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REPORT OF THE DIRECTORS

The Board of Directors (the "Board") of Harbin Electric Company Limited (the "Company") is pleased to announce the operating results of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2017, which were prepared in accordance with the Chinese Enterprises Accounting Standard. Such operating results have not been audited but have been reviewed by BDO China Shu Lun Pan Certified Public Accountants LLP.

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

The currency mentioned in this report was Renminbi.

INDUSTRY DEVELOPMENT AND BUSINESS REVIEW

During the first half of 2017, the investment in domestic power supply in China

OPERATING RESULTS

PRODUCTION AND SERVICES

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

OPERATING REVENUE AND COST

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

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

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

GROSS PROFIT AND GROSS PROFIT MARGIN

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

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

EXPENSES FOR THE PERIOD

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

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

ASSETS AND LIABILITIES

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

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

GEARING RATIO

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

MONETARY CAPITAL AND CASH FLOWS

As at 30 June 2017, the monetary capital of the Group was RMB15,006.75 million, representing a decrease of RMB3,083.17 million or 17.04% as compared to the beginning of the period, primarily attributable to the payment for centralized material procurement during the first half of the year. During the period, the negative net cash flow generated from operating activities of the Group was RMB1,855.54 million, while investing activities generated negative net cash flow of RMB1,745.78 million and financing activities generated net cash flow of RMB671.38 million.

FUNDING AND BORROWINGS

The Group currently has four funding sources for operation and development, namely shareholder's funds, trade receivables from customers, bank borrowings and corporate bonds. The Group arranges borrowings for each specific project. Except for some special situations, loans will be raised individually by the Group's subsidiaries. However, prior approval from the parent company is required in respect of borrowings raised for capital investments. As at 30 June 2017, the Group's total borrowings amounted to RMB2,918.01 million, all of which were made by various commercial banks and the state's policy banks at interest rates stipulated by the state. Among the borrowings, the amount due within one year was RMB2,918.01 million, an increase of RMB828.67 million over the beginning of the period. There was no borrowing due after one year. The amounts received in advance were RMB19,839.99 million, a decrease of RMB2,863.54 million over the

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

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

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

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

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES AND RELATED HEDGES

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

TAX POLICIES

According to the provisions of Administrative Measures with regard to the Recognition of High and New Technology Enterprises (《高新技術企業認定管理辦法》) jointly issued by the Ministry of Science and Technology, the Ministry of Finance and the State Administration for Taxation of the PRC on 14 April 2008 and the Administrative Guidance with Regard to the Recognition of High and New Technology Enterprises (《高新技術企業認定管理工作指引》) jointly issued by the Ministry of Science and Technology, the Ministry of Finance and the State Administration of Taxation on 8 July 2008, corporations including the Company and five of its subsidiaries, namely Harbin Electrical Machinery Company Limited, Harbin Boiler Company Limited, Harbin Turbine Company Limited, Harbin Electric Power Equipment Company Limited and HE Harbin Power Plant Valve Company Limited were entitled to a 15% preferential income tax rate.

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

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

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

STAFF

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

INTERIM DIVIDEND

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

PROSPECTS

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

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

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARE CAPITAL

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

Long positions in the shares of the Company:

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

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

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

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

CODE OF CONDUCT FOR SECURITIES TRANSACTIONS BY DIRECTORS AND RELEVANT COMPLIANCE

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

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

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

CONTINGENT LIABILITIES

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

PLEDGE OF ASSETS

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

CORPORATE GOVERNANCE CODE

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

THE AUDIT COMMITTEE

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

AUDITORS

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

SHAREHOLDERS' MEETING

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

OTHER DISCLOSEABLE INFORMATION

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

DOCUMENTS AVAILABLE FOR INSPECTION

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

By Order of the Board
Si Ze-fu
Chairman

Harbin, PRC, 11 August 2017

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

REVIEW REPORT

PCPAR [2017] No. ZG12113

To the Shareholders of Harbin Electric Company Limited

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

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

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

BDO China Shu Lun Pan
Certified Public Accountants LLP.

Certified Public Accountant of China:

Certified Public Accountant of China:

Shanghai, China

Date: 10 August 2017

CONSOLIDATION BALANCE SHEET

Made by: Harbin Electric Company Limited

Items	Notes	30 June 2017
Current assets:		
Cash and bank		15,006,745,131.45
Settlement reserve		–
Loans to banks and other financial institutions		–
Financial assets at fair value through profit or loss		–
Derivative financial assets		–
Notes receivable		2,210,410,299.85
Accounts receivable		10,784,506,636.89
Prepayments		6,381,361,635.44
Premium receivable		–
Reinsurance accounts receivable		–
Reinsurance contract reserves receivable		–
Interest receivable		8,644,923.72
Dividends receivable		241,249.61
Other receivables		1,107,220,182.04
Financial assets purchased under agreements to resell		–
Inventories		16,757,589,952.75
Assets held for sale		3,541,551,193.33
Non-current assets due within one year		419,016,062.39
Settlement assets		–
Other current assets		–
Total current assets		3,321,647,141.01
		55,578,367,152.76

CONSOLIDATION BALANCE SHEET (CONTINUED)

Items	30 June 2017
Non-current assets:	
	214,055.93
	90,595,000.00
	–
	4,566,445.72
	201,487,889.54
	27,623,875.08
	13,240,877,922.29
	7,279,834,544.85
	5,961,043,377.44
	19,348,702.52
	5,941,694,674.92
	1,004,629,335.05
	14,445,041.71
	–
	–
	–
	708,440,679.05
	234,757,248.98
	–
	36,589,380.44
	363,117,191.26
	–
	8,628,160,817.68
	64,206,527,970.44

CONSOLIDATION BALANCE SHEET (CONTINUED)

Items	30 June 2017
Current liabilities:	
Short-term borrowings	2,918,008,542.78
Borrowings from central bank	–
Deposits and placements from banks and financial institutions	1,741,463,971.15
Placements from banks and other financial institutions	–
Financial liabilities measured at fair value through profit or loss	–
Derivative financial liabilities	–
Bills payable	5,460,372,106.92
Accounts payable	14,556,419,354.69
Advances from customers	19,839,992,895.37
Proceeds from sale of repurchased financial assets	–
Commission payable	–
Employee benefits payable	200,703,527.51
Taxes payable	358,313.58
Interest payable	11,467,995.70
Dividends payable	–
Other payables	-117,945,096.37
Reinsurance payables	-123,636,848.33
Insurance contract reserves	92,649,867.58
Payables for acting trading of securities	46,216,305.20
Payables for underwriting of securities	306,618,024.09
Provisions	–
Deferred income	–
Deferred tax liabilities	–
Other current liabilities	–
Long-term liabilities due within one year	–
	2,998,830,000.00
	134,893.80
Total current liabilities	48,043,464,392.72

CONSOLIDATION BALANCE SHEET (CONTINUED)

Items	30 June 2017	
Non-current liabilities:		
	–	
	–	
	1,000,000.00	
	72,394,718.75	
	505,919,894.29	
	659,864,218.78	
	171,676,405.85	
	–	
	–	
	–	
Total non-current liabilities:	1,410,855,237.67	
Total liabilities:	49,454,319,630.39	

CONSOLIDATION BALANCE SHEET (CONTINUED)

Items	30 June 2017
Equity:	
Paid-in capital	1,376,806,000.00
State-owned capital	701,235,000.00
Including: State-owned legal person shares	701,235,000.00
Collectively-owned capital	–
	–
	–
	675,571,000.00
	–
	1,376,806,000.00
	–
	–
	–
	2,764,208,480.41
	–
	-6,485,187.17
	1,758,777.27
	20,436,600.42
	786,529,945.86
	786,529,945.86
	–
	–
	–
	–
	–
	8,579,975,973.54
	13,521,471,813.06
	1,230,736,526.99
	14,752,208,340.05
	64,206,527,970.44

CONSOLIDATION INCOME STATEMENTS

Items	January to June 2017
1.Revenue	16,976,905,559.55
Including: Operating revenue	16,778,045,409.53
Interest income	198,855,999.08
Insurance premium income	–
Handling charge and commission income	4,150.94
2.Total cost	16,706,670,462.24
Including: Operating cost	14,668,840,254.36
Interest expenses	12,918,952.95
Handling charge and commission expenses	8,393.88
Surrender value	–
Net amount of compensation expenditure	–
Net amount of insurance liability reserve provision	–
Policy dividend expenses	–
Reinsurance expenses	–
Taxes and surcharges	76,606,057.62
Sales expenses	246,380,167.72
Administration expenses	935,418,967.16
Financial expenses	111,637,505.77
Including: Interest expenses	168,742,077.55
Interest income	116,904,853.63
Asset impairment loss	21,616,412.94
Add: Gain from change in fair value (Loss is listed with "-")	58,995,702.41
Investment income (Loss is listed with "-")	597,755,591.00
Including: Income from investment in associates and joint ventures	–
Exchange gain (Loss is listed with "-")	-2,484,906.61
3.Operating profit (Loss is listed with "-")	38,315,566.76
Add: Non-operating income	20,089,218.32
Less: Non-operating expenses	203.78
4.Total profit (Total loss is listed with "-")	3,369,003.80

CONSOLIDATION INCOME STATEMENTS (CONTINUED)

Items	January to June 2017
3.Operating profits (“-” for loss)	309,434,965.04
Add: non-operating income	11,455,710.68
Including: Gain from disposal of non-current assets	2,771,688.72
Less: non-operating expenses	–
Including: Loss from disposal of non-current assets	6,664,120.88
Add: Gain from changes in fair value	–
Less: Losses from impairment of assets	96,826,582.11
Add: Investment income	613,601.40
Including: Investment income from associates and joint ventures	–
Exchange gains	–
4.Total profits (“-” for total loss)	224,064,093.61
Less: Income tax expenses	75,966,190.39
5.Net profits (“-” for net loss)	148,097,903.22
Net profits attributable to owners of the parent company	124,593,624.45
Profit or loss attributable to minority shareholders	23,504,278.77

CONSOLIDATION INCOME STATEMENTS (CONTINUED)

	January to June 2017
6.Other comprehensive income after tax	453,607.53
	–
	–
	–
	453,607.53
	–
	–
	–
	2,112,170.62
	-1,658,563.09
	148,551,510.75
	125,047,231.98
	23,504,278.77
	0.09
	0.09

CONSOLIDATION CASH FLOW STATEMENT

CONSOLIDATION CASH FLOW STATEMENT (CONTINUED)

Items	January to June 2017
2. Cash flows from investing activities:	
Proceeds from disposal of investments	910,000,000.00
Proceeds from investment income	21,728,536.46
Net proceeds from disposal of fixed assets, intangible assets and other long-term assets	2,311,731.06
Net proceeds from disposal of subsidiaries and other business units	–
Other cash receipts relating to investing activities	–
Sub-total cash inflows from investing activities	934,040,267.52
Cash payments to acquire fixed assets, intangible assets and other long-term assets	579,820,899.94
Cash payments to acquire investments	2,100,000,000.00
Net increase in pledged loans	–
Net cash payments to acquire subsidiaries and other business units	–
Other cash payments relating to investing activities	
Sub-total cash outflows from investing activities	2,679,820,899.94
Net cash flows from investing activities	-1,745,780,632.42

CONSOLIDATION CASH FLOW STATEMENT (CONTINUED)

Items	Notes	January to June 2017	
3.Cash flows from financing activities:			
Cash received from investments by others		–	
Including: Cash received by subsidiaries from minority shareholders as investments		–	
Cash received from borrowings		863,900,000.00	
Cash received from bond issuance		–	
Other cash received relating to financing activities		36,453.39	
Sub-total cash inflows from financing activities		863,936,453.39	
Cash repayments of borrowings		15,229,866.10	
Cash payments for interest expenses and distribution of dividends or profits		177,329,265.88	
Including: Dividends and profits paid to minority shareholders by subsidiaries		–	
Other cash payments relating to financing activities		2,136.92	
Sub-total cash outflows from financing activities		192,561,268.90	
Net cash flows from financing activities		671,375,184.49	
4.Effect of foreign exchange rate changes on cash and cash equivalents		-48,368,137.26	
5.Net increase in cash and cash equivalents		-2,978,316,541.27	
Add: Opening balance of cash and cash equivalents		17,204,139,648.41	
6.Closing balance of cash and cash equivalents		14,225,823,107.14	

CONSOLIDATION STATEMENTS OF CHANGES IN EQUITY

January to June 2017													
	Equity attributable to parent company												
	Paid-in capital	Other equity instruments	Capital reserve	Less: treasury shares	Other comprehensive income	Specialised reserve	Surplus reserve	△General risk provision	Retained earnings	Others	Subtotal	Minority interests	Total owner's equity
	1,376,806,000.00	–	2,764,208,480.41	–	-6,938,794.70	15,801,148.88	786,529,945.86	–	8,496,886,529.09	–	13,433,093,309.54	1,209,321,445.94	14,642,414,755.48
	–	–	–	–	–	–	–	–	–	–	–	–	–
	–	–	–	–	–	–	–	–	–	–	–	–	–
	–	–	–	–	–	–	–	–	–	–	–	–	–
	1,376,806,000.00	–	2,764,208,480.41	–	-6,938,794.70	15,801,148.88	786,529,945.86	–	8,496,886,529.09	–	13,433,093,309.54	1,209,321,445.94	14,642,414,755.48
	–	–	–	–	453,607.53	4,635,451.54	–	–	83,289,444.45	–	88,378,503.52	21,415,081.05	109,793,584.57
	–	–	–	–	453,607.53	–	–	–	124,593,624.45	–	125,047,231.98	23,594,278.77	148,551,510.75
	–	–	–	–	–	–	–	–	–	–	–	–	–
	–	–	–	–	–	–	–	–	–	–	–	–	–
	–	–	–	–	–	–	–	–	–	–	–	–	–
	–	–	–	–	–	–	–	–	–	–	–	–	–
	–	–	–	–	–	–	–	–	–	–	–	–	–
	–	–	–	–	–	4,635,451.54	–	–	–	–	4,635,451.54	372,753.63	5,008,205.17
	–	–	–	–	–	11,493,647.86	–	–	–	–	11,493,647.86	1,699,493.00	13,193,116.86
	–	–	–	–	–	-6,858,196.32	–	–	–	–	-6,858,196.32	-1,326,715.37	-8,184,911.69

CONSOLIDATION STATEMENTS OF CHANGES IN EQUITY (CONTINUED)

January to June 2017													
	Equity attributable to parent company												
	Paid-in capital	Other equity instruments	Capital reserve	Less: treasury shares	Other comprehensive income	Specialised reserve	Surplus reserve	△General risk provision	Retained earnings	Others	Subtotal	Minority interests	Total owner's equity
	-	-	-	-	-	-	-	-	-41,304,180.00		-41,304,180.00	-2,461,951.35	-43,766,131.35
	-	-	-	-	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-41,304,180.00	-	-41,304,180.00	-2,461,951.35	-43,766,131.35
	-	-	-	-	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-	-	-	-	-
1,376,806,000.00	-	2,764,208,480.41	-	-6,485,167.17	20,436,600.42	788,529,945.86	-	8,579,575,973.54	-	13,521,471,813.06	1,230,735,536.93	14,752,208,940.05

CONSOLIDATION STATEMENTS OF CHANGES IN EQUITY (CONTINUED)

CONSOLIDATION STATEMENTS OF CHANGES IN EQUITY (CONTINUED)

NOTES TO THE FINANCIAL STATEMENTS

1. INFORMATION ABOUT THE COMPANY

(1) Company profile

II. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

(1) Basis of preparation

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

III. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES (CONTINUED)

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

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

III. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES (CONTINUED)

Ageing	Provision rate
Within 1 year	5%
1 to 2 years	10%
2 to 3 years	20%
Over 3 years	100%

III. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES (CONTINUED)

3. Accounts receivable which are individually assessed but not subject to separate provision for impairment

III. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES (CONTINUED)

(III) Accounting policies (continued)

(IV) Consolidation

(V) Cash and cash equivalents

(VI) Trade and other receivables

(VII) Inventories

(VIII) Property, plant and equipment

III. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES (CONTINUED)

(VI) Significant changes in accounting policies and accounting estimates

III. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES (CONTINUED)

(XIV) Significant changes in accounting policies and accounting estimates (continued)

The content and reasons of accounting policy changes

Affected report item

III. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES (CONTINUED)

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

IV. TAXATION

(I) Major types of taxes and tax rates applicable to the Company

Tax Type	Tax Basis	Tax Rate

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

IV. TAXATION (CONTINUED)

(iii) Tax reconciliation

[illegible]

[illegible]

[illegible]

V. NOTES TO KEY ITEMS IN CONSOLIDATED FINANCIAL STATEMENTS

(I) Notes receivable

Items	30 June 2017
	1,861,731,373.40
	348,678,926.45
	2,210,410,299.85

30 June 2017				
Remaining carrying amount		Provision for bad debt		
Amount	Ratio (%)	Amount	Provided Ratio (%)	Carrying Value
995,963,085.51	6.04	517,600,465.66	51.97	478,362,619.65
15,312,264,972.99	92.93	5,096,308,982.18	33.28	10,215,955,990.81
168,648,420.87	1.03	78,460,394.44	46.52	90,188,026.43
16,476,876,479.37	100.00	5,692,369,842.48	/	10,784,506,636.89

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

(iii) Accounts receivables (continued)

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

(II) Accounts receivable (Continued)

1. *Disclosure by provision for bad debts*

	30 June 2017		
	Accounts receivable	Provision for bad debt	Provided ratio (%)
	6,122,567,184.51	222,277,637.53	3.63
	2,795,417,515.53	430,208,971.88	15.39
	2,006,643,850.66	666,864,478.49	33.23
	1,165,591,455.47	853,890,685.53	73.26
	1,166,060,092.83	867,082,334.76	74.36
	2,055,984,873.99	2,055,984,873.99	100.00
	15,312,264,972.99	5,096,308,982.18	33.28

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

	30 June 2017	
	Remaining carrying amount	Ratio (%)
	4,359,731,377.14	68.32
	937,479,788.71	14.69
	733,226,471.74	11.49
	350,923,997.85	5.50
	6,381,361,635.44	100.00

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

(IV) Other receivables

	30 June 2017				
	Remaining carrying amount		Provision for bad debt		Carrying Value
	Amount	Ratio (%)	Amount	Provided ratio (%)	
	929,649,671.62	70.57	13,995,000.00	1.51	915,654,671.62
	247,020,495.41	18.75	186,595,486.63	75.54	60,425,008.78
	140,763,632.74	10.68	9,623,131.10	6.84	131,140,501.64
	1,317,433,799.77	100.00	210,213,617.73	/	1,107,220,182.04

30 June 2017			
Other receivables	Provision for bad debt	Provided ratio (%)	Reasons for provision
915,654,671.62	–	/	related parties, refunded export tax receivables ect.
13,995,000.00	13,995,000.00	100.00	Advances
929,649,671.62	13,995,000.00	1.51	/

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

(IV) Other receivables (Continued)

	30 June 2017			
	Other receivables	Provision for bad debt	Provided ratio (%)	Reasons for provision
	140,763,632.74	9,623,131.10	6.84	/
	140,763,632.74	9,623,131.10	6.84	/

	30 June 2017		
	Other receivables	Provision for bad debt	Provided ratio (%)
	51,953,403.74	2,597,670.20	5.00
	3,411,293.45	852,823.36	25.00
	169,416.58	84,708.29	50.00
	16,613,441.68	13,290,753.34	80.00
	25,517,042.57	20,413,634.05	80.00
	149,355,897.39	149,355,897.39	100.00
	247,020,495.41	186,595,486.63	75.54

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

(IV) Other receivables (Continued)

Items	30 June 2017
	2,950,000,000.00
	200,000,000.00
	138,649,457.38
	32,779,205.14
	218,478.49
	3,321,647,141.01

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

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

(VII) Short-term borrowings (Continued)

2. Secured borrowings

	30 June 2017
Guaranteed	15,900,000.00
	15,900,000.00

Analysis of secured borrowings:

	30 June 2017
	4,228,172,445.76
	1,232,199,661.16
	5,460,372,106.92

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

(IX) Accounts payable

Item	30 June 2017
	11,363,187,090.13
	2,348,597,549.69
	235,406,971.32
	609,227,743.55
	14,556,419,354.69

Item	30 June 2017
	134,893.80
	134,893.80

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

(XI) Bonds payable

Items	30 June 2017

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

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

(XII) Financial leasing

	30 June 2017
	701,235,000.00
	675,571,000.00
	1,376,806,000.00

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

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

2. Financial information by segments

	Thermal power host devices	Water and electricity host devices	Plant engineering services	Power plant auxiliary and supporting products	Nuclear power products division	Ac/dc motors and others	Total
	40,776,554,679.76	3,551,624,267.97	7,449,131,122.67	3,299,179,953.61	8,099,292,771.67	6,060,165,427.16	69,235,948,222.84
	34,388,952,764.57	2,050,928,331.65	6,573,895,069.83	2,636,112,856.07	6,343,863,043.58	4,683,653,955.20	56,677,406,020.90
	6,873,286,545.93	608,525,656.18	6,725,575,156.17	751,690,250.97	79429 .12Tj10.308 0 Td(79429429 .12Tj10.308 0 0 0j10.308		

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

(XXIV) Investments and investment gains/losses (continued)

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

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

	30 June 2017
	69,235,948,222.84
	-17,641,536,422.39
	51,594,411,800.45
	363,117,191.26
	10,773,040,660.22
	755,795,504.18
	744.17
	720,162,070.16
	64,206,527,970.44
	56,677,406,020.90
	-8,892,821,570.49
	47,784,584,450.41
	-117,945,096.37
	1,787,680,276.35
	49,454,319,630.39

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

(XXIV) Income tax expenses (continued)

	January to June 2017
Income tax expenses calculated at statutory/applicable tax rate	16,778,045,409.53
Profits and losses attributable to joint ventures and associates	1,071,156,322.45
Profit before tax	17,849,201,731.98
Income tax expenses calculated at statutory/applicable tax rate	2,102,003,836.72
Effect of non-taxable income	-7,201,318.45
Effect of non-deductible costs, expenses and losses	2,109,205,155.17
Effect of deductible temporary differences or losses not recognized in prior periods	20,089,218.32
Effect of unrecognized deductible losses	220,472,412.02
Effect of tax concessions	6,664,120.88
Effect of different tax rates applicable to subsidiaries	-2,484,906.61
Effect of adjustments to income tax of prior periods	-129,823,806.58
Effect of changes in tax rates	17,707,274.8
Income tax expenses	-2,017,765,374.39
Including: Income tax expenses from continuing operations	224,064,093.61

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

(XV) Administrative expenses

Item	January to June 2017
	475,215,588.84
	122,449,138.90
	90,863.26
	597,755,591.00

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

Items	January to June 2017
	148,097,903.22
	75,966,190.39
	340,708,931.95
	27,965,830.99
	5,352,044.33
	-57,447,073.09
	-198,855,999.08
	116,904,853.63
	12,918,952.95
	471,611,635.29

	January to June 2017
	41,304,180.00
	41,304,180.00

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

(XIX) Earnings per share

	January to June 2017
Consolidated net profit attributable to ordinary shareholders of the Company	124,593,624.45
Number of ordinary shares in issue at the beginning of the year	1,376,806,000.00
Basic earnings per share	0.09

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

	30 June 2017
	93,701,675.90
	30,197,191.43
	780,902,167.38
	904,801,034.71

VI. RELATED PARTIES AND RELATED TRANSACTIONS

(1) Related party transactions

The transaction prices between the Company and related parties are negotiated on the basis of the price of the open market transaction and the price of the agreement or the price of the state-guided prices with a reasonable profit margin.

VII. RELATED PARTIES AND RELATED TRANSACTIONS (CONTINUED)

(III) Related party transactions (continued)

Related parties	January to June in 2017
	4,913,971.87
	35,659,138.82
	1,640,000.00
	26,745,249.12

VI. RELATED PARTIES AND RELATED TRANSACTIONS (CONTINUED)

(I) Related party transactions (Continued)

1. Continuing connected transactions (Continued)

(2) Interest income from financial services

Related parties	January to June in 2017
[illegible]	9,152,857.43
[illegible]	565,548.95
[illegible]	4,730.62
[illegible]	9,723,137.00

(3) Interest expenses from financial services

Related parties	January to June in 2017
[illegible]	4,887.43
[illegible]	4,887.43

VI. RELATED PARTIES AND RELATED TRANSACTIONS (CONTINUED)

(2) Related party transactions (continued)

	January to June in 2017
Related parties	
	4,150.94
	4,150.94

	January to June in 2017
	1,655,915.19

VI. RELATED PARTIES AND RELATED TRANSACTIONS (CONTINUED)

(II) Receivables from and payable to related parties

		30 June 2017	
		Remaining carrying amount	Provision for bad debt
		56,244,827.00	
		162,095,125.59	
		56,617,740.12	
		3,776,498.00	
		200,000,000.00	

VII. RELATED PARTIES AND RELATED TRANSACTIONS (CONTINUED)

	30 June 2017
	2,854,108,542.78
	1,593,909,807.57
	145,832,842.94
	1,543,500.00
	17,282,472.55
	246,690.92
	52,787,000.00
	25,850,861.25

VI. RELATED PARTIES AND RELATED TRANSACTIONS (CONTINUED)

(iii) Commitments of related parties

None

(iv) Guarantees of related parties

VII. SHARE-BASED PAYMENT

None

VIII. COMMITMENTS AND CONTINGENCIES

	30 June 2017
	23,595.06

VIII. COMMITMENTS AND CONTINGENCIES (CONTINUED)

(III) Contingencies

VIII. COMMITMENTS AND CONTINGENCIES (CONTINUED)

(II) Contingencies (Continued)

2. Pending litigations

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

VIII. COMMITMENTS AND CONTINGENCIES (CONTINUED)

(III) Contingencies (Continued)

VIII. COMMITMENTS AND CONTINGENCIES (CONTINUED)

(II) Contingencies (Continued)

2. Pending litigations (Continued)

(3) [illegible]

VIII. COMMITMENTS AND CONTINGENCIES (CONTINUED)

(b) Contingencies (Continued)

INFORMATION ON THE COMPANY

REGISTERED NAME OF THE COMPANY
哈爾濱電氣股份有限公司

ENGLISH NAME OF THE COMPANY
Harbin Electric Company Limited

REGISTERED ADDRESS OF THE COMPANY
Block 3
Nangang District High Technology Production Base
Harbin
Heilongjiang Province
People's Republic of China
Taxpayer's Identification Number:
91230100127575573H

OFFICE ADDRESS OF THE COMPANY
1399 Chuangxinyi Road
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Mr. Ai Li-song

COMPANY SECRETARY
Mr. Ai Li-song

JOINT COMPANY SECRETARY
Mr. Tung Tat Chiu, Michael

AUDITORS
BDO China Shu Lun Pan Certified Public Accountants LLP

LEGAL ADVISORS
as to PRC Law
Haiwen Partners

LISTING INFORMATION
H Shares
The Stock Exchange of Hong Kong Limited
Stock Code: 1133

DEPOSITARY
The Bank of New York

SHARE REGISTER AND TRANSFER OFFICE
Hong Kong Registrars Limited