Company's Board of Directors can be obtained by all Directors through the Company Secretary in a timely manner, so as to ensure all Directors understand his/her duties, and the procedures of the Board of Directors are consistently followed and applicable laws and regulations are duly complied with. The Directors and the Board of Directors' special committees of the Company have the right to engage independent professional organizations for their service according to the requirement of their duties; reasonable costs incurred therefrom are borne by the Company.

4. Term of services

The Directors of the Company are appointed on a term of three years.

5. Duties and Performance of the Board and Management

The Board of Directors, under authorisation from general meetings, makes decisions on the major issues in the production and operation of the Company, including convening general meetings, reporting in general meeting, implementing the resolutions of the general meeting, determining the Company's business plan and investment plan, preparing the Company's annual financial budget, final accounts, profit distribution plan, and the appointment and removal of major personnel. In 2016, the Board of the Company made decisions discreetly after solemn discussions, and encouraged all directors to commit their duties by different methods, such as holding board meetings and communication. The Company encourages the directors with different opinions to express their own concerns and discuss these matters in sufficient depth. Every Director has devoted sufficient time and effort to explore the development of the Company, ensuring the correctness of the Company's development strategy and direction, so as to safeguard the interests of shareholders.

The management of the Company is authorized by the Board to be responsible for the management of the Company's operations and day-to-day affairs, and to report to the Board. In 2016, the management of the Company takes its responsibilities seriously and conscientiously by constantly improving the Company's management level and preventing from risks, to ensure the steady and healthy development of the Company throughout the year.

6. Training of the Directors

In May 2016, the Company organized a seminar relating to the governance of listing companies. All Directors of the Company has participated in this professional training, where they have furthered their understanding on the recent capital operations of the Company to ensure that they have all the information and that they can make contributions to the Board of Directors of the Company under the circumstances.

CHAIRMAN AND PRESIDENT

Prior to 8 July 2016, the Chairman of the Company is Mr. Zou Lei. Subsequent to 8 July 2016, the Chairman of the Company is Mr. Si Ze-fu.

The President of the Company is Mr. Wu Wei-zhang.

Positions of the Chairman and the President of the Company are held by different individuals with distinct division of responsibilities. The Chairman presides over meetings of the Board of Directors and reviews on the implementation of matters resolved by the Board of Directors. The President is responsible for management and coordination of the operations of the Company, implementation of the resolutions passed by the Board of Directors and making day-to-day decisions.

Corporate Governance Report (continued)

SPECIAL COMMITTEES UNDER THE BOARD

The Board of the Company has established four special committees, namely the Audit Committee, the Nomination Committee, the Remuneration Committee and the Strategy Development Committee, whose members are all Directors of the Company.

The main responsibilities of the Audit Committee under the Board of the Company are: to monitor the Company's compliance with accounting standards and rules of stock exchanges, to review and supervise the internal control and risk management of the Company, to audit interim and annual results of the Company, and to discuss any issues with the internal and external auditors. In 2016, the members of the Audit Committee under the Board of the Company are Mr. Liu Deng-qing, Mr. Yu Bo and Mr. Yu Wen-xing. The independent non-executive director Mr. Liu Deng-qing is the chairman of the committee. In 2016, the Audit Committee held 4 meetings and has reviewed the Group's annual and half-yearly reports as well as related party transactions.

The main responsibilities of the Nomination Committee under the Board of the Company are: to make recommendations to the Board on its structure and composition according to the actual status of the Company, and to make recommendations on the election of directors and the appointment of senior management. In the first half of 2016, members of the Nomination Committee of the Board of the Company included Mr. Zou Lei, Mr. Yu Bo and Mr. Liu Deng-qing, and former Chairman of the Company, Mr. Zou Lei was the chairman of the committee. On 8 July 2016, the Company convened its 30th Board meeting of the seventh session of Board of Directors, and made adjustments to the members of the Nomination Committee. Members of the Nomination Committee following adjustments are Mr. Si Ze-fu, Mr. Yu Bo and Mr. Liu Deng-qing. Two-thirds of the members of the committee are independent non-executive directors and Chairman of the Company. Mr. Si Ze-fu is the chairman of the committee. In 2016, the Nomination Committee held 2 meetings and has reviewed the matters regarding the nomination of Chairman and Vice President of the Company. The Nomination Committee is committed to identifying, reviewing and screening the candidates of the director and senior management of the Company, and making recommendations to the Board after a strict consideration on various factors, such as qualification, work experience and operation capability. The Nomination Committee recognizes that diversity in Board members would be beneficial to the improvement of performance of the Company. The composition of the Board has been based on a range of diversified perspectives, including but not limited to age, educational background, professional experience, knowledge and skills.

The main responsibilities of the Remuneration Committee under the Board of the Company are: to review the remuneration system and policies of the Company, to determine, assess and evaluate the remuneration packages of the directors and senior management of the Company under the authorization of the Board. In 2016, members of the Remuneration Committee under the Board of the Company are Mr. Yu Wen-xing, Mr. Song Shi-qi, Mr. Yu Bo and Mr. Liu Deng-qing. Three-quarters of the members of the committee are independent non-executive directors and independent non-executive director Mr. Yu Wen-xing is the chairman of the committee. In 2016, the remuneration committee held 1 meeting to review the remuneration policies concerning directors and senior management of the Company. On 20 March 2017, the Company made adjustment to the members of the remuneration committee under the Board. Members of the remuneration committee following the adjustments are Mr. Yu Wen-xing, Mr. Song Shi-qi, Mr. Liu Deng-qing and Mr. Zhu Hong-jie. Mr. Yu Wen-xing, the independent non-executive director, is the chairman of the committee.

The main responsibilities of the Strategy Development Committee under the Board of the Company are: to conduct research on the Company's strategic development plans, significant investment and financing plans that require the approval of the Board, capital operation and asset operation, and to advise and make recommendations on the above matters. In 2016, members of the Strategy Development Committee under the Board of the Company are Mr. Wu Wei-zhang, Mr. Zhang Ying-jian and Mr. Yu Wen-xing, and Mr. Wu Wei-zhang is the chairman of the committee. In 2016, the Strategy Development Committee held 1 meeting and has reviewed the project investment by the Company and transfer of equity in a subsidiary. On 20 March 2017, the Company changed the members of the Strategy Development Committee under the Board of the Company and the members include Mr. Wu Wei-zhang, Mr. Zhang Ying-jian, Mr. Yu Wen-Xing and Mr. Hu Jian-min and Mr. Wu Wei-zhang, the executive director, is the chairman of the committee.

Corporate Governance Report (continued)



AUDITORS AND THEIR REMUNERATION

The financial statements included in the annual report of the Company were prepared according to PRC Accounting Standards and were audited by BDO China Shu Lun Pan Certified Public Accountants LLP, the Company's auditors.

During 2016, the remuneration of BDO China Shu Lun Pan Certified Public Accountants LLP, the Company's auditors, amounted to RMB2.50 million.

The Board of Directors has recommended to the General Meeting to re-appoint BDO China Shu Lun Pan Certified Public Accountants LLP as the auditors for the Company's 2017 financial statements.

COMPANY SECRETARY

In 2016, Mr. Ai Li-song is the Company Secretary of the Company, and Mr. Tung Tat Chiu, Michael, Joint Secretary of the Company, will assist Mr. Ai to carry out the duties as the Company Secretary. In 2016, Mr. Ai participated in no less than 15 hours of professional training held by organizations such as the Hong Kong Institute of Chartered Secretaries.

SHAREHOLDERS

The Company safeguards interests of the shareholders, treats all shareholders equally, and initiates active participation of shareholders in corporate governance. As the stakeholders of the Company, shareholders enjoy the rights provided by laws and regulations and undertake commensurate obligations. Shareholders enjoy rights to information and rights to decision-making in respect of the Company's important matters. Shareholders may put forward their enquiries on any relevant matters to the Board. The Board shall provide sufficient information to enable these enquiries to be properly directed.

Shareholders can contact the Company via various channels, such as telephone, fax and e-mail. The recommendations of shareholders can be smoothly fed back to the Board of the Company. The copies of the minutes of general meeting are available for inspection during the business hours of the Company free of charge. Shareholders of the Company can request a copy of the minutes, the Company will send out the copy within 7 days after collection of reasonable charges.

The controlling shareholder of the Company is Harbin Electric Corporation, a state-owned company registered in the People's Republic of China.

GENERAL MEETINGS

General meeting is the organ of authority of the Company, and it exercises its functions and powers in accordance with the law.

According to the Articles of Association, upon the requisition in writing of holders of 10% or more shares of the Company, the Board shall convene an extraordinary general meeting within two months. When the Company convenes an annual general meeting, shareholders holding 5% or more of the total shares carrying the voting right of the Company are entitled to propose to the Company in writing new matters to be considered. The Company shall include in the agenda of that meeting those matters contained in the proposal which are within the scope of the duties of the general meeting.

Shareholders who intend to attend the general meeting shall deposit at the Company a written reply confirming his attendance 20 days prior to the meeting.

In 2016, the Company held one Annual General Meeting and one Extraordinary General Meeting.



Corporate Governance Report (continued)

Attendance of Directors at General Meetings in 2016

Name of Director	Number of attendance required	Number of attendance in person	Attendance rate
Mr. Zou Lei	1	1	100%
Mr. Si Ze-fu	1	1	100%
Mr. Wu Wei-zhang	2	2	100%
Mr. Zhang Ying-jian	2	2	100%
Mr. Song Shi-qi	2	2	100%
Mr. Yu Bo	2	2	100%
Mr. Liu Deng-qing	2	2	100%
Mr. Yu Wen-xing	2	2	100%

INFORMATION DISCLOSURE AND MANAGEMENT OF INVESTOR RELATIONS

The Company continuously enhances its information disclosure management and promotes its investor relations management. The Company discloses information on an open, fair, true, accurate, complete and timely ground and strictly follows the related disclosure requirements of relevant laws and regulations, the Listing Rules and the Articles of Association of the Company. In our effort to enhancing the management of investor relations, the Company issues its Interim Reports and Annual Reports and discloses matters such as connected transaction, rotation and change of directors, and profitability of the Company in a timely manner and enhancing the transparency of the Company.

The Company diligently receives its investors. During 2016, the Company communicated with more than 80 investors, and organized activities such as press conferences, performance presentations and road shows, with a view to updating the investors on the Company's latest development and prospects, and in turn strengthening the relationship with the investors and enhancing the transparency of the Company.

The secretariat of the Board of the Company is responsible for the information disclosure and investor relations management. The Company strictly performs its duties, and continuously enhances its corporate governance structure so as to improve its management standard by strictly following the requirements of relevant laws and regulations of local and overseas securities regulatory organizations.

AMENDMENTS TO ARTICLES OF ASSOCIATION

On 29 January 2016, the Company convened an extraordinary general meeting to consider and approve the proposed amendments to the Articles of Association. The amendments are as follows:

The original Article 82, which reads:

The Board comprises 11 directors, of which there are at least two non-executive directors (independent directors). All directors shall be elected by the shareholders general meeting. A director shall be elected from the candidates nominated by the last Board of Directors or a shareholder representing over 5% (including 5%) of the issued shares by the shareholders general meeting. The shortest period for the written notice on the intent of the relevant nominated director candidate and its willing expression on nomination acceptance shall not be less than 7 days. The period will be started to calculate since the shareholders general meeting sends meeting notice and it shall not be later than the time 7 days before the holding of the shareholders general meeting.

Corporate Governance Report (continued)



is amended to:

The Board comprises 7–13 directors, of which there are at least three independent non-executive directors, accounting for at least one-third of all the members of the Board. All directors shall be elected by the shareholders general meeting. A director shall be elected from the candidates nominated by the last Board of Directors or a shareholder representing over 5% (including 5%) of the issued shares by the shareholders general meeting. The shortest period for the written notice on the intent of the relevant nominated director candidate and its willing expression on nomination acceptance shall not be less than 7 days. The period will be started to calculate since the shareholders general meeting sends meeting notice and it shall not be later than the time 7 days before the holding of the shareholders general meeting.

The original Article 158, which reads:

The Financial Statements of the Company shall, in addition to complying with PRC accounting standards and regulations, be prepared in accordance with either international accounting standards or accounting standards of the place at which the Company is listed overseas. If there shall be material differences between the Financial Statements prepared in accordance with the aforesaid two accounting standards, then those Financial Statements shall specify such differences. When the Company distributes the profits after tax in respect of the relevant financial year, the profits after tax shall be deemed to be the lesser of the amount stated in the two sets of Financial Statements.

is amended to:

The Financial Statements of the Company shall be prepared in accordance with the CASBE and regulations.

The original Article 159, which reads:

If the relevant securities of the Company is permitted to be listed on the Exchange, during the period on which its securities remain listed, the Financial Statements placed before the shareholders shall, in addition to complying with PRC accounting standards and regulations, be prepared in accordance with either international accounting standards or Hong Kong accounting standards. If there shall be material differences between the Financial Statements prepared in accordance with the aforesaid two accounting standards, then those Financial Statements shall specify the financial effects of such differences.

is amended to:

If the relevant securities of the Company is permitted to be listed on the Exchange, during the period on which its securities remain listed, the Financial Statements placed before the shareholders shall be prepared in accordance with the CASBE and regulations.

The original Article 160, which reads:

Any interim results or financial information published or disclosed by the Company shall be prepared in accordance with PRC accounting standards and regulations also in accordance with either international or accounting standards of the place where the Company is listed.

is amended to:

Any interim results or financial information published or disclosed by the Company shall be prepared in accordance with the CASBE and regulations.



Corporate Governance Report (continued)

RISK MANAGEMENT AND INTERNAL CONTROL

The Board of Directors of the Company is responsible for assessing and determining the nature and extent of risk which the Company is willing to accept in reaching its strategic goals, as well as ensuring that the Company establishes and maintains an appropriate and effective risk management and internal control system. The Board of Directors monitors and supervises the management in the design, implementation and supervision of the risk management and internal control system, while the management provides confirmation to the Board of Directors as to whether such system is effective.

The Company has a comprehensive risk management and internal control system in place, where the Board of Directors is responsible for the risk management and internal control system, and fully implements the relevant requirements of the Internal Control Guideline and continues to optimize the internal control system and self-assessments and continuous improvements. Through incentive measures and the guidance of corporate culture, the complete internal control system of the Company and its effective implementation are ensured.

The Company monitors and supervises the disclosure of financial information by the Company, as well as operations and internal control activities regularly or where necessary, so as to ensure the transparency of information disclosure and effectiveness of its risk management and internal control mechanism.

During 2016, the Company has reviewed the risk management and internal control system and has completed its self-assessment report on internal control and risk management and then approved by the Audit Committee of the Board and the Board of Directors.

Auditors' Report

Xin Kuai Shi Bao Zi (2017) No. ZG10918

**To the shareholders of
Harbin Electric Company Limited:**

I. AUDIT OPINION

We have audited the accompanying financial statements of Harbin Electric Company Limited (the "Company"), which comprise the consolidated and company balance sheets as at 31 December 2016, the consolidated and company income statements, the consolidated and company cash flow statements, and the consolidated and company statements of changes in equity for the year then ended, as well as notes to financial statements.

We believe that the accompanying financial statements are prepared in all material respects which in accordance with the Accounting Standards for Business Enterprises. We fairly reflect the financial position of the Company, the Company's financial position as at 31 December 2016, the consolidated results of the Company, the Company's operating results and cash flow.

II. THE BASIS FOR THE FORMATION OF AUDIT OPINIONS

We conducted the audit in accordance with the Chinese Auditing Standards for Certified Public Accountants. The "Responsibilities of Certified Public Accountants for Auditing of Financial Statements" in the audit report further illustrate our responsibilities under these guidelines. In accordance with the Code of Professional Ethics of Chinese Certified Public Accountants, we are independent of HEC and have performed other duties in respect of professional ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide the basis for the publication of the audit opinion.

III. KEY AUDIT MATTERS

The key audit matter is based on our professional judgment that is the most important issue in the current financial statements audit. The response to these matters is based on the audit of the financial statements as a whole and the formation of an audit opinion. We do not comment on these matters individually.

3.1 Provision for inventories falling price reserves

3.1.1 Description of the matter

Please refer to the notes to the Financial Statements Accounting policy 'III (12) inventory', and the notes to the consolidated Financial Statements 'V (8) inventory' disclosure.

As at 31 December 2016, the balance of inventories was RMB1,701,460.98 million, and provision for impairment of inventories was RMB590,341,100. The conclusion is based on the use of net realizable value, which requires management to make significant judgments and estimates of the future processing costs of the inventory deducting reasonable processing costs and sales expenses. The net realizable value is assessed by your company with an independent appraiser appointed by it.

Auditors' Report

Taking into account the effect of the book value of inventory at the end of the period, aforementioned judgments and estimates and provision for impairment on the financial statements, we consider the provision for impairment of inventory as a key audit matter.

3.1.2 Audit reaction

In the audit of inventory depreciation reserve, we implemented the audit procedures include:

- (1) understand, test the Company and inventory procurement, production, sales-related internal control system, the financial accounting system design and implementation;
- (2) to communicate with the management of assessment methods selected by assessors, access to and assessment of the assessment of the assessment report to assess the assessment of professional competence, competency and the use of the assessment method of rationality;
- (3) to compare the sales amount of the inventory with the existing orders and the balance of the future of the balance sheet date and the forecast for the next year. Sales to compare the possibility of assessing the slow and declining inventories;
- (4) consider the inventory age, combined with the inventory turnover rate, analysis of the need for provision for impairment of inventory;
- (5) combined with the inventory supervision and project implementation, the inventory status of the inspection, analysis of the use of inventory in 2016 to determine whether a reasonable provision for impairment.

3.2 bad debt provision of account receivable

3.2.1 Description of the matter

Please refer to financial statement note accounting policy 'III (11) account receivable bad debt provision' and the notes to the consolidated Financial Statements 'V (3)' account receivable disclosure.

As at 31 December 2016, the balance of accounts receivable of the Company was RMB1,536,621.65 million, and the provision for bad debts was RMB530,598.05 million. Management to estimate and subjective assumptions to estimate customer accounts receivable bad debt provision.

Due to the huge the Company's account receivable amount and the estimated uncertainties, we regard bad debt provision for accounts receivable as a key audit matter.

3.2.2 Audit reaction

In the audit of bad debts of accounts receivable, we implemented the audit procedures include:

- (1) understand, test the Company and sales and payment related to the internal control system, financial accounting system design and implementation;
- (2) assessment of the Company's aging method and the individual identified a combination of bad debts provision method;

Auditors' Report

- (3) Comparing with the bad debt policies of the listed companies in the same industry, combining with the political and economic risks of the countries in which the clients are located, analyzing the rationality of the estimates and assumptions adopted by the management;
- (4) Analyze the prudence of bad debt policy in the light of the amount of bad debts, the situation of future payment and the expected future cash flow.

IV. OTHER INFORMATION

Harbin Electric Company Limited's management response to other information which include the information exclude the financial report and this audit report.

Our audit opinion on the financial statements does not cover any other information, and we do not publish any form of forensic conclusions on other information.

In conjunction with our audit of the financial statements, our responsibility is to read other information in the course of considering whether other information is materially inconsistent with the financial statements or what we have learned in the course of the audit or that there is a material misstatement.

Based on the work we have already done with respect to other information obtained earlier in the audit report, we should report the fact if we determine that there is a material misstatement of the other information. In this respect, we have no need to report any matter.

V. MANAGEMENT AND MANAGEMENT OF THE FINANCIAL STATEMENTS OF THE RESPONSIBILITY

The management of the Company shall be responsible for the preparation of financial statements in accordance with the Accounting Standards for Business Enterprises to enable them to be fairly reflected and to design, implement and maintain the necessary internal controls so that there is no material misstatement due to fraud or error in the financial statements.

In the preparation of the financial statements, the management is responsible for assessing the Company's continuing operating capacity, disclosing matters relating to continuing operations (if applicable) and applying the continuing operating assumptions unless the management plans to liquidate the Company, cease to operate or otherwise Realistic choice.

The management is responsible for overseeing the financial reporting process of the Company.

Auditors' Report

VI. THE CPA'S AUDIT RESPONSIBILITY OF THE FINANCIAL STATEMENTS

Our objective is to obtain a reasonable assurance of the financial statements as a whole whether there is a material misstatement due to fraud or error and to issue an audit report containing audit opinion. Reasonable assurance is a high level of assurance, but there is no guarantee that audits carried out in accordance with the audit criteria will always be found in the presence of a material misstatement. Mistakes may be caused by fraud or error, and it is generally considered that the misstatement is significant if it is reasonably expected that the misstatement alone or aggregates may affect the economic decisions made by the users of the financial statements based on the financial statements.

In the course of carrying out the audit in accordance with the audit criteria, we used professional judgment and maintained professional suspicion. At the same time, we also perform the following tasks:

- (1) Identify and evaluate the risk of material misstatement of financial statements due to fraud or error; design and implement audit procedures to address these risks and obtain adequate and appropriate audit evidence as a basis for issuing audit opinions. As fraud may involve collusion, forgery, intentional omission, false statements or above internal controls, the risk of gross misstatement due to fraud is not higher than the risk of finding a material misstatement due to an error.
- (2) To understand the internal control related to the audit to design the appropriate audit procedures.
- (3) To evaluate the appropriateness of accounting policy selection and the rationality of accounting estimates and related disclosures.
- (4) Draw conclusions on the appropriateness of management's use of continuing operating assumptions. At the same time, according to the audit evidence obtained, it may lead to Kazakhstan shares of the company's continuing operating capacity of the matter or the situation of the existence of significant uncertainty or conclusions. If we conclude that there are significant uncertainties, the audit criteria require us to draw the attention of the reporting user to the disclosure in the financial statements; if the disclosure is inadequate, we should publish a non-reserved opinion. Our conclusion is based on information available as of the date of the audit report. However, future events or circumstances may result in the failure of Hattie AG to continue to operate.
- (5) To evaluate the overall presentation, structure and content (including disclosure) of the financial statements and to assess whether the financial statements reflect the relevant transactions and events fairly.
- (6) To obtain sufficient and appropriate audit evidence of the financial information of the entity or business activity of the Company in order to express an opinion on the financial statements. We are responsible for directing, supervising and performing group audits. We take full responsibility for the audit opinion.

We communicate with management on audit schedules, schedules and significant audit findings, including communicating with the internal control deficiencies that we have identified in our audits.

We also provide a statement to management on compliance with ethical requirements related to independence and communicate with governance about all relationships and other matters that may be reasonably considered to affect our independence, as well as related precautions.

Auditors' Report

In the case of communication with governance, we determine which matters are most important to the current financial statement audit and thus constitute a critical audit. We describe these matters in the audit report unless the laws and regulations prohibit public disclosure of these matters or, in rare cases, if the reasonable expectation of communicating the matter in the audit report exceeds the negative benefits arising from the public interest, The matter should not be communicated in the audit report.

BDO China Shu Lun Pan Certified Public Accountants LLP

Certified Public Accountant

Shanghai • China

Certified Public Accountant

28 March 2017

Consolidation Balance Sheet

31 December 2016

Made by: Harbin Electric Company Limited.

Monetary unit: RMB YUAN

Item	Notes	31 December 2016	31 December 2015
Current assets:			
Cash and bank	V.(1)	18,089,913,079.54	18,237,006,157.72
△ Settlement reserve		-	-
△ Due from banks and other financial institutions		-	-
Financial assets at fair value through profit and loss		-	-
Derivative assets		-	-
Notes receivable	V.(2)	3,806,467,011.80	2,308,409,073.94
Accounts receivable	V.(3)	10,060,235,974.92	10,987,770,955.98
Advances to suppliers	V.(4)	6,037,338,085.19	5,413,917,652.83
△ Premium receivable		-	-
△ Reinsurance premium receivable		-	-
△ Reserve receivable for reinsurance		-	-
Interest receivable	V.(5)	2,295,674.89	22,486,820.89
Dividends receivable	V.(6)	241,249.61	144,453.39
Other receivables	V.(7)	1,058,989,580.38	600,565,289.38
△ Securities purchased under agreements to resell		-	-
Inventories	V.(8)	16,424,268,723.05	15,491,764,808.23
Including: raw materials		3,146,035,799.07	3,359,976,603.59
Merchandise inventories (finished goods)		417,571,154.64	401,029,334.19
Held-for-sale assets			
Current portion of non-current assets			
Other current assets	V.(9)	2,138,487,236.92	3,067,298,497.06
Total current assets		57,618,236,616.30	56,129,363,709.42
Non-current assets:			
△ Loans and advances	V.(10)	6,551,087.18	
Available-for-sale financial assets	V.(11)	90,595,000.00	43,291,000.00
Held-to-maturity investments		-	-
Long-term receivables	V.(12)	4,566,613.71	18,000,000.00
Long-term equity investments	V.(13)	214,352,573.92	233,131,424.38

Consolidation Balance Sheet (continued)

31 December 2016

Item	Notes	31 December 2016	31 December 2015
Investment property	V.(14)	27,972,824.42	20,444,982.56
Fixed asset-original cost	V.(15)	12,802,272,968.29	12,539,497,778.98
Less: accumulated depreciation		6,952,523,075.51	6,495,336,454.10
Fixed asset-original cost net of depreciation		5,849,749,892.78	6,044,161,324.88
Less: provision for impairment of fixed assets		20,074,908.71	20,908,593.04
Fixed asset-net value		5,829,674,984.07	6,023,252,731.84
Construction in progress	V.(16)	835,008,401.64	386,245,262.31
Construction materials	V.(17)	835,204.92	835,204.92
Fixed assets pending for disposal			
productive biological assets			
Oil and gas assets			
Intangible assets	V.(18)	650,245,362.23	736,434,925.97
Development disbursements	V.(19)	197,203,075.79	187,057,832.68
Goodwill			
Long-term deferred expenses	V.(20)	40,892,704.71	51,345,718.80
Deferred tax assets	V.(21)	351,373,269.10	333,842,705.26
Other non-current assets		-	
Total non-current assets		8,249,271,101.69	8,033,881,788.72
Total assets		65,867,507,717.99	64,163,245,498.14
Current liabilities:			
Short-term borrowings	V.(22)	2,089,338,408.88	3,178,393,476.92
△ Borrowings from central bank		-	-
△ Deposits and placements from other financial institutions	V.(23)	2,674,062,146.65	1,631,433,261.33
△ Placement from banks and other financial institutions		-	-
Financial liabilities at fair value through profit and loss		-	-
Derivative liabilities		-	-
Notes payable	V.(24)	6,093,183,408.50	5,053,437,735.55
Accounts payable	V.(25)	12,234,254,358.75	13,037,943,628.09
Advances from customers	V.(26)	22,703,536,765.04	21,467,290,314.26
△ Securities sold under agreement to repurchase		-	-

Consolidation Balance Sheet (continued)

31 December 2016

Item	Notes	31 December 2016	31 December 2015
△ Fees and commissions payable		-	-
Employee benefits payable	V.(27)	184,279,812.72	193,672,471.77
Including: salary payable		471,789.44	587,317.52
Welfare benefits payable			
Employee bonus and welfare fund			
Taxes and surcharges payable	V.(28)	367,490,729.90	300,314,171.70
Including: taxes payable excluding surcharges		345,874,898.24	278,237,897.53
Interest payable	V.(29)	136,755,117.01	142,013,613.98
Dividends payable	V.(30)	6,936,931.73	5,292,426.30
Other payables	V.(31)	307,070,933.98	266,222,231.62
△ Reinsurance amounts payable		-	-
△ Reserve of insurance contract		-	-
△ Securities brokering		-	-
△ Securities underwriting		-	-
Held-for-sale liabilities		-	-
Current portion of non-current liabilities	V.(32)	-	118,684,860.49
Other current liabilities	V.(33)	134,893.80	375,043,853.00
Total current liabilities		46,797,043,506.96	45,769,742,045.01
Non-current liabilities:			
Long-term borrowings		-	-
Bonds payable	V.(34)	2,997,952,500.00	2,996,197,500.00
Long-term payable	V.(35)	1,000,000.00	12,257,889.40
Long-term employee benefits payable	V.(36)	80,192,909.50	88,474,620.62
Fees and commissions payable	V.(37)	485,919,894.29	442,473,494.29
Provisions	V.(38)	689,345,509.25	726,862,346.89
Deferred income	V.(39)	173,638,642.51	210,355,746.66
Deferred tax liabilities		-	-
Other non-current liabilities		-	-
Including: authorized reserve fund		-	-
Total non-current liabilities		4,428,049,455.55	4,476,621,597.86
Total liabilities		51,225,092,962.51	50,246,363,642.87

Consolidation Balance Sheet (continued)

31 December 2016

Item	Notes	31 December 2016	31 December 2015
Equity:			
Paid-in capital	V.(40)	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			
Preferred stock			
Perpetual debt			
Capital reserve	V.(41)	2,764,208,480.41	2,749,914,774.17
Less: treasury shares			
Other comprehensive income	V.(42)	-6,938,794.70	-321,038,700.14
Including: Currency translation reserve		3,417,340.36	361,101.73
Specialized reserve	V.(43)	15,801,148.88	11,122,854.40
Surplus reserve	V.(44)	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	V.(45)	8,496,686,529.09	8,104,055,926.70
Equity attributable to parent company		13,433,093,309.54	12,707,390,800.99
* Minority interests		1,209,321,445.94	1,209,491,054.28
Total owner's equity		14,642,414,755.48	13,916,881,855.27
Total liabilities and owner's equity		65,867,507,717.99	64,163,245,498.14

Corporate representative:

Chief Accountant:

Accounting Supervisor:

Balance Sheet

31 December 2016

Made by: Harbin Electric Company Limited.

Monetary unit: RMB YUAN

Item	Notes	31 December 2016	31 December 2015
Current assets:			
Cash and bank		1,577,494,784.69	994,980,874.22
△ Settlement reserve			
△ Due from banks and other financial institutions			
Financial assets at fair value through profit and loss			
Derivative assets			
Notes receivable		76,303,400.00	111,137,507.00
Accounts receivable	XV.(1)	305,035,781.87	847,058,627.46
Advances to suppliers		2,794,109,346.94	2,935,614,051.73
△ Premium receivable			
△ Reinsurance premium receivable			
△ Reserve receivable for reinsurance			
Interest receivable		18,434,888.89	23,133,425.64
Dividends receivable		191,737,395.11	134,013,495.11
Other receivables	XV.(2)	1,571,048,000.79	1,691,546,368.63
△ Securities purchased under agreements to resell			
Inventories		1,558,950,856.57	1,352,329,495.09
Including: raw materials			
Merchandise inventories(finished goods)			
Held-for-sale assets			
Current portion of non-current assets			
Other current assets		230,000,000.00	730,000,000.00
Total current assets		8,323,114,454.86	8,819,813,844.88

Balance Sheet (continued)

31 December 2016

Item	Notes	31 December 2016	31 December 2015
Non-current assets:			
△ Loans and advances			
Available-for-sale financial assets		12,000,000.00	12,000,000.00
Held-to-maturity investments			
Long-term receivables			
Long-term equity investments	XV.(3)	5,083,406,978.22	4,716,222,967.28
Investment property			
Fixed asset-original cost		1,406,473,872.94	1,834,098,747.42
Less: accumulated depreciation		332,950,247.42	392,939,982.78
Fixed asset-original cost net of depreciation		1,073,523,625.52	1,441,158,764.64
Less: provision for impairment of fixed assets			
Fixed asset-net value		1,073,523,625.52	1,441,158,764.64
Construction in progress		33,211,152.90	18,844,245.84
Construction materials			
Fixed assets pending for disposal			
productive biological assets			
Oil and gas assets			
Intangible assets		87,620,952.69	125,674,799.35
Development disbursements		991,501.38	-
Goodwill			
Long-term deferred expenses			
Deferred tax assets			
Other non-current assets			
Total non-current assets		6,290,754,210.71	6,313,900,777.11
Total assets		14,613,868,665.57	15,133,714,621.99

Balance Sheet (continued)

31 December 2016

Item	Notes	31 December 2016	31 December 2015
Current liabilities:			
Short-term borrowings		398,730,000.00	398,730,000.00
△ Borrowings from central bank			
△ Deposits and placements from other financial institutions			
△ Placement from banks and other financial institutions			
Financial liabilities at fair value through profit and loss			
Derivative liabilities			
Notes payable			
Accounts payable		219,749,032.28	949,776,827.22
Advances from customers		4,354,055,956.81	3,856,533,658.01
△ Securities sold under agreement to repurchase			
△ Fees and commissions payable			
Employee benefits payable		7,807,035.33	6,229,299.20
Including: Salary payable		61,601.84	61,601.84
Welfare benefits payable			
Employee bonus and welfare fund			
Taxes and surcharges payable		-39,311,313.61	-7,363,281.55
Including: taxes payable excluding surcharges		-39,778,615.41	-8,149,512.80
Interest payable		120,866,666.66	121,393,849.31
Dividends payable		90,621.70	88,616.27
Other payables		600,266,255.63	636,264,027.88
△ Reinsurance amounts payable			
△ Reserve of insurance contract			
△ Securities brokering			
△ Securities underwriting			
Held-for-sale liabilities			
Current portion of non-current liabilities			
Other current liabilities			
Total current liabilities		5,662,254,254.80	5,961,652,996.34

Balance Sheet (continued)

31 December 2016

Item	Notes	31 December 2016	31 December 2015
Non-current liabilities:			
Long-term borrowings			
Bonds payable		2,997,952,500.00	2,996,197,500.00
Long-term payable			
Long-term employee benefits payable			
Provisions		4,535,256.41	4,535,256.41
Deferred income		49,407,372.22	50,983,072.22
Deferred tax liabilities			
Other non-current liabilities			
Including: authorized reserve fund			
Total non-current liabilities		3,051,895,128.63	3,051,715,828.63
Total liabilities		8,714,149,383.43	9,013,368,824.97

Balance Sheet (continued)

31 December 2016

Item	Notes	31 December 2016	31 December 2015
Equity:			
Paid-in capital		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			
Preferred stock			
Perpetual debt			
Capital reserve		2,688,122,380.53	2,688,122,380.53
Less: treasury shares			
Other comprehensive income			
Including: Currency translation reserve			
Specialized reserve			
Surplus reserve		623,302,301.46	623,302,301.46
Including: statutory surplus reserve		623,302,301.46	623,302,301.46
Other surplus reserve			
#Reserve fund			
#Corporate development fund			
#Return of investment			
△ General risk reserve			
Retained earnings		1,211,488,600.15	1,432,115,115.03
Total owner's equity		5,899,719,282.14	6,120,345,797.02
Total liabilities and owner's equity		14,613,868,665.57	15,133,714,621.99

Corporate representative:

Chief Accountant:

Accounting Supervisor:

Consolidation Income Statements

2016 year

Made by: Harbin Electric Company Limited.

Monetary unit: RMB YUAN

Items	Notes	Current Period	Prior Period
1. Revenue		31,293,016,034.46	25,412,387,252.80
Including: operating revenue	V.(46)	30,929,420,698.72	25,097,224,542.75
△ Interest income	V.(47)	363,414,918.10	315,145,853.83
△ Premium earned		-	-
△ Fees and commissions income	V.(48)	180,417.64	16,856.22
2. Total cost		30,306,121,185.92	25,441,284,999.29
Including: operating cost	V.(46)	26,626,875,253.92	21,770,593,897.29
△ Interest expenses	V.(47)	6,358,429.84	13,626,239.13
△ Fees and commissions expenses	V.(48)	19,292.43	20,456.39
△ Cash surrender amount		-	-
△ Net expenses of claim settlement		-	-
△ Net provisions for insurance contract reserves		-	-
△ Policy dividend expenses		-	-
△ Reinsurance expenses		-	-
Business taxes and surcharges	V.(49)	195,059,540.33	181,148,179.72
Selling expenses	V.(50)	638,233,891.97	678,797,253.41
Administrative expenses	V.(51)	2,136,693,904.16	2,167,130,560.65
Including: Research and development expenses		295,945,136.66	319,569,546.14
Finance expenses	V.(52)	127,505,394.80	162,248,442.46
Including: Interest expenses		273,617,831.40	298,426,637.62
Interest income		59,198,957.71	128,086,160.88
Net loss on foreign exchange("—" for net gain)		-87,277,521.94	-35,544,924.95
Impairment on assets	V.(53)	575,375,478.47	467,719,970.24
Other costs and expenses			
Add: gain from fair-value changes("—" for loss)	V.(54)	9,110,127.34	-311,084,334.36
Investment income("—" for loss)	V.(55)	-294,543,913.17	619,045,662.96
Including: investment income from associates and joint ventures		1,783,571.40	9,682,378.19
△ Gain on foreign exchange("—" for loss)		-	-

Consolidation Income Statements (continued)

2016 year

Items	Notes	Current Period	Prior Period
3. Operating profits(“-” for loss)		701,461,062.71	279,063,582.11
Add: non-operating income	V.(56)	121,126,873.67	158,606,532.82
Including: gain from disposal of non-current assets		8,189,029.95	21,779,176.95
Gain from exchange of non-monetary assets			
Government grants		102,771,108.59	116,092,906.74
Gain from debt restructuring			484,221.70
Less: non-operating expenses	V.(57)	165,418,795.43	129,809,973.50
Including: loss on disposal of non-current assets		2,469,773.07	7,679,596.57
Loss on exchange of non-monetary assets			8,119.66
Loss on debt restructuring			
4. Profit before tax(“-” for loss)		657,169,140.95	307,860,141.43
Less: income tax	V.(58)	165,575,300.09	224,572,145.72
5. Net profit(“-” for net loss)		491,593,840.86	83,287,995.71
Net profit attributable to parent company		413,282,692.39	196,211,527.85
* Profit/loss attributable to minority share-holders		78,311,148.47	-112,923,532.14
6. Other comprehensive income after tax		314,099,905.44	-84,973,615.81
Comprehensive income not to be reclassified as profit or loss)			
Including: changes in remeasured defined benefit obligations or net assets			
Portion of comprehensive income not to be reclassified as profit or loss under equity method			
Comprehensive income to be reclassified as profit or loss		314,099,905.44	-84,973,615.81
1. Including: 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		311,043,666.81	-85,348,217.40
5. Currency translation reserve		3,056,238.63	374,601.59

Consolidation Income Statements (continued)

2016 year

Items	Notes	Current Period	Prior Period
7. Total comprehensive income		805,693,746.30	-1,685,620.10
Total comprehensive income attributable to parent company		727,382,597.83	111,237,912.04
* Total comprehensive income attributable to minority share-holders		78,311,148.47	-112,923,532.14
8. Earnings per share:			
Basic earnings per share		0.3002	0.1425
Diluted earnings per share		0.3002	0.1425

Corporate representative:

Chief Accountant:

Accounting Supervisor:

Income Statements

2016 year

Made by: Harbin Electric Company Limited.

Monetary unit: RMB YUAN

Items	Notes	Current Period	Prior Period
1. Revenue		1,594,455,693.62	1,367,634,243.58
Including: operating revenue	XV.(4)	1,594,455,693.62	1,367,634,243.58
△ Interest income			
△ Premium earned			
△ Fees and commissions income			
2. Total cost		1,974,280,669.13	1,655,637,883.45
Including: operating cost	XV.(4)	1,598,487,982.91	1,266,276,472.73
△ Interest expenses			
△ Fees and commissions expenses			
△ Cash surrender amount			
△ Net expenses of claim settlement			
△ Net provisions for insurance contract reserves			
△ Policy dividend expenses			
△ Reinsurance expenses			
Business taxes and surcharges		10,133,236.79	45,160,888.69
Selling expenses		8,331,002.57	2,225,243.48
Administrative expenses		170,072,317.65	179,245,239.87
Including: research and development expenses		2,577,358.49	3,816,339.36
Finance expenses		127,206,636.20	115,786,382.14
Including: interest expenses		163,461,036.99	169,212,458.65
Interest income		44,774,358.93	59,541,926.11
Net loss on foreign exchange("—" for net gain)		278,142.25	382,518.38
Impairment on assets		60,049,493.01	46,943,656.54
Other costs and expenses			
Add: gain from fair-value changes("—" for loss)		–	–329,748,888.89
Investment income("—" for loss)	XV.(5)	175,714,974.20	729,028,948.37
Including: investment income from associates and joint ventures		15,029,245.18	15,476,834.21
△ Gain on foreign exchange("—" for loss)			

Income Statements (continued)

2016 year

Items	Notes	Current Period	Prior Period
3. Operating profits(“-” for loss)		-204,110,001.31	111,276,419.61
Add: non-operating income		3,151,173.18	4,062,249.63
Including: gain from disposal of non-current assets		131,878.18	2,303,723.78
Gain from exchange of non-monetary assets			101,995.93
Government grants		1,329,513.00	1,687,927.78
Gain from debt restructuring			
Less: non-operating expenses		105,516.42	431,788.47
Including: loss on disposal of non-current assets		73,255.42	96,914.25
Loss on exchange of non-monetary assets			
Loss on debt restructuring			
4. Profit before tax(“-” for loss)		-201,064,344.55	114,906,880.77
Less: income tax		-1,089,919.67	54,638,388.84
5. Net profit(“-” for net loss)		-199,974,424.88	60,268,491.93
6. Other comprehensive income after tax		-	-
Comprehensive income not to be reclassified as profit or loss)			
Including: changes in remeasured defined benefit obligations or net assets			
Portion of comprehensive income not to be reclassified as profit or loss under equity method			
Comprehensive income to be reclassified as profit or loss			
1. Including: 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			
5. Currency translation reserve			
7. Total comprehensive income		-199,974,424.88	60,268,491.93
8. Earnings per share:			
Basic earnings per share			
Diluted earnings per share			

Corporate representative:

Chief Accountant:

Accounting Supervisor:

Consolidation Cash Flow Statement

2016 year

Made by: Harbin Electric Company Limited.

Monetary unit: RMB YUAN

Items	Lines	Notes	Current Period	Prior Period
1. Cash flows from operating activities:	1			
Cash received from sales and services	2		32,454,475,137.73	30,578,389,657.04
△ Net increase in deposits and placements from financial institutions	3		1,042,628,885.32	834,753,116.74
△ Net increase in due to central banks	4		-	-
△ Net increase in placement from financial institutions	5		-	-
△ Cash received from premiums of original insurance contracts	6		-	-
△ Net amount of reinsurance business	7		-	-
△ Net increase in insured's deposits and investments	8		-	-
△ Net increase in disposal of financial assets at fair value through profit and loss	9		-	-
△ Cash received from interests, fees and commissions	10		360,306,052.94	288,677,075.84
△ Net increase of placement from banks and other financial institutions	11		-	-
△ Net increase in repurchasing	12		-	-
Taxes and surcharges refunds	13		528,992,962.40	425,029,296.55
Other cash receipts related to operating activities	14		455,117,727.21	449,872,253.33
Total cash inflows from operating activities	15		34,841,520,765.60	32,576,721,399.50
Cash paid for goods and services	16		26,877,535,040.52	21,734,401,563.27
△ Net increase in loans and advances	17		-41,024,329.39	-19,550,000.00
△ Net increase in deposits with central banks and other financial institutions	18		-42,713,408.29	118,765,609.35
△ Cash paid for claim settlements on original insurance contracts	19		-	-
△ Cash paid for interest, fees and commissions	20		-	1,221,436.81
△ Cash paid for policy dividends	21		-	-
Cash paid to and for employees	22		2,927,069,966.14	2,790,513,659.66
Taxes and surcharges cash payments	23		1,996,200,537.44	1,685,124,361.24
Other cash payments related to operating activities	24		1,536,678,042.76	1,855,622,667.54
Total cash outflows from operating activities	25		33,253,745,849.18	28,166,099,297.87
Net cash flows from operating activities	26		1,587,774,916.42	4,410,622,101.63

Consolidation Cash Flow Statement (continued)

2016 year

Items	Lines	Notes	Current Period	Prior Period
2. Cash flows from investing activities:	27			
Cash received from withdraw of investments	28		3,727,874,366.36	6,238,182,671.95
Cash received from investment income	29		-281,993,360.94	664,033,091.57
Net cash received from disposal of fixed assets, intangible assets and other long-term assets	30		875,457.32	1,278,699.08
Net cash received from disposal of subsidiaries and other business units	31		-34,408,652.70	2,220,797.76
Other cash receipts related to investing activities	32		-	-
Total cash inflows from investing activities	33		3,412,347,810.04	6,905,715,260.36
Cash paid for fixed assets, intangible assets and other long-term assets	34		1,000,810,298.99	549,615,600.20
Cash payments for investments	35		2,701,369,891.42	7,040,377,524.66
△ Net increase in pledged loans	36		-	-
Net cash paid for acquiring subsidiaries and other business units	37		-	9,901,351.96
Other cash payments related to investing activities	38		252,473.42	528,878.88
Total cash outflows from investing activities	39		3,702,432,663.83	7,600,423,355.70
Net cash flows from investing activities	40		-290,084,853.79	-694,708,095.34
3. Cash flows from financing activities:	41			
Cash received from investments by others	42		-	-
Including: cash received by subsidiaries from minority shareholders' investments	43		-	-
Cash received from borrowings	44		345,560,000.00	3,178,393,476.92
△ Cash received from bond issues	45		-	-
Other cash receipts related to other financing activities	46		-	-
Total cash inflows from financing activities	47		345,560,000.00	3,178,393,476.92

Consolidation Cash Flow Statement (continued)

2016 year

Items	Lines	Notes	Current Period	Prior Period
Cash repayments for debts	48		1,352,011,068.04	2,946,441,833.35
Cash payments for distribution of dividends, profit and interest expenses	49		322,387,696.62	348,506,778.93
Including: dividends or profit paid by subsidiaries to minority shareholders	50		-	6,920,251.75
Other cash payments related to financing activities	51		-	-
Total cash outflows from financing activities	52		1,674,398,764.66	3,294,948,612.28
Net cash flows from financing activities	53		-1,328,838,764.66	-116,555,135.36
4. Effect of foreign exchange rate changes on cash and cash equivalents	54		56,791,885.68	16,100,883.25
5. Net increase in cash and cash equivalents	55		25,643,183.65	3,615,459,754.18
Add: beginning balance of cash and cash equivalents	56		17,178,496,464.76	13,563,036,710.58
6. Ending balance of cash and cash equivalents	57		17,204,139,648.41	17,178,496,464.76

Corporate representative:

Chief Accountant:

Accounting Supervisor:

Cash Flow Statement

2016 year

Made by: Harbin Electric Company Limited.

Monetary unit: RMB YUAN

Items	Notes	Current Period	Prior Period
1. Cash flows from operating activities:			
Cash received from sales and services		2,676,188,687.07	2,116,100,553.74
△ Net increase in deposits and placements from financial institutions			
△ 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			
△ Net increase of placement from banks and other financial institutions			
△ Net increase in repurchasing Taxes and surcharges refunds			
Other cash receipts related to operating activities		159,218,524.61	77,889,676.96
Total cash inflows from operating activities		2,835,407,211.68	2,193,990,230.70
Cash paid for goods and services		2,439,199,324.23	2,126,246,431.42
△ Net increase in loans and advances			
△ Net increase in deposits with central banks and other financial institutions			
△ Cash paid for claim settlements on original insurance contracts			
△ Cash paid for interest, fees and commissions			
△ Cash paid for policy dividends			
Cash paid to and for employees		77,191,330.63	83,194,320.35
Taxes and surcharges cash payments		85,630,839.07	124,031,037.93
Other cash payments related to operating activities		21,768,011.42	2,041,274,768.33
Total cash outflows from operating activities		2,623,789,505.35	4,374,746,558.03
Net cash flows from operating activities		211,617,706.33	-2,180,756,327.33

Cash Flow Statement (continued)

2016 year

Items	Notes	Current Period	Prior Period
2. Cash flows from investing activities:			
Cash received from withdraw of investments		700,000,000.00	1,579,551,111.11
Cash received from investment income		91,709,598.02	672,076,267.66
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		150,000.00	200.00
Net cash received from disposal of subsidiaries and other business units			
Other cash receipts related to investing activities			
Total cash inflows from investing activities		791,859,598.02	2,251,627,578.77
Cash paid for fixed assets,intangible assets and other long-term assets		32,917,256.72	112,972,115.17
Cash payments for investments		203,706,300.00	639,804,100.00
△ Net increase in pledged loans			
Net cash paid for acquiring subsidiaries and other business units			
Other cash payments related to investing activities			
Total cash outflows from investing activities		236,623,556.72	752,776,215.17
Net cash flows from investing activities		555,236,041.30	1,498,851,363.60
3. Cash flows from financing activities:			
Cash received from investments by others			
Including: cash received by subsidiaries from minority shareholders' investments			
Cash received from borrowings			
△ Cash received from bond issues			
Other cash receipts related to other financing activities			38,901,333.33
Total cash inflows from financing activities		-	38,901,333.33

Cash Flow Statement (continued)

2016 year

Items	Notes	Current Period	Prior Period
Cash repayments for debts			
Cash payments for distribution of dividends, profit and interest expenses		184,638,304.21	222,393,624.80
Including: dividends or profit paid by subsidiaries to minority shareholders			
Other cash payments related to financing activities			
Total cash outflows from financing activities		184,638,304.21	222,393,624.80
Net cash flows from financing activities		-184,638,304.21	-183,492,291.47
4. Effect of foreign exchange rate changes on cash and cash equivalents		298,467.05	-382,518.38
5. Net increase in cash and cash equivalents		582,513,910.47	-865,779,773.58
Add: beginning balance of cash and cash equivalents		994,980,874.22	1,860,760,647.80
6. Ending balance of cash and cash equivalents		1,577,494,784.69	994,980,874.22

Corporate representative:

Chief Accountant:

Accounting Supervisor:

Made by: Harbin Electric Company Limited.

Monetary unit: RMB YUAN

Consolidation Statements of Changes in Equity

2016 year

Items Columns	Lines	2016 year											Total owner's equity	
		Paid-in capital	Other equity instruments	Capital reserve	Less: treasury shares	Other comprehensive income	Specialized reserve	Surplus reserve	△General risk provision	Retained earnings	Others	Subtotal		Minority interests
		1	2	3	4	5	6	7	8	9	10	11	12	13
1. Ending balance of last year	1	1,376,806,000.00	-	2,749,914,774.17	-	-321,038,700.14	11,122,354.40	786,529,945.86	-	8,104,055,266.70	-	12,707,390,800.99	1,209,491,054.28	13,916,881,855.27
Add: increase/decrease due to changes in accounting policies	2													
Increase/decrease due to corrections of errors in Prior Period	3													
Others	4													
2. Beginning balance of current year	5	1,376,806,000.00	-	2,749,914,774.17	-	-321,038,700.14	11,122,354.40	786,529,945.86	-	8,104,055,266.70	-	12,707,390,800.99	1,209,491,054.28	13,916,881,855.27
3. Increase/decrease for current year ^a for decrease	6													
Total comprehensive income	7					314,099,905.44	4,678,294.48			392,650,822.39		725,702,598.55	-69,608.34	725,532,900.21
Owner's contributions and withdrawals of capital	8					314,099,905.44				413,282,682.39		727,382,597.83	76,311,148.47	803,693,746.30
1. Common stock contributed by owners	9													
2. Capital contributed by other equity instruments holders	10													
3. Share-based payment recorded in owner's equity	11													
4. Others	12													
Accrual and utilization of specialized reserve	13													
1. Accrual of specialized reserve	14													
2. Utilization of specialized reserve	15													
Profits distribution	16													
1. Appropriation of surplus reserve including statutory surplus reserve	17													
Discretionary surplus reserve	18													
Reserve fund	19													
Corporate development fund	20													
Return of investment	21													
2. Accrual of general risk reserve	22													
3. Distribution to owner/shareholder	23													
4. Others	24													
Transfer within owner's equity	25													
1. Capital reserve transferred to paid-in capital	26													
2. Surplus reserve transferred to paid-in capital	27													
3. Recover of loss by surplus reserve	28													
4. Changes in remeasurement of defined benefit net obligations/assets	29													
5. Others	30													
4. Ending balance of current year	31	1,376,806,000.00	-	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	1,209,321,446.94	14,642,414,756.48

Corporate representative:

Chief Accountant:

Accounting Supervisor:

Consolidation Statements of Changes in Equity (continued)

2016 year

Monetary unit: RMB YUAN

Items Columns	2015 year													Total owner's equity 13
	Equity attributable to parent company													
	1	2	3	4	5	6	7	8	9	10	11	12	13	
	Paid-in capital	Other equity instruments	Capital reserve	Less: treasury shares	Other comprehensive income	Specialized reserve	Surplus reserve	Δ General risk provision	Retained earnings	Others	Subtotal	Minority interests		
1. Ending balance of last year	1,376,806,000.00	-	2,777,725,426.88	-	-236,085,084.33	7,968,663.67	780,503,096.67	-	7,968,943,888.04	12,875,871,590.33	1,329,180,388.12	14,005,051,979.05		
Add: increase/decrease due to changes in accounting policies														
Increase/decrease due to corrections of errors in Prior Period														
Others														
2. Beginning balance of current year	1,376,806,000.00	-	2,777,725,426.88	-	-236,085,084.33	7,968,663.67	780,503,096.67	-	7,968,943,888.04	12,875,871,590.33	1,329,180,388.12	14,005,051,979.05		
3. Increase/decrease for current year ^a														
for decrease														
Total comprehensive income														
Owner's contributions and withdrawals of capital														
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														
Accrual and utilization of specialized reserve														
1. Accrual of specialized reserve														
2. Utilization of specialized reserve														
Profits distribution														
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														
4. Others														
Transfer within owner's equity														
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														
4. Ending balance of current year	1,376,806,000.00	-	2,749,914,774.17	-	-321,088,700.14	11,122,864.40	786,529,945.86	-	8,104,055,266.70	-	12,707,390,800.99	1,209,491,054.28	13,916,881,855.27	

Corporate representative:

Chief Accountant:

Accounting Supervisor:

Made by: Harbin Electric Company Limited.

Monetary unit: RMB YUAN

Statements of Changes in Equity

2016 year

Items	2016 year											
	Columns	1	2	3	4	5	6	7	8	9	10	11
	Lines	Paid-in capital	Other equity instruments	Capital reserve	Less: treasury shares	Other comprehensive income	Specialized reserve	Surplus reserve	△ General risk provision	Retained earnings	Others	Subtotal
1. Ending balance of last year	1	1,376,806,000.00	-	2,688,122,380.53	-	-	-	623,302,301.46	-	1,432,115,115.03	-	6,120,345,797.02
Add: increase/decrease due to changes in accounting policies	2											
Increase/decrease due to corrections of errors in Prior Period	3											
Others	4											
2. Beginning balance of current year	5	1,376,806,000.00	-	2,688,122,380.53	-	-	-	623,302,301.46	-	1,432,115,115.03	-	6,120,345,797.02
3. Increase/decrease for current year --	6											
for decrease	7											
Total comprehensive income	8											
Owner's contributions and withdrawals of capital	9											
1. Common stock contributed by owners	10											
2. Capital contributed by other equity instruments holders	11											
3. Share-based payment recorded in owner's equity	12											
4. Others	13											
Accrual and utilization of specialized reserve	14											
1. Accrual of specialized reserve	15											
2. Utilization of specialized reserve	16											
Profits distribution	17											
1. Appropriation of surplus reserve	18											
Including: statutory surplus reserve	19											
Discretionary surplus reserve	20											
Reserve fund	21											
Corporate development fund	22											
Return of investment	23											
2. Accrual of general risk reserve	24											
3. Distribution to owner/shareholder	25											
4. Others	26											
Transfer within owner's equity	27											
1. Capital reserve transferred to paid-in capital	28											
2. Surplus reserve transferred to paid-in capital	29											
3. Recover of loss by surplus reserve	30											
4. Changes in remeasurement of defined benefit: net obligations/assets	31											
5. Others	32											
4. Ending balance of current year		1,376,806,000.00	-	2,688,122,380.53	-	-	-	623,302,301.46	-	1,211,488,600.15	-	5,889,719,282.14

Corporate representative:

Chief Accountant:

Accounting Supervisor:

Statements of Changes in Equity (continued)

2016 year

Items Columns	2015 year											
	Lines	1	2	3	4	5	6	7	8	9	10	11
		Paid-in capital	Other equity instruments	Capital reserve	Less: treasury shares	Other comprehensive income	Specialized reserve	Surplus reserve	Δ.General risk provision	Retained earnings	Others	Subtotal
1. Ending balance of last year	1	1,376,806,000.00	2,680,146,245.92	-	-	-	-	617,275,452.27	1,432,945,712.29	6,117,173,410.48	-	6,117,173,410.48
Add: increase/decrease due to changes in accounting policies	2	-	-	-	-	-	-	-	-	-	-	-
Increase/decrease due to corrections of errors in Prior Period	3	-	-	-	-	-	-	-	-	-	-	-
Others	4	-	-	-	-	-	-	-	-	-	-	-
2. Beginning balance of current year	5	1,376,806,000.00	-	2,680,146,245.92	-	-	-	617,275,452.27	1,432,945,712.29	6,117,173,410.48	-	6,117,173,410.48
3. Increase/decrease for current year -- "for decrease"	6	-	-	-2,023,865.39	-	-	-	6,026,849.19	-	-830,597.26	-	3,172,386.54
Total comprehensive income	7	-	-	-2,023,865.39	-	-	-	6,026,849.19	-	60,268,491.93	-	60,268,491.93
Owner's contributions and withdrawals of capital	8	-	-	-2,023,865.39	-	-	-	-	-	-	-	-2,023,865.39
1. Common stock contributed by owners	9	-	-	-	-	-	-	-	-	-	-	-
2. Capital contributed by other equity instruments holders	10	-	-	-	-	-	-	-	-	-	-	-
3. Share-based payment recorded in owner's equity	11	-	-	-	-	-	-	-	-	-	-	-
4. Others	12	-	-	-2,023,865.39	-	-	-	-	-	-	-	-2,023,865.39
Accrual and utilization of specialized reserve	13	-	-	-	-	-	-	-	-	-	-	-
1. Accrual of specialized reserve	14	-	-	-	-	-	-	-	-	-	-	-
2. Utilization of specialized reserve	15	-	-	-	-	-	-	-	-	-	-	-
Profits distribution	16	-	-	-	-	-	-	6,026,849.19	-	-61,099,089.19	-	-55,072,240.00
1. Appropriation of surplus reserve	17	-	-	-	-	-	-	6,026,849.19	-	-6,026,849.19	-	-
Including: statutory surplus reserve	18	-	-	-	-	-	-	6,026,849.19	-	-6,026,849.19	-	-
Discretionary surplus reserve	19	-	-	-	-	-	-	-	-	-	-	-
Reserve fund	20	-	-	-	-	-	-	-	-	-	-	-
Corporate development fund	21	-	-	-	-	-	-	-	-	-	-	-
Return of investment	22	-	-	-	-	-	-	-	-	-	-	-
2. Accrual of general risk reserve	23	-	-	-	-	-	-	-	-	-	-	-
3. Distribution to owner/shareholder	24	-	-	-	-	-	-	-	-	-	-	-
4. Others	25	-	-	-	-	-	-	-	-	-55,072,240.00	-	-55,072,240.00
Transfer within owner's equity	26	-	-	-	-	-	-	-	-	-	-	-
1. Capital reserve transferred to paid-in capital	27	-	-	-	-	-	-	-	-	-	-	-
2. Surplus reserve transferred to paid-in capital	28	-	-	-	-	-	-	-	-	-	-	-
3. Recover of loss by surplus reserve	29	-	-	-	-	-	-	-	-	-	-	-
4. Changes in remeasurement of defined benefit: net obligations/assets	30	-	-	-	-	-	-	-	-	-	-	-
5. Others	31	-	-	-	-	-	-	-	-	-	-	-
4. Ending balance of current year	32	1,376,806,000.00	-	2,688,122,380.53	-	-	-	623,302,301.46	1,432,115,115.03	6,120,345,797.02	-	6,120,345,797.02

Corporate representative:

Chief Accountant:

Accounting Supervisor:

Notes to the 2016 Financial Statements

(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.

The initial share capital of the Company was RMB1,189,151,000, of which RMB720,000,000 was held by HE Corporation, representing 60.55% of its total share capital. Offshore H Shares of RMB469,151,000, representing 39.45% of its total share capital, was listing on the Stock Exchange of Hong Kong on 16 December 1994. After obtaining the approval by the resolution on the general meeting and by the China Securities Regulatory Commission and the approval from the Stock Exchange of Hong Kong, the Company placed a total of 93,830,000 H Shares, including 85,300,000 new shares and the domestic shares it held was decreased by 8,530,000 shares in 2005. Subsequent to the completion of the placing of H Shares, the share capital of the Company was changed to RMB1,274,451,000. After obtaining the approval by the resolution on the 2005 annual general meeting of the Company and Zheng Jian Guo He Zi [2007] No.6 of China Securities Regulatory Committee, in February 2007, the Company issued an additional of 112,590,000 overseas listed foreign shares (“H Shares”), including 102,355,000 shares and the shareholding of domestic shareholders was decreased by 10,235,000 shares. Pursuant to the approval of the State Owned Property [2006] No.1492 issued by the State-owned Assets Supervision and Administration Commission of the State Council, the Company shall transfer 10,235,000 shares of state-owned enterprise legal person held by Harbin Electric Corporation to the National Social Security Fund Council upon the placing of its H shares. On 2 March 2007, the Company received an additional share capital of RMB102,355,000.00 paid by overseas shareholders in their currency. Hence, the registered capital and share capital changed to RMB1,376,806,000.00, of which RMB701,235,000.00 were held by state-owned enterprise legal person, representing 50.93% of the total share capital. Overseas H shares amounted to RMB675,571,000.00, representing 49.07% of the total share capital.

Notes to the 2016 Financial Statements (continued)

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

I. INFORMATION ABOUT THE COMPANY (continued)

(I) Company profile (continued)

Registration Number of the legal enterprise business license of the Company: 91230100127575573H

Legal representative: Si Ze-fu

Registered address: Block 3, Nangang District High Technology Production Base, Harbin

Office Address: No.1399 Chuangxin Road Songbei District, Harbin

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.

Major business segments are: Manufacturing of large scale thermal power, hydro power, nuclear power and its ancillary equipment, turn-key construction of power station projects, research and development, design and manufacturing of major products such as power equipment of ships and electric power equipment etc..

The financial statements was approved by the board of directors on 28 March 2017.

(II) Scope of consolidated financial statements

As of 31 December 2016, the company scope of consolidated financial statements had the company are as follows:

Name of subsidiaries
Harbin Turbine Company Limited
Harbin Power Technology & Trade Inc.
Harbin Electrical Machinery Company Limited
Harbin Power Equipment National Engineering Research Centre Co., Ltd
HE Harbin Power Plant Valve Company Limited
Chengdu Sanliya Technology Company
Harbin Boiler Company Limited
Harbin Electric Power Equipment Company Limited
Harbin Electric Corporation (QHD) Heavy Equipment Company Limited
Harbin Electric Corporation Finance Company Limited
Harbin Electric International Company Limited
Harbin Electric Corporation

Details of the scope of the consolidated financial statement for the period and its changes were set out in "VI. Changes in the consolidated scope" and "VII. Equity in other entities" of the note.

Notes to the 2016 Financial Statements (continued)

(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, the Application Guidance for Accounting Standard for Business Enterprises, interpretations of the Accounting Standards for Business Enterprises and other 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 issued by the China Securities Regulatory Commission.

(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.

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.

(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 there porting period.

(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").

Notes to the 2016 Financial Statements (continued)

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

III. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES (continued)

(V) Accounting treatments for business combinations involving entities under and not under common control

Business combinations involving entities under common control: The assets and liabilities acquired by the Group in business combination shall be measured at the carrying value of the assets, liabilities of the acquire (including goodwill incurred in the acquisition of the acquire by ultimate controlling party) in the financial statements of the ultimate controlling party at the date of combination. The difference between the carrying amount of the net assets obtained and the carrying amount of the consideration paid for the combination (or total nominal value of the issued shares) is adjusted to capital premium in capital reserve.

Business combinations involving entities not under common control: The assets paid and liabilities incurred or committed as a consideration of business combination by the Company were measured at fair value on the date of acquisition and the difference between the fair value and its carrying value shall be charged to the profit or loss for the period. Where the cost of combination is higher than the fair value of the identifiable net assets acquired from the acquire in business combination, the Company shall recognize such difference as goodwill; where the cost of combination is less than the fair value of the identifiable net assets acquired from the acquire in business combination, such difference shall be charged to the profit or loss for the current period.

The agency fee such as audit, legal service and evaluation consultation and other fees which are directly related to the above matters shall be recognized as the profit or loss in the period when the costs are incurred; the transaction costs for the equity securities issued for corporate combination shall be written-off against equity.

(VI) Preparation of consolidated financial statements

1. *Scope of consolidation*

The scope of consolidation of the consolidated financial statements of the Company is based on controlling interests, and all the subsidiaries (including separate entities of the investee controlled by the Company) are included in the consolidated financial statements.

2. *Consolidation method*

The consolidated financial statements are prepared by the Company based on the financial statements of the Company and its subsidiaries and in accordance with the other relevant information. In preparation of the Company's consolidated financial statements, the Company will treat the enterprise group as a single accounting entity. The Group's overall financial condition, operating results and cash flow are reflected based on the relevant accounting standards, measurement and presentation requirements and in accordance with the unified accounting policy.

Notes to the 2016 Financial Statements (continued)

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

III. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES (continued)

(VI) Preparation of consolidated financial statements (continued)

2. Consolidation method (continued)

The subsidiaries that are within the scope of the consolidation shall have the same accounting policies and the accounting periods with those of the Company. In preparing the consolidated financial statements, where the accounting policies and the accounting periods are inconsistent between the Company and subsidiaries, the financial statements of subsidiaries are adjusted in accordance with the accounting policies and accounting period of the Company. For subsidiaries acquired from a business combination involving entities not under common control, the individual financial statements of the subsidiaries are adjusted based on the fair value of the identifiable net assets on the date of acquisition. For subsidiaries acquired from a business combination involving entities under common control, the individual financial statements of the subsidiaries are adjusted based on the carrying value of the assets, liabilities of the acquire (including goodwill incurred in the acquisition of the acquire by ultimate controlling party) in the financial statements of the ultimate controlling party.

The owner's equity, the net profit or loss and the comprehensive income attributable to minority shareholders of a subsidiary of the current period are presented separately under the owners' equity in the consolidated balance sheet, the net profit and the total comprehensive income in the consolidated income statement respectively. Where losses attributable to the minority shareholders of a subsidiary exceed the minority shareholders' interest entitled in the shareholders' equity of the subsidiary at the beginning of the period, the excess is allocated against the minority shareholders interest.

(1) Acquisition of subsidiaries or business

For acquisition of subsidiaries or business due to business combination involving entities under common control during the reporting period, the opening balance of the consolidated balance sheet shall be adjusted; the revenue, expense and profit of such subsidiaries or business from the beginning to the end of the reporting period when the merger occurs are included in the consolidated income statement; the cash flows of such subsidiaries or business from the beginning to the end of the reporting period when the merger occurs are included in the consolidated cash flow statement, and the comparative figures of the financial statements should be adjusted simultaneously as if the consolidated reporting entity had been in existence since the beginning of the control by the ultimate controlling party.

An investor that may impose control over the investee under joint control due to additional investment shall be deemed a party participating in the combination, and shall be adjusted at current status when the ultimate controlling party begins the control. The equity investment held before gaining the control of the combined party is recognized as relevant profit or loss, other comprehensive income and changes in other net assets at the later of the date of acquisition of the original equity and the date when the combining and the combined parties are under joint control, and shall be written down to the opening balance retained earnings or current profit or loss in the comparative reporting period.

Notes to the 2016 Financial Statements (continued)

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

III. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES (continued)

(VI) Preparation of consolidated financial statements (continued)

2. Consolidation method (continued)

(1) Acquisition of subsidiaries or business (continued)

For acquisition of subsidiaries due to business combination involving entities not under common control during the reporting period, the opening balance of consolidated balance sheet needs not be adjusted; the revenue, expense and profit of such subsidiaries or business from the date of acquisition to the end of the reporting period are included in the consolidated income statement; the cash flows of such subsidiaries or business from the date of acquisition to the end of the reporting period are included in the consolidated cash flow statement.

In connection with imposing control over the investee not under joint control as a result of additional investment and other reasons, the equity of acquire held before acquisition date shall be remeasured by the Company at the fair value of such equity on the acquisition date and the difference between fair value and carrying amount shall be recognized as investment income in current period; if the acquire's equity held before the acquiring date contains other comprehensive income and the other changes of owner's equity except for net profits and losses, other comprehensive income and profit distributions under the equity method, the related other comprehensive income and changes in other owner's equity shall be transferred to investment gains or losses on the date of acquisition, excluding the other comprehensive income derived from changes of net liabilities or net assets due to re-measurement on defined benefit plan by the investee.

(2) Disposal of subsidiaries or business

1 General treatment

For disposal of subsidiaries or business during the reporting period, the revenue, expense and profit of such subsidiaries or business from the beginning of the period to the date of disposal are included in the consolidated income statement; the cash flows of such subsidiaries or business from the beginning of the period to the date of disposal are included in the consolidated cash flow statement.

Where control of the investee is lost due to partial disposal of the equity investment, or any other reasons, the remaining equity investment is remeasured to fair value at the date in which control is lost. The sum of consideration received from disposal of equity investment and the fair value of the remaining equity investment, net of the difference between the sum of the Company's previous share of the subsidiary's net assets recorded from the acquisition date or combination date and the sum of goodwill, is recognized in investment income in the period in which control is lost. Other comprehensive income or net profit and loss related to the previous equity investment in the subsidiary, changes in equity except the other comprehensive income and profit distribution, are transferred to investment income of the current period when control is lost, except the other comprehensive income as a result of the changes arising from the remeasurement of the net assets and net liabilities of the investee's defined benefit plan.

Notes to the 2016 Financial Statements (continued)

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

III. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES (continued)

(VI) Preparation of consolidated financial statements (continued)

2. Consolidation method (continued)

(2) Disposal of subsidiaries or business (continued)

2. Disposal of subsidiary achieved by stages

When disposal of equity interests of subsidiaries through multiple transaction until control is lost, generally transactions in stages are treatment as a package deal in accounting if the transaction terms, conditions, and economic impact of disposal of the subsidiary's equity interests comply with one or more of the following:

- i. These transactions are achieved at the same time or the mutual effects on each other are considered.
- ii. A complete set of commercial results can be achieved with reference to the series of transactions as a whole.
- iii. Achieving a transaction depends on at least achieving of one of the other transaction.
- iv. One transaction recognized separately is not economical, but it is economical when considered together with other transactions.

If losing control of a subsidiary in disposal of equity interests through multiple transactions is recognized as a package deals, these transactions shall be in accounting treated as loss control of a subsidiary in disposal of equity interests achieved. However, the differences between price on each disposal and disposal of investment on the subsidiary's net assets shall be recognized in other comprehensive income in the consolidated financial statements, and included in profit or loss for the period when the control is lost.

If all transactions in disposal of equity interests of subsidiaries until losing control are not a package deals, accounting treatment for partial disposal of equity investments of subsidiary without losing control shall be applied before control is lost. When control is lost, general accounting treatment for disposal of a subsidiary shall be used.

(3) Acquisition of minority interest of subsidiaries

The Company shall adjust the share premium in the capital reserve of the consolidated balance sheet with respect to any difference between the long-term equity investment arising from the purchase of minority interest and the net assets attributing to the parent company continuously calculated on the basis of the newly increased share proportion as of the acquisition date (or date of combination) or, adjust the retained earnings in case the share premium in the capital reserve is insufficient for write-down.

Notes to the 2016 Financial Statements (continued)

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

III. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES (continued)

(VI) Preparation of consolidated financial statements (continued)

2. Consolidation method (continued)

(4) Partial disposal of equity investment in subsidiaries without losing control

The difference between disposal consideration of long-term equity investment in subsidiaries partially disposed by the Group without losing control and the share of net assets calculated from the date of acquisition or combination date shall be adjusted to share premium in the capital reserve in the consolidated balance sheet. Adjustments shall be made to retained earnings in the event that the share premiums in the capital reserves are not sufficient.

(VII) Classification of accounting method and the joint arrangements

A joint arrangement is classified as either a joint operation or a joint venture.

When the Company is a joint operator of joint arrangement, which means the Company have rights to the assets, and obligations for the liabilities, relating to the arrangement.

The Company recognizes the following items in relation to its interest in a joint operation, and method for them in accordance with relevant accounting standards:

- (1) The Company's solely-held assets, and the Company's share of any assets held jointly;
- (2) The Company's solely-assumed liabilities, and the Company's share of any liabilities incurred jointly;
- (3) The Company's revenue from the sale of its share of the output arising from the joint operation;
- (4) The Company's share of the revenue from the sale of the output by the joint operation; and
- (5) Its solely-incurred expenses and the Company's share of any expenses incurred jointly.

(VIII) Determination of cash and cash equivalents

In preparing the cash flow statement, the cash on hand and deposits that are available for payment at any time of the Company are recognized as cash. The short-term (due within 3 months of the date of purchase) and highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of value change are recognized as cash equivalents.

Notes to the 2016 Financial Statements (continued)

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

III. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES (continued)

(IX) Foreign currency transactions and translation of foreign currency financial statements

1. Foreign currency transactions

Foreign currency transactions shall be translated into RMB at the spot exchange rate on the day when the transactions occurred.

Balance sheet date foreign currency monetary items shall be translated using the spot exchange rate at the balance sheet date. The resulting exchange differences are recognized in profit or loss for the current period, except for those differences related to the principal and interest on a specific-purpose borrowing denominated in foreign currency for acquisitions, construction or production of the qualified assets, which should be capitalised as cost of the assets.

2. Translation of foreign currency financial statements

All assets and liabilities items in balance sheet are translated based on spot exchange rate on the balance sheet date; owners' equity items other than "undistributed profit" are translated at a spot exchange rate when accrued. Revenue and expense items in the income statement are translated at a spot exchange rate at the transaction occurrence date.

For disposal of overseas operation, the translation difference as stated in the foreign currency financial statements relating to overseas operation, is accounted for in the profit and loss account in the current period from owners' equity items.

(X) Financial instruments

Financial instruments include financial assets, financial liabilities and equity instruments.

1. Classification of the financial instruments

The financial instruments was classified at the time of initial recognition as: financial assets or financial liabilities carried at fair value through profit or loss for the current period, including financial assets or liabilities for trading and financial assets or financial liabilities directly designated as measured at fair value and its changes are included in the profit or loss for the current period; held-to-maturity investments; accounts receivable; available-for-sale financial assets and other financial liabilities.

Notes to the 2016 Financial Statements (continued)

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

III. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES (continued)

(X) Financial instruments (continued)

2. Recognition and measurement of financial instruments

(1) Financial assets or financial liabilities carried at fair value through profit or loss for the current period

When obtained, the financial assets or financial liabilities shall be initially measured at their fair value (except for cash dividends which are declared but not distributed or interests on bonds of which the maturity interest is not drawn), its transaction costs are included in the profit or loss for the period.

The interest or cash dividend which was gained in the period are recognized as investment income. At the end of the period, the variation in the fair value of the financial asset or financial liability shall be included in the profit or loss for the period.

When the said financial assets or financial liabilities are on disposal, the difference between the fair value and the amount of initial recognition shall be recognized as investment income; meanwhile, the profits and losses arising from the variation in fair value shall be adjusted.

(2) Held-to-maturity investments

Held-to-maturity investments are initially measured at fair value when obtained (except for interests on bonds of which the maturity interest is not drawn) plus relevant transaction costs.

Interest income is calculated according to the amortised cost and effective interest rate and recorded into investment income. The effective interest rate, ascertained when initially obtained, shall remain unchanged within the predicted term of existence or within a shorter applicable term.

When disposed, the difference between the consideration obtained and the carrying amount of the investment shall be recorded into investment income.

(3) Loans and accounts receivable

The receivables that are formed in sale of goods or rendering of services to external parties, and the receivables, except for the debt instruments quoted in an active market, due to the Company from other entities, including accounts receivable, other receivables, etc., are initially recognized at the consideration of the contract or agreement to be received from the buyers. Accounts receivable that are of a financing nature are initially recognized at their present value.

Notes to the 2016 Financial Statements (continued)

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

III. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES (continued)

(X) Financial instruments (continued)

2. Recognition and measurement of financial instruments (continued)

(3) Loans and accounts receivable (continued)

Upon recovery or disposal of accounts receivable, the difference between the consideration obtained and the carrying amount is charged to profit or loss for the period.

Loans are subsequently measured at amortised cost by effective interest method. Profit or loss arising when the loans are derecognized, impaired or amortised is included in the profit or loss for the current period.

A Loans by length of terms

Short-term loans: loans with terms within 1 year (including 1 year) are stated as short-term loans.

Medium-term loans: loans with terms over 1 year but below 5years (including 5years) are stated as medium-long-term loans.

Long-term loans: loans with terms over 5years are stated as long-term loans

B Loans by levels of risks

According to "Guidelines to Classification of risks of Loans [Yinfa (2001) No.416]《(貸款風險分類指導原則)》[銀發(2001) 416號]" issued by the People's Bank of China, the Company classified loans in to five categories: ordinary, mention, subprime, doubtful and loss.

Ordinary loans are loans of which borrowers can perform contract and there is no adequate reason to doubt that the principals and interests of the loans cannot be fully settled on time.

Mention loans are loans of which borrowers are currently capable of repaying principals and interests of the loans while certain factors may adversely affect relevant settlement.

Subprime loans are loans of which capability of repayment of the borrowers is obviously questionable. The borrowers are unable to repay principals and interests of the loans solely relying on its ordinary operating income. Relevant loans may suffer loss even guarantees are called.

Doubtful loans are loans of which the borrowers are unable to repay principals and interests of the loans. Relevant loans may suffer loss even guarantees are called.

Loss loans are loans of which the principals and interests of the loans are irrecoverable or only limited portion of the loan can be recovered even all possible measures and necessary legal proceedings are taken.

Notes to the 2016 Financial Statements (continued)

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

III. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES (continued)

(X) Financial instruments (continued)

2. Recognition and measurement of financial instruments (continued)

(4) Available-for-sale financial assets

Available-for-sale financial assets are initially measured at fair value when obtained (except for cash dividends which are declared but not distributed or interests on bonds of which the maturity interest is not drawn) plus relevant transaction costs.

The interests or cash dividends to be obtained during the period the available-for-sale financial assets are held shall be recorded into investment income. By the end of the reporting period, financial assets are measured at fair value, and the change in fair value shall be recorded into other comprehensive income. However, measurement at cost shall be used when there is no quoted price in an active market and the fair value of investments in equity instruments cannot be reliably measured and derivative financial assets is linked to equity instruments where equity instrument shall be settled by delivery.

When disposed of, the difference between the consideration obtained and the carrying amount of the financial assets shall be recorded into investment income; meanwhile, the corresponding portion of accumulated change in fair value previously recorded into other comprehensive income shall be transferred to profit or loss.

(5) Other financial liabilities

Other financial liabilities are initially measured at fair value plus relevant transaction costs, and subsequently measured at amortised cost.

3. Recognition and measurement of transfer of financial assets

A financial asset shall be derecognized while the has transferred nearly all the risks and rewards related to the ownership of the financial asset to the transferee, and it shall not be derecognized if the Group has retained nearly all the risks and rewards related to the ownerships of the financial asset.

Notes to the 2016 Financial Statements (continued)

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

III. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES (continued)

(X) Financial instruments (continued)

3. *Recognition and measurement of transfer of financial assets* (continued)

The substance-over-form principle shall be adopted while making a judgment on whether the transfer of financial assets satisfies the above conditions for termination of recognition. The transfer of financial assets could be classified into entire transfer and partial transfer. If the transfer of an entire financial asset satisfies the conditions for termination of recognition, the difference between the two amounts below shall be recorded into profit or loss for the period:

- (1) The carrying amount of the financial asset transferred;
- (2) The consideration received as a result of the transfer, plus the accumulative amount of the change in fair value previously recorded into the owners' equities (in cases where the transferred financial asset is available-for-sale financial asset).

If the partial transfer of financial assets satisfies the conditions for termination of recognition, the overall carrying amount of the transferred financial asset shall be apportioned according to their respective relative fair value between the portion of derecognized part and the remaining part, and the difference between the two amounts below shall be recorded into profit or loss for the current period:

- (1) The carrying amount of the derecognized portion;
- (2) The sum of consideration of the derecognized portion and the corresponding portion of accumulated change in fair value previously recorded into owners' equity (in cases where the transferred financial assets are available-for-sale financial assets).

Financial assets will still be recognized if they fail to satisfy the conditions for termination of recognition, with the consideration received recognized as a financial liability.

4. *Conditions for derecognition of financial liabilities*

When the current obligation under a financial liability is completely or partially discharged, the whole or relevant portion of the liability is derecognized; an agreement is entered between the Group and a creditor to replace the original financial liabilities with new financial liabilities with substantially different terms, derecognize the original financial liabilities as well as recognize the new financial liabilities.

If all or part of the contract terms of the original financial liabilities are substantially amended, the original financial liabilities will be derecognized in full or in part, and the financial liabilities whose terms have been amended shall be recognized as a new financial liability.

When financial liabilities is derecognized in full or in part, the difference between the carrying amount of the financial liabilities derecognized and the consideration paid (including transferred non-cash assets or new financial liability) is recognized in profit or loss for the current period.

Where the Company repurchases part of its financial liabilities, the carrying amount of such financial liabilities will be allocated according to the relative fair value between the continued recognized part and derecognized part on the repurchase date. The difference between the carrying amount of the financial liabilities derecognized and the consideration paid (including transferred non-cash assets or new financial liability) is recognized in profit or loss for the current period.

Notes to the 2016 Financial Statements (continued)

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

III. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES (continued)

(X) Financial instruments (continued)

5. **Method of determining the fair values of financial assets and liabilities**

The fair value of a financial instrument that is traded in an active market is determined at the quoted price in the active market. The fair value of a financial instrument that is not traded in an active market is determined by using a valuation technique. The Company uses the valuation technique when it is applicable under current conditions and there are enough available data and other information to support and the technique should maximize the use of relevant observable. Unobservable inputs are used under the circumstance that the relevant observable inputs cannot be obtained or not feasible. Those inputs should be consistent with the inputs a market participant would use when pricing the asset or liability.

6. **Testing methodology and accounting for impairment of financial assets (excluding accounts receivable)**

The Group shall assess the carrying amount of financial assets other than those at fair value through profit or loss at the balance sheet date. If there is objective evidence that the financial asset is impaired, the Company shall make provision of any impairment.

(1) *Impairment provision for available-for-sale financial asset:*

While the fair value of available-for-sale financial asset falls significantly, or judged by the Company that descending trend is not temporary after taking into account related data comprehensively at the end of the period, they will be recognized as impaired, the cumulative loss arising from decline in fair value that had been recognized directly in the owners' equity shall be removed from the shareholders' equity and recognized as impairment or loss.

If, after an impairment loss has been recognized on an available-for-sale debt instrument, the fair value of the debt instrument increases in a subsequent period and the increase can be objectively related to an event occurring after the impairment loss was recognized, the impairment loss shall be reversed, with the amount of the reversal recognized in the profit or loss for the current period.

Impairment losses recognized for an investment in an available-for-sale equity instrument shall not be reversed through profit or loss.

Notes to the 2016 Financial Statements (continued)

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

III. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES (continued)

(X) Financial instruments (continued)

6. **Testing methodology and accounting for impairment of financial assets (excluding accounts receivable)** (continued)

(2) *Impairment provision for held-to-maturity investments:*

The measurement of the impairment loss for held-to-maturity investments shall be treated with reference to that for the accounts receivable.

(3) *Impairment provision for loans and receivables*

The carrying amount of the financial assets measured at cost or amortized cost is adjusted to the present value of estimated future cash flows. The difference is recognized as impairment loss in profit or loss in the current period. After recognizing as impairment loss, if there is objective evidence that the value of the financial asset recovered and the recovery is related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed to the financial asset. However, the reversal is made to the extent that the carrying amount of the financial asset at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

For a financial asset that is individually significant, the Company assesses the asset individually for impairment to ensure if there is objective evidence of impairment. For a financial asset that is individually insignificant, the Group assesses the asset individually and collectively for impairment to ensure if there is objective evidence of impairment. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

Notes to the 2016 Financial Statements (continued)

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

III. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES (continued)

(X) Financial instruments (continued)

6. Testing methodology and accounting for impairment of financial assets (excluding accounts receivable) (continued)

(3) Impairment provision for loans and receivables (continued)

The Group uses risk characteristics as a standard for classification. Financial assets are grouped on the basis of the same or similar credit risk characteristics. The impairment losses are determined, considering the current conditions, on the basis of historical loss experience for the groups of financial assets with the same or the similar credit risk characteristics of prior years as follows:

<u>Classification of asset risks</u>	<u>Provision percentage</u>
Ordinary	1.5-2.25
Mention	3
Subprime	30
Doubtful	60
Loss	100

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the Company will reverse the previously recognized impairment loss by adjusting the provision amount, the reversed amount is recognized in profit or loss in current period. The reverse of the impairment provision for loan loss offsets the recognized impairment provision for loan loss upon completion of the necessary recognition process. If the recognized loan loss recovered afterwards, it should be included in profit or loss for the current period to offset the provision made for the loans in current period.

Notes to the 2016 Financial Statements (continued)

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

III. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES (continued)

(XI) Provision for bad debt of the accounts receivable

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

Bases for making judgment 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 RMB1 billion (including RMB1 billion) 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.

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

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.

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

Aging	Provision ratios for accounts ratios receivable (%)	Provision ratios for other receivables (%)
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 2016 Financial Statements (continued)

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

III. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES (continued)

(XI) Provision for bad debt of the accounts receivable (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 organizations 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.

(XII) Inventories

(1) *Category of inventory*

Inventories include raw materials, self-produced semi-finished goods and work in progress, turnover materials, Stock (finished goods), construction in progress (completed and unsettled).

(2) *Determination of cost*

Inventories are determined at the actual cost when acquired. Cost of inventories included purchasing cost, processing cost and other cost. When acquired and approved the subsidiaries of the Company measure the cost by the following methods:

1. Actual cost: Cost of inventories is determined using the weighted average method.
2. Intended cost: difference between the intended cost and the actual cost will be calculated by cost variance account, and the cost difference assumed for the inventories will be pay by installment, so as to adjust the intend cost to the actual cost.

Notes to the 2016 Financial Statements (continued)

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

III. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES (continued)

(XII) Inventories (continued)

(2) **Determination of cost** (continued)

Inventories arising from construction contract

Construction contract costs are measured at actual cost comprising the direct and indirect cost incurred from the date of contract signing to the date of contract fulfilling and relative to the contract. The travel and bidding cost incurred for the contract, which can be identified separately and measured reliably and is likely to sign the contract, shall be recognized as the contract cost; if the above conditions are not met, the cost above shall be recognized as the profit or loss.

The cumulative costs incurred and cumulative gross profits (or losses) recognized for contracts in progress are offset against the progress billings and the net amount is presented in the balance sheet. Where the aggregate of cumulative costs incurred and cumulative gross profits (or losses) recognized exceed the progress billings for contracts in progress, the surplus is shown as inventories. Where the progress billings for contracts in progress exceed the aggregate of cumulative costs incurred and cumulative gross profits (or losses) recognized, the surplus is shown as receipts in advance.

(3) **Basis for the determination of net realisable value and different type of inventories**

Net realisable value of held-for-sale commodity stocks, such as finished goods, goods-in-stock, and held-for-sale raw materials, during the normal course of production and operation, shall be determined by their estimated sales less the related selling expenses and taxes; the net realizable value of material inventories, which need to be processed, during the normal course of production and operation, shall be determined by the amount after deducting the estimated cost of completion, estimated selling expenses and relevant taxes from the estimated selling price of finished goods; the net realizable value of inventories held for execution of sales contracts or labor contracts shall be calculated on the ground of the contracted price. If an enterprise holds more inventories than the quantity stipulated in the sales contract, the net realizable value of the exceeding part shall be calculated on the ground of general selling price.

Decline in value of inventories is made on an item-by item basis at the end of the period. For large quantity and low value items of inventories, provision may be made based on categories of inventories; for items of inventories relating to a product line that is produced and marketed in the same geographical area and with the same or similar end uses or purposes, which cannot be practicably evaluated separately from other items in that product line, provision for decline in value of inventories may be determined on an aggregate basis.

Unless there is evidence clearly shows that abnormality in market price exists as of the balance sheet date, the net realisable value of inventories is determined based on the market price as of the balance sheet date.

The net realizable value of inventories at the end of current period is determined based on the market price of the balance sheet date.

Notes to the 2016 Financial Statements (continued)

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

III. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES (continued)

(XII) Inventories (continued)

(4) *Inventory system*

The perpetual inventory system is adopted.

(5) *Amortisation of low-value consumables and packaging materials*

- (1) Low-value consumables are amortised using the immediate write-off method.
- (2) Packaging materials are amortised using the immediate write-off method.

(XIII) Classified as assets held for sale

The Company recognizes component (or non-current assets) which meet the following conditions as assets held for sale:

- (1) The component must be under the current conditions only according to the usual terms of the sale of such part, then sell immediately;
- (2) The Company has been offered a resolution with disposition of the components (or non-current assets). If regulation needs to be approved by shareholders, it has approved by the general meeting of shareholders or relevant authority;
- (3) The Company has entered into agreement on irrevocable transfer with the transferee;
- (4) Transfer will be completed within 1 year.

(XIV) Long-term equity investments

1. *Joint control or significant influence criterion*

Joint control is the contractually agreed sharing of control of an arrangement, and exists only when decisions about the relevant activities of the arrangement require the unanimous consent of the parties sharing control. The Company together with the other joint venture parties can jointly control over the investee and are entitled to the right of the net assets of the investee, the investee is joint venture of the Company.

Significant influence refers to the power to participate in making decisions on the financial and operating policies of an enterprise, but not the power to control, or jointly control, the formulation of such policies with other parties. Where the Company can exercise significant influence over the investee, the investee is an associate of the Company.

Notes to the 2016 Financial Statements (continued)

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

III. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES (continued)

(XIV) Long-term equity investments (continued)

2. **Determination of initial investment cost**

(1) *Long-term equity investments formed through business combination of entities*

For business combinations involving entities under common control: where the Company pays cash, transfers non-cash assets, bear debts or issue equity securities as consideration of combinations, the initial investment cost of long-term equity investments are the share with reference to the book value of the shareholders' equity of the acquire in the financial statements of the ultimate controlling party on the date of combinations. In connection with imposing control over the investee under joint control as a result of additional investment and other reasons, on the combination date, the initial cost of long-term equity investments shall be determined based on share of carrying amounts in the consolidated financial statement of the ultimate controlling party by net assets of the combined party after the combination. The difference between initial investment cost and the carrying value of longterm equity investment before combination and the sum of carrying value of newly paid consideration for additional shares acquired on the date of combination is to adjust share premium. If the balance of share premium is insufficient, any excess is adjusted to retained earnings.

Business combinations involving entities not under common control: the cost of the combination ascertained on the date of acquisition shall be taken as the initial investment cost of the long-term equity investments. In connection with imposing control over the investee not under joint control as a result of additional investment and other reasons, the initial investment cost when changing to the cost method shall be the sum of the carrying value of the equity investment originally held and the newly increased initial investment cost.

Notes to the 2016 Financial Statements (continued)

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

III. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES (continued)

(XIV) Long-term equity investments (continued)

2. **Determination of initial investment cost** (continued)

(2) *Long-term equity investments acquired by other means*

The initial cost of investment of a long-term equity investment obtained by the Company by cash payment shall be the purchase cost which is actually paid.

The initial cost of investment of a long-term equity investment obtained by the Company by means of issuance of equity securities shall be the fair value of the equity securities issued.

If the non-monetary assets transaction is commercial in nature and the fair value of the assets received or surrendered can be reliably measured, the initial cost of investment of a long-term equity investment received the nonmonetary assets transaction, shall be determined on the basis of the fair value of the assets surrendered and the related tax payable, unless there are concrete evidence that the fair value of the assets received is more reliable; For non-monetary assets transaction which does not meet the above conditions, the initial cost of investment of a long-term equity investment received shall be the book value of the assets surrendered and the relevant taxes payable.

The initial cost of investment of a long-term equity investment obtained by the Company through debt restructurings shall be ascertained based on their fair value

3. **Subsequent measurement and recognition of profit or loss**

(1) *Long-term equity investment accounted for by cost method*

Long-term equity investment in subsidiaries of the Company is accounted for by cost method, except for the actual consideration paid for the acquisition of investment or the declared but not yet distributed cash dividends or profits which are included in the consideration, investment gains is recognized as the Company' shares of the cash dividends or profits declared by the investee.

Notes to the 2016 Financial Statements (continued)

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

III. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES (continued)

(XIV) Long-term equity investments (continued)

3. **Subsequent measurement and recognition of profit or loss** (continued)

(2) *Long-term equity investment accounted for by equity method*

Long-term equity investments of associates and jointly controlled entities are accounted for using equity method. Where the initial investment cost of a long-term equity investment exceeds the investor's interest in the fair value of the investee's identifiable net assets at the acquisition date, no adjustment shall be made to the initial investment cost; where the initial investment cost is less than the investor's interest in the fair value of the investee's identifiable net assets at the acquisition date, the difference shall be charged to profit or loss for the current period.

The Company recognizes the investment income and other comprehensive income according to the shares of net profit or loss and other comprehensive income realized by the investee which it shall be entitled or shared respectively, and simultaneously makes adjustment to the carrying value of long-term equity investments. The carrying value of long term equity investment shall be reduced by attributable share of the profit or cash dividends for distribution declared by the investee. In relation to other changes of owner's equity except for net profits and losses, other comprehensive income and profit distributions of the investee, the carrying value of long-term equity investments shall be adjusted and included in owner's equity.

When determining the amount of proportion of net profit or loss in the investee which it entitles, fair value of each identifiable assets of the investee at the time when the investment is obtained shall be used as basis, and according to the accounting policies and accounting period of the Company, adjustment shall be made to the net profit of the investee. During the period of holding investments, when preparing consolidated financial statements by the investee, the accounting shall be based on the amounts attributable to the investee in the net profit, other comprehensive income and other changes of the owner's equity in the consolidated financial statements.

Notes to the 2016 Financial Statements (continued)

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

III. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES (continued)

(XIV) Long-term equity investments (continued)

3. Subsequent measurement and recognition of profit or loss (continued)

(2) Long-term equity investment accounted for by equity method (continued)

The unrealized profit or loss resulting from transactions between the Company and its associates or joint venture shall be eliminated in proportion to the investor's equity interest of investee, based on which investment income or loss shall be recognized. Any losses resulting from transactions, which are attributable to impairment of assets, shall be fully recognized. Transactions of the assets casted and sold that are able to constitute an agreement between the Company and associates, joint venture shall be dealt with in accordance with Note 2(V) "Accounting method for business combination involving enterprises under common control and not under common control" and Note 2(VI) "Preparation of consolidated financial statements".

In recognition of share of losses in the investee, the Company treats it in the following order: Firstly, the Company will write off the carrying value of long-term equity investments. Secondly, in the event the aforesaid carrying value is insufficient for write off, it shall continue to recognize investment loss and write off carrying values of long-term receivables to the extent of the carrying amount of the long-term equity which substantively constitutes the net investment in the investee. Finally, after the above treatment, for the additional obligations which shall be still assumed by entities according to investment contract or agreement, the estimated liabilities shall be recognized based on the obligations which are expected to assume and included in the investment loss for the current period.

(3) Disposal of long-term equity investments

For disposal of long-term equity investment, the difference between the book value and the consideration actually received shall be included in the current profit or loss.

For the long-term equity investment under the equity method, when disposing of such investment, part of amounts that shall be originally included in other comprehensive income shall be accounted for in proportion by using the same basis as the investee used for direct disposal of relevant assets or liabilities. The owner's equity which is recognized due to other changes of owner's equity except for net profits and losses, other comprehensive income and profit distributions shall be transferred in proportion into the current profit or loss, excluding the other comprehensive income derived from changes of net liabilities or net assets due to re-measurement on defined benefit plan by the investee.

Notes to the 2016 Financial Statements (continued)

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

III. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES (continued)

(XIV) Long-term equity investments (continued)

3. Subsequent measurement and recognition of profit or loss (continued)

(3) Disposal of long-term equity investments (continued)

When the Group loses the controls or material influence over the investee due to partially disposal of equity investment and other reasons, the remaining equities shall be accounted for in accordance with the standards on recognition and measurement of financial instruments, and the difference between the fair value and the carrying value at the date of losing control or material influence shall be included in current profit or loss. For other comprehensive income recognized in the original equity investment due to the equity method is adopted, it shall be treated using the same accounting basis as the investee used for direct disposal of relevant assets or liabilities when ceasing to use the equity method. All owner's equities which are recognized due to other changes of owner's equity except for net profits and losses, other comprehensive income and profit distributions shall be transferred into the current profit or loss when ceasing to use the equity method.

When the Group loses the controls over the investee due to partially disposal of equity investment and other reasons, the remaining equities after disposal shall be accounted for under equity method in preparation of individual financial statements provided that common control or material influence over the investee can be imposed, and shall be adjusted as if such remaining equities has been accounted for under the equity method since they are obtained. Where the remaining equities after disposal can not impose common control or material influence over the investee, it shall be accounted for according to relevant provisions of the standards on recognition and measurement of financial instruments, and the difference between fair value and the carrying value on the date of losing control shall be included in the current profit or loss.

The disposed equity interest was acquired in a business combination as resulted from such as making additional investment, the remaining equity interest after disposal will be accounted for using cost method or equity method when preparing the separate financial statements. Other comprehensive income and other owners' equity recognized when the equity interests held on the acquisition date is accounted for using equity method and shall be transferred on pro rata basis. For the remaining equity interest after disposal accounted for using the recognition and measurement standard of financial instruments, other comprehensive income and other owners' equity shall be fully transferred.

Notes to the 2016 Financial Statements (continued)

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

III. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES (continued)

(XV) Investment property

Investment property is held to earn rentals or for capital appreciation or both which include leased land use rights; land use rights held for sale after appreciation; leased buildings (including buildings after self-completion of construction or development for the purpose of leasing and buildings that is being constructed or developed for the purpose of leasing in future).

The Company's existing investment property is measured at cost. Investment property measured at cost — buildings held for leasing shall adopt the same depreciation policy for fixed assets of the company, land use rights held for leasing shall adopt the same amortization policy for the intangible assets.

(XVI) Fixed assets

1. *Conditions for recognition of fixed assets*

Fixed assets are tangible assets that are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes; and have a useful life of more than one accounting year. Fixed asset is recognized when it meets the following conditions:

- (1) it is probable that the economic benefits associated with the fixed asset will flow to the enterprise;
- (2) its cost can be reliably measured.

2. *Method for depreciation*

Fixed assets are depreciated by categories using the straight-line method, and the annual depreciation rates are determined by categories based upon their estimated useful lives and their estimated residual values. Where the parts of a fixed asset have different useful lives or cause economic benefits for the enterprise in different ways, different depreciation rates or depreciation methods shall apply, and each part is depreciated separately.

For fixed assets leased under finance lease, if it can be reasonably determined that the ownership of the leased asset can be acquired upon the expiry of the lease term, depreciation policies in line with the fixed assets will be adopted for depreciation during the remaining useful life of the leased asset. If it cannot be reasonably determined that the ownership of the leased asset can be acquired upon the expiry of the lease term, depreciation policies in line with the fixed assets will be adopted for depreciation during the shorter of the lease term and the remaining useful life of the leased asset.

Notes to the 2016 Financial Statements (continued)

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

III. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES (continued)

(XVI) Fixed assets (continued)

2. Method for depreciation (continued)

The depreciation method, useful life of depreciation, residual value and annual depreciation rate of each category of fixed assets are as follows:

Useful lives of Depreciation on	Estimated residual value (%)	Annual depreciation rate (%)	Depreciation method	
Buildings and structures	15–30	3	3.23–6.47	straight line method
Machinery and equipment	7–15	3	6.47–13.86	straight line method
Transportation equipment	5–6	3	16.17–19.40	straight line method
Electronic equipment	5–10	3	9.70–19.40	straight line method
Office equipment	5–9	3	10.78–19.40	straight line method

3. Recognition basis and measurement method of fixed assets under finance lease

Where any one of the following conditions is provided in the lease agreement between the Company and the lessor, assets under finance lease will be recognized:

- (1) upon the expiry of lease, the ownership of the leased asset is transferred to the Company;
- (2) The Company has the option to purchase the leased asset, the purchase consideration entered into is expected to be far less than the fair value of the leased asset upon the exercise of the option;
- (3) the lease term accounts for the majority of the useful life of the leased asset;
- (4) the present value of the minimum lease payment upon the commencement of the lease is substantially the same as the fair value of the leased asset.

On the commencement of the lease, the leased asset shall be recorded at an amount equal to the lower of the fair value of the leased asset and the present value of the minimum lease payments, and the minimum lease payments shall be recorded as the carrying amount of long-term payables. The difference between the recorded amount of the leased asset and the minimum lease payments shall be accounted for as unrecognized finance charge.

Notes to the 2016 Financial Statements (continued)

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

III. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES (continued)

(XVII) Construction in progress

Criteria and time point for construction in progress being transferred to the fixed asset. Construction in progress is measured at all the expenditures incurred to bring the fixed assets ready for their intended use. If the construction in progress of fixed assets constructed are ready for their intended use but the final account of completed project has not been issued, it should be transferred to fixed assets at an estimated cost according to the construction budget, construction price or actual cost, and depreciation should be provided according to deprecation policy for fixed assets from the date when the assets are ready for their intended use. When the final account of completed project is issued, the estimated cost will be adjusted according to the actual cost, while the original depreciation charge will not be adjusted.

(XVIII) Borrowing costs

1. *Criteria for recognition of capitalized borrowing costs*

Borrowing costs refers to the borrowing interests, amortization of discounts or premiums, ancillary costs and exchange differences arising from foreign currency borrowings, etc.

For borrowing costs incurred by the Company that are directly attributable to the acquisition, construction or production of assets qualified for capitalization, the costs will be capitalized and included in the costs of the related assets. Other borrowing costs shall be recognized as expense in the period in which they are incurred and included in profit or loss for the current period.

Assets qualified for capitalization are assets (fixed assets, investment property, inventories, etc.) that necessarily take a substantial period of time for acquisition, construction or production to get ready for their intended use or sale.

Capitalization of borrowing costs begins when the following three conditions are fully satisfied:

- (1) expenditures for the assets (including cash paid, transferred non-currency assets or expenditure for holding debt liability for the acquisition, construction or production of assets qualified for capitalization) have been incurred;
- (2) borrowing costs have been incurred;
- (3) acquisition, construction or production that are necessary to enable the asset reach its intended usable or saleable condition have commenced.

Notes to the 2016 Financial Statements (continued)

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

III. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES (continued)

(XVIII) Borrowing costs (continued)

2. Capitalization period of borrowing costs

The capitalization period shall refer to the period between the commencement and the cessation of capitalization of borrowing costs, excluding the period in which capitalization of borrowing costs is temporarily suspended.

Capitalization of borrowing costs shall be suspended during periods in which the qualifying asset under acquisition and construction or production ready for the intended use or sale.

If part of an asset being acquired, constructed or produced has been completed respectively and put into use individually, capitalization of borrowing costs should be suspended.

If different parts of the assets acquired, constructed or produced are completed separately, but such asset will not be ready for the intended use or sale until all parts have been completed, then the borrowing costs will be capitalized until the completion of all parts of the said asset.

3. Suspension of capitalization period

Capitalization of borrowing costs shall be suspended during periods in which the acquisition, construction or production of a qualifying asset is interrupted abnormally, when the interruption is for a continuous period of more than 3 months; if the interruption is a necessary step for making the qualifying asset under acquisition and construction or production ready for the intended use or sale, the capitalization of the borrowing costs shall continue. The borrowing costs incurred during such period shall be recognized as profits and losses of the current period. When the acquisition and construction or production of the asset resumes, the capitalization of borrowing costs commences.

4. Calculation of capitalization rate and amount of borrowing costs

Specific borrowings for the acquisition, construction or production of assets qualified for capitalization, borrowing costs of the specific borrowings actually incurred in the current period minus the interest income earned on the unused borrowing loans as a deposit in the bank or as investment income earned from temporary investment will be used to determine the amount of borrowing costs for capitalization.

General borrowings for the acquisition, construction or production of assets qualified for capitalization, the to-be-capitalized amount of interests on the general borrowing shall be calculated and determined by multiplying the weighted average asset disbursement of the part of the accumulative asset disbursements minus the specifically borrowed loans by the capitalization rate of the general borrowing used. The capitalization rate shall be calculated and determined according to the weighted average interest rate of the general borrowing.

Notes to the 2016 Financial Statements (continued)

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

III. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES (continued)

(XIX) Intangible assets

1. Valuation method of intangible assets

(1) Intangible assets are initially measured at cost upon acquisition

The costs of an externally purchased intangible asset include the purchase price, relevant taxes and expenses paid, and other expenditures directly attributable to putting the asset into condition for its intended use. If the payment for an intangible asset is delayed beyond the normal credit conditions and it is of financing nature in effect, the cost of the intangible assets shall be ascertained based on the present value of the purchase price.

The amount of intangible assets acquired from debt restructuring should be recorded at the fair value of such intangible assets, and the difference between the carrying amount of the restructured debt and the fair value of the intangible assets acquired from debt restructuring should be included in the profit or loss for the current period.

If the non-monetary assets transaction is commercial in nature and the fair value of the assets received or surrendered can be reliably measured, the intangible assets received in the non-monetary assets transaction, shall be measured on the basis of the fair value of the assets surrendered, unless there are concrete evidence that the fair value of the assets received is more reliable; For non-monetary assets transaction which does not meet the above conditions, the cost of intangible assets received shall be the book value of the assets surrendered and the relevant taxes and expenses payable, and the profit or loss will not be recognised.

Notes to the 2016 Financial Statements (continued)

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

III. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES (continued)

(XIX) Intangible assets (continued)

1. Valuation method of intangible assets (continued)

(2) Subsequent measurement

The Company shall analyse and judge the useful life of intangible assets upon acquisition.

As for intangible assets with a finite useful life, they are amortised using the straight-line method over the term in which economic benefits are brought to the firm; If the term in which economic benefits are brought to the firm by an intangible asset cannot be estimated, the intangible asset shall be taken as an intangible asset with indefinite useful life, and shall not be amortised.

2. Estimated useful lives for the intangible assets with finite useful life:

Items	Estimated useful lives (year(s))	Basis
Software	5	Expected useful lives
Land use rights	50	Term of the land certificate
Patent	10	Patent period
Non-patent technology	10–15	Expected useful lives
Other	5	Expected useful lives

For an intangible asset with a finite useful life, review on its useful life and amortization method is performed at each year-end.

Upon review, useful life and amortisation method for the intangible assets are no different from the previous estimate at the end of this period.

3. Specific criteria for the division of research phase and development phase

The expenses for internal research and development projects of the Company are divided into expenses in the research phase and expenses in the development phase.

Research phase: Scheduled innovative investigations and research activities to obtain and understand scientific or technological knowledge.

Development phase: Apply the research outcomes or other knowledge to a plan or design prior to a commercial production or use in order to produce new or essentially-improved materials, devices, products, etc.

Notes to the 2016 Financial Statements (continued)

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

III. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES (continued)

(XIX) Intangible assets (continued)

4. *Specific criteria for development phase qualified for capitalization*

The expenses in the development phase are recognized as intangible assets if the following conditions are fulfilled, the expenses in the development phase unable to fulfill the following conditions are included in the profit or loss or the current period:

1. it is technically feasible to complete such intangible asset so that it will be available for use or for sale;
2. there is intention to complete the intangible asset for use or sale;
3. the intangible asset can produce economic benefits, including there is evidence that the products produced using the intangible asset has a market or the intangible asset itself has a market; if the intangible asset is for internal use, there is evidence that there exists usage for the intangible asset;
4. there is sufficient support in terms of technology, financial resources and other resources in order to complete the development of the intangible asset, and there is capability to use or sell the intangible asset;
5. the expenses attributable to the development stage of the intangible asset can be measured reliably.

Expenses that not classified into expenses incurred during the research phase or incurred during the development stage, will be accounted for in the profit or loss for the current period when it is incurred.

(XX) Impairment of long-term assets

Long-term assets, such as long-term equity investment, investment properties, fixed assets, projects under construction, intangible assets that measured at cost are tested for impairment if there is any indication that an asset may be impaired at the balance sheet date. If the result of the impairment test indicates that the recoverable amount of the asset is less than its carrying amount, a provision for impairment and an impairment loss are recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and the present value of the future cash flows expected to be derived from the asset. Provision for asset impairment is determined and recognized on the individual asset basis. If it is not possible to estimate the recoverable amount of an individual asset, the recoverable amount of a group of assets to which the asset belongs to is determined. A group of assets is the smallest group of assets that is able to generate cash inflows independently.

Impairment test to goodwill shall be carried out at least at the end of each year.

Notes to the 2016 Financial Statements (continued)

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

III. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES (continued)

(XX) Impairment of long-term assets (continued)

When the Company carry out impairment test to goodwill, the Company shall, as of the purchasing day, allocate on a reasonable basis the carrying value of the goodwill formed by merger of enterprises to the relevant asset groups, or if there is a difficulty in allocation, to allocate it to the sets of asset groups. When the carrying value of goodwill is allocated to the related asset group or sets of asset group, the allocation shall be made based on the proportion of the fair value of each asset groups or sets of asset groups to the total fair value of the relevant assets groups or sets of asset group. If there is difficulty for the fair value to be reliably measured, the allocation shall be made based on the proportion of the carrying value of each asset groups or sets of asset groups to the total carrying value of the relevant assets groups or sets of asset groups.

For the purpose of impairment test on the relevant asset groups or the sets of asset groups containing goodwill, if any evidence shows that the impairment of asset groups or sets of asset groups related to goodwill is possible, an impairment test will be made firstly on the asset groups or sets of asset groups not containing goodwill, thus calculating the recoverable amount and comparing it with the relevant carrying value so as to recognize the corresponding impairment loss. Then the Company will make an impairment test on the asset groups or sets of asset groups containing goodwill, and compare the carrying value of these asset groups or sets of asset groups (including the carrying value of the goodwill allocated thereto) with the recoverable amount. Where the recoverable amount of the relevant assets or sets of the asset groups is lower than the carrying value thereof, it shall recognize the impairment loss of the goodwill. Once the above asset impairment loss is recognised, it will not be reversed in the subsequent accounting periods.

(XXI) Long-term prepaid expenses

Long-term prepaid expenses are expenses which have occurred but will benefit over 1 year and shall be amortized over the current period and subsequent periods. The long-term prepaid expenses of the Company include office building decoration fee and technical consultation service.

1. Amortization method

Long-term prepaid expenses are amortized evenly over the estimated benefit period.

2. Amortization period

- (1) Prepaid rental for operating lease, amortized evenly over the lease term.
- (2) Expenditures paid for improvement of fixed assets under operating lease, amortized evenly over the lease term or remaining useful life of the asset, whichever is shorter.
- (3) Decoration that are qualified to be capitalized in relation to fixed asset acquired under finance lease, amortized evenly over the remaining time until the next decoration, lease term or remaining useful life of the fixed asset, whichever is shorter.

Notes to the 2016 Financial Statements (continued)

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

III. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES (continued)

(XXII) Employee Remuneration

1. Method of accounting treatment for short-term remuneration

During the accounting period when the staff provides service, the Company will recognize the short-term remuneration actually incurred as liabilities, and the liabilities would be charged into current profits and loss or costs of assets.

The Company will pay social insurance and housing funds, and will make provision of trade union funds and staff education costs in accordance with the requirements. During the accounting period when the staff provides service, the Group will determine the relevant amount of employee benefits in accordance with the required provision basis and provision ratios.

Non-currency employee benefits will be accounted for in accordance with their fair value if they can be measured reliably.

2. Method of accounting treatment for retirement benefit plan

(1) Defined contribution scheme

The Company will pay basic pension insurance and unemployment insurance in accordance with the relevant provisions of the local government for the staff. During the accounting period when the staff provides service, the Company will calculate the amount payable in accordance with the local stipulated basis and proportions which will be recognized as liabilities, and the liabilities would be charged into current profits and loss or costs of assets.

In addition to basic pension insurance, the Company also established the enterprise annuity payment system enterprise annuity scheme according to relevant policy of national enterprise annuity system. The Company makes payment to local social insurance agencies/annuity scheme based on a certain proportion of total staff remunerations. Corresponding expenditure is included in the profit or loss for the current period or costs of related assets.

Notes to the 2016 Financial Statements (continued)

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

III. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES (continued)

(XXII) Employee Remuneration (continued)

2. Method of accounting treatment for retirement benefit plan (continued)

(2) Defined benefit scheme

The welfare responsibilities generated from defined benefit scheme based on the formula determined by projected unit credit method would be vested to the service period of the staff and charged into current profits and loss or costs of assets.

The deficit or surplus generated from the present value of obligations of the defined benefit scheme minus the fair value of the assets of defined benefit scheme is recognized as net liabilities or net assets. When the defined benefit scheme has surplus, the Company will measure the net assets of the defined benefit scheme at the lower of the surplus of defined benefit scheme and the upper limit of the assets.

All defined benefit plans obligations, including the expected duty of payment within 12 months after the end of annual reporting period during which the staff provided service, were discounted based on the bond market yield of sovereign bond matching the term of defined benefit plans obligations and currency or corporate bonds of high quality in the active market on the balance sheet date.

The service cost incurred by defined benefit scheme and the net interest of the net liabilities and net assets of the defined benefit scheme would be charged into the current profits and loss or relevant costs of assets. The changes generated from the re-calculation of the net liabilities or net assets of the defined benefit scheme would be included in the other comprehensive income and are not reversed to profit or loss in a subsequent accounting period.

When the defined benefit scheme is settled, the gain or loss is confirmed based on the difference between the present value of obligations and the settlement price of the defined benefit scheme as at the balance sheet date.

Details are set out in Note V(27) to the financial statements in the annual report.

3. Method of accounting treatment for termination benefits

The Company will pay termination benefits when the Group can no longer withdraw the offer of termination plan or layoff proposal or when the Group recognizes costs for restructuring which involving the payment of termination benefits (whichever the earliest). The remuneration incurred by the termination benefits will be recognized as liabilities which would be charged into current profits and loss.

Notes to the 2016 Financial Statements (continued)

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

III. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES (continued)

(XXII) Employee Remuneration (continued)

4. *Method of accounting treatment for other longterm employee benefits*

The Company provides other long-term employee benefits for its staffs. Benefits within the defined contribution scheme will be accounted for as defined contribution scheme, while the other benefits will be accounted for as defined benefit scheme

(XXIII) Estimated liabilities

Estimated liabilities mainly includes: loss-making contracts, pending litigation and quality assurance of the products.

1. *Recognition criteria for estimated liabilities*

The Company shall recognise the obligations related to contingencies involving litigations, guarantees provided to debts, loss-making contracts, restructuring as estimated liabilities, when all of the following conditions are satisfied:

- (1) the obligation is a present obligation of the Group;
- (2) it is probable that an outflow of economic benefits will be required to settle the obligation;
- (3) the amount of the obligation can be measured reliably.

2. *Method of measuring the various estimated liabilities*

Estimated liabilities shall be initially measured at the best estimate of the expenditure required to settle the related present obligation.

Factors pertaining to a contingency such as risk, uncertainties, and time value of money shall be taken into account as a whole in reaching the best estimate. Where the effect of the time value of money is material, the best estimate shall be determined by discounting the related future cash outflow.

The best estimate will be dealt with separately in the following circumstances:

The expenses required have a successive range (or band), in which the possibilities of occurrence of each result are the same, and the best estimate should be determined as the middle value for the range, i.e. the average of the upper and lower limit.

Notes to the 2016 Financial Statements (continued)

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

III. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES (continued)

(XXIII) Estimated liabilities (continued)

2. *Method of measuring the various estimated liabilities* (continued)

The expenses required does not have a successive range (or band), or although there is a successive range (or band), the possibilities of occurrence of each result are not the same, if the contingency is related to individual item, the best estimate should be determined as the most likely amount; where the contingency is related to a number of items, the best estimate should be calculated and determined according to the possible results and the relevant possibilities.

Where some or all of the expenditure required to settle an estimated liability is expected to be reimbursed by a third party, the reimbursement is separately recognized as an asset when it is virtually certain that the reimbursement will be received. The amount recognized for the reimbursement is limited to the carrying amount of the liability recognized.

(XXIV) Production Safety Fee

The provision of Group's machinery production enterprise safety production costs is based on the actual sales revenue in last year, which is extracted monthly by taking excess regressive manner in accordance with the following standard:

1. Operating income of RMB10 million and below, accrued 2%;
2. Operating income of RMB10 million to RMB100 million, accrued 1%;
3. Operating income of RMB100 million to RMB1,000 million, accrued 0.2%;
4. Operating income of RMB1,000 million to RMB5,000 million, accrued 0.1%;
5. Operating income above RMB5,000 million, accrued 0.05%.

The provision of production safety fee is recognised in profit and loss for the current period and "special reserve" account shown separately under owner's equity. When using the reserve for maintaining production safety fee, the amount will be debited from the "special reserve" if the fee is expenses nature. When using the reserve for maintaining production safety fee of fixed asset, the amount will be debited from the "construction-in-progress" item for the amount recorded in the cost of related assets. When the status of the project is ready for intended use, the costs of such Production safety fee should be recognised as fixed assets. Meanwhile, "special reserve" will be offset by the cost forming fixed asset. If the balance of "special reserve" is inadequate for offsetting purpose, the production safety fee will be recognised in profit and loss for the year.

Notes to the 2016 Financial Statements (continued)

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

III. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES (continued)

(XXV) Share-based payments

The Company's share-based payment represents transactions in which the Company receives services from employee by granting equity instruments or incurring liabilities that are based on the price of the equity instruments to the employee or other suppliers. The Company's share-based payments included equity-settled share-based payments and cash-settled share-based payments.

(1) *Equity-settled share-based payment and equity instrument*

As to an equity-settled share-based payment in return for services of employees, calculation will be based on the fair value of the equity instrument granted to the employees. If the Company make the share-based payment by restricted shares, employees will subscribe the share but those shares shall not be listed on the market or transferred before it fulfill the unlocking condition and unlocked. If the unlocking conditions stipulated in the equity incentive scheme cannot be fulfilled eventually, the Company will repurchase those shares based on the predetermined price. Upon obtaining the payment for subscribing restricted shares made by the employees, the Company will recognized the share capital and capital reserve (share capital premium) according to the payment it received, while fully recognize a liability for its repurchasing obligation as well as its treasury shares. On each balance sheet date within the vesting period, the Company will make the best estimation of the number of vested equity instruments based on the subsequent information such as the updated changes in the number of executives and the achievement of performance standard. Based on the above results, the services received in the current period will be included in the relevant cost or expense based on the fair value on the date of grant, and the capital reserve will be increased accordingly. The recognized cost or expense and owners' interest will not be adjusted after the vesting date. However, equity instruments vested immediately after the date of grant will be included in the relevant cost or expense based on its fair value on the date of grant, and the capital reserve will be increased accordingly.

For the share-based payments that are not vested eventually, no cost or expense will be recognized, except the vesting condition is market condition or non-exercisable condition. Under such circumstances, no matter whether the market condition or non-exercisable condition can be fulfilled, the share-based payment will be deemed as vested as long as all the non-market conditions in the vesting condition are fulfilled.

If the terms of the equity-settled share-based payment are amended, the Company shall recognize the services received at least based on the situation before the amendment was made. In addition, any amendment resulting in the increase of the fair value of the equity instrument granted or changes that are beneficial to the staff on the amendment date, will be recognized as an increase in the service received.

Notes to the 2016 Financial Statements (continued)

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

III. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES (continued)

(XXV) Share-based payments (continued)

(1) *Equity-settled share-based payment and equity instrument* (continued)

If the equity-settled share-based payment is cancelled, it will be accounted for as accelerated exercise on the cancellation date and the unrecognized amount will be recognized immediately. Employees and other parties are able to satisfy the non-vesting conditions. If the conditions are not fulfilled during the vesting period, the equity settled share-based payment will be deemed as cancelled. However, if new equity instruments are vested and they are verified at the vesting date of new equity instrument as alternatives vested to cancelled equity instruments, the treatment on the new equity instrument is in conformity with the modified treatment on disposal of equity instrument.

(2) *Cash-settled share-based payments and equity instrument*

A cash-settled share-based payment shall be measured in accordance with the fair value of liability calculated and confirmed based on the shares or other equity instruments undertaken by the Group. It is initially measured at fair value on the date of grant, taking account into the terms and conditions of the equity instrument granted. If the right may be exercised immediately after the grant, the fair value of the liability undertaken by the enterprise shall, on the date of the grant, be included in the relevant costs or expenses, and the liabilities shall be increased accordingly. If the right may not be exercised until the vesting period comes to an end or until the specified performance conditions are met, within the vesting period, the services obtained in the current period shall, based on the best estimate of the information about the exercisable right, be included in the relevant costs or expenses and the corresponding liabilities at the fair value of the liability undertaken by the enterprise. For each of the balance sheet date and settlement date before the settlement of the relevant liabilities, fair value of the liabilities will be remeasured and the changes will be included in the profit or loss for the current period.

(XXVI) Revenue

1. *Revenue from sales of goods*

- (1) Revenue from the sale of goods is recognized when all the significant risks and rewards of ownership of the goods have been transferred to the buyer;
- (2) The Company does not retain either continuing managerial involvement to the degree usually associated with ownership or effective control over the sold goods;
- (3) The amount of revenue can be reliably measured;
- (4) It is probable that the economic benefits associated will flow to the Company; and
- (5) The relevant amount of costs incurred or to be incurred can be measured reliably.

Notes to the 2016 Financial Statements (continued)

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

III. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES (continued)

(XXVI) Revenue (continued)

2. *Revenue from the rendering of services*

On the balance sheet date, when the outcome of rendering of services could be measured reliably, related revenue from rendering of services is recognized according to the percentage of completion. The progress of the service transactions is determined by the actual labor cost already incurred divided by the total estimate costs.

The outcome of rendering of services can be measured reliably when all of the following conditions are met: 1 The amount of revenue can be measured reliably; 2 It is probable that the economic benefit associated with the transaction will flow to the Company; 3 The percentage of completion of service can be measured reliably 4 The cost incurred and to be incurred for rendering the service can be measured reliably.

When the outcome of rendering of services could not be measured reliably, when the costs incurred are expected to be recovered, revenues are recognized to the extent that the costs incurred that are expected to be recovered, and an equivalent amount is charged to profit or loss as service cost; when the costs incurred are not expected to be recovered, the costs incurred are recognized in profit or loss and no service revenue is recognized.

3. *Revenue from the use of the assets*

Revenue from the use of the assets is recognized on accrual basis based on the relevant contract or agreement.

4. *Interest Income, Handling fee and Commission Income*

The income derived by the Company in providing different kinds of financial services is recognized when the economic benefit related to the transaction can be flow into the company and the amount of income can be measured reliably. Such income includes interest income, income from financial institute and handling fee income etc..

Interest Income and income from financial institute are recognised based on the timing of the use right of the principal and the actual interest rate.

Revenue from the use of assets is recognized based on the charging time and method set out in the relevant contract or agreement.

Handling fee and commission income are usually recognised on the rendering of related service and completion of the relevant transaction.

Notes to the 2016 Financial Statements (continued)

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

III. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES (continued)

(XXVI) Revenue (continued)

5. Construction Contract

(1) *Recognition of contract revenue and contract cost*

On the balance sheet date, when the outcome of construction contracts could be measured reliably, related revenue and cost for the construction contract is recognized according to the percentage of completion. The progress of the contract is determined by the accumulative contract cost actually incurred divided by the total estimate contract costs.

When the outcome of a construction contract could not be measured reliably, but the contract cost incurred is recoverable, revenues are recognized to the extent that the actual costs incurred that are expected to be recovered, and an equivalent amount is charged to profit or loss as contract cost; when the costs incurred are not recoverable, the costs incurred are recognized in profit or loss and no contract revenue is recognized. When the factor that causes the outcome of construction contract does not exist anymore, the relevant revenue and cost of construction contract is recognized based on percentage of completion.

(2) When the estimated total cost of the contract exceeds total income of the contract, the estimated loss will be recognized as expense for the current period.

(3) For units producing 600MW or above (including 600MW), when the progress reach 40% or more, calculation will be made on the construction contract. When its progress is less than 40% and for the other units producing 600MW or less, calculation will not be made on the construction contract. For nuclear power generators, products in the nuclear island that meet the condition of the construction contract, calculation will be made on the construction contract when its progress reached 10% or above. When its progress is less than 10%, calculation will not be made on the construction contract.

Construction contracts are accounted for at actual cost, which includes direct and indirect costs incurred and attributable to the contract for the period from the date the contract was signed to the final completion of the contract. The sum of accumulated costs incurred and accumulated gross profit (loss) recognized for the construction contract is presented in the balance sheet after netting off against the progress billings. Where the aggregate of cumulative costs incurred and cumulative gross profits (or losses) recognised exceed the progress billings for contracts in progress, the surplus is shown as receivables for construction contract. Where the progress billings for contracts in progress exceed the aggregate of cumulative costs incurred and cumulative gross profits (or losses) recognised, the surplus is shown as receipts in advance.

Notes to the 2016 Financial Statements (continued)

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

III. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES (continued)

(XXVII) Government grant

1. *Types*

Government grants are transfer of monetary assets or non-monetary assets from the government to the Company at no consideration, and are classified into government grant related to asset and government grant related to income.

Government grants related to assets is obtained by the Company for the purposes of constructing or forming long-term assets in other ways including funds allocation for purchase of fixed assets or intangible assets, financial discount of special loans for fixed assets. Government grants related to revenue refer to the government grants other than those related to assets.

2. *Recognition time point*

Government grants related to revenue is recognized when the grant is received; government grants related to asset is recognized when depreciation and amortization is provided for such asset.

3. *Accounting treatment*

Government grants related to assets should be presented as deferred income and recognized as non-operating income evenly over the useful life of the assets constructed or procured: A government grant related to income is used for compensation for related expenses or losses to be incurred by the Company in subsequent periods, the grant shall be recognized as deferred income, and recognized in non-operating income over the periods in which the related costs are recognized; if the grant is a compensation for related expenses or losses already incurred by the Company, the grant shall be recognized immediately in profit or loss for the current period.

Notes to the 2016 Financial Statements (continued)

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

III. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES (continued)

(XXVIII) Deferred income tax assets and liabilities

Deferred income tax assets are recognized to the extent that it is probable that future taxable profits will be available against which deductible temporary differences can be utilized. For deductible losses and tax credits that can be reversed in the future period, deferred tax assets shall be recognized to the extent that it is probable that taxable profit will be available in the future to offset the deductible losses and tax credits.

Save as the exceptions, deferred income tax liabilities shall be recognised for the taxable temporary difference.

The exceptions for not recognition of deferred income tax assets and liabilities include: the initial recognition of the goodwill; other transactions or matters other than business combinations in which neither profit nor taxable income (or deductible loss) will be affected when transactions occur.

After granted the legal rights of net settlement and with the intention to use net settlement or obtain assets, repay debt, the Group, at the same time, the net amount after offsetting its current income tax assets and current income tax liabilities shall be recorded.

The Group was granted the legal rights of net settlement of current income tax assets and current income tax liabilities. Deferred income tax assets and deferred income tax liabilities are related to income tax to be paid by the same entity liable to pay tax to the same tax collection and management authority or related to different entities liable to pay tax, but the relevant entity liable to pay tax is intended to apply net settlement of current income tax assets and liabilities or, at the same time, obtain assets, repay debt whenever every deferred income tax assets and liabilities with importance would be reversed in the future, the Group records the net amount after offsetting its current income tax assets and current income tax liabilities.

(XXIX) Leases

1. Accounting of operating lease

- (1) As the lessee of operating leases, rental payments under operating leases are recognised as costs or expenses on a straight line basis over the lease term (including rent free periods). Initial direct costs that are attributable to an operating lease incurred by the Company are charged to current profit and loss.

When the lessor bears the lease related expenses which should be undertaken by the Company, the Company shall deduct this part of expense from the rent and amortize the net amount over the lease term.

Notes to the 2016 Financial Statements (continued)

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

III. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES (continued)

(XXIX) Leases (continued)

1. *Accounting of operating lease* (continued)

- (2) Leasing charges received by the Company for the assets leased out shall be amortized in a straight-line basis over the lease term without deducting the rent-free periods, and recognized as leasing income. The initial direct fee related to the leasing transactions paid by the Company shall be charged to current expenses; if the amount is significant, it shall be capitalized and charged to current income evenly on the same basis as the leasing income is recognized over the lease term.

When the Company bears the lease related expenses which should be undertaken by the lessee, the Company shall deduct this part of expense from the rent income, and amortize the net amount over the lease term.

2. *Accounting of finance lease*

- (1) When the Company is a lessee, the leased asset is recorded at the amounts equal to the lower of the fair value of the leased asset and the present value of the minimum lease payments at the beginning of the lease period. The difference between the recorded amount of the leased asset and the minimum lease payments is accounted for as unrecognized finance charge and is amortized using the effective interest method over the period of the lease. The Company, by means of the real interest method, amortizes the unacknowledged financial charges during the lease term of the assets and includes them into financing expenses. Initial direct cost incurred by the Company will be included in the leased asset value.
- (2) When the Company is a lessor, the difference between the recorded amount of the leased asset and the minimum lease receivables is accounted for as unrecognized finance income and is recognized as rental income over the period of the lease at the beginning of the lease period. Initial direct costs shall be included in the initial accounting of the lease payment receivables and deduct by the revenue recognized over the lease term.

Notes to the 2016 Financial Statements (continued)

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

III. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES (continued)

(XXX) Discontinued Operation

A discontinued operation is a component that either has been disposed of or is classified as held for sale by the Company, and is separately identifiable operationally and for financial reporting purposes, and satisfies one of the following conditions:

- (1) represents a separate major line of business or geographical area of operations;
- (2) is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations; and
- (3) is a subsidiary acquired exclusively with a view to resale.

(XXXI) Hedge accounting

1. Classification of hedging

- (1) A fair value hedge is a hedge of the exposure to changes in fair value of a recognised asset or liability or an unrecognised firm commitment (except foreign exchange risk).
- (2) Cash flow hedges is a hedge of the exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction, or a foreign currency risk in an unrecognised firm commitment.
- (3) Hedge of a net investment in a foreign operation is a hedge of the exposure to foreign exchange risk associated with a net investment in a foreign operation. Net investment in a foreign operation is the share of interest in the net asset of the foreign operation.

Notes to the 2016 Financial Statements (continued)

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

III. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES (continued)

(XXXI) Hedge accounting (continued)

2. Designation of the hedge relationship and recognition of the effectiveness of hedging

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting, the risk management objective and its strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the Group will assess the hedging instrument's effectiveness.

Hedging instrument's effectiveness means the degree of the change of fair value and cash flow of the hedging instrument in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. The hedge is assessed by the Group for effectiveness on an ongoing basis and judged whether it has been highly effective throughout the accounting periods for which the hedging relationship was designated. A hedge is regarded as highly effective if both of the following conditions are satisfied:

- (1) at the inception and in subsequent periods, the hedge is expected to be highly effective in achieving offsetting changes in fair value or cash flows attributable to the hedged risk during the period for which the hedge is designated;
- (2) the actual results of offsetting are within a range of 80% to 125%.

3. Method of Hedge accounting:

(1) Fair value hedges

The change in the fair value of a hedging derivative is recognized in the consolidated income statement. The change in the fair value of the hedged item attributable to the risk hedged is recorded as a part of the carrying amount of the hedged item and is also recognized in the profit and loss for the current period.

For fair value hedges relating to items carried at amortized cost, the adjustment to carrying value is amortized through the profit and loss for the current period over the remaining term to maturity. Any adjustment to the carrying amount of a hedged financial instrument for which the effective interest method is used is amortized to the profit and loss for the current period. Amortization may begin as soon as an adjustment exists and shall begin no later than when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged.

Notes to the 2016 Financial Statements (continued)

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

III. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES (continued)

(XXXI) Hedge accounting (continued)

3. Method of Hedge accounting: (continued)

(1) Fair value hedges (continued)

If the hedged item is derecognized, the unamortized fair value is recognized immediately in the profit and loss for the current period.

When an unrecognized firm commitment is designated as a hedged item, the subsequent cumulative change in the fair value of the firm commitment attributable to the hedged risk is recognized as an asset or liability with a corresponding gain or loss recognized in the profit and loss for the current period. The changes in the fair value of the hedging instrument are also recognized in the profit and loss for the current period.

(2) Cash flow hedges

The effective portion of the gain or loss on the hedging instrument is recognized directly as other comprehensive income, while the ineffective portion is recognized immediately in the profit or loss for the current period.

Amounts taken to other comprehensive income are transferred to the profit or loss when the hedged transaction affects the profit and loss for the current period, such as when hedged financial income or financial expense is recognized or when a forecast sale occurs. Where the hedged item is the cost of a nonfinancial asset or non-financial liability, the amounts taken to other comprehensive income are transferred to the initial carrying amount of the non-financial asset or non-financial liability (or the amounts originally recognized in other comprehensive income will be transferred to the profit or loss for the current period in the same period when the profit or loss are affected by the non-financial asset or nonfinancial liability).

If the forecast transaction or firm commitment is no longer expected to occur, the amounts previously recognized in equity are transferred to the profit and loss for the current period. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, the amounts previously recognised in other comprehensive income remain in there until the forecast transaction or firm commitment affects the profit and loss for the current period.

(3) Hedge of net investment in foreign operation

A hedge of a net investment in a foreign operation includes the hedge of the currency item as a portion of net investment, its treatment is similar to cash flow hedge. The portion of the gain or loss on a hedging instrument that is determined to be an effective hedge is included in other comprehensive income. The ineffective portion is recognised in profit or loss for the current period.

Notes to the 2016 Financial Statements (continued)

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

III. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES (continued)

(XXXII) Change in major accounting policies and accounting estimates

1. Change in major accounting policies

Implementation of the "VAT accounting treatment"

On 3 December 2016, the Ministry of Finance issued the Provisions on Value Added Tax Accounting (Accounting [2016] No. 22), which applies to the related transactions that occurred on 1 May 2016. The Company has implemented the main effects of this provision as follows

No.	The content of the accounting policy change and reason	The project name and the amount of the affected statements
1	Adjust "business tax and additional" project for "tax and additional" project.	taxes and additional
2	Since 1 May 2016 enterprise business activities of the property tax, land use tax, vehicle use taxes, stamp duty from the project "management fees" heavy classification to "tax and additional" project.	To increase taxes and additional 56,355,294.25 Yuan, the way management cost 56,355,294.25 Yuan.

2. Change in major accounting estimates

No

Notes to the 2016 Financial Statements (continued)

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

IV. TAXATION

(I) Main types of taxes and corresponding rates

Tax Type	Tax basis	Tax rate
Value-added Tax ("VAT")	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.	3%, 6%, 17%
Business tax	Based on taxable operating revenue	3%, 5%
City maintenance and construction tax	Based on business tax paid, VAT and sale tax	7%
Enterprise income tax	Based on taxable profits	25%, 15%

Companies subject to different income tax rates are disclosed as follows:

Name of the companies	Income tax rate
Harbin Electric Company Limited (Note 1)	15%
Harbin Turbine Company Limited and its subsidiary (Note 2)	15%
Harbin Power Technology & Trad Inc.	25%
Harbin Electrical Machinery Company Limited and its subsidiary (Note 3)	15%
Harbin Power Equipment National Engineering Research Centre Co., Ltd	25%
HE Harbin Power Plant Valve Company Limited (Note 4)	15%
Chengdu Sanliya Technology Company (成都三利亞科技有限公司)	25%
Harbin Boiler Company Limited and its subsidiary (Note 5)	15%
Harbin Electric Power Equipment Company Limited (Note 6)	15%
Harbin Electric Corporation (QHD) Heavy Equipment Company Limited (Note 7)	15%
HE Modern Manufacturing Service Industry Company Limited	25%
Harbin Electric Corporation Finance Company Limited	25%
Harbin Electric International Company Limited (Note 8)	15%
Harbin Electric Corporation (哈爾濱哈電電氣公司)	25%

Notes to the 2016 Financial Statements (continued)

(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%.

1. Harbin Electric Company Limited (the Company)

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 (黑龍江省科學技術廳), Heilongjiang Finance Bureau (黑龍江省財政廳), Heilongjiang State Tax Bureau(黑龍江省國家稅務局), and Heilongjiang Local Tax Bureau(黑龍江省地方稅務局), for an effective period of three years, pursuant to which enterprise income tax will be charged at the rate of 15% during the period.

2. Harbin Turbine Company Limited and its subsidiaries

On 5 August 2014, Harbin Turbine Company Limited obtained the High and New Technology Enterprise certificate (Number: GR201423000026) jointly issued by the Heilongjiang Science and Technology Bureau (黑龍江省科學技術廳), Heilongjiang Finance Bureau (黑龍江省財政廳), Heilongjiang State Tax Bureau (黑龍江省國家稅務局), and Heilongjiang Local Tax Bureau(黑龍江省地方稅務局), for an effective period of three years, pursuant to which enterprise income tax will be charged at the rate of 15% during the period.

On 5 August 2014, Harbin Turbine Ancillary Equipment Engineering Company Limited (哈爾濱汽輪機廠輔機工程有限公司), the subsidiary of Harbin Turbine Company Limited obtained the High and New Technology Enterprise certificate (Number: GR201423000155) jointly issued by the Heilongjiang Science and Technology Bureau (黑龍江省科學技術廳), Heilongjiang Finance Bureau (黑龍江省財政廳), Heilongjiang State Tax Bureau (黑龍江省國家稅務局), and Heilongjiang Local Tax Bureau (黑龍江省地方稅務局), for an effective period of three years, pursuant to which enterprise income tax will be charged at the rate of 15% during the period.

3. Harbin Electrical Machinery Company Limited and its subsidiaries

On 5 August 2014, Harbin Electrical Machinery Company Limited obtained the High and New Technology Enterprise certificate (Number: GR201423000047) jointly issued by the Heilongjiang Science and Technology Bureau (黑龍江省科學技術廳), Heilongjiang Finance Bureau (黑龍江省財政廳), Heilongjiang State Tax Bureau (黑龍江省國家稅務局), and Heilongjiang Local Tax Bureau (黑龍江省地方稅務局), for an effective period of three years, pursuant to which enterprise income tax will be charged at the rate of 15% during the period.

Notes to the 2016 Financial Statements (continued)

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

IV. TAXATION (continued)

(II) Tax Preference (continued)

4. *HE Harbin Power Plant Valve Company Limited*

On 5 August 2014, HE Harbin Power Plant Valve Company Limited obtained the High and New Technology Enterprise certificate (Number: GR201423000075) jointly issued by the Heilongjiang Science and Technology Bureau (黑龍江省科學技術廳), Heilongjiang Finance Bureau (黑龍江省財政廳), Heilongjiang State Tax Bureau (黑龍江省國家稅務局), and Heilongjiang Local Tax Bureau (黑龍江省地方稅務局), for an effective period of three years, pursuant to which enterprise income tax will be charged at the rate of 15% during the period.

5. *Harbin Boiler Company Limited and its subsidiary*

On 5 August 2014, the company obtained the High and New Technology Enterprise certificate (Number: GR201423000064) jointly issued by the Heilongjiang Science and Technology Bureau (黑龍江省科學技術廳), Heilongjiang Finance Bureau (黑龍江省財政廳), Heilongjiang State Tax Bureau (黑龍江省國家稅務局), and Heilongjiang Local Tax Bureau (黑龍江省地方稅務局), for an effective period of three years, pursuant to which enterprise income tax will be charged at the rate of 15% during the period.

On 15 August 2015, Harbin Boiler Preheater Company Limited (哈爾濱鍋爐廠預熱器有限責任公司) the subsidiary of Harbin Boiler Company Limited obtained the High and New Technology Enterprise certificate (Number: GR201523000063) jointly issued by the Heilongjiang Science and Technology Bureau (黑龍江省科學技術廳), Heilongjiang Finance Bureau (黑龍江省財政廳), Heilongjiang State Tax Bureau (黑龍江省國家稅務局), and Heilongjiang Local Tax Bureau (黑龍江省地方稅務局), for an effective period of three years, pursuant to which enterprise income tax will be charged at the rate of 15% during the period.

6. *Harbin Electric Power Equipment Company Limited*

On 5 August 2014, Harbin Electric Power Equipment Company Limited obtained the High and New Technology Enterprise certificate (Number: GR201423000102) jointly issued by the Heilongjiang Science and Technology Bureau (黑龍江省科學技術廳), Heilongjiang Finance Bureau (黑龍江省財政廳), Heilongjiang State Tax Bureau (黑龍江省國家稅務局), and Heilongjiang Local Tax Bureau (黑龍江省地方稅務局), for an effective period of three years, pursuant to which enterprise income tax will be charged at the rate of 15% during the period.

Notes to the 2016 Financial Statements (continued)

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

IV. TAXATION (continued)

(II) Tax Preference (continued)

7. Harbin Electric Corporation (QHD) Heavy Equipment Company Limited

Harbin Electric Corporation (QHD) Heavy Equipment Company Limited received High and New Technology Enterprises Certificate (高新技術企業證書) jointly issued by Hebei Provincial Department of Science and Technology, Department of Finance of Hebei Province, Hebei Provincial Office, SAT and Hebei Local Taxation Bureau on 2 November 2016. The relevant certificate number was GR201313000123, effective for 3 years and entitled the company to pay Enterprise Income Tax at a rate of 15% within the period.

8. Harbin Electric International Company Limited

Harbin Electric International Company Limited was recognised as Advanced Technology Service Enterprises (技術先進型服務企業). Relevant certificate number was JF20162301100003. The company paid Enterprise Income Tax at a rate of 15% this year in accordance with Cai Shui [2009] No. 63 (財稅(2009)63號文件).

V. NOTES TO KEY ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS

1. Monetary Capital

Items	Closing balance	Opening balance
Cash	8,884,872.77	6,202,630.84
Bank deposit	17,195,254,775.64	17,172,293,833.92
Other currency	885,773,431.13	1,058,509,692.96
Total	18,089,913,079.54	18,237,006,157.72
Among: total amount of currency in foreign countries	368,684,381.74	175,363,265.23

Notes to the 2016 Financial Statements (continued)

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

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

1. Monetary Capital (continued)

The monetary capital which was limited to use by mortgage, pledge, and frozen, or limited to remit to China in foreign countries are as following:

Items	Closing balance	Opening balance
The bank acceptance deposit	65,076,850.00	205,523,346.46
The l/c deposit	35,769,672.30	
Guarantee deposit		4,700,000.00
The performance bond	570,174.14	15,637,992.79
The central bank's legal deposit reserve	784,356,734.69	827,070,142.98
The court frozen deposits		5,578,210.73
Total	885,773,431.13	1,058,509,692.96

At the end of the year, the company's foreign currency funds were RMB368,684,381.74. The funds were the closing balance of Harbin Electric International Company Limited's foreign engineering field's appropriation.

2. Notes receivable

2.1 notes receivable shown as classification

Type	Closing balance	Opening balance
Bank acceptance	3,273,397,093.42	2,037,440,761.81
Business acceptance	533,069,918.38	270,968,312.13
Total	3,806,467,011.80	2,308,409,073.94

Notes to the 2016 Financial Statements (continued)

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

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

2. Notes receivable (continued)

2.2 The notes receivable that have been endorsed or discounted at the end of the period and have not yet expired at the balance sheet date

Items	The amount has been terminated at the end of the period
Bank acceptance	1,052,332,666.75
Trade acceptance	_____
Total	1,052,332,666.75

3. Account receivable

3.1 Account receivable shown by classification

Type	Carrying Amount		Closing balance Bad debt Provision		Book value
	Amount	Percentage (%)	Amount	Percentage (%)	
Accounts receivable with individual significance and accruing bad debt provision individually	610,218,963.59	3.97	445,127,622.43	72.95	165,091,341.16
Accounts receivable accruing bad debt provision in portfolio	14,624,270,379.72	95.17	4,793,300,619.20	32.78	9,830,969,760.52
Accounts receivable with individual insignificance but individually accruing bad debt provision	131,727,172.05	0.86	67,552,298.81	51.28	64,174,873.24
Total	15,366,216,515.36	/	5,305,980,540.44	/	10,060,235,974.92

Type	Carrying Amount		Opening balance Bad debt Provision		Book value
	Amount	Percentage (%)	Amount	Percentage (%)	
Accounts receivable with individual significance and individually accruing bad debt provision	703,392,234.57	4.38	228,881,340.51	32.54	474,510,894.06
Accounts receivable accruing bad debt provision in portfolio	15,208,744,054.44	94.78	4,781,530,327.29	31.44	10,427,213,727.15
Accounts receivable with individual insignificance and individually accruing bad debt provision	134,051,478.31	0.84	48,005,143.54	35.81	86,046,334.77
Total	16,046,187,767.32	/	5,058,416,811.34	/	10,987,770,955.98

Notes to the 2016 Financial Statements (continued)

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

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

3. Account receivable (continued)

3.2 Accounts receivable with individual significance and individually accruing bad debt provision at the year-end

Debtor	Account receivable	Closing balance		
		Bad debt provision	Percentage(%)	Reason
National Water Conservancy Department (merowe project) of the republic of Sudan	274,288,333.40	221,812,447.44	80.87	Note 1
Xinjiang Jin Huizhao Abundant Energy Co., LTD	97,350,000.00	97,350,000.00	100.00	Involved in litigation, may not be able to recover
China Nuclear Engineering co., LTD	93,417,307.70			The quality margin not provision
Vietnam National Electric Power Company (Vietnam high land project)	49,542,027.49	49,542,027.49	100.00	Note 2
Chiping Xinfu Supplies Service co., LTD	57,225,000.00	57,225,000.00	100.00	Project suspended
Sudan Power Dam Department (Sudan geely a fuel renovation project)	38,396,295.00	19,198,147.50	50.00	According to the future recyclability of judgment
Total	610,218,963.59	445,127,622.43		

Note 1: On 15 June 2001, 21 September 2004 and 27 December 2005, the Company signed import and export credit insurance with China Export & Credit Insurance Corporation ("China Credit Insurance") in respect of Merowe Sudan, El Gaili Phase 1 and El Gaili Phase 2 projects, to avoid certain collection risks through obtaining guarantees. The relevant policy numbers were MSEC010056, LSA2004026 and LSA2005045 respectively. As at 31 December 2016, the aggregate remaining balance of account receivables from the three projects was USD 47,339,736.83 (equivalent to RMB328,395,754.39). The Company made provisions for bad debts of USD37,293,585.76 for the past due account receivables on aging basis.

Note 2: It is expected that the past due balance of Vietnam CaoNgan Project cannot be recovered, the Company provided bad debt reserve for the relevant trade receivables during the period.

Notes to the 2016 Financial Statements (continued)

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

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

3. Account receivable (continued)

3.3 Accounts receivables accruing bad debt provision by applying aging analysis

Aging	Closing balance			Opening balance		
	Amount	Bad debt Provision	Percentage (%)	Amount	Bad debt Provision	Percentage (%)
Within one year (including one year)	5,538,254,545.50	220,086,989.91	3.97	5,761,727,123.88	190,385,466.68	3.30
One to two years (including two years)	2,857,332,797.39	468,046,907.64	16.38	3,045,834,676.27	463,978,308.95	15.23
Two to three years (including three years)	1,929,698,891.66	620,933,812.81	32.18	1,971,078,876.27	759,626,960.26	38.54
Three to four years (including four years)	1,144,009,712.50	721,633,912.83	63.08	1,762,154,770.24	1,106,046,905.53	62.77
Four to five years (including five years)	1,213,096,657.82	862,219,191.86	71.08	969,299,735.66	666,066,005.90	68.72
Over five years	1,941,877,774.85	1,900,379,804.15	97.86	1,698,648,872.12	1,595,426,679.97	93.92
Total	14,624,270,379.72	4,793,300,619.20		15,208,744,054.44	4,781,530,327.29	

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

Debtor	Closing balance			Reason
	Amount	Bad debt provision	Proportion (%)	
Sudan State Power Company	54,107,420.99	36,893,156.98	68.19	Notes 1
Bangladesh Electric Power Bureau	18,417,137.54	18,417,137.54	100	Unable to take back
Ordos City Green Lighting Co., LTD	9,240,000.00	9,240,000.00	100	Project suspended
Zhongyuan International Engineering Company of China Shanghai branch	8,903,744.70		-	Quality retention money don't withdrawing
China Nuclear Power Research and Design Institute	6,967,094.00		-	Quality retention money don't withdrawing
The Dam of Thermal Power Company	6,086,948.22	67,634.10	1.11	The remaining quality retention money according to the recoverable amount of judgment in the future
China Nuclear Power Engineering Co	3,523,286.33		-	Quality retention money don't withdrawing
Harbin Ha Pot Boiler Engineering Technology Co., LTD	2,977,756.50		-	Related party not withdrawing
Dahua Chemical group Co., LTD	2,875,000.00		-	Have signed tripartite restructuring agreement
Karachi, Pakistan electric power supply company	2,289,210.00	1,144,605.00	50	According to the future recyclability of judgment
China Petroleum and Chemical Co., LTD., Qilu branch	2,126,000.00		-	Remaining quality retention money
Others	14,213,573.77	1,789,765.19	12.59	
Total	131,727,172.05	67,552,298.81	/	

Notes to the 2016 Financial Statements (continued)

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

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

3. Account receivable (continued)

3.5 The situation of provision, back or withdraw the bad debt provision

The bad debt provision of this year was CNY247, 563,729.10.

3.6 The top five debtors of accounts receivable at the end of the year

Debtor	Amount	Closing balance Proportion of total account receivable(%)	Bad debt provision
National Water Conservancy Irrigation Department of the Republic of Sudan	274,288,333.40	1.79	221,812,447.44
China Hydropower Construction Group International Engineering co., LTD	262,194,799.31	1.71	51,825,156.18
Huadian Pond Village in Guizhou Power Generation Co., LTD	227,126,588.39	1.48	168,182,970.71
Institute of China shipbuilding industry corporation, 7 a. three	204,028,900.00	1.33	10,207,575.00
Guodian Dadu River Rock Monkey Hydropower Construction Co., LTD	169,365,131.00	1.10	8,468,256.55
Total	1,137,003,752.10	7.41	460,496,405.88

4. Advance Payment

4.1 Categorized by aging

Aging	Closing balance		Opening balance	
	Amount	Percentage (%)	Amount	Percentage (%)
Within one year (including one year)	4,321,621,334.17	71.58	3,988,138,375.30	73.66
One to two years (including two years)	859,561,287.28	14.24	937,870,811.57	17.32
Two to three years (including three years)	710,850,531.94	11.77	244,641,455.98	4.52
Over three years	145,304,931.80	2.41	243,267,009.98	4.50
Total	6,037,338,085.19	100.00	5,413,917,652.83	100.00

Notes to the 2016 Financial Statements (continued)

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

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

4. Advance Payment (continued)

4.1 Categorized by aging (continued)

Significant advance payment with aging over 1 year

Creditor Name	Debtor Name	Closing balance	Aging	Unliquidated Reason
Harbin Turbine Co., LTD	MITSUBISHI	392,848,918.03	1-5years	Long production period has not yet been settle
Harbin Electric International Engineering Co., LTD	GE Energy Products France SNC	127,665,731.49	1-2years	The contract have not yet fulfilled end
Harbin Electric Power Equipment Co., LTD	Curtiss-Wright Electro	120,806,050.14	1-2years	The contract have not yet fulfilled end
Harbin Electric Power Equipment Co., LTD	Andritz AG	162,421,850.88	1-2years	The contract have not yet fulfilled end
Harbin Electric Power Equipment Co., LTD	EMD	40,015,653.38	1-2years	The contract have not yet fulfilled end
Harbin Electric Group (Qinhuangdao) Heavy Equipment Co., LTD	VALINOXNU CLEAIRE	39,398,157.16	1-2years; 2-3years; over 3 years	The contract have not yet fulfilled end
Harbin Electric Machinery Co., LTD	China In Turbine Group Beijing Survey Design and Research Institute Co., LTD	29,355,645.00	1-2years	The advance payment as stipulated in the contract, not reach completion status
Harbin Boiler Company Limited	Zhejiang Guang Si Environmental Protection Technology Co., LTD	27,800,000.00	2-3years	Not yet settled
Harbin Electric International Engineering Co., LTD	Bangladesh Power Development	27,059,189.65	1-2years	The contract have not yet fulfilled end
Harbin Turbine Co., LTD	Green Energy Research Firm	25,379,772.48	1-3years	Not yet settled
Harbin Electric Machinery Co., LTD	Water in the Northeast Of Survey Design Research Co., LTD	24,878,713.60	1-2years; 2-3years	Advance payment as stipulated in the contract, did not reach the completion status
Harbin Electric Power Equipment Co., LTD	China's First Heavy Machinery Group Co., LTD. (nuclear power)	20,000,000.00	1-2years	The contract have not yet fulfilled end
Harbin Electric International Engineering Co., LTD	The first thermal power construction company in Henan	16,130,218.05	Over 3 years	The contract have not yet fulfilled end
Harbin Electric Co., LTD	China Electric Power Equipment Co., LTD	13,730,000.00	Over 3 years	The contract have not yet fulfilled end

Notes to the 2016 Financial Statements (continued)

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

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

4. Advance Payment (continued)

4.1 Categorized by aging (continued)

Significant advance payment with aging over 1 year

Creditor Name	Debtor Name	Closing balance	Aging	Unliquidated Reason
Harbin Boiler Company Limited	Henan Nine Metallurgical Steel Structure Co., LTD	13,154,760.00	1-2years	Not yet settled
Harbin Boiler Company Limited	Qingdao Sanlian Metal Structure Co., LTD	12,175,200.00	1-3years	Not yet settled
Harbin Electric Power Equipment Co., LTD	Sinotrans Liaoning Co., LTD. Shipping Branch (nuclear power)	10,917,266.33	1-2years; 2-3years	The contract have not yet fulfilled end
Harbin Electric Machinery Co., LTD	Zhejiang East China Mechanical and Electrical Engineering co., LTD	10,719,000.00	1-2years; 2-3years	The contract have not yet fulfilled end
Harbin Electric Machinery Co., LTD	ALSTOM Hydro France	10,274,300.00	1-2years	The contract have not yet fulfilled end
Total		1,124,730,426.19		

4.2 The top five Creditors closing balance of Advance payment

Creditor	Closing balance	Accounts for the proportion of advance payment of ending balance of total
MITSUBISHI	481,558,028.00	7.98
GE Energy Products France SNC	464,423,084.75	7.69
HABIB RAFIQ (PVT) LTD	342,116,869.47	5.67
Spain Barcelona vomit, company	309,080,168.98	5.12
GE NERALELECTRIC (SWITZERLAND) GMBH	297,329,759.26	4.92
Total	1,894,507,910.46	31.38

Notes to the 2016 Financial Statements (continued)

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

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

5. Interests receivable

Items	Closing balance	Opening balance
Bank deposit	1,944,937.39	22,206,412.56
Entrust loans	289,070.83	280,408.33
Entrust financial product	61,666.67	
Total	2,295,674.89	22,486,820.89

6. Dividend receivable

Items	Closing balance	Opening balance
Harbin East Force Real Estate Development Co., LTD	144,453.39	144,453.39
Harbin Xin Embellish Precision Casting Industry Co., LTD	96,796.22	-
Total	241,249.61	144,453.39

7. Other receivable

Items	Closing balance					Opening balance				
	Carrying amount		Bad debt provision		Book value	Carrying amount		Bad debt provision		Book value
	Amount	proportion (%)	Amount	proportion (%)		Amount	proportion (%)	Amount	proportion (%)	
Other receivables with individual significance and individually accruing bad debt provision	868,109,891.66	68.57	30,353,741.38	3.50	837,756,150.28	385,233,233.65	48.99	13,995,000.00	3.63	371,238,233.65
Other receivables accruing bad debt provision in portfolio	224,146,968.59	17.70	163,349,806.41	72.88	60,797,162.18	219,355,726.24	27.89	159,380,221.07	72.66	59,975,505.17
Other receivables without individual significance but individually accruing bad debt provision	173,785,835.99	13.73	13,349,568.07	7.68	160,436,267.92	181,835,564.28	23.12	12,484,013.72	6.87	169,351,550.56
Total	1,266,042,696.24	/	207,053,115.86	/	1,058,989,580.38	786,424,524.17	/	185,859,234.79	/	600,565,289.38

Notes to the 2016 Financial Statements (continued)

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

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

7. Other receivable (continued)

7.1 Other receivables with individual significance and individually accruing bad debt provision

Debtor	Closing balance			Reason
	Other Receivable	Bad debt provision	Proportion(%)	
Harbin Electric	162,095,125.59			Related party not withdrawing
National Power Parks Management Co. Ltd	66,835,618.34			Pakistan's owner to withholding tax
Harbin Electric Industrial Development Corporation	62,982,138.98			Related party not withdrawing
Dubai Ha Xiang Project Investment Company	62,171,311.18			Performance bond
CELECT	53,420,004.87			Acting mat Ecuador owner field, water and electricity fee
High temperature of major projects	51,027,504.20			The spending on major projects
Electricity transmission & Transformation facilities company in Jilin Province	33,327,788.52			Acting mat contractor site costs
Pakistan's Punjab Province Tax Bureau	13,581,933.67			Pakistan's best drum project owners withholding tax
China In Turbine Group Hubei Engineering Co., LTD	20,131,522.72			Acting mat contractor site costs
National Bonds Corporation	18,890,000.00			Dubai's project site apartment deposit
China Water Conservancy and Hydropower Construction Bureau Co., LTD.	16,345,226.57			Acting mat contractor site costs
Daqing Rehau Energy Technology Co., LTD	13,995,000.00	13,995,000.00	100.00	Forecast cannot take back
International Bank	11,513,118.38			Guarantee deposit
China Construction Third Engineering Co., LTD	10,764,443.19			Acting mat contractor site costs
SRB Karachi	10,701,564.90			Advance payment for project tax
Other receivables Jiangbei Projects Department	8,390,706.00	8,390,706.00	100.00	Forecast cannot take back
Daqing Longjiang Wind Power Co., LTD	3,920,000.00	3,920,000.00	100.00	Forecast cannot take back
The gas turbine division deposit	2,696,105.38	2,696,105.38	100.00	Forecast cannot take back
Shenzhen Ha Dynamic Hui Hua Industry and Trade Co., LTD	1,351,930.00	1,351,930.00	100.00	Forecast cannot take back
Harbin Sanlian Industrial Development Corporation	1,100,000.00			Related party not withdrawing
Others	242,868,849.17			
Total	868,109,891.66	30,353,741.38		

Notes to the 2016 Financial Statements (continued)

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

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

7. Other receivable (continued)

7.2 Other receivables accruing bad debt provision based on a portfolio

7.2.1 Other receivables accruing bad debt provision by applying aging analysis

Aging	Closing balance			Opening balance		
	Amount	Bad debt provision	Proportion (%)	Amount	Bad debt provision	Proportion (%)
Within one year (including one year)	57,519,545.37	2,875,977.27	5.00	46,974,288.14	2,335,075.61	4.97
One to two years (including two years)	1,910,350.69	477,587.67	25.00	8,254,574.11	2,061,174.53	24.97
Two to three years (including three years)	198,421.00	99,210.50	50.00	6,322,509.59	3,161,254.80	50.00
Three to four years (including four years)	16,323,096.04	13,058,476.83	80.00	8,436,789.86	6,749,431.88	80.00
Four to five years (including five years)	6,785,006.70	5,428,005.36	80.00	21,471,401.42	17,177,121.14	80.00
Over five years	141,410,548.79	141,410,548.78	100.00	127,896,163.12	127,896,163.11	100.00
Total	224,146,968.59	163,349,806.41		219,355,726.24	159,380,221.07	

7.3 Other receivables with individual insignificance but individually accruing bad debt

Debtor	Closing balance			Reason
	Amount	Bad debt provision	Proportion (%)	
Petty cash	53,177,473.52			Petty cash not withdrawing
Siemes Pakistan Engineerinh Co.Ltd	9,179,340.18			Guarantee deposit
Malaysia's genting energy companies	8,238,402.89			Indonesia project owners withholding taxes
Hubei turbine company	7,998,339.80			Acting mat contractor site costs
The third generation of nuclear steam generator tube sheet processing with key parts seriation tool to demonstrate the application of major projects	7,818,936.02			Scientific research and special funds for acceptance and specific payable after the hedge
Pakistan's Punjab Province Tax Bureau	5,700,139.31			Pakistan will kay project project taxes payable in advance
Seafair International Logistics	3,766,791.00			Ecuador project pad to transport costs

Notes to the 2016 Financial Statements (continued)

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

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

7. Other receivable (continued)

7.3 Other receivables with individual insignificance but individually accruing bad debt (continued)

Debtor	Closing balance			Reason
	Amount	Bad debt provision	Proportion (%)	
KOLBEN S.A	3,698,613.75			Ecuador project advances the subcontractor
Bangladesh Electric Power Bureau	3,142,326.16			Bangladesh project owners withholding taxes
Jiamusi Electric Co., LTD	3,000,000.00			Related party not withdrawing
Qin city development zone construction engineering trading center	2,860,000.00			Cash deposit not withdrawing
Shaanxi Diesel Engine Heavy Industry Co., LTD	2,583,725.68			Ecuador project acting mat the subcontractor
Harbin Huitong Engineering Company	2,325,082.36			Related party not withdrawing
Turkey speed horse project owner KOLIN company	2,138,301.11			Turkey project owners withholding taxes
Harbin Sanlian Industrial Development Corporation	2,000,000.00			Related party not withdrawing
State Power Integrity Tendering Co., Ltd	1,850,000.00			Cash deposit not withdrawing
National Power Parks Management Co. Ltd	1,668,380.35			The drum project receivable input tax paid
Beijing Turbine Power Engineering Co., LTD	1,135,848.02			Indonesia project acting mat the subcontractor
Beijing Guodian Engineering Bidding Co., LTD	1,055,189.00			Cash deposit not withdrawing
Jiangsu Shagang Group Co., LTD	800,000.00			Cash deposit not withdrawing
Complete Set Of Bidding Co., LTD. Hebei Province	800,000.00			Cash deposit not withdrawing
medical insurance premiums	746,774.49			Acting mat worker social security not provision
GE Electric International Inc	677,279.50	93.61	633,989.06	Forecast cannot take back
Seven Star Company	633,947.08	100.00	633,947.08	
Harbin Medical Insurance Center	599,249.48			Cash deposit not withdrawing
China Power Complete Equipment Co., LTD	500,000.00			Cash deposit not withdrawing
Others	45,691,696.29	12,081,631.93	26.44	
Total	173,785,835.99	13,349,568.07		

Notes to the 2016 Financial Statements (continued)

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

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

7. Other receivable (continued)

7.4 Bad debt provision situation of withdrawing, turn back and take back.

The bad debt provision of this year was CNY21,193,881.07.

Debtor	Nature	Closing balance	Aging	Proportion (%)	Closing balance of bad debt provision
Harbin Electric	Intercourse fund	162,095,125.59	Within 1 year	12.80	
refund of tax for export receivable	Export tax refunds	88,084,954.76	Within 1 year	6.96	
National Power Parks Management Co.Ltd	Acting mat clearance fee	68,503,998.69	Within 1 year	5.41	
Harbin Electric Industrial Development Corporation	Intercourse fund	62,982,138.98	Within 1 year, over 5 years	4.97	
CELECT	Ecuador hydroelectric receivable owner disbursements	53,420,004.87	Within 1 year	4.22	
Total	/	435,086,222.89		34.36	

8. Inventory

8.1 inventory shown as classification

Item	Book balance	Closing balance Inventory impairment provision	Book value
Raw material	3,420,691,404.34	274,655,605.27	3,146,035,799.07
Semi-manufactured and WIP	9,919,480,454.52	257,844,179.41	9,661,636,275.11
Finished Goods	436,751,287.73	19,180,133.09	417,571,154.64
Revolving materials (Wrappage, Low-value consumption goods)	13,795,954.21	23,010.35	13,772,943.86
Consumptive biological assets	3,218,431,700.45	38,638,132.04	3,179,793,568.41
Project Construction (outstanding settlements for completion)	5,458,981.96		5,458,981.96
Total	17,014,609,783.21	590,341,060.16	16,424,268,723.05

Notes to the 2016 Financial Statements (continued)

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

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

8. Inventory (continued)

Item	Book balance	Opening balance Inventory impairment provision	Book value
Raw material	3,609,796,580.60	249,819,977.01	3,359,976,603.59
Semi-manufactured and WIP	10,363,830,239.50	340,936,434.65	10,022,893,804.85
Finished Goods	435,468,544.67	34,439,210.48	401,029,334.19
Revolving materials (Wrappage, Low-value consumption goods)	14,581,777.29	14,581,777.29	
Consumptive biological assets	1,722,258,868.88	31,264,779.21	1,690,994,089.67
Project Construction (outstanding settlements for completion)	2,289,198.64		2,289,198.64
Total	16,148,225,209.58	656,460,401.35	15,491,764,808.23

8.2 Inventory falling price reserves

Items	Opening balance	Increase		Decrease		Closing balance
		Provision	Others	Back or reseller	Others	
Raw material	249,819,977.01	62,901,409.53		38,065,781.27		274,655,605.27
WIP	340,936,434.65	189,900,965.06		272,993,220.30		257,844,179.41
Inventory	34,439,210.48	17,908,561.09		33,167,638.48		19,180,133.09
Inventory material		23,010.35				23,010.35
Project construction	31,264,779.21	7,373,352.83				38,638,132.04
Total	656,460,401.35	278,107,298.86		344,226,640.05		590,341,060.16

9. Other current assets

Items	Closing balance	Opening balance
Bank financial products	1,800,000,000.00	2,800,000,000.00
Entrust loans	210,000,000.00	210,000,000.00
Deductible input tax and prepay VAT	117,684,693.53	
Prepay corporation income tax	10,783,896.46	57,294,659.76
Others	18,646.93	3,837.30
Total	2,138,487,236.92	3,067,298,497.06

Notes to the 2016 Financial Statements (continued)

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

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

10. Issuance of entrusted loans and advances

10.1 loans and advance distributed by individual and business

Items	Closing balance	Opening balance
Individual loan and advance	-	
— credit card	-	
— housing-mortgage	-	
— others	-	
Business loan and advance	6,648,294.00	
— loan	-	
— discount	6,648,294.00	
— others	-	
Total loan and advance	6,648,294.00	
less: Loans impairment reserve	97,206.82	
Include: individual provision amount	-	
Combination provision	97,206.82	
Book value of loans and advance	6,551,087.18	

10.2 loans and advance distributed by industry

Industry	Closing balance	Proportion (%)	Opening balance	Proportion (%)
Farming and animal husbandry and fishery				
Extractive industry				
Realty business				
Construction industry				
Finance and insurance industry				
Other industries	6,648,294.00	100.00		
Total loan and advance	6,648,294.00	100.00		
less: Loans impairment reserve	97,206.82	1.46		
include: individual provision				
Combination provision	97,206.82	1.46		
Book value of loans and advance	6,551,087.18			

Notes to the 2016 Financial Statements (continued)

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

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

10. Issuance of entrusted loans and advances (continued)

10.3 loan and advance distributed by area

Area	Closing balance	proportion (%)	Opening balance	proportion (%)
South China				
North China				
Other China	6,648,294.00	100.00		
Total loan and advance	6,648,294.00	100.00		
Less: loan impairment reserves	97,206.82	1.46		
Include: individual provision				
Combination provision	97,206.82	1.46		
Book value of loan and advance	6,551,087.18			

10.4 loan and advance distributed by guarantee

Items	Closing balance	Opening balance
Loan on credit	6,648,294.00	
Loan on guarantee		
Attached to the collateral loan		
Among: mortgage loans		
Hypothecated loan		
Total loan and advance	6,648,294.00	
Less: loan impairment reserves	97,206.82	
Among: individual provision		
Combination provision	97,206.82	
Book value of loan and advance	6,551,087.18	

10.5 loan loss reserves

Items	Current period		Preceding period	
	Individual	Combination	Individual	Combination
Opening balance	-			5,648,012.18
Provision this year	-	97,206.82		
Roll out this year	-			
Cancel after verification this year	-			
Switch back this year	-			5,648,012.18
— To recover the original written off loans and advances to turn it back	-			5,648,012.18
— Loans and advances for return discount value rising	-		-	
— Other factors lead to return	-		-	
Closing balance	-	97,206.82	-	-

Notes to the 2016 Financial Statements (continued)

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

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

11. Available-for-sale financial assets

11.1 Available-for-sale financial

Items	Closing balance			Opening balance		
	Book balance	Depreciation provision	Book value	Book balance	Depreciation provision	Book value
1. Available-for sale bond	50,000,000.00		50,000,000.00			
2. Available-for sale equity investment	44,595,000.00	4,000,000.00	40,595,000.00	47,291,000.00	4,000,000.00	43,291,000.00
Including: fair value				-		-
Cost measurement	44,595,000.00	4,000,000.00	40,595,000.00	47,291,000.00	4,000,000.00	43,291,000.00
3. Others						
Total	94,595,000.00	4,000,000.00	90,595,000.00	47,291,000.00	4,000,000.00	43,291,000.00

11.2 Available-for sale financial asset measure by cost measurement

Investee	Book balance			provision for diminution in value			shareholding investment in entities (%)	Current period cash dividend
	Opening balance	Increased	Decreased	Closing balance	Opening balance	Increased		
Jiangsu FengHaiXin Energy Desalination Development Co., LTD		15,000,000.00		15,000,000.00				8.33
CLP Joint Heavy Duty Gas Turbine Technology Co., LTD	12,000,000.00			12,000,000.00				12
Beijing Tsinghua Engineering Company	5,500,000.00			5,500,000.00				15
Shenyang Pump Co., LTD	4,000,000.00			4,000,000.00	4,000,000.00		4,000,000.00	1.09
Heilongjiang MingJia Turbine Co., LTD	4,000,000.00			4,000,000.00				10.53
Heilongjiang Ha New Heavens and a new Energy Investment Co., LTD	2,000,000.00			2,000,000.00				11.2
Harbin Power Equipment Logistics Co., LTD	1,000,000.00			1,000,000.00				3.1
Harbin Xin Embellish Precision Casting Industry Co., LTD	695,000.00			695,000.00				6.32
Beijing Full Three-dimensional Power Engineering Co., LTD	400,000.00			400,000.00				2.62
Yunnan Hydropower the Chengjiang Red Rock Co., LTD. (Group)	17,696,000.00		17,696,000.00					
Total	47,291,000.00	15,000,000.00	17,696,000.00	44,595,000.00	4,000,000.00		4,000,000.00	

Notes to the 2016 Financial Statements (continued)

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

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

11. Available-for-sale financial assets (continued)

11.3 change situation of available-for-sale financial assets for this period

Available for sale financial assets classification	Available for sale equity instruments	Available for sale debt instruments	Total
Provision at the beginning of the year	4,000,000.00	-	4,000,000.00
Provision for current period			
Among: from other comprehensive income			
Decrease this current period			
Among: FV recovered after the reporting date			
Provision at the end of the period	4,000,000.00	-	4,000,000.00

12. Long-term receivables

Items	Closing balance		Opening balance			
	Book balance	Bad debt provision	Book value	Book balance	Bad debt provision	Book value
Financing lease payment	4,566,613.71		4,566,613.71			
Among: unrealized financing income	474,590.51		474,590.51			
Instalment for sale goods						
Instalment for offer labor service						
Other				18,000,000.00		18,000,000.00
Total	4,566,613.71		4,566,613.71	18,000,000.00		18,000,000.00

Notes to the 2016 Financial Statements (continued)

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

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

13. Long-term equity investment

Investee	Opening balance	The current period changes							Closing balance	Impairment provision for impairment loss	Impairment provision at the end of the year
		Increasing	Decreasing	Under the equity method to confirm the investment profit and loss	Other comprehensive income adjustment	Other equity changes	Declaration of cash dividends or profits	Others			
1. Investment in subsidiaries											
Shenzhen Harbin Power Huihua Trading Company Limited	3,000,000.00								3,000,000.00	3,000,000.00	
Subtotal	3,000,000.00								3,000,000.00	3,000,000.00	
2. Associates											
General Electric — Harbin Power Services (Qinhuangdao) Company Limited	131,064,661.88		15,029,245.18				17,789,069.00		128,304,838.06		
Huludao Binhai Hydro Power Company Limited	52,280,647.09		-1,015,247.98						51,265,399.11		
Harbin Boiler & Container Company Limited	32,172,906.16		-14,918,097.41				600,000.00		16,654,808.75		
Harbin HE Liing Hydropower Equipment New Technology Development Co., Ltd.	5,992,208.43			433,903.58					6,426,112.01		
Harbin Huitong Power Engineering Company Limited	5,603,202.23			2,036,857.16			1,993,352.86		5,646,706.53		
Heilongjiang Harbin Hydropower Development Company Limited	4,778,212.60		150,000.00	148,862.23					4,777,074.83		
Harbin HE Petrol Station Co., Ltd	1,239,585.99			68,048.64			30,000.00		1,277,634.63		
Subtotal	233,131,424.38	-	150,000.00	1,783,571.40	-	-	20,412,421.86		214,352,573.92		
Total	236,131,424.38	-	150,000.00	1,783,571.40	-	-	20,412,421.86		217,352,573.92	3,000,000.00	

Notes to the 2016 Financial Statements (continued)

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

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

14. Investment properties

14.1 Investment properties measured by cost

Item	Housing and buildings	Land use rights	Construction in progress	Total
1. Original carrying value				—
(1) Opening balance	40,621,532.59			40,621,532.59
(2) Increase in the period	20,908,263.48			20,908,263.48
— acquired				
— inventory/fixed assets/ transfer from construction in progress	20,908,263.48			20,908,263.48
— increase in mergers of corporates				
— other increase				
(3) Decrease in the period	4,021,276.15			4,021,276.15
— Disposal	4,021,276.15			4,021,276.15
(4) Closing balance	57,508,519.92			57,508,519.92
2. Accumulated depreciation and accumulated amortisation				
(1) Opening balance	20,176,550.03			20,176,550.03
(2) Increase in the period	12,067,126.54			12,067,126.54
— provision or amortization	1,230,893.10			1,230,893.10
— inventory/fixed assets/ transfer from construction in progress	10,836,233.44			10,836,233.44
— other increase				
(3) Decrease in the period	2,707,981.07			2,707,981.07
— Disposal	2,707,981.07			2,707,981.07
(4) Closing balance	29,535,695.50			29,535,695.50
3. Provision for impairment				
(1) Opening balance				
(2) Increase in the period				
— Provision				
(3) Decrease in the period				
— Disposal				
(4) Closing balance				
4. Carrying Value				—
(1) Carrying value at the end of the period	27,972,824.42			27,972,824.42
(2) Carrying value in the beginning of the year	20,444,982.56			20,444,982.56

14.2 Investment real estate by the region and the years are as follows:

Items	Closing balance	Opening balance
In China	27,972,824.42	20,444,982.56
Medium-term (10 to 50 years)	27,972,824.42	20,444,982.56
Short-term (10 years)		
Total	27,972,824.42	20,444,982.56

Notes to the 2016 Financial Statements (continued)

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

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

15. Fixed assets

15.1 Status of fixed assets

Item	Housing and buildings	Machinery and equipment	Motor vehicles	Electronic equipment	Office facilities	Other	Total
1. Original carrying value							-
(1) Opening balance	4,286,279,344.36	7,063,383,584.37	383,334,611.78	558,387,433.71	238,839,674.75	9,273,130.01	12,539,497,778.98
(2) Increase in the period	105,334,489.12	395,028,303.22	21,689,959.32	34,933,332.65	17,330,690.30	23,961.54	574,340,736.15
— acquired	27,081,994.83	40,737,952.61	10,606,445.22	12,891,950.89	12,369,796.89	23,961.54	103,712,101.98
— transfer from construction in progress	78,252,494.29	349,170,823.21	11,083,514.10	22,041,381.76	4,960,893.41	-	465,509,106.77
— transfer from research and development expenditure		5,119,527.40					5,119,527.40
— increase in mergers of corporates							-
— other							-
(3) Decrease in the period	67,188,330.88	211,659,663.34	16,332,884.66	9,088,956.61	7,295,711.35	-	311,565,546.84
— Disposal or retired	1,734,693.78	73,235,224.21	14,192,292.61	3,521,253.03	5,591,503.19	-	98,274,966.82
Roll out	20,908,263.48		-	-		-	20,908,263.48
Other decrease	44,545,373.62	138,424,439.13	2,140,592.05	5,567,703.58	1,704,208.16	-	192,382,316.54
(4) Closing balance	4,324,425,502.60	7,246,752,224.25	388,691,686.44	584,231,809.75	248,874,653.70	9,297,091.55	12,802,272,968.29
2. accumulated depreciation							-
(1) Opening balance	1,248,379,148.89	4,394,948,485.16	295,913,917.07	387,732,506.07	162,926,556.18	5,435,840.73	6,495,336,454.10
(2) Increase in the period	149,763,517.72	438,477,523.39	27,552,065.12	50,940,059.42	20,292,516.35	1,760,312.10	688,785,994.10
— provision	149,763,517.72	438,477,523.39	27,552,065.12	50,940,059.42	20,292,516.35	1,760,312.10	688,785,994.10
— others							-
(3) Decrease in the period	41,171,743.06	164,687,483.39	14,340,012.25	4,744,974.29	6,655,159.70	-	231,599,372.69
— Disposal or retired	1,295,134.26	69,318,142.98	12,408,072.84	3,285,810.79	5,343,595.88	-	91,650,756.75
— roll out	10,836,233.44	-	-	-	-	-	10,836,233.44
Others	29,040,375.36	95,369,340.41	1,931,939.41	1,459,163.50	1,311,563.82	-	129,112,382.50
(4) closing balance	1,356,970,923.55	4,668,738,525.16	309,125,969.94	433,927,591.20	176,563,912.83	7,196,152.83	6,952,523,075.51
3. provision for diminution in value							-
(1) opening balance	751,795.25	19,143,878.40	1,010,456.46	2,462.93	-	-	20,908,593.04
(2) Increase in the period	-	543,843.13	-	-	-	-	543,843.13
— provision	-	-	-	-	-	-	-
— others	543,843.13	543,843.13					
(3) Decrease in the period	-	1,353,589.01	22,997.37	941.08	-	-	1,377,527.46
— Disposal or retired	-	1,353,589.01	22,997.37	941.08	-	-	1,377,527.46
— others							-
(4) Closing balance	751,795.25	18,334,132.52	987,459.09	1,521.85	-	-	20,074,908.71
4. Carrying value							-
(1) Carrying value at the end of the year	2,966,702,783.80	2,559,679,566.57	78,578,257.41	150,302,696.70	72,310,740.87	2,100,938.72	5,829,674,984.07
(2) Carrying value in the beginning of the year	3,037,148,400.22	2,649,291,220.81	86,410,238.25	170,652,464.71	75,913,118.57	3,837,289.28	6,023,252,731.84

Notes to the 2016 Financial Statements (continued)

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

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

15. Fixed assets (continued)

15.2 Fixed assets without property certificates

Certain land use rights and property ownership of the Company were dealt separately. The properties were not registered with property certificates.

15.3 Buildings according to the area and length of analysis is as follows:

Items	Closing balance	Opening balance
In China	2,966,702,783.80	3,037,148,400.22
Medium-term (10 to 50 years)	2,966,702,783.80	3,037,148,400.22
Short-term (10 years)		
Total	2,966,702,783.80	3,037,148,400.22

15.4 Other explanatory information

For details of restricted fixed properties of which ownership were charged and pledged, please refer to note V.(60) Fixed assets with restricted ownership.

Notes to the 2016 Financial Statements (continued)

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

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

16. Construction in process

16.1 status of construction process

Items	Closing balance			Opening balance		
	Remaining carrying amount	Provision for impairment	Carrying value	Remaining carrying amount	Provision for impairment	Carrying value
Nuclear power capacity building construction project	316,202,523.50	-	316,202,523.50	-	-	-
Production base construction projects	115,328,414.63	-	115,328,414.63	-	-	-
Four projects of key projects	74,388,033.09	-	74,388,033.09	-	-	-
Electric guomao building project	65,628,052.42	-	65,628,052.42	46,887,447.31	-	46,887,447.31
4050 project	58,005,389.90	-	58,005,389.90	48,986,059.67	-	48,986,059.67
Scientific research base in the north of the informatization construction	29,398,083.51	-	29,398,083.51	11,080,316.07	-	11,080,316.07
Major projects engineering — CPA1400 shielding electric pump (motor) rotor shaft developed alternative materials	27,568,038.13	-	27,568,038.13	-	-	-
General upgrading	20,169,238.65	-	20,169,238.65	-	-	-
Nuclear power base project	13,201,548.57	-	13,201,548.57	-	-	-
New Integrated Service Center	12,300,674.12	-	12,300,674.12	13,572,282.15	-	13,572,282.15
ERP project	12,079,014.43	-	12,079,014.43	12,131,455.87	-	12,131,455.87
813-16-1-1	10,674,909.14	-	10,674,909.14	10,674,909.14	-	10,674,909.14
Equipment technical improvement measures and equipment update (1813)	8,401,709.40	-	8,401,709.40	-	-	-
813-14-1-1 Portable nc seat ring	6,197,150.27	-	6,197,150.27	-	-	-
desulfurization test rig	5,658,201.70	-	5,658,201.70	-	-	-
[FX-030]CAP1400 The relief valve experiment system (infrastructure)	5,295,694.35	-	5,295,694.35	-	-	-
Scientific research base in the north of the underground garage, application for suspension project	5,214,256.45	-	5,214,256.45	-	-	-
K06-14-106 Retry station construction	673,665.51	-	673,665.51	13,986,835.58	-	13,986,835.58
Near the base of real estate, wharf project				30,950,475.69	-	30,950,475.69
813-13-1-106 Zhenjiang 263 boring mill				20,986,772.00	-	20,986,772.00
Nuclear power product technical reformation				19,518,018.12	-	19,518,018.12
Others				2,119,168.96	-	2,119,168.96
	51,088,801.06	2,464,997.19	48,623,803.87	158,360,362.07	3,008,840.32	155,351,521.75
Total	837,473,398.83	2,464,997.19	835,008,401.64	389,254,102.63	3,008,840.32	386,245,262.31

Notes to the 2016 Financial Statements (continued)

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

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

16. Construction in process (continued)

16.2 Significant changes in construction in progress

Project	Budget	Opening balance	Increase in the period	Amount transfer to fixed assets in the period	Other decreased amount in the period	Closing balance	Ratio of accumulated contribution to the construction to budget	Construction process	Interest on the accumulative amount of the capitalization	Including: capitalised amount if	Rate of capitalisation of interest in the period (%)	Source of funding
Nuclear power capacity building construction project	843,100,000.00		400,029,588.55	83,827,065.05		316,202,523.50	85	85	22,437,300.00	22,437,300.00	7.10	Self-raised
	900,000,000.00		255,954,744.69	5,674,999.98	134,951,330.08	115,328,414.63	28.44	28.44				Self-raised
Four projects of key projects	183,400,000.00	46,887,447.31	29,916,450.67	11,175,845.56		65,628,052.42	52	52				Country: 146700000, self-raised 36700000
Electric guomao building project	149,000,000.00	48,986,059.67	9,019,330.23			58,005,389.90	43.93	43.93	6,557,963.23	4,038,533.33		Self-raised
4050 project	40,500,000.00	11,080,316.07	18,352,563.79		34,796.35	29,398,083.51	72.59	72.59				Government grants
Scientific research base in the north of the informatization construction	590,000,000.00	13,986,835.58	16,790,373.47	3,209,170.92		27,568,038.13	5.22	5.22				Self-raised
Major projects engineering — CPA1400 shielding electric pump (motor) rotor shaft developed												
alternative materials	20,940,000.00	9,749,940.01	18,372,560.64	7,953,262.00		20,169,238.65	96.32	96.32				Self-raised
Nuclear power base project 1247101 — a new comprehensive service center	768,000,000.00	13,572,282.15	1,491,381.86	2,762,989.89		12,300,674.12	1.96	1.96				Self-raised
ERP project	18,960,000.00	12,131,455.87	40,000.00	92,441.44		12,079,014.43	64.00	64.00				Self-raised
Others	39,000,000.00	10,674,908.14	2,884,534.20	2,884,534.20		10,674,908.14	30.00	30.00				Self-raised
		222,184,856.83	359,929,126.52	347,928,797.73	64,066,125.22	170,119,060.40						
Total		389,254,102.63	1,112,780,654.62	465,509,106.77	199,052,251.65	837,473,398.83			28,995,263.23	26,475,833.33		

16.3 Provision for impairment loss of projects under construction in current situation

Items	Opening balance	Increases	decrease	Closing balance	Reason
Total	3,008,840.32		543,843.13	2,464,997.19	Idle cannot be used
cutting machine	378,608.00			378,608.00	Idle cannot be used
Liquid oxygen engineering	499,252.56			499,252.56	Idle cannot be used
Six hundred thousand test station detection system	668,570.61			668,570.61	Idle cannot be used
Stand and positioning steel drill repair	543,843.13		543,843.13		Idle cannot be used
Dryer	144,000.00			144,000.00	Idle cannot be used
Others	774,566.02			774,566.02	Idle cannot be used

17. Construction materials

Item	Closing balance	Opening balance
Engineering machinery and equipment	835,204.92	835,204.92
Total	835,204.92	835,204.92

Notes to the 2016 Financial Statements (continued)

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

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

18. Intangible assets

Items	Software	land use rights	Non-patented			Others	Total
			Patent	technology	franchise		
1. Original carrying value							-
(1) Opening balance	59,864,240.15	760,451,654.44	3,462,115.00	255,838,824.60	170,832,500.54	5,171,389.48	1,255,620,724.21
(2) Increase in the period	3,319,580.26	34,549,553.05	-	1,657,226.27	-	99,120.00	39,625,479.58
— acquired	3,319,580.26	34,549,553.05	-	1,657,226.27	-	99,120.00	39,625,479.58
— internal research and Development							
— other turn in		-	-	-	-	-	-
— increase in mergers of corporates							
— other							
(3) Decrease in the period	2,848,146.61	59,224,879.80	-	-	-	-	62,073,026.41
— disposal							
— roll out							
— others	2,848,146.61	59,224,879.80	-	-	-	-	62,073,026.41
(4) Closing balance	60,335,673.80	735,776,327.69	3,462,115.00	257,496,050.87	170,832,500.54	5,270,509.48	1,233,173,177.38
2. accumulated amortization							
(1) Opening balance	29,964,857.32	228,816,357.13	3,447,347.63	172,833,289.96	71,271,012.58	4,450,421.91	510,783,286.53
(2) Increase in the period	6,478,212.79	15,338,725.12	1,712.18	12,317,458.47	15,043,293.34	135,926.56	49,315,328.46
— provision	6,478,212.79	15,338,725.12	1,712.18	12,317,458.47	15,043,293.34	135,926.56	49,315,328.46
— increase in mergers of corporates							
— others							
(3) Decrease in the period	2,141,698.55	11,844,975.62	-	-	-	-	13,986,674.17
— disposal							
— roll out							
— other	2,141,698.55	11,844,975.62	-	-	-	-	13,986,674.17
(4) closing balance	34,301,371.56	232,310,106.63	3,449,059.81	185,150,748.43	86,314,305.92	4,586,348.47	546,111,940.82
3. Provision for impairment							
(1) Opening balance	-	-	-	8,402,511.71	-	-	8,402,511.71
(2) Increase in the period	-	-	-	28,413,362.62	-	-	28,413,362.62
— provision	-	-	-	28,413,362.62	-	-	28,413,362.62
— others							
(3) Decrease in the period							
— disposal							
— others							
(4) Closing balance	-	-	-	36,815,874.33	-	-	36,815,874.33
4. Carrying value							
(1) Carrying value at the end of the period	26,034,302.24	503,466,221.06	13,055.19	35,529,428.11	84,518,194.62	684,161.01	650,245,362.23
(2) Carrying value in the beginning of the year	29,899,382.83	531,635,297.31	14,767.37	74,603,022.93	99,561,487.96	720,967.57	736,434,925.97

Notes to the 2016 Financial Statements (continued)

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

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

19. Development disbursements

Items	Opening balance	Increase		Decrease		Closing balance
		Internal development expenditure	Confirmed as intangible assets	Recorded into the profits and losses of the current period	Recognized as fixed assets	
Key Specific Project-CPA1400 Research and manufacture of alternative materials for axis of covered electronic pump(machinery)	171,923,403.37	109,212,989.76		91,860,066.08	3,174,965.40	186,101,361.65
Introduction of key technology of high-end valves for 600-1000MW ultra-supercritical generating unit	3,744,000.00					3,744,000.00
AP1000MSR		1,380,000.00				1,380,000.00
HRIS (Human Resource Information System)		991,501.38				991,501.38
Ultra-supercritical 003	1,692,307.72			1,119,658.12		572,649.60
Ultra-supercritical evaluation system development and test of main steam safety valve test technology research	25,178.63	433,146.80		39,984.40		418,341.03
Heilongjiang province power station valve engineering technology research center		1,086,919.34		1,022,816.78		64,102.56
Research on technology and local production of explosion valves of AP1000 units	6,680,502.60			6,680,502.60		
Others	2,992,440.36	14,624,139.44		11,740,898.23	1,944,562.00	3,931,119.57
Total	187,057,832.68	127,728,696.72		112,463,926.21	5,119,527.40	197,203,075.79

20. Long-term deferred expenses

Items	Opening balance	Increase in the period	Amortised in the period	Other decreased amount	Closing balance
Jiangbei office building decoration	51,345,718.80		11,478,527.72	1,459,628.93	38,407,562.15
Improvement of the rented fixed assets		1,978,101.93	317,302.04		1,660,799.89
organization costs		882,752.89	58,410.22		824,342.67
Total	51,345,718.80	2,860,854.82	11,854,239.98	1,459,628.93	40,892,704.71

Notes to the 2016 Financial Statements (continued)

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

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

21. Deferred tax assets

21.1 Deferred income tax assets not yet eliminated

Items	Closing balance		Opening balance	
	Deductible temporary differences	Deferred income tax assets	Deductible temporary differences	Deferred income tax assets
Impairment of assets	1,789,708,498.73	277,332,886.34	1,419,474,972.22	218,884,481.12
Changes in fair value of hedging instruments included in other comprehensive interests	12,183,688.27	1,827,553.24	378,117,413.93	56,717,612.09
Estimate liabilities	427,634,077.58	64,145,111.63	331,674,509.10	49,751,176.36
Dismission welfare	53,784,785.90	8,067,717.89	56,596,237.81	8,489,435.69
Total	2,283,311,050.48	351,373,269.10	2,185,863,133.06	333,842,705.26

21.2 Breakdown of unrecognized deferred income tax

Items	Closing balance	Opening balance
Deductible temporary difference	2,709,770,735.70	5,524,119,977.91
Deductible loss	2,772,792,845.12	3,382,824,299.36
Total	5,482,563,580.82	8,906,944,277.27

22. Short-term borrowings

22.1 short-term liabilities shown as classification

Items	Closing balance	Opening balance
Pledged borrowings	—	—
Secured borrowings	17,000,000.00	11,000,000.00
Guaranteed borrowings	—	519,488,000.00
Unsecured borrowings	2,072,338,408.88	2,647,905,476.92
Total	2,089,338,408.88	3,178,393,476.92

Notes to the 2016 Financial Statements (continued)

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

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

23. Deposits and placements from other financial institutions

Items	Closing balance	Opening balance
Current deposit	2,097,188,535.43	1,317,495,761.33
Among: the company	2,097,188,535.43	1,317,495,761.33
Fixed time deposit	20,209,018.66	13,100,000.00
Among: the company	20,209,018.66	13,100,000.00
Call deposits	555,764,275.35	300,000,000.00
Among: the company	555,764,275.35	300,000,000.00
L/G(letter of guarantee)	900,317.21	837,500.00
Among: the company	900,317.21	837,500.00
Other deposits (including outward remittance, should be turned in to the remittance)		—
Total	2,674,062,146.65	1,631,433,261.33

24. Notes payable

Items	Closing balance	Opening balance
Bank acceptance	5,033,282,115.86	4,562,398,513.21
Trade acceptance	1,059,901,292.64	491,039,222.34
total	6,093,183,408.50	5,053,437,735.55

25. Account payable

25.1 account payable shown as aging

Items	Closing balance	Opening balance
Within 1 year	10,083,783,935.67	9,717,159,710.65
1–2 years	1,241,059,335.61	2,098,735,142.36
2–3 years	485,773,094.77	624,274,436.20
Over 3 years	423,637,992.70	597,774,338.88
Total	12,234,254,358.75	13,037,943,628.09

Notes to the 2016 Financial Statements (continued)

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

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

25. Account payable (continued)

25.2 significant accounts payable aging for more than a year

Items	Closing balance	Reason for outstanding or pay back
State Nuclear Power Technology Co., LTD	111,825,648.00	In process
INNOVIACONSULTANTSLTD	77,923,200.00	Not yet to the payback period
Silver Special Steel Tube Co., LTD	77,533,329.25	Not yet to the payback period
Shanghai Heavy Machinery Co., LTD	46,094,537.29	Owe to pay material money
Beijing Electric Power Equipment Factory Co., LTD	39,018,106.43	Not yet to the payback period
Shaanxi Diesel Engine Heavy Industry Co., LTD	28,314,006.00	Not yet to the payback period
Dalian Pie, Gas Systems Co., LTD	21,940,396.06	Owe to pay material money
Fujian Dragon Net Environmental Protection Co., LTD	19,550,000.98	Owe to pay material money
Catalyst Manufacturing Co., LTD. Chongqing	18,669,296.00	The amount owing to quality retention money, not a guarantee
Liaoning Fu Saddle Heavy Industry Co., LTD	15,900,667.41	Owe to pay material money
Wu Hanyi Constant Heavy Industry Co., LTD	15,059,449.19	The amount owing to quality retention money, not a guarantee
Xi 'an Xd International Engineering Co., LTD	12,899,999.99	Not yet to the payback period
Hangzhou Dawn Environmental Protection Engineering Co., LTD	12,556,000.00	Not yet to the payback period
Beijing North A Machine Tool Co., LTD	12,446,000.00	Project fund, has not yet to settle accounts
SEC Electric Machinery Co., Ltd	11,814,519.64	In process
Xiamen Abb High Voltage Switch Co., LTD	11,082,936.00	Not yet to the payback period
Shandong Taian Construction Engineering Group Co., LTD	11,003,187.45	Not yet to the payback period
Jilin Feit Power Station Equipment Manufacturing Co., LTD	10,521,122.43	The amount owing to quality retention money, not a guarantee
Beijing Full Three-dimensional Energy Technology Co., LTD	10,364,258.88	Owe to pay processing fee
Shanghai Blower Factory Co., LTD	10,201,874.00	Not yet to the payback period
ZhongTieJian Steel Structure Co., LTD	10,082,364.00	Not yet to the payback period
Total	584,800,899.00	

Notes to the 2016 Financial Statements (continued)

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

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

26. Advances from customers

26.1 Advances received by age

Items	Closing balance	Opening balance
Within 1 year	12,875,987,916.23	12,971,864,208.06
1–2 years	5,067,126,770.33	4,724,692,795.15
2–3 years	1,953,787,685.61	1,667,563,597.00
Over 3 years	2,806,634,392.87	2,103,169,714.05
Total	22,703,536,765.04	21,467,290,314.26

26.2 Significant advances received aged over 1 year:

Items	Closing balance	Reason for being outstanding or carried forward
China Nuclear Power Engineering Co	684,374,265.53	Contract under performance
Clp For Electric Power Engineering Co., LTD. (formerly China Power Investment Group Co., LTD.)	514,150,619.32	Contract under performance
Huadian Power International Supplies Co., LTD	348,873,169.00	Contract under performance
Hebei FengNing Pumped Storage Co., LTD	341,744,718.00	Contract under performance
SMNPC	310,781,433.72	Contract under performance
Fengcheng Three Phase Power Plant Overall Ganneng Co., Ltd	199,288,000.00	Contract under performance
China Zhongyuan International Engineering Co., LTD. Shanghai branch	199,044,720.87	Contract under performance
China Coal Energy Xinjiang Coal Electrochemical Co., LTD	191,520,000.00	Contract under performance
China Three Gorges Corporation	186,110,257.50	Contract under performance
Hainan Nuclear Power Co., LTD	181,331,566.94	Contract under performance
New Borui, India's coast energy companies to supply project)	149,671,921.60	Contract under performance
Guangzhou Nansha Development Electric Power Co., LTD	146,910,000.00	Contract under performance
China Shenhua Energy Company Victory	143,900,000.00	Contract under performance
Clp Cast Golden Concord Coastal Power Generation Co., LTD	140,814,000.00	Contract under performance
Jilin Province Dunhua Pumped Storage Co., LTD	136,798,650.00	Contract under performance
Guodian Zhejiang Can East Ningxia Power Generation Co., LTD	132,150,000.00	Contract under performance
Huaneng Lancang River Hydropower Co., LTD	125,455,360.00	Contract under performance
Huaneng Dam in Ningxia Power Plant Power Generation Co., LTD	119,800,000.00	Contract under performance

Notes to the 2016 Financial Statements (continued)

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

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

26. Advances from customers (continued)

26.2 Significant advances received aged over 1 year: (continued)

Items	Closing balance	Reason for being outstanding or carried forward
Shenhua Guohua Jiujiang Power Generation Co., LTD	115,338,600.00	Large units, production cycle is long
Shenhua, Fuzhou Luoyuan Bay Port Electric Co., LTD	105,861,600.00	Large units, production cycle is long
China Nuclear Engineering Co., LTD	103,601,908.17	Contract under performance
Total	4,577,520,790.65	

27. Employee benefits payable

27.1 Staff Remuneration Payable

Items	Opening balance	Increase	Decrease	Closing balance
Short-term Remuneration	145,529,163.37	2,531,035,163.10	2,509,308,550.34	167,255,776.13
Retirement benefit- Established Withdrawal and Deposit Scheme	219.71	389,565,014.33	389,565,234.04	
Termination benefits	48,143,088.69	36,642,913.27	67,761,965.37	17,024,036.59
Other benefits due within one year				
Others		420,754.80	420,754.80	
Total	193,672,471.77	2,957,663,845.50	2,967,056,504.55	184,279,812.72

27.2 Short-term Remuneration

Items	Opening balance	Increase	Decrease	Closing balance
(1) Salary, inducement, allowance and subsidies	587,317.52	1,727,607,792.33	1,727,723,320.41	471,789.44
(2) Employee benefits fee	-2,950.00	172,417,046.06	172,414,096.06	
(3) Social insurance fee	-2,441,787.35	146,562,313.45	146,429,848.21	-2,309,322.11
Including: medical insurance fee	-2,441,787.35	123,854,221.36	123,721,756.12	-2,309,322.11
Work injury insurance fee		13,922,668.41	13,922,668.41	
Maternity insurance fee		8,763,303.82	8,763,303.82	
Others			22,119.86	22,119.86
(4) Housing provident fund	1,080.00	184,872,721.04	184,873,801.04	
(5) Staff Union fee and Staff training cost	146,708,168.79	62,889,347.97	40,504,280.96	169,093,235.80
(6) Short-term paid leave				
(7) Short-term profit sharing scheme				
(8) Other short-term Remuneration	677,334.41	236,685,942.25	237,363,203.66	73
Total	145,529,163.37	2,531,035,163.10	2,509,308,550.34	167,255,776.13

Notes to the 2016 Financial Statements (continued)

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

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

27. Employee benefits payable (continued)

27.3 Established Withdrawal and Deposit Scheme

Items	Opening balance	Increase	Decrease	Closing balance
Basic retirement Insurance	219.71	304,243,714.52	304,243,934.23	-
Unemployment insurance fee		22,168,996.41	22,168,996.41	-
Corporate annuity		63,152,303.40	63,152,303.40	-
Total	219.71	389,565,014.33	389,565,234.04	-

28. Tax payable

Items	Opening balance	Current period payable	Current period paid	Closing balance
VAT	144,092,922.04	1,558,569,827.48	1,432,169,178.06	270,493,571.46
Business tax	34,917,847.93	1,256,915.74	36,098,682.52	76,081.15
Enterprise income tax	49,910,424.65	208,350,637.35	234,168,496.64	24,092,565.36
Individual income tax	22,950,778.27	71,105,076.94	70,159,262.51	23,896,592.70
Urban maintenance and construction tax	23,976,741.42	79,909,396.58	81,256,549.71	22,629,588.29
Property Tax	2,141,688.41	33,507,733.23	33,248,591.68	2,400,829.96
Educational Surtax	17,123,599.04	57,220,370.51	58,182,622.82	16,161,346.73
Land use tax	247,494.81	31,165,428.01	29,127,253.50	2,285,669.32
Others	4,952,675.13	25,123,484.76	24,621,674.96	5,454,484.93
Total	300,314,171.70	2,066,208,870.60	1,999,032,312.40	367,490,729.90

29. Interest payable

Items	Closing balance	Opening balance
Interests for long-term borrowings repayable with interests accrued in installments		77,345.28
Interests of corporate bond	120,866,666.66	120,866,666.66
Interests payable of short-term borrowings	35,236.11	11,806,883.62
Interests payable of deposits	15,853,214.24	9,262,718.42
total	136,755,117.01	142,013,613.98

Notes to the 2016 Financial Statements (continued)

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

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

30. Dividend Payable

Items	Closing balance	Opening balance
Ordinary stock dividends	6,936,931.73	5,292,426.30
Divided into equity instruments of the preferred stock dividend \ sustainable debt		
Others		
Total	6,936,931.73	5,292,426.30

Important dividend payable for more than one year

Company name	Closing balance	Opening balance	Reason for over one year not pay
Employee Stock Holding Committee	2,767,274.60	2,767,274.60	Financial strain
China Great Wall Asset Management	3,369,200.00	1,726,700.00	Has not get
Harbin Development Zone Infrastructure Development Co., LTD	297,135.61	297,135.61	Financial strain
New Capital of Atlantis Peak Industry & Trade Co., LTD	217,506.73	217,506.73	Financial strain
Harbin Huanya Micro-arc Technology Co., LTD	150,471.74	150,471.74	Financial strain
H Shares Unclaimed Dividends	88,616.27	88,616.27	Has not get
Harbin Xiangfang district neighborhood offices dawn		44,138.00	Has not get
Kim Kennedy Peng	318.52	318.52	Has not get
Kinkor	264.83	264.83	Has not get
Total	6,890,788.30	5,292,426.30	—

31. Other payable

31.1 other payable shown as age

Items	Closing balance	Opening balance
within one year	151,540,527.59	128,064,708.70
1–2 years	44,771,348.54	20,991,935.01
2–3 years	2,331,351.02	75,163,899.62
Over 3 years	108,427,706.83	42,001,688.29
Total	307,070,933.98	266,222,231.62

Notes to the 2016 Financial Statements (continued)

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

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

31. Other payable (continued)

31.2 Significant other payables aged over 1 year

Creditors	Outstanding amount	Age	Reasons for outstanding
Harbin City People's Government	12,060,000.00	Over 3 years	Has not pay
The Environmental Hydrogen Production Company	6,818,750.00	Over 3 years	Lease fee
Total	18,878,750.00		-

32. Current portion of non-current liabilities

Items	Closing balance	Opening balance
Long-term borrowings due within one year		74,450,000.00
Bonds payable due within one year		-
Long-term payables within one year		44,234,860.49
Total		118,684,860.49

33. Other current liabilities

Items	Closing balance	Opening balance
Long-term payables within one year		375,043,853.00
Financing lease accounts payable	134,893.80	
Total	134,893.80	375,043,853.00

34. Bonds payable

34.1 bonds payable details

Items	Closing balance	Opening balance
12 Hadian 01	2,997,952,500.00	2,996,197,500.00
Total	2,997,952,500.00	2,996,197,500.00

Notes to the 2016 Financial Statements (continued)

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

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

34. Bonds payable (continued)

34.2 Changes in bonds payable: (excluding other financial instruments classified as financial liabilities, other debt instruments, etc.)

Name	Book value	Issued date	Maturity of bond	Issuance	Opening balance	Issued current period	Provision for interest at par	Overflow discount amortization	Payback current period	Closing balance
12hadian01	3,000,000,000.00	2013/3/11	5 years	3,000,000,000.00	2,996,197,500.00		147,000,000.00	1,755,000.00	147,000,000.00	2,997,952,500.00
Total	/	/	/	3,000,000,000.00	2,996,197,500.00		147,000,000.00	1,755,000.00	147,000,000.00	2,997,952,500.00

18 February 2013 China Securities Regulatory Commission approved the issuance of corporate bonds with a Total face value of not more than RMB 4 billion to the public through the approval of the CSRC Grant [2013] No. 159. 11 March 2013 The Company issued a corporate bond (first issue) of Harbin Electric Co., Ltd. to the public on 11 March 2013, raising a Total of RMB3 billion and the annual coupon rate of 4.9%, and the interest paid on March 11. The period is 11 March 2013 to 11 March 2018. The current bonds with a single interest rate of interest, regardless of compound interest. The annual interest payment once, due to repayment, the last issue of interest paid with the principal paid together. The bonds are provided by HEC Group with full and unconditional irrevocable joint and several liability guarantee.

35. Long-term payable

Items	Closing balance	Opening balance
Accounts payable for fixed assets financing lease		11,257,889.40
Harbin electric group company	1,000,000.00	1,000,000.00
Total	1,000,000.00	12,257,889.40

36. Long-term employee benefits payables

Items	Closing balance	Opening balance
1. Post-employment benefits		
2. Termination benefits	80,192,909.50	88,474,620.62
3. Other long-term employee benefits		-
Total	80,192,909.50	88,474,620.62

Notes to the 2016 Financial Statements (continued)

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

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

37. Fees and commissions payable

Items	Opening balance	Increase	Decrease	Closing balance	Reason
Minkou key scientific research project funds	329,658,700.00	64,549,600.00	13,153,200.00	381,055,100.00	Government grants
Technology research on steam generator manufacturing	53,590,000.00	-		53,590,000.00	Government grants
Special fund for introducing local production to large-scale pumped-storage water turbine manufacturing	22,420,000.00	-	-	22,420,000.00	Government grants
Technology project for high-end digital control machine tools and basic manufacturing equipment	5,665,000.00	-	-	5,665,000.00	Government grants
Others	31,139,794.29		7,950,000.00	23,189,794.29	Government grants
Total	442,473,494.29	64,549,600.00	21,103,200.00	485,919,894.29	

38. Estimated liabilities

Items	Opening balance	Increase	Decrease	Closing balance
pending action	92,952,547.87	44,579,355.90	137,531,903.77	
Product quality assurance (note 1)	74,760,717.57	194,245,375.80	161,717,001.58	107,289,091.79
execute the loss of contract (note 2)	559,149,081.45	212,898,416.58	198,848,403.91	573,199,094.12
Other (note 3)		8,857,323.34		8,857,323.34
Total	726,862,346.89	460,580,471.62	498,097,309.26	689,345,509.25

Note 1: The product quality assurance is the quality assurance fee of 0.3%–0.5% of the Company's sales revenue.

Note 2: The loss contract to be executed is the estimated loss incurred by the Company in respect of the estimated Total cost of the contract which has not yet been executed.

Note 3: Other Items are the estimated liabilities recognized by Harbin Electrical Machinery Factory Co., Ltd. in accordance with the expected employee turnover compensation.

39. Deferred income

Items	Opening balance	Increase	Decrease	Closing balance	Reason
Government grants	210,355,746.66	12,755,516.96	49,472,621.11	173,638,642.51	
Total	210,355,746.66	12,755,516.96	49,472,621.11	173,638,642.51	

Notes to the 2016 Financial Statements (continued)

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

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

39. Deferred income (continued)

Items involved in government grants

Liabilities Items	Opening balance	New addition	Accounted for as non-operating income amount	Other changes	Closing balance	Associated with the asset/ related to earnings
Grants for the technology research base and ancillary in Jiangbei	40,679,738.89		1,363,566.66		39,316,172.23	Related to an asset
820-00-1104 Three gorges large-scale air-cooled units 820-00-1104	33,750,000.00		5,625,000.00		28,125,000.00	Related to income
Development of 600 MW hydro power generators	18,939,518.72		1,902,548.08		17,036,970.64	Related to income
Large turbine rotor welding equipment	8,346,800.00				8,346,800.00	Related to income
Zhenrunke (2014) No. 5 related to the application for the special fund for key technology projects	8,100,000.00				8,100,000.00	Related to income
Power management system and reform of power management system	7,400,000.00				7,400,000.00	Related to income
Development of CA 1400 half-speed saturated steam turbines	5,877,588.50				5,877,588.50	Related to income
Grants for the land for valves technology reform in power stations	5,303,333.33		212,133.34		5,091,199.99	Related to an asset
Research and Development of waterlubricating thrust bearing technology with no maintenance for 60 years, high radiation-resistance	5,290,000.00				5,290,000.00	Related to an asset
Grants for the localization of major equipment	5,000,000.00				5,000,000.00	Related to an asset
Others	71,668,767.22	12,755,516.96	40,369,373.03		44,054,911.15	
Total	210,355,746.66	12,755,516.96	49,472,621.11		173,638,642.51	

40. Paid-in capital

Shareholder's name	Opening balance	Capital increase	Bonus share	Increase(+) Decrease(-)		Sub-Total	Closing balance
				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
Total	1,376,806,000.00	-	-	-	-	-	1,376,806,000.00

Notes to the 2016 Financial Statements (continued)

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

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

41. Capital reserve

Items	Opening balance	Increase during the period	Decrease during the period	Closing balance
Capital surplus (share premium)	2,749,914,774.17	14,293,706.24		2,764,208,480.41
Other capital surplus	-			
Total	2,749,914,774.17	14,293,706.24		2,764,208,480.41

Note: The cause of the current capital reserves increase for Harbin power plant valve of Harbin electric group co., LTD to purchase rights and interests of minority shareholders.

42. Other comprehensive income

Items	Opening balance	The amount incurred in current period				Closing balance
		Current amount before the current income tax	Less: Earnings are included in other consolidated income	Less: income tax expense	After tax attribution to the parent company	
1. Other comprehensive income not reclassified subsequently to profit or loss						
Including: Changes in remeasurement on the net liability and net asset defined benefit scheme						
Items of other comprehensive income attributable to investees under equity method that are not reclassified to profit or loss						
2. Other comprehensive income to be reclassified subsequently to profit or loss	-321,038,700.14	3,056,238.63	-365,933,725.66	54,890,058.85	314,099,905.44	-6,938,794.70
Including: Items of other comprehensive income attributable to investees under equity method that may be reclassified to profit or loss						
Profit or loss from changes in fair value of available-for-sale financial assets						
Profit or loss from reclassification of held-to-maturity investments as available-for-sale assets						
Effective portion of the profit or loss on cash flow hedging	-321,399,801.87		-365,933,725.66	54,890,058.85	311,043,666.81	-10,356,135.06
Translation difference of financial statements in foreign currencies	361,101.73	3,056,238.63			3,056,238.63	3,417,340.36
Total other comprehensive income	-321,038,700.14	3,056,238.63	-365,933,725.66	54,890,058.85	314,099,905.44	-6,938,794.70

Notes to the 2016 Financial Statements (continued)

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

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

43. Specialized reserve

Items	Opening balance	Increase during the period	Decrease during the period	Closing balance
Production safety charges	11,122,854.40	23,140,711.17	18,462,416.69	15,801,148.88
Total	11,122,854.40	23,140,711.17	18,462,416.69	15,801,148.88

44. Surplus reserve

Items	Opening balance	Increase during the period	Decrease during the period	Closing balance
Statutory surplus reserve	786,529,945.86			786,529,945.86
Total	786,529,945.86			786,529,945.86

45. Retained earnings

Items	Current period	Preceding period
Balance before adjustment at the end of preceding period	8,104,055,926.70	7,968,943,488.04
Add: Increase due to adjustment (or less: decrease)		
Opening balance after adjustment	8,104,055,926.70	7,968,943,488.04
Add: Net profit attributable to owners of the parent company	413,282,692.39	196,211,527.85
Less: Appropriation of statutory surplus reserve		6,026,849.19
Appropriation of discretionary surplus reserve		
Appropriation of general risk reserve		
Dividend payable on ordinary shares	20,652,090.00	55,072,240.00
Dividend on ordinary share converted to share capital		
Others		
Closing balance	8,496,686,529.09	8,104,055,926.70

Notes to the 2016 Financial Statements (continued)

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

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

46. Operating revenue and operating cost

46.1 Breakdown of Operating revenue and Operating cost

Items	Current period		Preceding period	
	Revenue	Cost	Revenue	Cost
1. Main operation	30,749,840,369.47	26,480,745,654.15	24,926,169,195.45	21,618,225,597.35
Main thermal power equipment	12,169,545,679.76	9,886,112,064.34	9,331,655,577.92	7,337,454,851.26
Main hydro power equipment	2,484,169,071.08	2,294,377,165.10	2,705,715,002.37	2,658,379,475.87
Engineering services for power stations	9,912,653,082.76	9,122,676,142.39	6,819,315,182.61	6,328,715,914.11
Engineering services for power stations	1,437,705,553.48	1,209,666,608.23	1,747,543,909.54	1,466,606,265.57
AC/DC motors and other products and services	2,736,151,060.34	2,250,117,379.63	2,598,074,498.34	2,294,853,572.84
Nuclear power	2,009,615,922.05	1,717,796,294.46	1,723,865,024.67	1,532,215,517.70
2. Other operation	179,580,329.25	146,129,599.77	171,055,347.30	152,368,299.94
Selling materials	130,517,994.05	115,651,562.20	114,912,870.67	126,060,907.25
Technical service fees	16,221,095.31		12,153,514.81	1,306,030.43
Others	32,841,239.89	30,478,037.57	43,988,961.82	25,001,362.26
Total	30,929,420,698.72	26,626,875,253.92	25,097,224,542.75	21,770,593,897.29

Notes to the 2016 Financial Statements (continued)

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

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

46. Operating revenue and operating cost (continued)

46.2 construction contract

Top ten contract works with highest revenue recognized in the year are as below:

Project item	Contracted		Progress of Completion (%)	Accumulated		Accumulated gross profit recognized	Accumulated progress billings	Revenue recognized in current period	Cost recognized in current period
	value of the project	Total Cost of the project		revenue recognized	Accumulated cost recognized				
A. Fixed-price contract	29,650,382,461.14	28,765,159,236.60		18,646,671,090.08	18,044,861,583.44	601,809,506.64	18,974,247,792.28	8,923,877,066.54	8,828,343,518.70
Kay 1180 mw combined cycle power plant project in Pakistan	3,551,414,396.10	3,544,840,166.91	51.91	1,843,584,042.12	1,840,171,276.76	3,412,765.36	1,524,555,129.36	1,843,584,042.12	1,840,171,276.76
Ecuador 500 kv ehv power transmission and transformation projects	3,910,422,968.91	4,100,805,088.39	80.07	3,131,062,125.95	3,263,500,413.54	-152,438,287.59	2,537,289,905.36	1,295,139,002.00	1,535,101,712.06
Turkey speed horse 2 * 255 mw coal-fired power station project	3,436,707,101.43	3,069,513,506.91	46.25	1,589,390,539.51	1,419,572,743.56	169,817,795.95	2,128,788,824.82	1,155,907,480.19	1,004,075,406.88
Turkey the zetas project	3,903,109,207.67	3,740,783,929.59	91.98	3,589,891,985.51	3,440,593,007.74	149,298,977.77	3,506,072,921.42	926,757,411.77	837,322,545.13
Indonesia banten thermal power project	3,976,024,600.52	3,680,116,454.69	87.95	3,497,086,622.53	3,236,822,534.09	260,264,088.44	3,637,677,829.51	909,610,140.27	904,616,784.22
Beauty, Ecuador hydroelectric project	3,082,782,649.79	3,002,910,430.67	72.33	2,229,645,931.34	2,171,877,743.11	57,768,188.23	2,685,959,323.04	819,993,413.40	797,798,320.64
Bangladesh Baku 250 mw coal-fired thermal power project	1,864,287,483.11	1,784,739,930.94	39.83	742,636,775.14	710,949,099.21	31,687,675.93	883,286,332.48	631,604,076.94	600,326,757.54
Uzbekistan Angle even project	1,475,775,931.51	1,341,182,780.83	80.7	1,190,970,749.30	1,082,352,291.65	108,618,457.65	941,685,125.66	508,679,181.17	449,908,241.69
Best way kay 1223 mw combined cycle project in Pakistan	3,724,443,592.19	3,721,856,967.67	12.03	447,932,617.83	447,621,528.81	311,069.02	744,462,699.78	447,932,617.83	447,621,528.81
Nuclear tianwan [#]	725,414,529.91	778,410,000.00	52.85	384,469,700.85	411,400,944.97	-26,931,244.12	384,469,700.85	384,469,700.85	411,400,944.97

Notes to the 2016 Financial Statements (continued)

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

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

46. Operating revenue and operating cost (continued)

46.3 Expected loss for construction contract

Construction project	Expected loss amount	Reason for expected loss	Remarks
East Hope Project in Xinjiang	120,400,000.00	Expected income can't cover costs	
Ecuador 500 kv ehv power transmission and transformation projects	37,943,811.89	Expected project cost exceeds contract revenue	
Zhonghetianwan ^{4#}	26,064,225.97	Expected project cost exceeds contract revenue	
Shenhuaguohuajiujiang ^{2#}	22,830,418.69	Expected project cost exceeds contract revenue	
Huangdeng ^{2#}	19,062,969.76	1, the contract price is low, tons of low price; 2, power station is located in the remote location, the high cost of transportation, cost.	
Huangdeng ^{3#}	19,062,969.76	1, the contract price is low, tons of low price; 2, power station is located in the remote location, the high cost of transportation, cost.	
Huangdeng ^{4#}	19,062,969.76	1, the contract price is low, tons of low price; 2, power station is located in the remote location, the high cost of transportation, cost.	
Huangdeng ^{1#}	14,169,884.44	1, the contract price is low, tons of low price; 2, power station is located in the remote location, the high cost of transportation, cost.	
Shenhuaqioingluowna ^{1#}	10,540,054.36	Expected project cost exceeds contract revenue	
Tianwan ^{4#}	6,994,342.00	Relative to the haiyang same type unit, tianwan project contract price is low, import material price is high, the nuclear power processing is difficult	
Xunyang ^{2#}	4,603,378.08	1, the contract price is low, tons of low price; 2, power station is located in the remote location, the high cost of transportation, cost.	
Xunyang ^{3#}	4,603,378.08	1, the contract price is low, tons of low price; 2, power station is located in the remote location, the high cost of transportation, cost.	
Xunyang ^{4#}	4,603,378.08	1, the contract price is low, tons of low price; 2, power station is located in the remote location, the high cost of transportation, cost.	
Sanmen ^{3#}	3,047,350.43	Relative to haiyang same type unit, three project contract price is low, the import material price is high, the nuclear power project processing is difficult	
Sanmen ^{4#}	3,047,350.43	Relative to haiyang same type unit, three project contract price is low, the import material price is high, the nuclear power project processing is difficult	
Shenhuaguohuaningdong ^{1#}	2,926,121.56	Expected project cost exceeds contract revenue	
Shenhuaguohuaningdong ^{1#}	1,615,096.26	Expected project cost exceeds contract revenue	
Xunyang ^{1#}	1,234,787.76	1, the contract price is low, tons of low price; 2, power station is located in the remote location, the high cost of transportation, cost.	
Ecuador ace the lada thermoelectric project	694,320.15	Expected project cost exceeds contract revenue	
Total	322,506,807.46		

Notes to the 2016 Financial Statements (continued)

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

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

47. Interest income and interest expense

Items	Current period	Preceding period
Interest income	363,414,918.10	315,145,853.83
Interbank deposit	340,495,847.61	295,125,029.34
Deposit in central banks	14,204,519.09	13,411,507.51
Loans to other banks	637,222.21	1,083,055.55
Loans and advances paid	8,011,146.45	5,526,261.43
Including: Individual loans and advances		-
Company loans and advances	4,795,024.67	1,223,333.33
Discounted notes	3,216,121.78	4,302,928.10
Reverse-repo financial assets		-
Bond investments		-
Others	66,182.74	-
Including: Impaired financial asset interest income		-
Interest expense	6,358,429.84	13,626,239.13
Interbank deposit		-
Borrowings from central bank		-
Borrowings from other banks	18,861.11	
Absorbing deposit	6,358,429.84	13,607,378.02
Proceeds of REPO financial assets		-
Issue of bonds		-
Others		-
Net interest income	357,056,488.26	301,519,614.70

48. Handling charges and commission income, and handling charges and commission expenses

Items	Current period	Preceding period
Revenue from handling charges and commission	180,417.64	16,856.22
Settlement and clearing fees		-
Agency services fees		-
Credit fees and commission		-
Bank card fees		-
Advisory fees		-
Custodian and other fiduciary service fees		-
Others	180,417.64	16,856.22
Handling charges and commission expenses	19,292.43	20,456.39
Handling charges	19,292.43	20,456.39
Commission expenses		-
Net handling charges and commission income	161,125.21	-3,600.17

Notes to the 2016 Financial Statements (continued)

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

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

49. Business taxes and surcharges

Items	Current period	Preceding period
Business tax	1,349,797.55	37,707,866.88
City maintenance and construction tax	80,039,024.72	83,579,433.24
Education surcharge	34,400,697.01	35,905,917.50
Local education surcharge	22,911,965.04	23,936,662.12
Stamp tax	16,478,023.11	
Property tax	21,031,612.57	
Tenure tax	18,785,432.59	
Vehicle and vessel use tax	60,225.98	
Others	2,761.76	18,299.98
	195,059,540.33	181,148,179.72
Total		

50. Selling expenses

Items	Current period	Preceding period
Salary cost	202,788,429.39	186,608,895.80
Quality warranty expenses	200,748,525.59	221,747,548.12
Traveling expenses	77,132,736.38	82,909,951.99
Transportation expenses	66,248,319.17	68,814,234.33
Activity fee	17,989,115.90	14,484,089.32
Overseas funds	17,221,591.89	25,276,510.70
Consulting cost	17,063,798.03	25,944,588.38
Promotion expenses	6,413,434.41	6,087,178.69
Entertainment expenses	3,492,236.45	3,416,981.38
Office-related expenses	3,152,828.36	4,174,471.65
Others	25,982,876.40	39,332,803.05
	638,233,891.97	678,797,253.41
Total		

Notes to the 2016 Financial Statements (continued)

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

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

51. Administrative expenses

Items	Current period	Preceding period
Salary expenses	1,020,067,258.33	999,518,176.75
Research and development expenses	295,945,136.66	319,569,546.14
Depreciation and amortization expenses	192,026,270.04	188,021,289.91
Maintenance expenses	189,496,561.97	156,646,222.90
Travelling expenses for conferences	78,365,829.01	82,295,821.88
Service contracts	44,121,214.14	53,311,109.42
Administrative expenses	35,302,500.84	27,669,026.77
Tax	28,639,525.98	84,550,582.75
Oversea fund	17,500,170.64	20,357,002.44
Material consumption	14,793,702.82	14,415,416.44
Utility charges	14,766,844.04	13,096,092.29
Heating fee	12,861,682.06	13,015,050.37
Freight expenses	11,774,014.94	11,432,613.57
Entertainment expenses	8,807,469.38	8,622,470.61
Disabled employment security fund	8,541,223.97	5,311,328.04
Agency costs	8,064,268.79	8,312,503.84
Amortization of low cost and short lived articles	4,951,482.87	6,596,835.85
Consulting fee	4,758,579.48	4,376,168.21
Mintage	3,864,098.08	3,614,184.24
Insurance expenses	3,548,936.47	2,597,090.14
Others	138,497,133.65	143,802,028.09
Total	2,136,693,904.16	2,167,130,560.65

52. Finance expenses

Items	Current period	Preceding period
Interest expenses	273,617,831.40	298,426,637.62
Less: interest income	59,198,957.71	128,086,160.88
Exchange gain and loss	-87,277,521.94	-35,544,924.95
Handling charges	27,528,407.00	30,025,281.08
Others	-27,164,363.95	-2,572,390.41
Total	127,505,394.80	162,248,442.46

Notes to the 2016 Financial Statements (continued)

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

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

53. Impairment on assets

Items	Current period	Preceding period
Bad debts	268,757,610.17	329,717,744.44
Inventory write-down loss	278,107,298.86	136,002,225.80
Loan impairment	97,206.82	
Impairment loss of available-for-sale financial assets		2,000,000.00
Impairment loss of fixed assets		-
Impairment loss of construction in progress		-
Impairment loss of intangible assets	28,413,362.62	-
Total	575,375,478.47	467,719,970.24

54. Gain from fair-value changes

The source of gain on changes of fair value	Current period	Preceding period
Financial assets at fair value through profit or loss	9,110,127.34	-311,084,334.36
Including: gain on changes of fair value in derivative financial liabilities	9,110,127.34	18,664,554.53
Financial liabilities at fair value through profit or loss		-
Investment property at fair value		-
Total	9,110,127.34	-311,084,334.36

55. Investment income

Items	Current period	Preceding period
Cost accounting method of a long-term equity investment gains		
Income from long-term equity investments under equity method	1,783,571.40	9,682,378.19
Gains on disposal of long-term equity Investments	6,997,011.78	-264,729.87
Gains on holding financial assets at fair value through profit or loss		873,688.28
Gains on disposal of financial assets at fair value through profit or loss		591,001,087.79
Gains on holding held-to-maturity investments		-
Gains on holding available-for-sale financial assets	47,846,100.80	69,983,520.98
Gains on disposal of available-for-sale financial assets	1,475,753.43	2,174,794.52
After the loss of control, gains from remeasuring the remaining equity at fair value		
Others	-352,646,350.58	-54,405,076.93
Total	-294,543,913.17	619,045,662.96

Notes to the 2016 Financial Statements (continued)

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

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

56. Non-operating income

Items	Current period	Preceding period	Included in the amount of the non-recurring gains and losses of the current period
Gains on disposal of non-current assets	8,189,029.95	21,779,176.95	8,189,029.95
Including: Gains on disposal of fixed assets	8,189,029.95	21,779,176.95	8,189,029.95
Gains on disposal of intangible assets		-	
Gains on debt restructuring		484,221.70	
Gains on trading of non-cash assets		-	
Donation received		-	
Government grants	102,771,108.59	116,092,906.74	82,327,212.61
Others	10,166,735.13	20,250,227.43	10,166,735.13
Total	121,126,873.67	158,606,532.82	100,682,977.69

Government grants recognized into profit and loss in the current period

Items	Current period	Preceding period	Related to assets/ related to income
Government grants recognized into profit and loss in the current period	20,443,895.98	24,243,630.39	Related to income
Science and technology awards		11,458,938.57	Related to income
Demonstration project of energy saving technology innovation and industrialization of thermal power turbine		7,500,000.00	Related to income
Demonstration project of energy saving technology innovation and industrialization of thermal power turbine		6,500,000.00	Related to income
Three gorges large-scale air-cooled units	5,625,000.00	5,625,000.00	Related to income
Leading fund for Zhenjiang 2012 Runzhou emerging industries development	4,078,564.55	5,601,435.45	Related to income
2015 export subsidies in respect of services outsourcing and technology	3,550,000.00	5,000,000.00	Related to income
2014 interest subsidies for 65 current loans from province financial office		4,930,000.00	Related to income
Special fund for oceanic renewable energy		3,000,000.00	Related to income
Recruitment Program of 1,000 Global Experts- home-visit and living allowances for 2 talents	1,215,000.00	2,815,000.00	Related to income

Notes to the 2016 Financial Statements (continued)

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

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

56. Non-operating income (continued)

Government grants recognized into profit and loss in the current period (continued)

Items	Current period	Preceding period	Related to assets/ related to income
Rewards for import and export corporations 2014		3,282,000.00	Related to income
Development and application of optical binding technology for panel display		2,540,000.00	Related to income
Provincial subsidies for industry		2,354,000.00	Related to income
Rewards for key industrial project investment 2014		2,000,000.00	Related to income
Key industrial project 2014		2,000,000.00	Related to income
Development and application of ordinary processing components for turbine and gas turbine	210,659.43	1,420,737.09	Related to income
1.5MW direct-drive wind turbine		1,310,000.00	Related to income
Research on cooling technology for CAP1,400 nuclear power half-speed turbine in large-scale pressurized and high temperature gas-cooled nuclear power plant		1,176,735.20	Related to income
Research on dynamics of rotor for pump and waterwheel		1,173,167.10	Related to income
Grants for the land for valves technology reform in power stations		1,060,666.67	Related to income
Mayor quality award		1,000,000.00	Related to income
Subsidies for industrialization of leaching and anti-dizzy optical glass		1,000,000.00	Related to income
Research and development of key technology for 1,000MW double reheat supercritical boilers		666,667.00	Related to income
Grants for construction cost of new district	671,569.24	551,569.24	Related to income
Development of CA 1,400 half-speed saturated steam turbines		215,211.50	Related to income
Development of large-scale pumped storage water turbines		1,433.00	Related to income
Unemployment steady post subsidies	12,886,299.00		Related to income
Harbin city unemployment insurance fund management center of post allowance	9,991,848.00		Related to income
International cooperation project	3,760,000.00		Related to income
Complex structure with large thick electron beam welding technology and quality control	2,523,737.07		Related to income
National nuclear power major projects — Shanghai complete courtyard CAP1,000MW nuclear half speed steam turbine generator	2,184,816.68		Related to income
Ultra supercritical thermal power unit key valve is developed	2,000,000.00		Related to income
Industrial development cash incentives	2,000,000.00		Related to income
Harbin city financial state Treasury payment center first sets — 16 years industrial development of gold award	2,000,000.00		Related to income

Notes to the 2016 Financial Statements (continued)

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

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

56. Non-operating income (continued)

Government grants recognized into profit and loss in the current period (continued)

Items	Current period	Preceding period	Related to assets/ related to income
1,000 mw high efficiency wide load rate of the development and application of ultra supercritical units	1,829,903.96		Related to income
AP1,000 nuclear power half speed generator is developed	1,806,552.67	132,995.05	Related to income
Enterprise employs subsidy funds for college graduates	1,639,233.69	167,280.41	Related to income
Turn to the social security issue in 14/15 post subsidies	1,329,513.00		Related to income
1.5 mw half a direct-drive permanent magnet wind turbine development	1,200,000.00		Related to income
Patent technology subsidy funds	1,198,180.90		Related to income
1,000 mw digital design and manufacture of collaborative system	1,000,000.00		Related to income
The equipment manufacturing industry the first (set) product project	1,000,000.00		Related to income
Others	18,626,334.42	17,366,440.07	Related to income
Total	102,771,108.59	116,092,906.74	

57. Non-operating expenses

Items	Current period	Preceding period	Amount included in non-recurring profit or loss
Total loss on disposal of non-current assets	2,469,773.07	7,679,596.57	2,469,773.07
Including: Loss on disposal of fixed Assets	2,469,773.07	7,679,596.57	2,469,773.07
Loss on disposal of intangible Assets			
Loss on debt restructuring		-	
Loss on trading of non-cash assets		8,119.66	
Donation to external parties		-	
Others	162,949,022.36	122,122,257.27	42,514,181.90
Total	165,418,795.43	129,809,973.50	44,983,954.97

Notes to the 2016 Financial Statements (continued)

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

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

58. Income tax expense

Items	Current period	Preceding period
Current income tax calculated based on tax law and related regulations	194,055,270.91	193,786,106.61
Adjustment to deferred income tax	-28,479,970.82	30,786,039.11
Total	165,575,300.09	224,572,145.72

59. Supplementary information of cash flow statements

59.1 Supplementary information of cash flow statement

Items	Current period	Preceding period
1. Reconciliation of net profit to cash flow of operating activities		
Net profit	491,593,840.86	83,287,995.71
Add: Provision for assets impairment	575,375,478.47	467,719,970.24
Depreciation of fixed assets, depletion of oil and gas assets, depreciation of productive biological assets	690,016,887.20	706,523,916.01
Amortisation of intangible assets	49,315,328.46	56,246,205.22
Amortisation of long-term deferred expenses	11,854,239.98	7,324,893.96
Loss on disposal of fixed assets, intangible assets and other long-term assets (or less: decrease)	-5,684,416.42	-13,997,584.39
Loss on scrapped fixed assets (or less: decrease)	-	
Loss on change in fair value or less: decrease	-9,110,127.34	311,084,334.36
Financial expenses (or less: decrease)	216,825,945.72	298,426,637.62
Investment loss (or less: decrease)	294,543,913.17	-619,045,662.96
Decrease in deferred tax assets (or less: increase)	-87,293,996.03	15,737,283.98
Decrease in deferred tax assets (or less: increase)	-	-
Decrease in inventories (or less: increase)	-866,384,573.63	1,306,030,901.92
Decrease of operating receivables (or less: increase)	-1,907,691,904.04	693,164,981.97
Increase of operating payables (or less: decrease)	2,134,373,061.15	1,098,118,227.99
Others	41,238.87	
Net cash flows from operating activities	1,587,774,916.42	4,410,622,101.63
2. Significant investing and financing activities that do not involve cash receipts and payments		
Conversion of debt into capital		
Convertible company bonds due within one year		
Fixed assets held under finance leases		
3. Net movement in cash and cash equivalents		
Cash at the end of the period	17,204,139,648.41	17,178,496,464.76
Less: cash at the beginning of period	17,178,496,464.76	13,563,036,710.58
Add: cash equivalents at end of the period		
Less: cash equivalents at beginning of the period		
Net increase in cash and cash equivalents	25,643,183.65	3,615,459,754.18

Notes to the 2016 Financial Statements (continued)

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

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

59. Supplementary information of cash flow statements (continued)

59.2 The composition of cash and cash equivalents

Items	Current period	Preceding period
1. Cash	17,204,139,648.41	17,178,496,464.76
Including: Cash on hand	8,884,872.77	6,202,630.84
Bank deposit available for payment at any time	14,251,539,960.14	2,844,191,080.65
Other monetary funds available for payment at any time		
Deposits in central banks available for payment	9,421,521.52	605,122,059.14
Deposit in other banks	2,934,293,293.98	13,722,980,694.13
Loans to other banks		
2. Cash equivalents		
Including: Bond investment due in three months		
3. Cash and cash equivalents at the end of the period	17,204,139,648.41	17,178,496,464.76

60. Assets with title or use right restrictions

Items	Closing carrying amount	Reason
currency	885,773,431.13	The deposit of a bill of exchange, the legal deposit reserve of the central bank, etc.
fixed assets	87,419,164.68	Note1
intangible assets	27,375,988.97	Note1
Total	1,000,568,584.78	–

Note 1: In 2014, Harbin Electric Machinery Factory (Zhenjiang) Co., Ltd. and the Bank of China Co., Ltd. Zhenjiang branch signed three maximum mortgage contracts, namely: (1) to 17 (sets) of equipment for the collateral contract number (2) the maximum amount of the contract with the contract amount of 54,967,600.00 yuan; (3) the land for the mortgage; (2) the contract with the amount of \$ 29,937,700.00 the maximum amount of the mortgage contract; (2) the building construction as collateral contract number: 150319582E14061201-2, the contract amount of 54,967,600.00 yuan the highest amount of the mortgage contract; Contract number: 150319582E14061201-1, the contract amount of 21,991,830.00 yuan the highest amount of the mortgage contract.

Where the mortgage contract with the contract of 150319582E14061201-2 was expired on 1 June 2017 and the restriction of rights was lifted; the mortgaged contract with the land contract as 150319582E14061201-1 was issued in 2017 Expires on 1 June and lifts rights restrictions.

Notes to the 2016 Financial Statements (continued)

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

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

61. Foreign currency monetary Items

Items	Foreign currency at the end of the year	Exchange rate	Converted into RMB at the end of the period
Cash on hand			
Include: HKD	6,653,024.46	1.115	7,418,122.27
USD	225,668,120.77	6.937	1,565,459,753.76
PKR	144,374,904.46	0.066	9,558,719.84
AED	4,132,439.28	1.889	7,806,177.80
Sudanese pound	5,816,515.42	1.052	6,118,802.87
Other currency			3,627,586.98
Account receivable			
Include: USD	60,949,117.57	6.937	422,804,028.61
Other currency			1,326,913.43
Advance payment			–
Include: USD	65,978,463.11	6.937	457,692,598.60
EURO	90,050,087.61	7.315	658,742,411.16
PKR	5,628,598,437.19	0.662	372,656,146.53
Other currency			1,850,183.00
Other receivable			–
Include: USD	28,176,267.97	6.937	195,458,770.89
PKR	2,183,769,815.23	0.662	144,582,217.64
AED	10,467,607.95	1.889	19,773,311.41
Indonesian rupiah	24,428,983,420.00	0.0005	12,214,491.71
Other currency			13,069,791.35
Account payable			–
Include: USD	18,631,919.12	6.937	129,249,622.95
Indonesian rupiah	10,998,791,000.00	0.0005	5,499,395.50
Other currency			2,062,105.95
Advance from customers			–
Include: USD	1,218,448,715.84	6.937	8,452,378,741.76
PKR	7,282,631,850.80	0.066	482,165,774.02
Other currency			1,616,225.94

Notes to the 2016 Financial Statements (continued)

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

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

61. Foreign currency monetary Items (continued)

Items	Foreign currency at the end of the year	Exchange rate	Converted into RMB at the end of the period
Other payable			–
Include: USD	751,733.52	6.937	5,214,775.45
Other currency			1,920,060.69
Deposit taking			
Include: USD	1,104,127.99	6.937	7,659,335.87
Interest payable			
USD	1,579.03	6.937	10,953.73

VI. CHANGES IN THE CONSOLIDATED SCOPE

None.

Notes to the 2016 Financial Statements (continued)

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

VII. EQUITY IN OTHER ENTITIES

1. Equity in subsidiaries

1.1 Structure of the Group

Name of subsidiaries	Main Operation Address	Registration Place	Operating country	Nature of business	Shareholding Proportion (%)		Acquire method
					Directly	Indirectly	
Harbin Boiler Company Limited	Harbin	Harbin	China	Manufacturing industry	92.08		Shareholders invest
Harbin Electrical Machinery Company Limited	Harbin	Harbin	China	Manufacturing industry	89.63		Shareholders invest
Harbin Turbine Company Limited	Harbin	Harbin	China	Manufacturing industry	70.91		Shareholders invest
Harbin Electric International Company Limited	Harbin	Harbin	Pakistan, Ecuador, Turkey, etc	Manufacturing industry	100		Investment
Harbin Power Equipment National Engineering Research Centre Co., Ltd	Harbin	Harbin	China	Service industry	75		Investment
Harbin Power Technology & Trade Inc. ^{Note1}	Harbin	Harbin	China	Export trading	55.56	41.82	Investment
Harbin Electric Corporation (Qhd) Heavy Equipment Company Limited ^{Note2}	Qinhuangdao	Qinhuangdao	China	Manufacturing industry	34.15	65.15	Investment
Harbin Electric Power Equipment Company Limited	Harbin	Harbin	China	Manufacturing industry	100		Investment
He Harbin Power Plant Valve Company Limited	Harbin	Harbin	China	Manufacturing industry	100		Investment
Harbin Electric Corporation Finance Company Limited ^{Note3}	Harbin	Harbin	China	Finance	55	33.16	Under the same control enterprise merger
Chengdu Sanliya Technology Company ^{Note4}	Chengdu	Chengdu	China	Manufacturing industry	40.7		Acquire from liquidation
Shenzhen Ha Dynamic Hui Hua Industry and Trade Co., Ltd ^{Note5}	Shenzhen	Shenzhen	China	Trading	60		Investment
Harbin Electric Corporation	Harbin	Harbin	China	Other machinery and electronic products wholesale	100		Under the same control enterprise merger

Notes to the 2016 Financial Statements (continued)

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

VII. EQUITY IN OTHER ENTITIES (continued)

1. Equity in subsidiaries (continued)

1.1 Structure of the Group (continued)

The company's main subsidiary company director list as follows:

Wu Weizhang, Liu Zhiquan, Zhang Haiquan, Keen, Wang Wei, YiLiSong, Tie-min Li Zhuang, Song Before, Wang Gui, Guo Guangxin, FanXianFeng, Zhang Yanjun, Isaiah Cheung, The Dragon, Liu Xuhua, Sun Hongshuang, Jack Neo, Hong-wei Yao, Hao-yang Yu lu, Liu Wancheng, Wu Rusen, QuAiMin, LiuWeiMin, Guo Yu, Xiao-hong wang, Li-wei Zhang, ShangZhongFu, Yang, Zhang Lizhong, Zhang Qihong, its countries TaoXingMing, ZhongWeiBin, Jiang Qinghai, Wei-dong Li, Wang Shouge, Jonsson, Denis, Chen Maoyi, etc.

The shareholding ratio of the subsidiary is different from the voting percentage:

1. Harbin Power Technology & Trade Inc's ownership structure was The Company hold 55.55%. The subsidiary corporation Harbin Electric International Company Limited held 27.77%, Harbin Electrical Machinery Company Limited, Harbin Boiler Company Limited and Harbin Turbine Company Limited held 5.56%, respectively. The Company holds 97.38% of the shares after consolidated.
2. Harbin Electric Corporation (QHD) Heavy Equipment Company Limited's ownership structure was that The Company held 34.15%, subsidiary of The Company Harbin Electrical Machinery Company Limited, Harbin Boiler Company Limited, Harbin Turbine Company Limited held 21.95%, respectively. The Company held 89.60% after consolidated.
3. Harbin Electric Corporation Finance Company Limited's ownership structure war that The Company held 55.00%, Harbin Electric International Company Limited held 18.00%, Harbin Electrical Machinery Company Limited, Harbin Boiler Company Limited and Harbin Turbine Company Limited held 6.00%, respectively. The Company held 88.16% after consolidated.
4. Chengdu Sanliya Technology Company's shareholding structure is 40.70% owned by the Company and 40.70% of the voting rights. Since the Company has more than half of its board of director
5. The shareholding structure of The Company is 60% of the shares held by the Company, and the consolidation is not included in the consolidation scope.

Notes to the 2016 Financial Statements (continued)

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

VII. EQUITY IN OTHER ENTITIES (continued)

1. Equity in subsidiaries (continued)

1.2 Significant non – wholly owned subsidiary

Subsidiary name	Minority shareholder shareholding proportion (%)	Profit and loss attributable to minority shareholders for the current period	The dividend declared to minority shareholders for the current period	The balance of minority interests at the end of the period
Harbin Electrical Machinery Company Limited	10.37	-4,416,836.05		540,180,907.25
Harbin Boiler Company Limited	7.92	32,065,390.16	4,817,878.56	436,014,197.61
Harbin Turbine Company Limited	29.09	15,210,087.65		-23,593,001.45
Harbin Electric Corporation Finance Company Limited	9.00	12,309,756.75	2,281,341.17	166,807,616.64

1.3 Financial information of significant non-wholly owned subsidiaries

Subsidiaries Name	Current assets	Non-current assets	Closing balance			Total liabilities
			Total assets	Current liabilities	Non-current liabilities	
Harbin electrical machinery company limited	9,955,490,105.78	1,920,215,639.91	11,875,705,745.69	6,386,407,016.94	280,225,370.50	6,666,632,387.44
Harbin boiler company limited	19,814,766,086.23	1,758,939,754.54	21,573,705,840.77	15,790,589,897.19	294,833,860.03	16,085,423,757.22
Harbin turbine company limited	10,824,655,276.50	1,915,863,826.92	12,740,519,103.42	12,660,678,451.47	160,944,128.91	12,821,622,580.38
Harbin electric corporation finance Company limited	14,894,541,318.55	490,287,100.51	15,384,828,419.06	13,531,410,456.37		13,531,410,456.37

Subsidiaries name	Current assets	Non-current assets	Opening balance			total liabilities
			Total assets	Current liabilities	Non-current liabilities	
Harbin Electrical Machinery Company Limited	10,976,126,103.12	2,152,727,424.82	13,128,853,527.94	7,567,313,304.31	292,411,128.74	7,859,724,433.05
Harbin Boiler Company Limited	18,606,155,479.16	1,673,873,860.15	20,280,029,339.31	14,882,473,555.34	227,609,560.90	15,110,083,116.24
Harbin Turbine Company Limited	10,992,135,518.01	1,580,817,401.95	12,572,952,919.96	12,513,707,354.92	193,232,365.14	12,706,939,720.06
Harbin Electric Corporation Finance Company Limited	15,856,142,346.84	83,770,831.17	15,939,913,178.01	14,197,922,055.11		14,197,922,055.11

Notes to the 2016 Financial Statements (continued)

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

VII. EQUITY IN OTHER ENTITIES (continued)

1. Equity in subsidiaries (continued)

1.3 Financial information of significant non-wholly owned subsidiaries (continued)

Subsidiary name	Current period			
	Operating revenue	Net profit	Total comprehensive income	Operating cash flow
Harbin electrical machinery Company limited	4,615,804,100.34	-2,640,082.79	-2,640,082.79	39,818,600.16
Harbin boiler company limited	9,049,207,004.68	359,167,660.48	359,167,660.48	10,330,800.94
Harbin turbine company limited	5,385,324,707.52	52,286,310.25	52,286,310.25	-170,785,247.52
Harbin electric corporation Finance company limited	382,149,601.47	136,775,074.98	136,775,074.98	-848,811,399.26

Subsidiary name	Preceding period			
	Operating revenue	Net profit	Total comprehensive income	Operating cash flow
Harbin electrical machinery Company limited	4,658,746,647.31	-186,861,817.04	-186,861,817.04	1,048,885,752.79
Harbin boiler company limited	8,006,062,128.31	337,039,054.07	337,039,054.07	2,227,600,052.99
Harbin turbine company limited	4,237,321,463.63	-390,549,435.32	-390,549,435.32	1,196,116,672.86
Harbin electric corporation Finance company limited	324,907,229.64	126,741,175.94	126,741,175.94	4,178,550,032.89

2. Equity in the joint venture or the joint venture

2.1 Important joint ventures or associates

Name of joint venture or associates	Main business place	Registration address	Nature of business	Shareholding proportion (%)		Accounting method for investment in joint ventures or associates
				directly	indirectly	
General Electric — Kazakhstan Power Energy Services (Qinhuangdao) Limited	Qinhuangdao	Qinhuangdao	energy service	41		equity method
Huludao coastal water and electricity large liability company	Huludao	Huludao	manufacturing industry	50		equity method

Notes to the 2016 Financial Statements (continued)

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

VII. EQUITY IN OTHER ENTITIES (continued)

2. Equity in the joint venture or the joint venture (continued)

2.2 Important financial information of important associates

Items	General Electric – Kazakhstan Power Energy Services (Qinhuangdao) Limited	
	Balance at the end of the period/Occurrence of current period	Balance at the beginning of the year/Occurrence of the previous period
Current assets	280,695,281.45	292,001,517.86
Among: cash and cash equivalent		638,061.15
Non-current assets	101,005,718.71	87,958,976.12
Total assets	381,701,000.16	379,960,493.98
Current liabilities	67,708,378.82	58,975,591.97
Non-current liabilities		
Total liabilities	67,708,378.82	58,975,591.97
Minority shareholder's equity		
Attributable to shareholders' equity of parent company	313,992,621.34	320,984,902.01
Net assets calculated by shareholding proportion	128,736,974.75	131,603,809.82
Adjusting events		
– Goodwill		
– Unrealized profit for internal transaction		
– Others		
The book value of the equity investment in the joint venture	128,304,838.06	131,064,661.88
The fair value of the equity investment in the joint venture		
Operating revenue	222,739,400.87	223,700,565.59
Financial expenses	-3,588,255.06	-2,373,607.29
Income tax fee	12,636,276.05	12,532,508.64
Net profit	36,656,695.57	37,748,376.12
Net profit for termination of operating		
Other comprehensive income		
Total comprehensive income	36,656,695.57	37,748,376.12
The dividends received from the joint venture for the current year	17,789,069.00	14,378,159.00

Notes to the 2016 Financial Statements (continued)

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

VII EQUITY IN OTHER ENTITIES (continued)

2. Equity in the joint venture or the joint venture (continued)

2.2 Important financial information of important associates (continued)

Items	Huludao coastal hydropower big co., LTD	
	Balance at the end of the period/Occurrence of current period	Balance at the beginning of the year/Occurrence of the previous period
Current assets	76,255,087.90	73,935,814.50
Non-current assets	28,557,819.81	33,317,423.61
Total assets	104,812,907.71	107,253,238.11
Current liabilities	2,282,109.49	2,691,943.93
Non-current liabilities		
Total liabilities	2,282,109.49	2,691,943.93
Minority shareholder's equity		
Attributable to shareholders' equity of parent company	102,530,798.22	104,561,294.18
Net assets calculated by shareholding proportion	51,265,399.11	52,280,647.09
Adjusting events		
– Goodwill		
– Unrealized profit for internal transaction		
– Others		
The book value of the equity investment in the joint venture	51,265,399.11	52,280,647.09
The fair value of the equity investment in the joint venture		
Operating revenue	24,611,992.28	44,494,991.24
Net profit	-2,030,495.96	-5,255,063.01
Net profit for termination of operating		
Other comprehensive income		
Total comprehensive income	-2,030,495.96	-5,255,063.01
Contributions received from associates for the current year		

Notes to the 2016 Financial Statements (continued)

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

VII. EQUITY IN OTHER ENTITIES (continued)

2. Equity in the joint venture or the joint venture (continued)

2.3 Summary information of insignificant joint ventures and associates

Items	Balance at the end of the period/Occurrence of current period	Balance at the beginning of the year/ Occurrence of the previous period
Associates:		
Total book value of investment	34,782,336.75	49,786,115.41
The following items are calculated on a shareholding basis		
– Net profit	-14,223,778.66	-3,886,924.51
– Other comprehensive income		
– Total comprehensive income	-14,223,778.66	-3,886,924.51

VIII. RISK ASSOCIATED WITH FINANCIAL INSTRUMENTS

The Company faces various financial risks in the course of its business: credit risk, market risk and liquidity risk. The Board of Directors is responsible for the overall risk management objectives and policies and assumes ultimate responsibility for risk management objectives and policies. The objective of the Company's risk management is to strike a proper balance between risk and profit, to minimize the negative impact of risk on operating results and to maximize the benefits of shareholders and other equity investors. Based on the risk management objectives, the basic strategy of the Company's risk management is to identify and analyze the risks faced by the Company, to establish appropriate risk to bear the bottom line and to carry out risk management, and to monitor the risks in a timely and reliable manner, within the limits.

1 Credit risks

Credit risk refers to the risk that the party of a financial instrument does not fulfill its obligations and creates financial losses on the other side. The Company is mainly faced with credit risk caused by credit sales. Prior to signing the new contract, the Company will assess the credit risk of the new customer, including the external credit rating and, in some cases, the bank credit certificate (when this information is available). The company has set a credit limit for each customer, which is the maximum amount that does not require additional approval.

The company ensures that the company's overall credit risk is within a manageable range through quarterly audits of existing customer credit ratings and monthly reviews of accounts receivable aging analysis. In monitoring the customer's credit risk, according to the customer's credit characteristics of its grouping. Customers who are rated as "high risk" will be placed on the restricted customer list and the company will be able to credit it in the next period, subject to additional approval, otherwise it must be required to pay the corresponding payment in advance.

Notes to the 2016 Financial Statements (continued)

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

VIII. RISK ASSOCIATED WITH FINANCIAL INSTRUMENTS (continued)

2 Market risks

The market risk of financial instruments refers to the risk that the fair value of financial instruments or future cash flows fluctuate due to changes in market prices, including foreign exchange risk and interest rate risk. Company management believes that 31 December 2015, the company's major financial instruments do not exist significant market risk exposure, but the management will always monitor the risks.

(1) Interest rate risk

Interest rate risk refers to the risk that the fair value of financial instruments or future cash flows fluctuate due to changes in market interest rates. The Company's interest rate risk arises from interest-bearing debt such as bank borrowings and bonds payable. Floating rate of financial liabilities to the company facing cash flow interest rate risk, fixed rate of financial liabilities to the company facing the fair value of interest rate risk. The Company determines the relative proportion of fixed rate and floating rate contracts based on the prevailing market environment. The Company's risk of changes in the cash flow of financial instruments due to changes in interest rates is mainly related to floating interest rate bank borrowings. The Company's policy is to maintain the floating rate of these borrowings to eliminate the fair value of interest rate changes.

(2) Foreign exchange risk

Foreign exchange risk refers to the risk that the fair value of financial instruments or future cash flows fluctuate due to changes in foreign exchange rates. The Company's foreign exchange risk is mainly related to the US dollar, the euro, the Hong Kong dollar and the pound, etc. In addition to the Company's subsidiary Harbin Electric International Engineering Co., Ltd. in US dollars, euros, Hong Kong dollar and pound and other procurement and sales, the company's other major business activities are settled in Renminbi.

3 Liquidity risk

Liquidity risk refers to the risk of a shortage of funds when an enterprise is required to settle its obligations in the form of cash or other financial assets. The company's policy is to ensure that there is sufficient cash to repay debts due. Liquidity risk is controlled by the financial department of the Company. The finance department ensures that the company has sufficient funds to repay the debt at all reasonable forecasts by monitoring the balance of the cash, the readily available securities and the rolling forecast for the next 12 months of cash flow.

The financial assets and financial liabilities held by the Company are analyzed as follows:

items	Within one year
Financial assets and financial liabilities:	
monetary currency	18,089,913,079.54
Notes receivable	3,806,467,011.80
Account receivable	5,538,254,545.50
Other receivable	55,744,641.87
Short-term borrowing	2,089,338,408.88
Notes payable	6,093,183,408.50
Account payable	10,079,783,935.67
payroll payable	184,279,812.72
Other payable	308,238,441.27
Non-current liabilities due within one year	
Other current liabilities	134,893.80

Notes to the 2016 Financial Statements (continued)

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

IX. Disclosure of the fair value

The input values used for fair value measurement are divided into three levels:

The first level input is the unadjusted offer of the same asset or liability that is available on the measurement day in the active market.

The second level input value is a direct or indirect observable input value of an asset or liability other than the first level input value.

The third level input value is the unobservable input value of the associated asset or liability.

The level of the fair value measurement results is determined by the lowest level of the input value that is of significant importance to the fair value measurement as a whole.

X. RELATED PARTY RELATIONS AND THE RELATED PARTY TRANSACTIONS

1. Parent company information

Name	Registration place	Business nature	Registered capital	Shareholding proportion (%)	Voting proportion (%)
Harbin electric corporation	Harbin	power plant manufacture and sale	198,818.10	50.93	50.93

2. Subsidiary information

The detail information of subsidiary will present in note 7, equity of other main entities(1)on the subsidiaries.

3. The joint venture information

The important joint venture will list in note 7, equity of other main entities(2)on the subsidiaries.

4. Other related party information

Name of other related party	Relationship
HEC Industrial Development Company	Subsidiary controlled by the same parent company
Harbin Boiler Industrial Company	Subsidiary controlled by the same parent company
Harbin Electric Industrial Development Company Limited	Subsidiary controlled by the same parent company
Harbin Sanlian Industrial Development Company Limited	Subsidiary controlled by the same parent company
Harbin Industrial Kiln Associate	Subsidiary controlled by the same parent company
Archeng Relay Company Limited	Subsidiary controlled by the same parent company
Harbin Qing Yuan Electrical Material Co., LTD	Subsidiary controlled by the same parent company

Notes to the 2016 Financial Statements (continued)

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

X. RELATED PARTY RELATIONS AND THE RELATED PARTY TRANSACTIONS

(continued)

5. Related party transaction information

The transaction price between the company and related party is agreement price, the price in accordance with the unrelated party.

5.1 Sustainability related party's transactions

The company issued the 'sustainability related party transaction-product and service framework agreement', 'sustainability related party-financial service framework agreement' on 3 January 2014, the company signed the agreement with Harbin electric corporation of 'product and service framework' and 'financial service framework', the above agreement would effective form 1 January 2014 to 31 December 2016.

5.1.1 The transaction information of product and service

Related party	Current period	Preceding period
Selling goods		
– Controlled by the same parent company	17,637,264.48	9,463,847.31
– Affiliated company		
Purchase good		
– Controlled by the same parent company	45,224,616.25	114,201,168.95
– Affiliated company		
Service fee income		
– Holding company		
– subsidiary company	–	20,000.00
Service fee expense		
– Controlled by the same parent company	58,993,788.91	84,690,011.88

5.1.2 Interest paid on deposits

Related party	Current period	Preceding period
Holding company	4,906,561.92	12,743,377.80
Controlled by the same parent company	1,352,754.94	332,927.56
Affiliated company	99,112.98	
Total	6,358,429.84	13,076,305.36

Notes to the 2016 Financial Statements (continued)

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

X. RELATED PARTY RELATIONS AND THE RELATED PARTY TRANSACTIONS

(continued)

5. Related party transaction information (continued)

5.1 Sustainability related party's transactions (continued)

5.1.3 Interest income on discounted notes

Related party	Current period	Preceding period
Holding company		
Controlled by the same parent company	22,350.47	523.57
Total	22,350.47	523.57

5.1.4 Commissions and fees

Related party	Current period	Preceding period
Controlled by the same parent company	4,428.49	2,830.50
Total	4,428.49	2,830.50

5.1.5 Entrusted loan interest income

Related party	Current period	Preceding period
Holding company	4,802,410.90	
Controlled by the same parent company	8,546,438.68	11,259,558.33
Total	13,348,849.58	11,259,558.33

5.1.6 Entrusted management fees

Related party	Content of transaction	Current period	Preceding period
Harbin Electric Corporation	Entrusted Management fees	3,280,000.00	3,280,000.00
Total		3,280,000.00	3,280,000.00

Notes to the 2016 Financial Statements (continued)

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

X. RELATED PARTY RELATIONS AND THE RELATED PARTY TRANSACTIONS

(continued)

5. Related party transaction information (continued)

5.1 Sustainability related party's transactions (continued)

5.1.7 Remuneration of directors, supervisors and senior management

Unit: RMB YUAN

Name	Salary and other welfare	Retirement benefit scheme contributions	Total
1. Director			
(1) Executive director			
Mr. Si Ze-fu (Worked on 8/7/2016)	–	–	–
Mr. Wu Wei-zhang	382,860.00	114,511.00	497,371.00
Mr. Zhang Ying-jian	370,240.00	114,511.00	484,751.00
Mr. Song Shi-qi	382,860.00	101,268.00	484,128.00
Sub-Total	1,135,960.00	330,290.00	1,466,250.00
(2) Non-executive director			
Mr. Zou Lei (Retire from 28/5/2016)	–	–	–
(3) Independent non-executive directors			
Mr. Yu Bo	100,000.00	–	100,000.00
Mr. Liu Deng-qing	100,000.00	–	100,000.00
Mr. Yu Wen-xing	–	–	–
2. Supervisor			
Mr. Feng Yong-qiang	382,860.00	114,511.00	497,371.00
Mr. Chen Guang	375,177.00	71,739.00	446,916.00
Mr. Zhang Jun-quan	267,087.00	53,821.00	320,908.00
Mr. Zhang Wen-ming	269,971.00	18,624.00	288,595.00
Mr. Xu Er-ming (Independent supervisor)	100,000.00	–	100,000.00
Sub-Total	1,295,095.00	258,695.00	1,553,790.00
3. Senior management			
Mr. Liu Zhi-quan	382,860.00	107,760.00	490,620.00
Mr. Miao Li-jie (Retire from 21/9/2016)	283,359.00	83,228.00	366,587.00
Mr. Zhang Hai-quan	361,590.00	104,712.00	466,302.00
Mr. Qu Zhe	361,590.00	104,712.00	466,302.00
Mr. Wang De-xing (Worked on 25/10/2016)	–	–	–
Sub-Total	1,389,399.00	400,412.00	1,789,811.00
Total	3,820,454.00	989,397.00	4,809,851.00

Notes to the 2016 Financial Statements (continued)

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

X. RELATED PARTY RELATIONS AND THE RELATED PARTY TRANSACTIONS

(continued)

5. Related party transaction information (continued)

5.1 Sustainability related party's transactions (continued)

5.1.7 Remuneration of directors, supervisors and senior management (continued)

Name, position and remuneration of the top 5 remuneration:

Unit: RMB YUAN

Ranking	Position	Salary and other welfare	Retirement benefit scheme contributions
Top1	Director of Harbin Boiler Company Limited Party Secretary of Harbin Boiler Company Limited	805,020.00	129,238.00
Top2	Director of Harbin Electric International Company Limited	805,020.00	120,312.00
Top3	Party Secretary of Harbin Electric International Company Limited	751,300.00	115,200.00
Top4	Vice presidents of Harbin Boiler Company Limited	741,574.00	115,200.00
Top5		691,198.00	106,881.00
Total		3,794,112.00	586,831.00

5.2 Related transaction

28 March 2016, the company issued the 'Related transaction-electrical company transfer the share right of Kun electric company'. Details are as follows :

Related party	Content	Current period	Preceding period
Harbin electric corporation	Harbin Electrical Machinery Company Limited (Kunming)	169,090,630.19	

Notes to the 2016 Financial Statements (continued)

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

X. RELATED PARTY RELATIONS AND THE RELATED PARTY TRANSACTIONS

(continued)

6. Account receivable and account payable of Related party

6.1 Account receivable

Name	Related party	Closing balance		Opening balance	
		Book balance	Provision for bad debts	Book balance	Provision for bad debts
Account receivable					
	HEC Industrial Development Company	30,000.00		27,072.00	
	Jiamusi Electric Machine Company Limited			54,134.00	
Advances paid					
	HBC Industrial Development Company	25,000,000.00		21,014,000.00	
	Harbin Industrial Kiln Associate Harbin Boiler Company Limited	1,309,070.00		588,210.00	
	Harbin Electric Property Management Limited	837,500.00			
		91,500.00			
Other receivables					
	Harbin Electric Corporation	162,095,125.59			
	HEC Industrial Development Company	62,982,138.98		64,076,258.36	
	Harbin Sanlian Industrial Development Company Limited	3,100,000.00		2,000,000.00	
	Jiamusi Electric Machine Company Limited	3,000,000.00			
	Shenzhen Harbin Power Huihua Trading Company Limited	1,351,930.00	1,351,930.00	1,351,930.00	1,351,930.00
	HBC Industrial Development Company	57,560.00		55,544,192.72	
	Jiamusi Electric Machine Company Limited			3,000,000.00	
Dividend receivable					
	HBC Industrial Development Company	251,212.50		280,408.33	

Notes to the 2016 Financial Statements (continued)

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

X. RELATED PARTY RELATIONS AND THE RELATED PARTY TRANSACTIONS

(continued)

6. Account receivable and account payable of Related party (continued)

6.2 Account payable

Name	Related party	Book balance	
		Closing balance	Opening balance
Absorbing deposit			
	Harbin Electric Corporation	2,454,002,626.55	1,443,444,464.98
	HEC Industrial Development Company	92,346,578.17	18,139,716.85
	Harbin Boiler Industrial Company	50,990,469.33	94,558,985.49
	Harbin insulation material company	31,742,758.06	
	Jiamusi Electric Machine company	12,283,843.83	
	Harbin Sanlian Industrial Development Company Limited	6,547,807.32	5,601,157.58
	Jiamusi Electric Machine Limited Company	5,000,491.86	18,038,235.84
	Harbin Electric Property Management Limited	2,583,496.14	1,974,901.55
	Harbin Qingyuan Electric Material Co., Ltd.	2,517,175.07	8,426,541.15
	Archeng Relay Company Limited	2,398,396.68	
	Harbin Boiler Maintenance Hospital	2,166,840.21	4,381,999.12
	Harbin Turbine Industrial Integrated Services Management Company Limited	1,762,584.37	2,651,638.35
	Harbin Electrical Machinery Hospital	1,295,877.54	8,997,840.10
	HTC Industry Development Company	1,285,240.39	351,395.97
	Harbin Electric Metal Component Limited Company	1,227,475.36	
	Harbin Electric Material Trading (holding) Company	1,191,766.64	1,090,000.00
	Harbin steam turbine factory hospital	1,090,204.86	
	Harbin Boiler Company Limited	666,987.19	1,834,596.44
	Harbin Boiler Property Company Limited	394,797.94	387,698.27
	Harbin Electrical Machinery Kindergarten	371,663.62	60,980.35
	Harbin Electric Real Estate Agency Limited Company	241,827.84	270,676.12
	Harbin Industrial Kiln Associate	60,442.85	218,428.70
	Harbin Boiler Industry Development Kindergarten	1,329.86	
	Harbin Turbine Logistics Limited Company		1,002,637.62
	Harbin Boiler Power Station Equipment Limited Company		851,182.88

Notes to the 2016 Financial Statements (continued)

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

X. RELATED PARTY RELATIONS AND THE RELATED PARTY TRANSACTIONS

(continued)

6. Account receivable and account payable of Related party (continued)

6.2 Account payable (continued)

Name	Related party	Book balance	
		Closing balance	Opening balance
Trade payable			
	Harbin Electric Metal Component Limited Company	13,121,603.00	14,357,353.71
	Harbin Electric Material Trading (Holding) Company	11,186,039.67	763,471.47
	Harbin Boiler Limited Company	7,040,873.12	5,689,565.31
	HEC Industrial Development Company	1,520,158.50	489,350.53
	Harbin Electric Property Management Limited	1,348,355.00	1,136,328.96
	Jiamusi Electric Machine Limited Company	1,180,000.00	
	Harbin Electric Industrial Development Limited Company	937,997.30	939,077.30
	Harbin Industrial Kiln Associate	502,293.11	742,239.61
	Harbin Boiler Industrial Company	356,000.00	356,000.00
	Harbin Berg Electrical Structure Company Limited		43,450.00
	Harbin Qingyuan Electric Material Co., Ltd.		3,931,818.50
	Archeng Relay Company Limited		2,092,810.90
	Harbin Boiler Power Station Equipment Limited Company		1,692,256.42
	Harbin Electric Corporation		41,021.33
Bills Payable			
	Harbin Industrial Kiln Associate	1,230,446.57	317,524.56
	Harbin Electric Property Management Limited company	91,500.00	
Advanced receivable			
	Harbin Boiler Company Limited company	792.00	
Other payable			
	Harbin Electric Corporation	1,925,651,747.00	9,853,700.00
	Harbin Electric Industrial Development Limited Company	247,459.07	247,459.07
	Shenzhen Harbin Power Huihua Trading Limited Company		159,461.10
	General Electric — Harbin Power Services (Qinhuangdao) Limited Company		600,000.00
Long-term payable			
	Harbin Electric Corporation		1,000,000.00
Special payable			
	Harbin Electric Corporation		2,500,000.00
Interest payable			
	Harbin Electric Corporation		2,600,135.41

Notes to the 2016 Financial Statements (continued)

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

X. RELATED PARTY RELATIONS AND THE RELATED PARTY TRANSACTIONS

(continued)

7. Related party promiseion

None.

8. Others

None.

XI. SHARE-BASED PAYMENT

None.

XII. COMMITMENTS AND CONTINGENCIES

1. Significant commitments

Contracted but not acquire assets pledged

As of 31 December 2016, the Company has already signed but did not occur to purchase and purchase assets of the large amount of contract expenditures total 17,699.54 ten thousand, the specific situation is as follows:

Company	Contract amount not paid (ten thousand yuan)	Estimated investment period
Harbin electric company limited	2,617.95	In 2017
Harbin Turbine Company Limited	2,144.80	In 2017
Harbin Electric Power Equipment Company Limited	12,936.79	In 2017
Total	17,699.54	

Notes to the 2016 Financial Statements (continued)

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

XII. COMMITMENTS AND CONTINGENCIES (continued)

2. Contingencies

2.1 Internal and external guarantees

No	Guarantor	Name	Guarantee			Counter guarantee	Actual guaranteed amount	Include: increase actual guaranteed amount during the year	Status of guarantee	Overdue	Any litigation
			Nature	Way	Types						
		Total (Internal)				2,367,987,114.50	116,130,841.75				
1	HE Harbin Power Plant Valve Limited Company	Harbin Electric Power Equipment Limited Company	State holding	Joint-liability	Performance	No counter guarantee	4,290,000.00		In operation	No	No
2	HE Harbin Power Plant Valve Limited Company	Harbin Electric Power Equipment Limited Company	State holding	Joint-liability	Performance	No counter guarantee	5,220,852.00		In operation	No	No
3	HE Harbin Power Plant Valve Limited Company	Harbin Electric Power Equipment Limited Company	State holding	Joint-liability	Performance	No counter guarantee	727,741.00		In operation	No	No
4	HE Harbin Power Plant Valve Limited Company	Harbin Electric Power Equipment Limited Company	State holding	Joint-liability	Performance	No counter guarantee	47,000,000.00	47,000,000.00	In operation	No	No
5	Harbin Turbine Limited Company	Harbin Boiler Limited Company	State holding	Joint-liability	Performance	No counter guarantee	174,870,800.00		In operation	No	No
6	Harbin Electric Limited Company	Harbin Electric International Company Limited	State holding	Joint-liability	Other	No counter guarantee	602,346,010.05		In operation	No	No
7	Harbin Electric Limited Company	Harbin Electric International Company Limited	State holding	Joint-liability	Other	No counter guarantee	334,334,629.47		In operation	No	No
8	Harbin Electric Limited Company	Harbin Electric International Company Limited	State holding	Joint-liability	Other	No counter guarantee	331,481,443.79		In operation	No	No
9	Harbin Electric Limited Company	Harbin Electric International Company Limited	State holding	Joint-liability	Performance	No counter guarantee	174,921,495.17		In operation	No	No
10	Harbin Electric Limited Company	Harbin Electric International Company Limited	State holding	Joint-liability	Performance	No counter guarantee	155,262,000.00		In operation	No	No
11	Harbin Electric Limited Company	Harbin Electric International Company Limited	State holding	Joint liability	Other	No counter guarantee	140,835,000.00		In operation	No	No
12	Harbin Electric Limited Company	Harbin Electric International Company Limited	State holding	Joint-liability	Performance	No counter guarantee	140,835,000.00		In operation	No	No
13	Harbin Electric Limited Company	Harbin Electric International Company Limited	State holding	Joint-liability	Other	No counter guarantee	82,870,360.91		In operation	No	No
14	Harbin Electric Limited Company	Harbin Electric International Company Limited	State holding	Joint-liability	Other	No counter guarantee	82,870,360.91		In operation	No	No
15	Harbin Electric Limited Company	Harbin Electric International Company Limited	State holding	Joint-liability	Other	No counter guarantee	68,700,000.00	68,700,000.00	In operation	No	No
16	Harbin Electric Limited Company	Harbin Electric International Company Limited	State holding	Joint-liability	Other	No counter guarantee	20,990,579.45		In operation	No	No
17	Harbin Electric Limited Company	Harbin Electric International Company Limited	State holding	Joint-liability	Other	No counter guarantee	430,841.75	430,841.75	In operation	No	No

Notes to the 2016 Financial Statements (continued)

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

XII. COMMITMENTS AND CONTINGENCIES (continued)

2. Contingencies (continued)

2.2 Pending litigation

- (1) On 23 February 2006, Harbin Electrical Machinery Company Limited (“HEM”), a subsidiary of the Group, entered an industrial products sales and purchase contract with Xinxiang Second Lifting Equipment Sales Office (“Xinxiang Company”) to purchase a 500tons double-girder crane at a contract sum of RMB8,680,000. The Parties agreed that an accumulative equipment fee of RMB7,137,700 shall be paid from 2006 to 2009. Xinxiang Company failed to deliver the crane in a timely manner and the crane had lots of defect. The crane was out of function although it had been repaired by the Xinxiang Company for several times. To ensure no production interruption, HEM entered in to a maintenance contract with Dalian Daiqi Jiayi Port Lifting Equipment Company Limited on 26 March 2009 for the provision of maintenance services by HEM at total maintenance fees of RMB1,500,000. As HEM discontinued paying the remaining outstanding installments of RMB1,542,300 to Xinxiang Company, Xinxiang Company filed a litigation to Henan Provincial Xinxiang City Hongqi District People’s Court against HEM claiming for an amount of RMB4,406,700, including the remaining outstanding installments of RMB1,542,300 and default interests of RMB2,864,400. In August 2013, Henan Provincial Xinxiang City Hongqi District People’s Court granted a freezing order over HEM’s bank deposits of RMB2,500,000. HEM made an application to Henan Provincial Xinxiang City Hongqi District People’s Court to appeal against the decision and brought a litigation against Xinxiang Company claiming for an amount of approximately RMB2,083,200 as the default payment for the delay in the delivery of the goods, RMB1,500,000 for the repairs and maintenance costs spent together with the maintenance cost and the litigation fees for the appeal litigation in the future. Up to now has issued a civil ruling in Henan Province Higher People’s Court (2016) Pre-trial trial 541 retrial applicant Harbin Electric Machinery Co., Ltd. and the respondent Xinxiang City Lifting Equipment Co., Ltd. contract dispute case, Against the Xinxiang City, Henan Province Intermediate People’s Court (2015) the new people in the second word No. 78 civil judgment, apply to the Court for retrial. The Court has formed a collegiate bench to review the case and has now reviewed the end.

In summary, the withdrawal of the company’s application does not meet the “Civil Procedure Law of the People’s Republic of China” Article 200 of the situation. In accordance with the provisions of Article 204 of the Civil Procedure Law of the People’s Republic of China, the following shall be ruled as follows: The retrial application of Harbin Electrical Machinery Factory Co., Ltd. Shall be rejected.

- (2) In April 2007, Harbin Power Equipment National Engineering Research Centre Co., Ltd. (the “Research Centre”), a subsidiary of the Group, entered into a supply agreement with Hanwei Wind Power Generators (Daqing) Company Limited (“Hanwei Company”) for 10 sets of 1.5MW wind power generators units at a contract sum of RMB69,000,000. In November 2007, the parties entered into a supplementary agreement to revise the contract sum into RMB74,840,000. In June 2010, the Research Centre entered into another supplementary agreement with Hanwei Company, Heilongjiang Ruihai Technology Group Limited (the “Ruihai Company”) and Daqing Longjiang Wind Power Co., Ltd., pursuant to which the parties agreed the transfer of the rights and obligations under the agreement related to the 10 sets of 1.5MW wind power generators units from the Hanwei Company to the Ruihai Company. In June 2012, the Research Centre entered into a problem handling agreement with Ruihai Company for 3 sets of wind power generators at a sum of RMB18,660,000, pursuant to which the Research Centre shall pay RMB13,995,000 to Ruihai Company and the remaining balance of RMB4,665,000 shall be settled by way of deducting the purchase amounts which the Ruihai Company shall pay to the Research Centre, as if 3 sets out of 10 sets of wind power generators units had been supplied by the Research Centre under the original agreement. Up to now, the supply agreement between the Research Centre and Ruihai Company is related to 7 sets of 1.5MW wind power generators units.

Notes to the 2016 Financial Statements (continued)

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

XII. COMMITMENTS AND CONTINGENCIES (continued)

2. Contingencies (continued)

2.2 Pending litigation (continued)

(2) (continued)

Since the installment of wind power generators units in October 2007, commissioning activities have been ongoing to each wind power generators unit by the Research Centre. The operation of wind power generators units in 500–800KW under non-manned situation was satisfactory. The operation of No. 6 unit under electrical overload in 1.63MW was successful in the commission in September 2013. However, up to now none of the 7 sets of wind power generators units under the agreement has been delivered upon the check and acceptance of the user.

On 8 October 2013, Rehau Company submitted an arbitration application to Daqing Arbitration Commission regarding the contract issue of wind turbine generators with Research Centre, appealing against “unable to start commissioning arising from the failure in the delivery of wind turbine generators ordered since 2007”, and filed a claim for an amount of RMB192 million against Research Centre in this regard. On 28 November 2013, Research Centre made an application to Daqing Intermediate People’s Court for the confirmation of “invalidity of the arbitration agreement in respect of disputes over the supply contract of wind turbine generators for both parties”. On 23 April 2014, Daqing Intermediate People’s Court adjudicated on the arbitration agreement valid. Research Centre appealed to Supreme People’s Court of Heilongjiang Province forthwith upon its receipt of the adjudication. On 15 July 2014, a civil judgment of “(2014) Hei Li Min Jian Zi No. 28” was filed to both parties by the Supreme People’s Court of Heilongjiang Province in accordance with the applicable laws of the PRC to revoke the judgment from Daqing Intermediate People’s Court and declared the arbitration agreement invalid. Currently, both parties are in the process of further negotiation for such case.

The total investment of equipment from Research Centre in this project was RMB91.6945 million. Research Centre has entered into a contract with Hua Hai Wind Power Limited (hereinafter referred to as “Hua Hai Company”) for the purchase of 6 wind turbine generators with a contract sum of RMB36.18 million (currently not yet settled in full). 4 out of 6 wind turbine generators have been installed while Hua Hai Company only provided parts of the components for the remaining 2 generators. Further, Research Centre and Beijing Xinghang Electromechanical Equipment Factory (hereinafter referred to as “Xinghang Equipment Factory”) have entered into a supply contract for 2 wind turbine generators with a contract sum of RMB14.40 million (currently not yet settled in full), pursuant to which, it was provided that the payment shall be made after the 168-hour pilot operation of the generators as well as the check and acceptance of owners. In 2014, bank deposit amounting to RMB2,780,830.73 made by Harbin Power Equipment National Engineering Research Centre Co., Ltd in a financial company was frozen by People’s Court of Xiangfang District of Harbin.

The matter has been completed in 7 March 2017; the detail would be shown in the disclosure content after balance sheet date.

Notes to the 2016 Financial Statements (continued)

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

XII. COMMITMENTS AND CONTINGENCIES (continued)

2. Contingencies (continued)

2.2 Pending litigation (continued)

- (3) Harbin Power Equipment National Engineering Research Centre Co., Ltd (hereinafter referred to as "Research Centre"), a subsidiary of the Company, entered into a purchase contract for 4 permanent magnet wind turbine generators with Henan Ruifa Hydropower Equipment Company Limited (hereinafter referred to as "Ruifa Company") during 13 February 2007 to 5 March 2008. In 25 May 2009, Research Centre entered into a contract for 1X6500KW axial compressor of Yili People's Power Station with Ruifa Company. The contract set out that the equipment shall be processed and customised by Ruifa Company, and stipulated the product quality and relevant payment conditions. As the equipment produced by Ruifa Company did not meet the agreement thereto of both parties, Engineering Centre has not settled the balance.

On 25 February 2014, Ruifa Company made an application to People's Court of Xixia County of Henan Province for property preservation. Xixia Court accepted the application, and Engineering Centre, as the defendant, was adjudicated to be frozen with its bank deposit amounting to RMB2,797,380.00. This item has been completed.

- (4) Harbin Boiler company limited (hereafter referred to as Boiler Company) has a contract dispute with Beijing Railway Steel Structure Co., Ltd. Beijing Railway Steel Structure Co., Ltd Has entered the liquidation stage, Boiler Company has already declared RMB7,348,500 claims to the liquidation group, however, the liquidation group has not been liquidated, on November 2011, the Boiler Company apply the compulsory liquidation to Fangshan District Beijing people's court, on 13 July 2012, the court Granted to accept the Beijing railway steel structure co., LTD. Compulsory liquidation, 23 August 2013 formally placed on file. The litigation has not yet been settled.
- (5) In 2003, the boiler company signed a sales contract with Luoyang Sunshine Thermal Power Co., Ltd., and the boiler company fulfilled its contractual obligations in accordance with the contract. The project unit and the loan of Luoyang Sunshine Thermal Power Co., Ltd. amounted to RMB2,025,500. 22 April 2013 Luoyang Sunshine Thermal Power Co., Ltd. was Luoyang City Intermediate People's Court ruling bankruptcy reorganization, the boiler company in accordance with the law to enjoy the claims, but Luoyang Sunshine Thermal Power Co., Ltd. managers in the initial confirmation of creditor's rights notice only confirmed Part of the debt of RMB12.335 million (including the completion of RMB6 million, freight RMB435,000 and RMB5.6 million warranty). The corresponding liquidated damages, interest and the remaining RMB10 million debt Luoyang Sunshine Thermal Power Co., Ltd. did not confirm the administrator. By the boiler two appeals, 28 December 2015, Henan High Court issued a final verdict, does not support the boiler company's demands. The litigation has not yet been settled.
- (6) From 2008 to 2009, the Company entered into three contracts for the production of rigid beams and steel sub-contracts with the China Seventeenth Metallurgical Group Equipment Manufacturing Company (hereinafter referred to as the "seventeen-rule company"). The product was delivered to Sri Lanka at the Putram power plant site for serious corrosion quality problems, 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 RMB7,128,000. To this end, the boiler company has to Harbin Intermediate People's Court prosecution 17 rule company, requiring the company to compensate for construction costs, materials, liquidated damages, etc. a total of RMB7,137,300. At present, Harbin Intermediate People's Court has issued a first instance verdict, ruling 17 companies to compensate for the loss of boiler companies, but seventeen-rule company refused to accept the verdict, has filed an appeal to the Heilongjiang Provincial Higher People's Court. The litigation has not yet been settled.

Notes to the 2016 Financial Statements (continued)

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

XII. COMMITMENTS AND CONTINGENCIES (continued)

2. Contingencies (continued)

2.2 Pending litigation (continued)

- (7) 24 April 2015, the boiler company received a notice from the People's Court of Wuxi City Huishan District, 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, Boiler Company to pay the purchase price of RMB390.12 million and interest. After receiving the relevant materials, the boiler company to the court to challenge the court was rejected by the court immediately after the quality of Zhenhai waste heat furnace to the court counterclaim. The court held two hearings on 12 January 2016 and on 18 October 2016 and is currently awaiting a court decision. The litigation has not yet been settled.
- (8) 13 February 2015 Boiler Company and Jiangsu Denaite signed a contract for the sale of catalysts, the total amount of RMB14.3 million, the catalyst for the Friends of the Friends of the project. After the project is suspended, the boiler company asks for its postponement of delivery. July 2016, the plaintiff sued Jiangyin City People's Court, asked the boiler company to lift the contract and compensation for its loss of RMB9 million, refund the tender deposit of RMB800,000. Upon receipt of the relevant material, the boiler company immediately filed a jurisdiction objection to the court, 1 November 2016 received the court rejected the jurisdiction of the objection ruling, the boiler company will be filed within the statutory deadline. The litigation has not yet been settled.
- (9) Boiler Company and Jinhui Zhaofeng in February 2011 signed the "Xinjiang Jinhui Zhaofeng Energy Co., Ltd.-owned power plant 2x350MW supercritical unit boiler and denitration equipment supply contract", agreed by the boiler company to Jinhui Zhaofeng two Taiwan boilers and denitration equipment, the total contract price of RMB365.1 million. After the signing of the contract, the boiler company fulfilled the delivery obligation according to the contract, but Jinhua Zhaofeng owed the boiler company to 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 accepted the case in October 2016 and is currently awaiting court notice. The litigation has not yet been settled.

2.3 As of 31 December 2016, there are no other material contingent matters required to be disclosed.

Notes to the 2016 Financial Statements (continued)

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

XIII. EVENT AFTER BALANCE SHEET DATE

Harbin Power Equipment National Engineering Research Centre Co., Ltd (the "Research Centre"), a subsidiary of the Group has supply contract dispute with the wind generator of Heilongjiang Ruihao Technology Group Co., Ltd.

1. The background of contract dispute

In April 2007, Harbin Power Equipment National Engineering Research Centre Co., Ltd. (the "Research Centre"), a subsidiary of the Group, entered into a supply agreement with Hanwei Wind Power Generators (Daqing) Company Limited ("Hanwei Company") for 10 sets of 1.5MW wind power generators units at a contract sum of RMB69,000,000. In November 2007, the parties entered into a supplementary agreement to revise the contract sum into RMB74,840,000. In June 2010, the Research Centre entered into another supplementary agreement with Hanwei Company, Heilongjiang Ruihao Technology Group Limited the "Ruihao Company") and Daqing Longjiang Wind Power Co., Ltd. , pursuant to which the parties agreed the transfer of the rights and obligations under the agreement related to the 10 sets of 1.5MW wind power generators units from the Henwei Company to the Ruihao Company. In June 2012, the Research Centre entered into a problem handling agreement with Ruihao Company for 3 sets of wind power generators at a sum of RMB18,660,000, pursuant to which the Research Centre shall pay RMB13,995,000 to Ruihao Company and the remaining balance of RMB4,665,000 shall be settled by way of deducting the purchase amounts which the Ruihao Company shall pay to the Research Centre, as if 3 sets out of 10 sets of wind power generators units had been supplied by the Research Centre under the original agreement. Up to now, the supply agreement between the Research Centre and Ruihao Company is related to 7 sets of 1.5MW wind power generators units.

Since the installment of wind power generators units in October 2007, commissioning activities have been ongoing to each wind power generators unit by the Research Centre. The operation of wind power generators units in 500–800KW under non-manned situation was satisfactory. The operation of No.6 unit under electrical overload in 1.63MW was successful in the commission in September 2013. However, up to now none of the 7 sets of wind power generators units under the agreement has been delivered upon the check and acceptance of the user.

On 8 October 2013, Rehau Company submitted an arbitration application to Daqing Arbitration Commission regarding the contract issue of wind turbine generators with Research Centre, appealing against "unable to start commissioning arising from the failure in the delivery of wind turbine generators ordered since 2007", and filed a claim for an amount of RMB192 million against Research Centre in this regard. On 18 October 2013, the company received the Arbitration notice from the Daqing Arbitration Commission, and Research center made an application to Daqing intermediate People's Court for the confirmation of "invalidity of the arbitration agreement, and raising retrial application, after the application was rejected. Then, Delivered the arbitration commission to arbitrate, the arbitral court required discharge part of contract, and continue to preform the established contract,at the same time, the company was sentenced to pay RMB124,815,200 to Ruihao as economic compensation, and undertook the arbitration fee of RMB611,550, and pay the technique service fee of RMB50000, till now, this case had been completed on 26 September 2016.

On 7 March 2017, the research center and Ruihao Company achieve the mediation agreements; the research center should pay for the compensation amount to 60,000,000 due to discharge the contract of 'Purchase contract of 1,500KW constant frequency variable speed permanent magnet wind turbine generator set'. The company has a full provision for the estimated debts, the item has not yet paid.

2. Upon the approval of the passing of the 2016 annual profit distribution plan by the 38th meetings of the 7th section of the Board, the Board proposed the distribution of the 2016 final dividends of RMB0.03 per share (including applicable tax rates) by the Company.

Notes to the 2016 Financial Statements (continued)

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

XIV. OTHER SIGNIFICANT EVENTS

1 Segment information

1.1 The certain evidence and accounting policy of segment announcement

According to the internal organization structure, management requirement and internal reporting system, the reporting divided into 6 segments, which including: Thermal power host equipment division, water electricity host equipment division, plant engineering services division, ancillary equipment for power stations, nuclear power products division and ac and dc motor and others. Each division will provide the different products and services respectively, or engage in operating activities in different areas. However, each division needs different techniques and market strategies, the management of the company managed the operating activities of different division respectively, and evaluated the business performance of these divisions regularly, to decide to allocate resources and evaluate its performance.

The transfer price of division based on the actual transaction price, indirect costs attributable to each division shall be distributed in accordance with the proportion of income. The assets shall be distributed in accordance with the division operation and asset location, resulting form business activities including distribution division liability attributable to the division of debt. If some divisions share the debts, the related fees shall be distributed to these divisions, those liabilities also shall be distributed to these divisions.

1.2 The financial information of announcement divisions

1.2.1 Information of assets, liabilities and income

Items	Thermal power host equipment	Water and electricity host equipment	Plant engineering service	Ancillary equipment for power stations	Nuclear products	Ac and dc motor and others	Total
As at 31 December 2016							
Total amount of segment assets	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
Total amount of segment liabilities	31,926,028,088.07	3,511,695,625.65	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
January to December 2016							
Segment income							
Income from external customers	12,169,545,679.76	2,484,169,071.08	9,912,653,082.76	1,437,705,553.48	2,009,615,922.05	2,915,731,389.59	30,929,420,698.72
Income between segment	1,887,141,826.71	-	92,338,063.55	-	-	22,105,096.57	2,001,584,986.83
Segment income reportable	14,056,687,506.47	2,484,169,071.08	10,004,991,146.31	1,437,705,553.48	2,009,615,922.05	2,937,836,486.16	32,931,005,685.55
Segment gross margin reportable	2,268,490,756.14	189,791,905.98	791,174,419.30	228,038,945.25	291,819,627.59	519,484,410.19	4,288,800,064.45
As at 31 December 2015							
Total amount of segment assets	38,807,752,658.18	7,624,998,447.81	6,185,229,462.31	4,517,011,670.37	7,169,073,797.77	7,282,640,251.67	71,586,706,288.11
Total amount of segment liabilities	28,912,408,029.52	4,564,784,463.07	5,518,401,880.38	3,529,407,618.66	5,341,076,785.88	6,063,128,299.85	53,929,207,077.37
January to December 2015							
Segment income							
Income from external customers	9,331,655,577.92	2,705,715,002.37	6,819,315,182.61	1,747,543,909.54	1,723,865,024.67	2,769,129,845.64	25,097,224,542.75
Income between segment	2,595,927,684.39	-	189,297,423.17	-	-	38,279,725.77	2,823,504,833.33
Report segment income	11,927,583,262.31	2,705,715,002.37	7,008,612,605.78	1,747,543,909.54	1,723,865,024.67	2,807,409,571.41	27,920,729,376.08
Report segment gross margin	1,994,200,726.66	47,335,526.50	490,599,268.50	280,937,643.97	191,649,506.97	311,741,377.31	3,316,464,049.91

Notes to the 2016 Financial Statements (continued)

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

XIV. OTHER SIGNIFICANT EVENTS (continued)

1 Segment information (continued)

1.2 The financial information of announcement divisions (continued)

1.2.2 Information of assets, liabilities and income

Items	Closing balance	Opening balance
Assets		
Report segment assets	69,327,575,135.59	71,586,706,288.10
Offset segment related transaction	-19,045,066,245.01	-27,474,455,403.86
Report segment net assets	50,282,508,890.58	44,112,250,884.24
Deferred tax assets	351,373,269.10	333,842,705.26
Other current assets		
Financial asset and its change record in current profit and loss based on fair value		
Restricted and pledged bank borrowing		
Bank deposit	13,700,127,972.66	16,572,749,985.51
Central bank deposit	784,356,734.69	827,070,142.98
Cash and cash equivalent	9,428,115.83	837,186,029.23
Undistributed asset	739,712,735.13	1,480,145,750.92
Total assets	65,867,507,717.99	64,163,245,498.14
Liabilities		
Report segment liabilities	56,742,607,601.91	53,929,207,077.36
Offset segment related transaction	-8,566,004,447.68	-20,959,649,982.13
Report segment net liabilities	48,176,603,154.23	32,969,557,095.23
Tax payable	367,490,729.90	300,314,171.70
Undistributed liabilities	2,680,999,078.38	16,976,492,375.94
Total liabilities	51,225,092,962.51	50,246,363,642.87

Notes to the 2016 Financial Statements (continued)

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

XIV. OTHER SIGNIFICANT EVENTS (continued)

1 Segment information (continued)

1.2. The financial information of announcement divisions (continued)

1.2.2 Information of assets, liabilities and income (continued)

Items	Current period	Preceding period
Income		
Report segment income	30,929,420,698.72	25,097,224,542.75
Income between segment	2,001,584,986.83	2,823,504,833.33
Total income	32,931,005,685.55	27,920,729,376.08
Report segment gross margin	4,288,800,064.45	3,316,464,049.91
Offset segment loss	-13,745,380.35	-10,166,595.55
Report segment gross margin from external	4,302,545,444.80	3,326,630,645.46
Long-term equity investment gain based on equity method	16,019,530.10	9,682,378.19
Interest income	422,613,875.81	443,232,014.71
Government grants	102,771,108.59	116,092,906.74
Financial asset and its change record in current profit and loss based on fair value	-5,807,970.07	280,790,441.71
Financial liabilities and its change record in current profit and loss based on fair value		
Interest expense	279,976,261.24	312,052,876.75
Undistributed other income and net income	75,537,187.44	118,996,360.01
Undistributed expense	3,976,533,774.48	3,675,511,728.64
Total income	657,169,140.95	307,860,141.43

1.2.3 Area information

Items	Revenues from external customers	
	2016	2015
1. China	20,827,780,149.18	18,480,366,279.14
2. Overseas		
– Islamic republic of pakistan	2,736,523,125.80	94,404,372.94
– The republic of ecuador	2,351,295,259.49	1,607,956,398.59
– The republic of turkey	2,082,664,891.96	2,301,379,237.39
– The republic of indonesia	909,610,140.27	1,327,567,267.03
– Republic of india	209,737,512.71	74,826,182.03
– Other countries	1,811,809,619.31	1,210,724,805.63
Overseas subtotal	10,101,640,549.54	6,616,858,263.61
Total	30,929,420,698.72	25,097,224,542.75

Notes to the 2016 Financial Statements (continued)

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

XV. NOTES TO ITEMS OF PARENT COMPANY FINANCIAL STATEMENTS

1. Account receivables

1.1 Disclosure of accounts receivable by categories

Categories	Closing balance					Opening balance				
	Book balance		Provision for bad debts		Book value	Book balance		Provision for bad debts		Book value
	Amount	proportion (%)	Amount	Provision proportion (%)		Amount	Proportion (%)	Amount	Provision proportion (%)	
Receivables of individually significant amount and with provision made on an individual basis						-				-
Receivables with provision made on a collective basis using portfolios with similar credit risk features	508,893,962.00	99.97	204,017,180.13	40.09	304,876,781.87	1,002,825,177.38	100.00	155,811,549.92	15.54	847,013,627.46
Receivable of individually insignificant amount but with provision made on an individual basis	159,000.00	0.03	-	-	159,000.00	45,000.00	-	-	-	45,000.00
Total	509,052,962.00		204,017,180.13		305,035,781.87	1,002,870,177.38	/	155,811,549.92	/	847,068,627.46

In the groups, provision for bad debts for accounts receivable are made using aging analysis:

Age	Closing balance			Opening balance		
	Account receivable	Provision for bad debts	Provision proportion	Account receivable	Provision for bad debts	Provision proportion
Within 1 year	112,000,101.94	5,600,005.10	5.00	577,542,384.98	-	-
1-2 year	170,564,549.24	42,641,137.31	25.00	242,571,307.98	12,128,565.40	5.00
2-3 years	108,403,995.25	54,201,997.63	50.00	33,399,968.85	16,699,984.43	50.00
3-4 years	14,013,800.00	11,211,040.00	80.00	111,642,577.38	89,314,061.90	80.00
4-5 years	67,742,577.38	54,194,061.90	80.00	-	-	-
Over 5 years	36,168,938.19	36,168,938.19	100.00	37,668,938.19	37,668,938.19	100.00
Total	508,893,962.00	204,017,180.13		1,002,825,177.38	155,811,549.92	

Notes to the 2016 Financial Statements (continued)

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

XV. NOTES TO ITEMS OF PARENT COMPANY FINANCIAL STATEMENTS (continued)

1. Account receivables (continued)

1.1 Disclosure of accounts receivable by categories (continued)

Receivable of individually insignificant amount but with provision made on an individual basis:

Account receivables (entity basis)	Closing balance			
	Account receivable	Provision for bad debt	Provision proportion	Provision reason
Harbin Electric International Company Limited	159,000.00			No provision for related party
Total	159,000.00			/

1.2 Provisions made, collected or reversed in current period

Provision for bad debts made in current period totaled RMB48,205,630.21.

1.3 Particulars of the top five of accounts receivables at the end of the period

Name	Closing balance		
	Account receivables	Percentage of the total accounts receivable (%)	Provision for bad debts
Shandong Nuclear Power Limited Company	100,213,566.01	19.69	20,936,210.59
Huaneng Lingang (Tianjin) Gas Thermal Power Co., Ltd.	61,722,820.00	12.13	30,861,410.00
Datang Power Company Limited Beijing Gaojing Thermal Power Plant	54,712,860.00	10.75	13,580,382.20
China National Electric Engineering Corporation	47,980,470.52	9.43	2,399,023.53
Zhejiang Datang Jiangshan Electric Power Co., Ltd.	44,562,814.58	8.75	32,771,174.09
Total	309,192,531.11	60.74	100,548,200.41

Notes to the 2016 Financial Statements (continued)

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

XV. NOTES TO ITEMS OF PARENT COMPANY FINANCIAL STATEMENTS (continued)

2. Other receivables

2.1 Disclosure of other receivables by categories:

Categories	Book balance		Closing balance		Book value	Book balance		Opening balance		Book value
	Amount	Proportion (%)	Amount	Proportion (%)		Amount	Proportion (%)	Amount	Proportion (%)	
Other receivables of individually significant amount and with provision made on an individual basis	1,575,459,734.31	99.34	12,438,741.38	0.79	1,563,020,992.93	1,664,985,424.83	98.26	-	-	1,664,985,424.83
Other receivables with provision made on a collective basis using portfolios with similar credit risk features	4,608,249.77	0.29	1,954,246.90	42.41	2,653,902.87	3,027,616.28	0.18	3,007,467.88	99.33	20,148.40
Other receivable of individually insignificant amount but with provision made on an individual basis	5,831,347.39	0.37	458,242.40	7.86	5,373,104.99	26,540,795.40	1.57	-	-	26,540,795.40
Total	1,585,899,331.47		14,851,330.68		1,571,048,000.79	1,694,553,836.51	/	3,007,467.88	/	1,691,546,368.63

Other receivables of individually significant amount and with provision made on an individual basis at the end of the period

Other receivables	Other receivables	Closing balance Provision for bad debt	Provision proportion (%)	Provision reason
Harbin Electric Corporation (QHD) Heavy Equipment Limited Company	622,919,721.12			No provision for Related party
Harbin Turbine Limited Company	490,952,437.30			No provision for Related party
Harbin Electric Power Equipment Limited Company	335,051,039.53			No provision for Related party
Harbin Power Technology & Trade Inc.	70,168,577.33			No provision for Related party
Chengdu Sanliya China Clay Limited Company	16,287,817.39			No provision for Related party
Harbin Electric Group Harbin Power Station Valve Co., Ltd.	13,541,400.26			No provision for Related party
Harbin Electric Machinery Company Limited.	13,000,000.00			No provision for Related party
Other receivables on Jiangbei items	8,390,706.00	8,390,706.00	100	Cannot recover
Gas turbine division margin	2,696,105.38	2,696,105.38	100	Cannot recover
Huihua	1,351,930.00	1,351,930.00	100	Cannot recover
Harbin Sanlian Industrial Development company	1,100,000.00			No provision for related party
Total	1,575,459,734.31	12,438,741.38		

Notes to the 2016 Financial Statements (continued)

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

XV. NOTES TO ITEMS OF PARENT COMPANY FINANCIAL STATEMENTS (continued)

2. Other receivables (continued)

2.1 Disclosure of other receivables by categories: (continued)

In the groups, provision for bad debts for other receivables are made using aging analysis:

Age	Closing balance			Opening balance		
	Other receivable	Provision for bad debt	Provision proportion	Other receivable	Provision for bad debt	Provision proportion
Within 1 year	2,780,403.24	139,020.16	5.00	8,293.45	–	–
1–2 years	8,293.45	2,073.36	25.00	12,345.00	617.25	5.00
2–3 years	12,345.00	6,172.50	50.00	–	–	–
3–4 years	–	–	–	636.00	508.80	80.00
4–5 years	636.00	508.80	80.00	–	–	–
Over 5 years	1,806,572.08	1,806,572.08	100.00	3,006,341.83	3,006,341.83	100.00
Total	4,608,249.77	1,954,346.90	100.00	3,027,616.28	3,007,467.88	–

Receivable of individually insignificant amount but with provision made on an individual basis:

Other receivable	Closing balance			Provision reason
	Other receivables	Provision for bad debt	Provision proportion (%)	
Petty cash	4,993,925.59	–	–	No provision for Petty cash
harbin boiler company limited	284,000.00	–	–	No provision for Related party
National Engineering Research Center Co., Ltd.	89,996.00	–	–	No provision for Related party
Harbin Jin Xin Electric Co., Ltd.	25,917.00	20,733.60	80.00	May not recover
Others	437,508.80	437,508.80	100.00	May not recover
Total	5,831,347.39	458,242.40	–	–

2.2 Provisions made, collected or reversed in current period

Provisions for bad debts made in current period totaled RMB11, 843,862.80

2.3 Actual write-off of other receivables in current period

None

Notes to the 2016 Financial Statements (continued)

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

XV. NOTES TO ITEMS OF PARENT COMPANY FINANCIAL STATEMENTS (continued)

2. Other receivables (continued)

2.4 Particulars of the top five amounts of other receivables at the end of period

Name	Nature	Closing balance	Age	Proportion	Closing balance for provision for bad debt
				to the total balance of other receivable (%)	
Harbin Electric Corporation (QHD) Heavy Equipment Company Limited	Current amount	614,386,456.49	1 – 2 years : 2 – 3 years : 3 – 4 years : 4 – 5 years : over 5 years	38.74	
Harbin Turbine Company Limited	Current amount	490,952,437.30	Within 1 year : 2 – 3 years : 3 – 4 years 4 – 5 years : Over 5 years	30.96	
Harbin Electric Power Equipment Company Limited	Current amount	335,051,039.53	Within 1 year : 2 – 3 years : 3 – 4 years 4 – 5 years : Over 5 years	21.13	
Harbin Power Technology & Trade Inc.	Current amount	70,168,577.33	1 – 2 years : 3 – 4 years : Over 5 years	4.42	
Gas turbine division cash deposit	Cash deposit	2,696,105.38	Over 5 years	0.17	2,696,105.38
Total	/	1,513,254,616.03		95.42	31,872,379.37

3. Long-term equity investment

Items	Closing balance			Opening balance		
	Book balance	Impairment provision	Book value	Book balance	Impairment provision	Book value
Investment in subsidiaries	4,958,102,140.16	3,000,000.00	4,955,102,140.16	4,588,158,305.40	3,000,000.00	4,585,158,305.40
Investment in associates and joint ventures	128,304,838.06		128,304,838.06	131,064,661.88		131,064,661.88
Total	5,086,406,978.22	3,000,000.00	5,083,406,978.22	4,719,222,967.28	3,000,000.00	4,716,222,967.28

Notes to the 2016 Financial Statements (continued)

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

XV. NOTES TO ITEMS OF PARENT COMPANY FINANCIAL STATEMENTS (continued)

3. Long-term equity investment (continued)

3.1 Investment in subsidiaries

Investee	Opening balance	Increase	Decrease	Closing balance	Provision for impairment	Closing balance for provision for impairment
Harbin Electric Corporation						
Finance Company Limited	837,122,531.11			837,122,531.11		
Harbin Boiler Company Limited	716,178,892.28			716,178,892.28		
Harbin Turbine Company Limited	692,422,891.68			692,422,891.68		
Harbin Electric Power Equipment Company Limited	687,206,900.00			687,206,900.00		
Harbin Electrical Machinery Company Limited	678,546,878.74			678,546,878.74		
Harbin Electric Corporation (QHD) Heavy Equipment Company Limited	171,624,440.08	399,943,834.76		571,568,274.84		
Harbin Electric International Company Limited	500,000,000.00			500,000,000.00		
Harbin Power Equipment National Engineering Research Centre Co., Ltd	120,004,550.35			120,004,550.35		
HE Harbin Power Plant Valve Company Limited	97,002,844.08			97,002,844.08		
Harbin Electric Corporation	25,780,234.61			25,780,234.61		
Harbin Power Technology & Trade Inc.	15,000,000.00			15,000,000.00		
Chengdu Sanliya China Clay Company Limited	14,268,142.47			14,268,142.47		
Shenzhen Harbin Power Huihua Trading Company Limited	3,000,000.00			3,000,000.00		3,000,000.00
HE Modern Manufacturing Service Industry Company Limited	30,000,000.00		30,000,000.00			
Total	4,588,158,305.40	399,943,834.76	30,000,000.00	4,958,102,140.16		3,000,000.00

Notes to the 2016 Financial Statements (continued)

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

XV. NOTES TO ITEMS OF PARENT COMPANY FINANCIAL STATEMENTS (continued)

3. Long-term equity investment (continued)

3.2 Investment in associates and joint ventures

Investee	Opening balance	Increase	Decrease	Changes current period				Closing balance	Provision for impairment	Closing balance of provision for impairment
				Investment income or loss recognized under equity method	Adjustment in other comprehensive income	Other change in equity	Dividend or profit declared			
Associates										
GeneralElectric — HarbinPower Services (Qinhuangdao) Company Limited	131,064,661.88			15,029,245.18			17,789,069.00	128,304,838.06		
Total	131,064,661.88	-	-	15,029,245.18			17,789,069.00	128,304,838.06		

4 Operating income and operating cost

4.1 Operating income and operating cost

Items	Current period		Preceding period	
	Income	Cost	Income	Cost
Principal business	1,573,243,441.60	1,580,059,558.86	1,344,085,518.19	1,249,083,201.68
Main thermal power equipment	764,959,717.68	771,775,834.94	639,865,677.93	544,863,361.42
Nuclear power projects	808,283,723.92	808,283,723.92	704,219,840.26	704,219,840.26
Ancillary equipment and products for power stations				
Other business	21,212,252.02	18,428,424.05	23,548,725.39	17,193,271.05
Leasing income			18,153,779.85	17,193,271.05
Advisory income				
Permission fee	1,197,073.58			
Others	20,015,178.44	18,428,424.05	5,394,945.54	
Total	1,594,455,693.62	1,598,487,982.91	1,367,634,243.58	1,266,276,472.73

Notes to the 2016 Financial Statements (continued)

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

XV. NOTES TO ITEMS OF PARENT COMPANY FINANCIAL STATEMENTS (continued)

5 Investment income

Items	Current period	Preceding period
Investment income from long-term equity investments under cost method	117,589,550.75	118,829,803.84
Investment income from long-term equity investments under equity method	15,029,245.18	15,476,834.21
Gains on disposal of long-term equity investments	29,041,300.00	
Investment income generated from financial assets measured at fair value, with the change in fair value included in the profit or loss for the year during its holding period		873,688.28
Investment income generated from disposal of financial assets measured at fair value, with the change in fair value included in the profit or loss		591,001,087.79
Investment income generated from held- to-maturity investments during its holding period		
Investment income generated from available-for-sale financial assets during its holding period	14,054,878.27	2,847,534.25
Income on disposal of the held-to-maturity investment		
Gains on disposal of available-for-sale financial assets		
Income generated from revaluation of remaining equity measured at fair value upon loss of control		
Others		
Total	175,714,974.20	729,028,948.37

XVI. SUPPLEMENTARY INFORMATION

1. Breakdown of non-recurring profit and loss for the period

Items	Amount	Explain
Gain or loss on disposal of non-current assets	5,719,256.88	
Tax refund or exemption with unauthorized approval or no formal approval document	-	
Government grants included in profits or losses (excluding those government grants that are closely relevant to the Group's business and are received with fixed amounts or with fixed percentage based on unified standards promulgated by government)	82,327,212.61	
Capital use fee received from non- financial enterprises recognized as gain or loss for the period	18,854,147.50	
Gain on the difference between investment cost of acquiring subsidiaries, associates and joint ventures and the share of the fair value of the investee's identifiable net assets, where investment cost is less than the share of the fair value	-	
Gains or losses on exchange of non-monetary assets	-	

Notes to the 2016 Financial Statements (continued)

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

XVI.SUPPLEMENTARY INFORMATION (continued)

1. Breakdown of non-recurring profit and loss for the period (continued)

Items	Amount	Explain
Gains or losses on entrusted investment or management of assets	-	
Provision for impairment of assets due to force majeure such as natural disasters	-	
Gains or losses on debt restructuring	-	
Expenses for reorganization such as expenditure for staffing and integration expenses, etc.	-	
Gains or losses on the excess beyond fair value in the transaction with unfair price	-	
Current net gains or losses of subsidiaries from combination of enterprises under common control from the beginning of the period till the date of combination	-	
Gains or losses on contingencies that is in no connection with the normal operation of the Company	-	
Gain or loss on changes in fair value arising from trading financial assets and trading financial liabilities held (excluding the valid hedging of the Company in its ordinary course of business), as well as investment gains received from disposal of trading financial asset, trading financial liabilities and financial assets available for sale	1,475,753.43	
Reversal of provisions for impairment of trade receivables individually subjected to impairment test	-	
Profit or losses from external entrusted loans	-	
Gains or losses on changes in fair value in the investment property that are subsequently measured at fair value	-	
Effects of one-off adjustments as required by taxation, accounting laws and regulations on the gains or losses for current period	-	
Trustee fee income from entrusted operations	-	
Other non-operating income and expenses other than the aforementioned items	-32,382,286.73	
Other items of gain or loss in accordance with the definition of non-recurring gain or loss	6,997,011.78	
Total effect of the non-recurring gain or loss on total profit	82,991,095.47	
Impact of income tax	-2,143,486.20	
Impact of minority shareholders' interests	-15,262,112.35	
Impact of non-recurring profit and loss attributable to the parent company	65,585,496.92	

Notes to the 2016 Financial Statements (continued)

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

XVI. SUPPLEMENTARY INFORMATION (continued)

2. Return on net assets and earnings per Share:

Profits of reporting period	Weighted average return on net assets (%)	Earning per share (RMB)	
		Basic	Diluted
Net profit attributable to ordinary shareholders of the Company	3.16	0.30	0.30
Net profit after deducting non- recurring profit and loss attributable to ordinary shareholders of the Company	2.66	0.25	0.25

XVII. Other disclosure pursuant to relevant accounting policies

On 29 December 2009, HE Company entered into an equity transfer agreement with China Construction Bank Corporation, Heilongjiang branch, to acquire the 2.26% equity interest of Harbin Electrical Machinery Company Limited and the 8.37% equity interest of Harbin Turbine Company Limited, both of which were the subsidiaries of HE Company, held by China Construction Bank Corporation, Heilongjiang branch, with the transfer price of RMB58,880,000 and RMB154,800,000 respectively, which have been fully settled by HE Company as at 31 December 2009. The transactions have been completed and approved by Heilongjiang Property Right Exchange Center. As at 31 December 2016, changes in industrial and commercial registration for the acquisition of equity interest have not been completed.

For the acquisition of 2.26% equity interest of Harbin Electrical Machinery Company Limited and the 8.37% equity interest of Harbin Turbine Company Limited by HE Company, revenue recognized in 2016 were RMB44,800.43 and RMB4,376,364.17, and the accumulative revenue recognized in 2010 to 2015 were RMB50,252,437.49 and RMB214,470,877.46.

Harbin Electric Company Limited
28 March 2017

Disclosure of Significant Events

I. SIGNIFICANT MEETINGS CONVENED

1. General Meetings

- (1) On 29 January 2016, the Company convened the Extraordinary General Meeting, whereupon matters in relation to the amendments to the Articles of Association were considered and approved.
- (2) On 27 May 2016, the Company convened the 2015 Annual General Meeting, whereupon matters including the 2015 Annual Report of the Company and general mandate were considered and approved.

2. Board Meetings

- (1) On 29 January 2016, the seventh session of the Board of the Company convened its 24th meeting, whereupon it considered and approved matters including the 2015 Report of the President of the Company and financial budget for the year 2016.
- (2) On 18 February 2016, the seventh session of the Board of the Company convened its 25th meeting, whereupon it considered and approved matters regarding the adjustment of the functional department of headquarter of the Company.
- (3) On 25 March 2016, the seventh session of the Board of the Company convened its 26th meeting, whereupon it considered and approved matters including the 2015 Annual Report of the Company.
- (4) On 12 April 2016, the seventh session of the Board of the Company convened its 27th meeting, whereupon it considered and approved matters including corporate bonds and the 2015 Annual Report of the Company.
- (5) On 27 May 2016, the seventh session of the Board of the Company convened its 28th meeting, whereupon it considered and approved matters to solve the issue of the joint venture of the subsidiaries.
- (6) On 13 June 2015, the seventh session of the Board of the Company convened its 29th meeting, whereupon it considered and approved matters including the provision of guarantee for the wholly-owned subsidiary.
- (7) On 8 July 2016, the seventh session of the Board of the Company convened its 30th meeting, whereupon it appointed Mr. Si Ze-fu as the executive director of the Company and elected Mr. Si Ze-fu as the chairman of the Company, and it considered and approved matters including re-designation of the members of the professional committee of the board of the Company.
- (8) On 19 August 2016, the seventh session of the Board of the Company convened its 31st meeting, whereupon it considered and approved matters including the 2016 Interim Report of the Company.
- (9) On 1 September 2016, the seventh session of the Board of the Company convened its 32nd meeting, whereupon it considered and approved matters regarding extension of terms of the borrowing by Harbin Boiler Industrial Company (哈鍋實業公司).
- (10) On 25 October 2016, the seventh session of the Board of the Company convened its 33rd meeting, whereupon it considered and approved matters including the nomination of vice president.

Disclosure of Significant Events (continued)

- (11) On 31 October 2016, the seventh session of the Board of the Company convened its 34th meeting, whereupon it considered matters regarding the IPO of 大唐環境, and the matter was not approved.
- (12) On 19 November 2016, the seventh session of the Board of the Company convened its 35th meeting, whereupon it considered and approved matters including the 2015 environmental and social responsibility report of the Company and the connected transaction in relation to the financial services and products between the Company and HE.

II. SIGNIFICANT EVENTS AND MATERIAL CONTRACTS

1. Significant Events

- (1) On 29 January 2016, after obtaining the approval on the Extraordinary General Meeting of the Company, the amendments to the relevant provisions of the Articles of Association in relation to the composition of the Board and accounting policies for the financial statements were completed.
- (2) On 4 July 2016, the office address of the Company has been changed to Songbei District, Harbin, the PRC.
- (3) On 8 July 2016, Mr. Zou Lei resigned from the chairman, non-executive director and Mr. Si Ze-fu was appointed as an executive director of the Company and elected as the chairman of the Company.
- (4) On 21 September 2016, Mr. Miao Li-jie, the senior vice-president of the Company, has resigned from the position of the senior vice-president as he has attained the statutory retirement age.
- (5) On 25 October 2016, Mr. Wang De-xing was appointed a vice-president of the Company.
- (6) The Company and its affiliates, including, Harbin Electrical Machinery Company Limited ("Electric Machinery Company"), Harbin Boiler Company Limited ("Boiler Company"), Harbin Turbine Company Limited ("Turbine Company"), Harbin Electric Power Equipment Company Limited ("Power Equipment Company") and HE Harbin Power Plant Valve Company Limited were re-recognised as High and New Technology Enterprises, and shall continue to enjoy a 15% preferential enterprise income tax rate.
- (7) 6 projects and 12 units with equipment provided by the Boiler Company were listed in the "Premium Quality Power Construction in China" awarded by China Electric Power Construction Association, making up 44% of the thermal power generators and ranked first in the industry; Electric Machinery Company provided 6 water turbine machines and 12 water turbine generators for 3 hydro power engineering projects, and provide 4 steam turbine generators and 2 gas turbine generators for 3 thermal power and steam power engineering projects. It was ranked in the list for its excellent functions.
- (8) 1,000MW ultra-supercritical double reheat coal power generators in Laiwu Power Plant of Huaneng Group (華能集團) with equipment provided by the Boiler Company has completed the function assessment test. Three indicators: Power generating efficiency, power generating coal consumption, power supply coal consumption are better than the world's highest standard of 0.3%, 1.51 g/kWh, 0.32 g/kWh respectively and breaking the world record. The project has become the thermal power generator with the highest efficiency, the lowest energy consumption, the best indicators and the least impact on the environment in the world.

Disclosure of Significant Events (continued)

- (9) "Burning Zhundong coal ultra-supercritical boiler research and engineering application demonstration" of the Boiler Company won the champion in China Industry Awards , and was the only corporation winning the award in the industry, and topped the domestic power equipment field again. The "300MW Nuclear power plant reactor coolant pump" of the Power Equipment Company was awarded the First Class Prize in Science and Technology by China Nuclear Energy Industry Association.
- (10) Turbine Company entered into strategic corporation agreement with FEEDBACK Infra(P) Limited and TechEngg Project Service & Equipments Pvt. Ltd. in India, lying a solid foundation for further development of the Indian Market.
- (11) HE International Company held a strategic cooperation agreement renewal ceremony with U.S. General Electric International, Inc. (GE) in Beijing, which marked a new cooperation stage of both parties and open a new chapter for their comprehensive strategic cooperation.

2. Material Contracts

- (1) On 11 January 2016, the Company entered into a supply contract for 2×660MW ultra-supercritical boiler for 中電投土右發電有限責任公司.
- (2) On 17 February 2016, the Company entered into a turnkey contract for 1×350MW supercritical coal power station in Siddiqsons, Pakistan.
- (3) On 19 February 2016, the Company entered into a supply contract for 2 sets of (AP1000) turbine generating units in Bailong for 中電投廣西核電有限公司.
- (4) On 21 April 2016, the Company entered into a supply contract for 2 sets of (AP1000)stream generator in 1#2# nuclear power station in Haixing, Cangzhou for 中核集團.
- (5) On 6 May 2016, the Company entered into a supply contract for 4×300MW pump storage units in the Huanggou for State Grid.
- (6) On 18 May 2016, the Company entered into a supply contract for 2×1,000MW ultra-supercritical boiler for 大唐彬長.
- (7) On 26 June 2016, the Company entered into a turnkey contract for 4×600MW clean coal power plant for Hassyan in Dubai.
- (8) On 6 July 2016, the Company won the bid in the supply contract for 2 sets of 9FB gas — steam combined cycle power station facility for 大唐國際江蘇金壇.
- (9) On 13 July 2016, the Company entered into a supply contract for 2 sets of stream generator in 1#2# nuclear power station in Zhangzhou (華龍一號) for 中核集團.
- (10) On 5 August 2016, the Company entered into a supply contract for 8×350MW three supercritical host facilities for 內蒙古蒙東高新材料有限公司.

Disclosure of Significant Events (continued)

- (11) On 11 August 2016, the Company entered into a supply contract for 2×1,000MW ultra-supercritical (reheating) boiler for 國電博興.
- (12) On 26 April 2016, the Company entered into a supply contract for 2×350MW supercritical boiler in Baganuur, Mongolia for 中核建22公司.
- (13) On 11 August 2016, the Company entered into a supply contract for 2×600MW subcritical turbine rotor and power generator in Haiduong, Vietnam for 中國電力工程顧問集團.
- (14) On 25 August 2016, the Company entered into a supply contract for (1)2 × 350MW supercritical boiler facilities for 神華國華印尼南蘇.
- (15) On 23 September 2016, the Company entered into a supply contract for 6×500MW mixed-flow water turbine generators in two estuary for 雅礮江公司.
- (16) On 25 October 2016, the Company entered into a supply contract for steam generator in 5# nuclear power station in Ningde (華龍一號) for 中廣核集團.
- (17) On 21 December 2016, the Company entered into a turnkey contract for Tanjung 2×660MW ultra-supercritical coal power station in Indonesia for 馬來西亞楊忠禮集團 (YTL).

Save as the aforementioned, the Company does not have any other discloseable matters which are not disclosed.

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
Unified social credit code: 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 58590070
Fax: 86-451-82162088
Website: www.hpec.com

PLACE OF BUSINESS IN HONG KONG

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

LEGAL REPRESENTATIVE

Mr. Si Ze-fu

AUTHORISED REPRESENTATIVES

Mr. Wu Wei-zhang
Mr. Liu Zhi-quan

COMPANY SECRETARY

Mr. Ai Li-song

JOINT COMPANY SECRETARY

Mr. Tung Tat Chiu, Michael

AUDITORS

BDO China SHU LUN PAN Certified Public Accountants LLP

28th floor, Maotai Building, Yard 29,
Middle of North 3rd Ring Road Xicheng District, Beijing, China
Postcode: 100029

LEGAL ADVISORS

as to PRC Law

HAIWEN & PARTNERS

Room 1016, Beijing Silver Tower
No. 2, Dongsanhuan North Road
Chaoyang District
Beijing
People's Republic of China

LISTING INFORMATION

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

DEPOSITARY

The Bank of New York
American Depositary Receipts
22nd Floor West
110 Barclay Street
New York, NY 10286 USA

SHARE REGISTRAR AND TRANSFER OFFICE

Hong Kong Registrars Limited
Shops 1712-1716, 17th Floor
Hopewell Centre
183 Queen's Road East
Wan Chai
Hong Kong

INFORMATION ON THE COMPANY

Available at the Secretariat of the Board of Directors of Harbin Electric Company Limited

1399 Chuangxinyi Road
Songbei District
Harbin
PRC

SHAREHOLDERS RECEPTION TIME

On 8th, 18th, and 28th (the following day in case a holiday)
From 9:00 a.m. to 11:00 a.m. and
From 2:00 p.m. to 4:00 p.m.
Tel: 86-451-82135727 or 58590070
Fax: 86-451-82162088

Documents Available for Inspection

1. The original copy of the 2016 Annual Report of the Company
2. The original copy of the Company's audited financial statements

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the Annual General Meeting of Harbin Electric Company Limited (the "Company") for the year of 2016 will be held at Conference Room, 1399 Chuangxinyi Road Songbei District, Xiangfang District, Harbin, Heilongjiang Province, the People's Republic of China on Friday, 26th May, 2017 at 9: 00 a.m. for the following purposes:

AS ORDINARY BUSINESS

1. To consider and approve the Report of the Directors for the year ended 31st December,2016;
2. To consider and approve the Report of the Supervisory Committee for the year ended 31st December,2016;
3. To consider and approve the audited accounts and the auditor's report for the period from 1st January, 2016 to 31st December, 2016;
4. To declare the 2016 dividend of RMB0.03 per share (appropriate tax included) to be paid on 28th July 2017;
5. To re-appoint BDO China Shu Lun Pan Certified Public Accountants LLP as the auditors of the Company for the 2017 financial statements of the Company and authorize the Board of Directors of the Company to fix their remuneration;
6. To appoint the members of the eighth session of the Board and determine their remuneration based on the prevailing rate of the independent non-executive directors of companies with similar business or scale with the Company, as well as job duties of each members:
 - (1) To appoint Mr. Si Ze-fu as the executive director of the Company, with no remuneration from the Company;
 - (2) To appoint Mr. Wu Wei-zhang as the executive director of the Company, with no director remuneration;
 - (3) To appoint Mr. Zhang Ying-jian as the executive director of the Company, with no director remuneration;
 - (4) To appoint Mr. Song Shi-qi as the executive director of the Company, with no director remuneration;
 - (5) To appoint Mr. Liu Deng-qing as the independent non-executive director of the Company, with annual remuneration of RMB100,000;
 - (6) To appoint Mr. Yu Wenxing as the independent non-executive director of the Company, with annual remuneration of RMB60,000;
 - (7) To appoint Mr. Zhu Hong-jie as the independent non-executive director of the Company, with annual remuneration of RMB60,000;
 - (8) To appoint Mr. Hu Jian-min as the independent non-executive director of the Company, with annual remuneration of RMB60,000.

Notice of Annual General Meeting (continued)



7. To appoint the supervisors representing shareholders of the eighth session of the Supervisory Committee and determine their remuneration based on the prevailing rate of the supervisors of companies with similar business or scale with the Company:
 - (1) To appoint Mr. Feng Yong-qiang as the supervisors representing shareholders of the Company, with no supervisors remuneration;
 - (2) To appoint Mr. Chen Guang as the supervisors representing shareholders of the Company, with no supervisors remuneration;
 - (3) To appoint Mr. Zhu Peng-tao as the supervisors representing shareholders of the Company, with no supervisors remuneration.

AS SPECIAL BUSINESS

8. To authorize the Board of Directors of the Company to appoint any person to fill casual vacancy in the Board of Directors or as an additional director, his term of office shall expire at the conclusion of the next general meeting of the Company;
9. To authorize the Board of Directors of the Company, in compliance with applicable laws and regulations and at times they deem appropriate, to allot, on one or more occasions as it deems appropriate, H-shares or domestic shares with an aggregate nominal amount not exceeding twenty percent (20%) of the aggregate nominal amount of the Company's issued shares as at the day of the passing of this resolution. The authorization will be valid for a period of 12 months commencing from the day of the passing of this resolution or remain valid until the conclusion of next following annual general meeting or until its revocation or alteration by a special resolution at a general meeting, whichever is the earliest. Conditional upon the above resolution to allot new shares being passed and implemented, the Board shall be authorized to make necessary amendments to clause 15 and clause 16 of the Articles of Association of the Company, so as to reflect the alterations to the Company's share capital structure and registered capital arising from the allotment of new shares.

By Order of the Board
Harbin Electric Company
Ai Li-song
Company Secretary

Harbin, PRC, 10 April 2017



Notice of Annual General Meeting (continued)

Registered Address:

Block 3, Nangang High Technology Production Base
Harbin, Heilongjiang Province
People's Republic of China

Correspondence Address:

1399 Chuangxinyi Road Songbei District
Harbin, Heilongjiang
Province People's Republic of China

Notes:

1. For the purpose of determining Shareholders' entitlement to attend and vote at the AGM, the register of members of the Company will be closed from Wednesday, 26 April 2017 to Friday, 26 May 2017 (both dates inclusive) during which period no transfer of shares will be registered. Shareholders whose names appear on the register before book closure shall be entitled to attend and vote at the AGM. Persons buying shares of the Company during book closure shall not be entitled to attend and vote at the AGM. In order to be qualified for attending the AGM, all duly completed transfers of shares together with the relevant share certificates must be lodged with Hong Kong Registrars Limited, the Company's share registrar in Hong Kong, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong not later than 4:30 p.m. on Tuesday, 25 April 2017.
2. For the purpose of determining Shareholders' entitlement to the 2016 final dividend, the register of members of the Company will be closed from Monday, 5 June 2017 to Friday, 9 June 2017 (both dates inclusive) during which period no transfer of shares will be registered. Shareholders whose names appear on the register of members as at Monday, 5 June 2017 are qualified for the final dividend which will be paid on Friday, 28 July 2017. In order to be qualified for the 2016 final dividend, all duly completed transfers of shares together with the relevant share certificates must be lodged with Hong Kong Registrars Limited, the Company's share registrar in Hong Kong, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong not later than 4:30 p.m. on Friday, 2 June 2017.
3. Shareholders intending to attend the AGM shall give written reply to the Company at its correspondence address by 5:00 p.m. on Friday, 5 May 2017.
4. A Shareholder entitled to attend and vote at the AGM is entitled to appoint one or more persons (whether or not a Shareholder) as his proxy to attend and vote on his behalf.
5. To be valid, the form of proxy, together with a notarially certified power of attorney or other document of authority, if any, under which the form is signed, must be deposited at the correspondence address of the Company not less than 48 hours before the time appointed for holding the AGM.
6. Mr. Zhang Wen-ming and Mr. Zhang Jun-quan were elected as Supervisors representing staff and workers of the eighth session of the Supervisory Committee of the Company by the staffs of the Company.



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